

Sales Tax Compliance Model for the Jordanian Small and Medium Enterprises

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ABSTRACT

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Despite the various fiscal measures recently undertaken by the Jordanian government to increase the domestic revenue, the reports of annual budget demonstrate that Jordan is challenged by a sharp rise in net public debt and fiscal deficit with the increase in tax non-compliance, specifically in sales tax. Therefore, the issue of sales tax non-compliance needs a serious focus in Jordan. Though several studies were conducted on income tax compliance, studies on sales tax compliance have received less attention. Various factors lead to non-compliance; however, the basic model of tax compliance itself is not sufficient to explain the phenomenon comprehensively. In order to obtain an in-depth understanding of the factors influencing sales tax compliance among the small and medium enterprises (SMEs) in Jordan, the authors proposed an extension to the Fischer's model of tax compliance by incorporating patriotism and public governance as a new independent and moderating variables respectively. Prior studies on tax compliance are yet to examine the influence of patriotism on sales tax compliance. This paper also argues theoretically that the sales tax compliance is likely to be moderated by the role of public governance. This proposition could improve better understanding of sales tax compliance behavior among SMEs.

Keywords:

Sales tax compliance, Fischer's model, public governance, patriotism

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1. Introduction

The development and economic growth for any country typically depend on the quantity of the revenues that has been obtained [1]. Taxes represent one of the major sources of the national revenue worldwide [2, 3]. Governments need fund mainly to invest on public infrastructure, health services, and education, and therefore, they need to increase their tax revenue to develop and grow further [4]. However, challenges faced by the tax authority have become a significant issue, particularly after the 2008 world economic crisis. The fiscal deficit has raised the need for tax revenue considerably, and governments have turned toward universal collaboration to combat tax non-compliance [5]. In this regard, the increase in tax revenue lies in the efforts to encourage tax compliance [6]. In other words, the increase in tax compliance will increase tax revenue and vice

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versa. Consequently, the issue of non-tax compliance has attracted an increasing concern in both developing and developed countries [7, 8], especially in the Middle East countries [9]. Hence, the tax compliance phenomenon will remain an interesting research area. Despite the innumerable studies on tax compliance, no agreement is available on what precisely affects the willingness to pay taxes [10-12]. Hence, having taxation will result in problems associated with tax non-compliance.

Sales tax has become one of the major proportion of tax revenue worldwide [13]. In the tax structures of modern countries, sales tax has an important place, and in developing countries, due to the low level of economic development, it represents a dominant source of governmental revenues [14, 15]. Sales tax is often known as a value added tax (VAT) in many countries, like the UK, the USA and France or as goods and services tax (GST) in countries, like Australia, Singapore and Malaysia. VAT was first introduced in France in 1954 [16]. Regarding VAT and sales tax, these have been used interchangeably in the present study. Currently, VAT or sales tax is applied in more than 160 countries [17]. Therefore, sales tax is perceived to be highly effective in terms of tax revenue due to its ability to generate a high revenue collection [18, 19]. Due to its nature of responsibility, sales tax compliance represents a higher regulatory burden on small and medium enterprises (SMEs) compared to other types of taxes [20].

The economy of Jordan is largely dependent on tax revenue, which is a crucial item in the Jordanian public budget, contributing around 70% of the domestic revenue during the period from 2010 to 2016 [21, 22]. However, tax compliance problems have become a national concern as they affect the Jordanian economy [23]. Despite the different fiscal measures undertaken by the Jordanian government to increase the domestic revenue, such as the development of the national economy and achieving financial stability, recent official reports demonstrate that Jordan still suffers from a sharp rise in the net public debt, which reaches JD 27.520 billion [21].

