

## Effect of Moral Obligation on Sales Tax Compliance among SME Taxpayers in Juba, South Sudan

<sup>1</sup>Mayen Isaac Dau, <sup>2</sup>Joel Tenai, PhD, <sup>3</sup>John Tarus, PhD

<sup>1</sup>Department of Accounting and Finance, Kenya School of Revenue Administration

<sup>2,3</sup>Department of Accounting and Finance, Moi University

Corresponding Email: mayenisaacdau@gmail.com

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### Abstract

Tax compliance promotes social and economic growth by reducing the government's fiscal imbalance and debt while also providing funding for public services. Currently, the National Revenue Authority of South Sudan is focusing on maximizing tax revenue production from the country's huge number of small and medium enterprises, and this study contributes to that endeavour. The study's main goal was to examine the moral obligation, of sales tax compliance among SMEs. This study was guided by Tax Morale Theory. The study used an explanatory research design and the study's target population was 1,320 SMEs, with 307 SMEs in Rejaf Sub-County registered for sales tax. The data was examined using both descriptive and inferential statistics. The study found that there is a positive and significant effect of moral obligation on sales tax compliance ( $\beta_1 = 0.241$ ,  $p < 0.05$ ). The study recommends that South Sudan's Ministry of Finance and Economic Planning build a strong mechanism for monitoring and evaluating the efficiency of tax policy implementation. Furthermore, research should involve a more diversified set of SMEs to capture a greater variety of opinions, taking into account differences in size, industry, and ownership structure.

**Keywords:** *Moral obligation, sales tax compliance, small and medium enterprises*

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### 1.0 INTRODUCTION

Tax compliance has emerged as a significant concern for individuals and businesses in both developed and developing nations. The statement underscores the obligation of taxpayers to disclose their income and ascertain their tax obligations (Inasius, 2019). Ensuring tax compliance is more crucial than maintaining robust public finances, as it involves effectively controlling public expenditures by equitably distributing them among all citizens.

Moral obligation is often cited as crucial in fostering a more comprehensive comprehension of tax compliance among taxpayers. Taxpayers have an obligation and accountability to remit a suitable amount of taxes to the tax authorities without depending on external enforcement. According to Sadjiarto et al. (2020), paying taxes serves as a source of inherent incentive. The moral imperative to fulfill tax obligations is rooted in ethics, which pertains to the discernment of what is morally correct or incorrect (Alm et al., 2011). When taxpayers exhibit low tax morality, their likelihood of paying their taxes decreases, and their likelihood of participating in tax evasion increases (Torgler et al., 2008). Frey et al. (2007) found that tax morality or taxpayer sincerity increases when tax officers demonstrate respect and consideration in

fulfilling their duties. Demographic and socioeconomic characteristics, such as income level, marital status, and religion, can influence individuals' ethical beliefs toward taxation (Rantelangi et al., 2018). The decision of taxpayers to participate or not is determined by their actions. The ethical principles of taxation might have a beneficial impact on taxpayers, encouraging them to participate in tax evasion (Nangih et al., 2018; Terzić, 2017).

According to the OECD (2016b), small and medium-sized enterprises (SMEs) are the primary providers of employment, representing approximately 70% of jobs on average. Additionally, SMEs play a significant role in value creation, contributing between 50% and 60% of value generated on average. SMEs in emerging economies account for up to 45% of the overall workforce and contribute 33% to the gross domestic product (GDP). SMEs have a crucial role in employment creation and contribute significantly to the identity and social cohesion of local communities in numerous nations (OECD, 2019). Hence, the capacity of small and medium-sized enterprise (SME) taxpayers to fulfill their tax obligations is essential for attaining a sustainable and enduring stream of tax income. Small and Medium-sized Enterprises (SMEs) are of utmost importance in the economic progress of a nation, since they serve as its primary financial support. According to statistics in Malaysia, SMEs account for 95.1% of the country's total enterprises in Jordan. They contribute approximately 23% to the Gross Domestic Product (GDP) and employ 41% of the workforce (Al-Zoubi, 2018; 2020).