In addition, by excluding the grants and the international assistance, the fiscal deficit in the Jordanian government budget is worsened with the increase in tax non-compliance from JD 1.447 billion in 2010 to JD 1.720 billion in 2016 [21]. The estimates of tax non-compliance have also increased by 48%, with sales tax non-compliance representing about 71% of the total tax non-compliance during the period from 2011 to 2015 [24]. Therefore, tax non-compliance in general and sales tax non-compliance in particular in Jordan need further studies. This problem is exacerbated by the fact that the economy of Jordan has only limited economic resources, and suffers from a chronic fiscal deficit that necessitates the provision of funding to satisfy the economic and social development requirements [25]. Hence, tax compliance represents an important aspect for taxpayers and has significant consequences on the government's revenue, financial stability, and the capacity to respond fully to taxpayer's needs and community. In terms of business sector, SMEs play a key role in the Jordanian economy, representing more than 99% of the enterprises in the national economy [26]. The sector contributes around 50% of the GDP, employing approximately 60% of the total workforce, and having the capacity to raise exports, provide foreign currency, and reduce the equilibrium of the payment deficit, as well as provide services, goods, and materials for larger companies [27,28]. Added to this, SMEs are considered as the main contributors in the shadow economy in Jordan, which contribute 90% of the total shadow economy [29]. Regarding the sales tax non-compliance, around 87% of small enterprises and 34% of medium enterprises failed to pay their sales tax. Furthermore, bribery is more common among SMEs than large enterprises, this is because SMEs believe they face disproportionate compliance requirements in Jordan [30]. Moreover, SMEs do not keep good accounting records in Jordan, with only 14% of SMEs reported to prepare accounting information and 40% disclosed important items

in financial reporting [31]. Accordingly, the consequences of such behavior have a potential effect on the tax non-compliance.

Theoretically, previous studies have shown that numerous factors influence tax compliance behavior [8]. Historically, and in terms of the economic approach, deterrence has been the prevailing strategy for enforcing tax compliance [32]. Economic studies on tax non-compliance have been established by Becker's model [33] of economics-of-crime, that is primarily utilized to combat illegal actions. Deterrence policy is founded on the simple idea that the threat of legal penalties will prevent crime [34]. According to Becker's [33] assumption that taxpayers have a rational behavior, each taxpayer is supposed to maximize the expected utility of the tax non-compliance gamble, weighing the benefits from successful tax non-compliance against the tax audit and penalty.

Allingham and Sandmo's [35] study was the first to apply Becker's model of crime to shape the theory of tax non-compliance. The use of Deterrence Theory as a single tool to understand tax behaviour has been criticized repeatedly by many researchers. For instance, Feld, Frey and Torgler [36] found that despite the low level of deterrence, the degree of tax compliance is high in some countries, and as such, the model fails to fully explain tax compliance behavior. A comprehensive review carried out by Jackson and Milliron [37] summarized 14 key factors that influence non-compliance. The 14 factors were categorized into four groups, namely tax system (tax complexity, tax audit, tax penalty, and tax rates), attitude and perception (tax moral, tax fairness and peer influence), demographic characteristics (age, gender, education) and non-compliance opportunity (income level, occupation, income source). Fischer, Wartick and Mark [38] arranged these factors into a single integrated model combining both, the socio-psychological and economic approaches, thus resulting in a popular model known as Fischer's model. The integration of both theories was highly supported by many researchers [e.g. 39, 40].

Previous studies have searched the factors affecting tax compliance through expanding Fischer's model by combining different relevant factors [41-43]. Despite the varied expansions to Fischer's model (both the economic and social-psychology factors), the current study is one of the first studies that expands Fischer's model by incorporating the effects of patriotism as an independent variable and public governance as a moderator on the sales tax compliance in the context of the SMEs. The importance of these variables should not be ignored in understanding the sales tax compliance, specifically in Jordan. As a result, the proposed model of the current study offers use of Fischer's model in the context of sales tax environment by focusing on the owners/managers of SME businesses. Fischer's model covers individual's contexts, whereas the proposal of the current study focuses on a business context. Consequently, the current study could contribute to the body of knowledge. Determinants of business tax non-compliance also need to be sufficiently investigated [44]. Woodward and Tan [45] revealed that SMEs have more opportunities for tax non-compliance than individuals. A number of factors related to individuals, specifically in the categories of non-compliance opportunity and demographic features in Fischer's model, needs to be excluded in the proposal presented in the current study to suit sales tax compliance of SMEs. In addition, the majority of prior studies have focused on the association between the Deterrence Theory and the income tax compliance, whereas only few studies have examined the relation between the Deterrence Theory and the sales tax compliance [45-47]. Thus the current study enhances the impact of the Deterrence Theory on sales tax compliance.

Moreover, within the context of the Middle Eastern and Arab countries, particularly Jordan, no study to date has examined the Deterrence Theory with sales tax compliance. Furthermore, the current study is one of the first studies that considers the effects of the socio-psychological factors affecting sales tax compliance in the Middle East and Arab countries, particularly in Jordan. Therefore, the present study aims at addressing the lack of studies related to sales tax. Alm and El-

Ganainy [48] pointed out that the literature on sales tax is very limited despite its fast diffusion as a fundamental revenue tool for the majority of governments worldwide. Alshir'ah *et al.*, [2] recommended further studies to be conducted on the determinants of sales tax compliance. Hence, the present study could be probably the first one that examines the impact of public governance as a moderator on the association between sales tax compliance and its determinants since the majority of previous studies have examined public governance as an independent variable with income tax compliance [49, 50].

The remaining sections are organized as follows. Section 2 provides the definition of tax compliance and is followed by Section 3 that contains the determinants of sales tax compliance. Patriotism is presented in Section 4, and the moderating effect of public governance is discussed in Section 5. Research method is presented in Section 6. Implications are reported in Section 7. Finally, conclusions are presented in Section 8.

2. Tax Compliance

Taxes are fundamental elements of the total domestic revenue in developed and developing countries. Countries promote their economies by means of both types of taxes (direct and indirect) [51, 52]. As for tax compliance, it is a compulsory duty on all parties including corporates or individuals. All individuals are expected to voluntarily comply with tax law; however, some individuals fail to pay the taxes [53]. Generating and ensuring tax compliance depend on the participation of taxpayers in governmental decisions and expenditures [54], and increasing penalties and tax audit [8]. Despite the numerous efforts to address tax compliance, this issue is still complicated. According to Devos [55], there is no specific standard definition of tax compliance among tax researchers. For example, tax compliance has been defined as the willingness of taxpayers to comply with tax laws [39], specifically reporting all the incomes and payment of all taxes by fulfilling the provisions of laws, regulations, and court judgments [37, 56]. Another specific definition refers to compliance as the taxpayer files all the required tax returns at the proper time and the returns accurately report tax liability in accordance with the tax laws, regulations, and court decisions that are applicable at the time the return is filed [57]. Tax compliance in another study was considered as a game, which depends on reciprocal interactions between decisions taxpayers and tax authority, and trust of taxpayers in tax law and fairness of the tax system [58]. Tax compliance has multi-faceted measures, where compliance of taxpayers should follow three various types of compliance, namely reporting compliance, filing compliance, and payment compliance [59].

In a specific sales tax context, tax compliance is defined as the compliance with all the procedures and legislation, including reporting of the actual and correct sales paid and collected, true sales liability, payment of all taxes and filing sales returns on time [60]. Tax non-compliance can be in either the form of tax evasion or tax avoidance. As for tax evasion, it involves illegal and intentional act by businesses and individuals to lower their legally due tax commitments by means of under-reporting sales, income or wealth through exaggerating deductions, dispensations or loans or by failing to file suitable tax returns [61,62]. Regarding Tax avoidance, it implies that the taxpayers tend to minimize their taxes through legal manipulations [63]. Tax non-compliance may take different measures and it involves the failure to pay assessed taxes by the due date, overstatement of deductions, understatement of income, and the failure to submit a tax return within the stipulated period or non-submission [64].

Given the importance of understanding tax compliance, many researches have focused on income tax compliance, but studies on sales tax compliance are limited. Sales tax non-compliance

is a widespread phenomenon that involves the process of manipulating sales tax invoice and altering tax reports to meet various targets, such as paying less sales tax, increasing earnings and reducing cost based on benefits accruing as a result of evading tax or depending on attitudes, beliefs and norms. Due to the very few studies examining the economic factors and socio-psychological factors on sales tax, the current study is based on tax compliance literature that suited into sales tax context. The following section discusses the determinants of sales tax compliance.

3. Determinants of Sales Tax Compliance

Tax complexity is considered one of the main determinants of tax compliance behavior [37]. The present study defines sales tax complexity as those actions linked to the troubles faced by businesses with sales tax law, namely frequent changes, excessive details, too many computations as well as detailed special records that have to be kept by businesses. Al-Adi [65] found a negative relationship between tax complexity and the desire or the capacity to comply with paying tax. Likewise, a study by Abdul-Jabbar and Pope [66] reported that the increasing tax complexities and the repeated amendment of the different tax laws had a reverse effect on SMEs. In this regard, Pope and Abdul-Jabbar [67] declared that the increase of tax complexity will raise tax compliance costs, and in turn, it will boost tax non-compliance. Some studies found an insignificant relation between tax compliance and tax complexity [68, 69], whereas Yahaya [70] found a positive relation between tax complexity and tax compliance. In the specific context of sales tax, limited studies found that tax complexity negatively influences sales tax compliance behaviour [47, 49] and another study revealed no relationship with sales tax compliance [71].

Tax audit is one of the most efficient determinants that protects the behavior of tax non-compliance [37]. The current study defines sales tax audit as the ability of the tax authority to encourage businesses to pay the correct amount of sales tax and ensure that the businesses register to pay sales tax if their sales turnover is equal to or exceed the registration threshold. The majority of past literature indicated that tax audit has a positive relation with income tax compliance [72-75]. On the other hand, some other studies revealed either no relationship between tax audit and tax compliance [51] or a negative relationship with tax compliance [76]. In the case of sales tax, there is scarcity of studies that examined the role of tax audit on sales tax compliance, whereby the majority of studies found that tax audit has no relationship with sales tax compliance [46, 77-79]. Only one study found that tax audit has a positive relationship with sales tax compliance [45].

Tax rate is also considered as one of the main factors in the tax system structure, and one of the major determinants of income tax compliance [80]. The present study defines sales tax rate as the percentage imposed on supplies of goods and services, that are imported from either abroad or from free zones and local producers if such a supply is not exempted to the sales tax law. In this regard, the majority of past studies indicated that the association between tax rate and income tax compliance is negative [81-83]. On the other hand, some prior studies indicated that tax rate has no significant relation with tax compliance [80, 84]. Alm, Sanchez and Juan [85] and Yitzhaki [86] revealed that increasing tax rate has a positive relationship with the increasing tax compliance. Regarding sales tax compliance, the relationship between tax rate and tax compliance has received very little attention; some past studies reported that tax rate is negatively associated with sales tax compliance [16, 87, 88], whereas some others reported a positive effect [89, 90].

Threat of penalties has been another efficient tool to prevent tax non-compliance [37]. In this study, sales tax penalty is defined as the sanctions and fines imposed on any business committing

sales tax fraud offenses. Studies in this context found that tax penalty has a positive relation with the increasing tax compliance [73, 91, 92], whereas other studies found no relationship between tax compliance and penalties [93]. For instance, Feld and Tyran [94] reported that the penalties do not lead to increasing tax compliance rate because it is just a symbolic fine. In the specific context of sales tax, the relation between tax penalty and sales tax compliance research is still scarce. Out of four, three prior studies found that tax penalties have a positive relation with sales tax compliance [16, 45, 47]. On the other hand, another study revealed that tax penalties do not have any effect on sales tax compliance [46].

Concerning the moral of taxpayers, it is a hazy concept to define. Morals generally characterize the ethics values or principles held by the individuals [37]. In this sense, the moral behavior is defined as an intrinsic motivation led by moral principles and ethical value [95]. The present study defines sales tax moral as an intrinsic motivation to pay sales taxes, resulting from the ethics compliance to pay sales taxes and the strong belief in contributing to build a nation by paying sales taxes. Richardson [80] revealed that non-economic factors exercise the strongest effect on tax non-compliance in comparison with the economic factors; moral values were found to be among the most important factors across 45 countries. Therefore, morals of taxpayers must be taken into account when examining tax compliance behavior [96]. On the other hand, Slemrod *et al.* [76] argued that the taxpayers who have tax morals have a higher tendency towards tax non-compliance when they are faced with fiscal stress or when they perceive evaders to be highly moral. Fellner, Sausgruber and Traxler [97] and Ariel [98] reported that moral persuasion does not lead to increasing compliance. In the context of sales tax, all three prior studies found that there is a positive relationship among tax moral and sales tax compliance [16, 45, 47].

Tax fairness is also considered as one of the main determinants of tax compliance [36]. It is widely believed by tax administrators and the taxpayers that growing dissatisfaction with the fairness of tax system is the major causes behind the increasing tax non-compliance [41]. Tax fairness consist of two dimensions, namely fairness of the commerce and the interest received for a tax given, and the justice of the taxpayers' burden in relation to that of other taxpayers (taxpayers understanding of the vertical and horizontal fairness of the tax laws) [36]. The present study defines tax fairness as the fair distribution of sales tax registration threshold and sales tax penalties imposed by tax authority as well as the cost that falls on the sales tax registered. Prior studies on income tax compliance found a positive relationship between tax fairness and tax compliance behavior [56, 99-101]. In contrast, other studies either found no association between tax fairness and tax compliance [102,103] or indicated inconsistent results between tax compliance and tax fairness [104]. In the context of sales tax, all three previous studies revealed a positive relation between tax fairness and sales tax compliance [16, 45, 47].

Peer influence makes up a component of the attitudes and perceptions in Fischer's Model. The term peers are defined generally as the taxpayer's associates that can rationally involve relatives, friends, co-workers, and colleagues [36]. This study defines peer influence as the effect of individuals who are significant for business owners on their sales tax compliance decision, which contributes to shaping their attitude towards sales tax compliance. Some previous studies indicated a negative link between tax compliance and peer influence [105,106]. In contrast, other studies found a positive relation between tax compliance and peer influence [107, 108]. Some other studies revealed that peer influence has an insignificant influence on tax compliance [109, 110]. Reviewing the literature revealed that there are only two studies on sales tax compliance that indicated a positive relationship among peer influence and sales tax compliance [16, 45].

Overall, the relationship between tax complexity, tax audit, tax rate, tax penalty, tax moral, tax fairness, and peer influence and tax compliance is considered inconsistent as demonstrated in

previous studies. Inconsistencies in the results necessitate conducting further studies. The majority of studies on the determinants of tax compliance has focused on income tax, whereas limited studies have been conducted on sales tax compliance. The majority of past tax compliance studies have examined the individual level rather than the businesses level, including the SMEs. Similar to income tax studies, the limited studies on the determinants of sales tax compliance have failed to provide a conclusive relationship. Hence, more studies are required to confirm the relationships. This is particularly significant as the most of the factors discussed above are considered to be major determinants of tax compliance from various theoretical perspectives. Therefore, there is a need to examine this phenomenon, particularly in the Jordanian context. The next sub-section discusses the relevance of patriotism as a possible factor in influencing sales tax compliance.

4. Patriotism

Patriotism requires love of country [111], and in this regard, patriotism of taxpayers is considered to motivate a higher payment of taxes in the country. Patriotism prohibits individual's inclination to move abroad in reaction to the increasing tax rate and this reduction in the flexibility of the tax base enables the countries to impose a higher level of taxes [112]. The taxpayers' love of state and their wish for its prosperity can be reflected by their tax payment performances [113]. Therefore, feelings of patriotic could play a significant role in all aspects [112]. For instance, Tajfel [114] stated that one helpful explanation of patriotism and its impacts are presented by the Social Identity Theory. In this paper, patriotism of the taxpayers is referred to as affective attachment feelings and a positive identification represented in paying more sales taxes and not to be fraudulent by hiding sales tax revenue needed to develop the country. Other studies also emphasised on the differences between nationalism and patriotism [115, 116], whereby they referred to patriotism as a love of state that cannot be tied to a specific conflict schema. In some issues, patriotism may reveal a conflict schema, thus composing a more favourable cooperation path with other nations. Accordingly, patriotism is not linked to hostility towards other countries or foreigners inside the nation. In contrast, nationalism is defined as a form of racism toward ethnicity that merges with the positive sensation toward the nationality and hostility to other national groups. In other words, nationalism is related with passivity towards foreign states, outsider's resident inside one's own country, and a desire towards supremacy over other nations.

Konrad and Qari [117] emphasised the vital role played by patriotism to motivate taxpayers to promote the government's stability. In the last decade, a public discussion occurred in the US regarding taxation and patriotism, especially during the 2008 presidential election campaign, whereby the Presidential and Vice Presidential candidates said that Americans pay their taxes as a patriotic obligation [118]. MacGregor and Wilkinson [118] stressed on the importance of patriotism of taxpayers as this has a positive relationship with tax compliance. Consequently, patriotic taxpayers perceive tax non-compliance as unpatriotic activities [117]. On the other hand, Gangl, Torgler and Kirchler [119] found no relationship between patriotism and tax compliance. In sum, patriotism is a very important factor in tax compliance behavior. Prior studies on patriotism and income tax compliance are limited and no study to date has examined the association between patriotism and sales tax compliance. Therefore, a need arises to conduct a study on the possible effect of patriotism on sales tax compliance. The following subsection discusses the moderating effect of public governance. A summary of key findings of prior sales tax compliance studies internationally is shown in Table 1.

Table 1
Summary of Sales Tax Compliance Studies, 1995 – 2015

Author(s)	Countries	Key Findings on Sales Tax Compliance
Murray [77]	USA	<ul style="list-style-type: none"> • Greater non-compliance opportunities contribute to a reduction in sales tax non-compliance. • Policy of tax audit has no direct effect on combatting sales tax non-compliance.
Adams and Webley [16]	UK	<ul style="list-style-type: none"> • High tax rate, inequitable tax system and a decrease of tax morals are positively related with sales tax non-compliance. • Major opportunities for non-compliance mask a tendency to cheat if the penalties are not so extensive.
Webley <i>et al.</i> , [47]	UK	<ul style="list-style-type: none"> • Tax department is powerful, tax non-compliance behavior is unacceptable, business owners admitted to sometimes engaging in non-compliance, a large majority of business owners perceived that the sales tax law is unjust for small business, social norms are affected by sales tax compliance behavior and mental accounting has an insignificant relation with sales tax compliance.
Engel <i>et al.</i> , [89]	Chile	<ul style="list-style-type: none"> • An increase in enforcement spending leads to an increases in sales tax compliance. • Sales tax rate is positively correlated with sales tax compliance.
Johnson <i>et al.</i> , [78]	Canada	<ul style="list-style-type: none"> • Increasing the tax audit does not necessarily lead to a reduction in tax non-compliance
Biabani and Amezani [71]	Iran	<ul style="list-style-type: none"> • Tax compliance cost and tax culture have a positive relationship with sales tax compliance. • Tax complexity has an insignificant association with sales tax compliance.
Giesecke and Tran [90]	Vietnam	<ul style="list-style-type: none"> • A sales tax compliance rate of around 13%, raising VAT rates and removing or reducing exemptions can be an efficient means of raising VAT revenue
Faridy <i>et al.</i> , [46]	Bangladesh	<ul style="list-style-type: none"> • SMEs contribution in VAT revenue is underrepresented. • Complexity in VAT law and compliance costs positively affects VAT non-compliance in SMEs. • Tax audits and tax penalties were found have little impact on VAT non-compliance.
Woodward and Tan [45]	New Zealand	<ul style="list-style-type: none"> • Tax penalty, tax audit, tax fairness and tax moral have a positive relation with sales tax compliance.

Source: Compiled by the authors

In summary, lack of studies on sales tax compliance is observed internationally, particularly in all Middle-eastern and Arab countries. Previous studies also ignored the influence of some attitudinal factors such as patriotism and public governance on sales tax compliance. The proposed current study is important in contributing more towards understanding sales tax compliance of SMEs in Jordan.

5. Moderating Effect of Public Governance

The concept of public governance has been considered fundamental for the economic development [120]. The World Bank [121] defined the governance concept as the employment of economic, political and administrative authority for the management of the affairs of the country at different levels. In Jordan, a series of street protests has been witnessed since 2011, calling for

improving public governance, more democracy, and the end of corruption. In a study conducted by the Centre for Strategic Studies of the University of Jordan, it was found that favouritism, corruption, weak justice, nepotism and low democracy are among the main obstacles that challenge the country's development. The study also illustrated that more than two-thirds of citizens in Jordan do not trust the government [122]. In the same vein, the United States Agency for International Development [123] indicated that the challenges faced by the Jordanian citizens are related to freedom of the press, political participation, and the reduction of legislative space for civil society, institutions responsible for public governance, and weak ability to fully respond to the needs of citizens, limited citizen participation, especially among youth, women and people with disabilities, very weak social and political influence of the media and civil society organizations, which further hamper the citizen's participation. As a result, the Jordanian citizens enjoy very few chances to provide input on matters and issues influencing their daily lives and their perceptions on public governance.

Public governance is the practice of the administrative, economic, and political authorities to administer state affairs at all levels. Hence, public governance includes institutions, mechanisms, and processes, through which people and groups express their interests, practice their rights, meet their obligations, and resolve their differences [124]. In a related study, Kalsi, Kiran and Vaidya [125] revealed that several factors contribute to the public governance, including good education, basic infrastructure development, such as roads, bridges, power, telecom, airports, irrigation, transport, safety of life, property and peaceful law and order, creation of new jobs, opportunities in the private and public sectors, government effectiveness and efficiency, good business environment characterized by free-market economy, minimized digital divide and positive societal aspects, freedom of speech, religion, work and government non-interference, and readiness of citizens to pay for good services. The development can be only achieved if there is a cooperation between the government and the society that meets the citizens' needs. In an ideal world, developing nations require significant funds for such development, and in this regard, tax is the most significant funding source that the government can rely on [126]. Consequently, tax compliance is motivated by a psychological tax contract entailing rights and obligations of the taxpayers and the government, where taxpayers are more likely to pay taxes if the public services are valuable [101].

Several studies examined the impact of public governance on tax compliance; some studies found a positive relationship between public governance and tax compliance [127-129]. On the other hand, other studies found an insignificant relationship between public governance and tax compliance [105, 130]. Some other studies declared a negative relation between public governance and tax compliance [99, 131]. Hence, this inconsistency in the findings suggests that public governance may have an indirect potential effect as a moderating variable. Therefore, the present study considers public governance as a third variable that moderates the relationship between sales tax compliance and its determinants. According to Baron and Kenny [132], a moderating variable is introduced when there is an inconsistent relationship between two variables. Reviewing previous studies on tax compliance revealed inconsistent results among tax complexity, tax audit, tax rate, tax penalty, tax moral, tax fairness, peer influence and patriotism with sales tax compliance. Hence, there is an ambiguous explanation in relation to the results that may be explained by a moderator [133]. Based on the above discussion, the following conceptual framework is proposed.

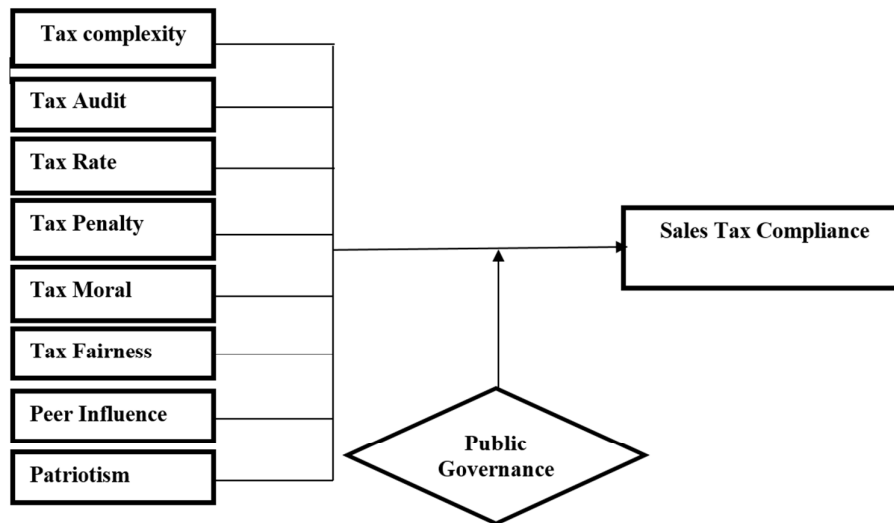


Fig. 1. Proposed research framework for sales tax compliance

6. Research Method

The proposed model is a quantitative in nature and is currently part of a larger questionnaire survey undertaken by authors in the Jordanian SMEs context. This research considers 660 SMEs from almost 18,000 registered SMEs in the Jordanian Chamber of Industry (JCI) [134]. The survey questionnaire is built upon prior studies mainly on income tax adapted to suit the Jordanian sales tax compliance environment. The targeted respondents are owner-managers of SMEs as they have reasonable knowledge about their businesses and has an appropriate capacity in their respective businesses.

7. Implications

The present study would make significant contributions to various stakeholders in relation to issues of tax compliance in the economy including the governments, tax authorities, policy makers, particularly in the Arab countries and Middle East. The study would also enhance the understanding and knowledge of sales tax compliance and provide useful information to tax authorities regarding the effect of the socio-psychological factors as well as deterrence elements on sales tax compliance behavior. Thus, it would add more literature on sales tax compliance among the SMEs, particularly in Jordan and the world at large. The current study probably the first to examine the sales tax compliance of SMEs in the Middle East and Arab countries and is the first in the context of Jordan. The present study also would provide necessary information that will be beneficial for formulating suitable policies to combat tax non-compliance which will help to avoid distorted decisions, and then increases tax revenue to Jordanian government especially at this time where increased public debt and deficit of fiscal budget becomes issues of concern.

8. Conclusion

Sales tax is a major source of governmental revenues in Jordan. Fundamentally, this forms part of the implementation of different government policies aimed at fulfilling the development of the country. Tax non-compliance has led to a deficit in the government budget, economic growth and

development. The combating sales tax non-compliance and the encouragement of sales tax compliance form a typical aspect of the governmental agendas in order to increase tax revenues and raise the government's competence. Tax non-compliance has also attracted the concern of scholars from several economic disciplines. Therefore, the proposed model in the current study presents a model for a better understanding of the sales tax compliance of the SMEs in Jordan. The proposed model is an expansion of Fischer's model, which integrates patriotism as well as the effect of public governance as a moderator on the relation among socio-psychological factors, economic factors and patriotism with sales tax compliance. Practically, the proposed model could probably help governments, policy makers and tax authorities in the Middle Eastern countries, particularly in Jordan to better understand and acknowledge the effective role of the perceptions of SMEs' owners-managers about patriotism and other socio-psychological and economic factors on sales tax compliance, with the moderating impact of public governance. Other factors can affect the extent of taxpayers' compliance with payment of taxes; therefore, further studies need to take these factors into account (e.g., government subsidy removal, sales tax compliance cost) and consider patriotism in light of other theories, like the Theory of Planned Behavior in the context of sales tax compliance of SMEs.

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