Faridzi et al. (2022) define taxpayer compliance as the act of fulfilling all tax obligations and adhering to taxation. They distinguish between two types of compliance: (i) Formal Compliance, which refers to compliance regulated by tax laws, and (ii) Material Compliance, which involves the material aspects of compliance within the framework of formal compliance as dictated by tax laws. An indication of official taxpayer compliance is the submission of tax reports via a notification letter (SPT). Ensuring taxpayer compliance is a crucial element of the contemporary tax system. However, its implementation is challenging due to the non-compliance of individuals in terms of tax registration, payment, and reporting. Idrus et al. (2021) propose that tax compliance can be conceptualised by examining three distinct categories of compliance: payment compliance, storage compliance, and reporting compliance. Taxpayers adhere to their commitments due to their perception of tax compliance as the standard practice. Failure to raise tax compliance would jeopardise the government's endeavours to enhance the well-being of the populace.

### **1.1 Problem Statement**

In a recent study, Ghazo et al. (2021) reported that the estimated amount of tax evasion in the Jordanian economy in 2016 was JOD 613.928 million. Subsequently, it rose to JOD 773.31 million in 2019, representing 2.4% of the GDP and 17% of the sales tax receipts. The Juba Domestic Division Department of Sales Tax (NRA Annual Report, 2022/2023) states that from July 1, 2022, to June 30, 2023, the target amount of 342,868,595 SSP was set to be collected from SME taxpayers. However, the office was only able to collect 288,976,465 SSP, resulting in a shortfall of 15.72%. The sales tax target variance can be attributed to many causes that may have motivated small and medium-sized enterprise (SME) taxpayers to avoid paying their taxable revenue.

The majority of small and medium-sized enterprise (SME) taxpayers exhibit self-centered behaviour and typically rely on mandatory government measures, as they intentionally avoid paying taxes by reporting annual losses (Barbu et al., 2022; Siglé et al., 2022). This is demonstrated by the lavish lifestyles of taxpayers, which contradict their reported incomes in their tax returns. Such discrepancies often reveal the true effectiveness and profitability of their

firms, serving as proof of ongoing non-compliance among small and medium-sized enterprise taxpayers. There is insufficient research available on the topic of sales tax compliance among small and medium-sized firms (SMEs) in Juba, South Sudan. This study aims to analyze the effect of moral obligation on sales tax compliance among SME taxpayers in Juba, South Sudan.

## 1.2 Research Hypothesis

**H<sub>01</sub>:** Moral obligation has no significant influence on sales tax compliance among SME taxpayers in Juba, South Sudan.

## 2.0 LITERATURE REVIEW

### 2.1 Theoretical Review

The Cologne School of Tax Psychology (Schmijlders, 1970) introduced the concept of tax morale in the 1960s, and it has since become a crucial aspect of tax compliance research. Torgler (2012) defines tax morale as the primary intrinsic motive to meet tax obligations. According to Luttmer and Singhal (2014), tax morale is a collection of non-monetary incentives and situations that influence tax compliance but are unrelated to maximizing expected profit. Tax morale is an important driver of tax compliance since it influences individuals' decisions to comply with tax responsibilities.

Dwenger et al. (2016) discovered that tax enforcement is either limited or nonexistent. Their research found that despite the lack of enforcement, around 20% of people paid their taxes. Nonetheless, having a strong sense of tax morality does not guarantee a high degree of tax compliance. Lower tax morale has been linked to higher levels of tax evasion, lower levels of tax compliance, higher levels of the shadow economy, increased participation in undeclared work, and increased participation in wage underreporting (Windebank & Horodnic, 2017; Stark & Kirchler, 2017; & Horodnic et al, 2017a).

Vythelingum et al. (2017) discovered that tax morale improves when citizens perceive the government and tax system to be fair. According to Horodnic (2016), tax morale is better when there is a stronger bond between the government and its citizens, which can be demonstrated by characteristics like as legal rights, democracy, or local autonomy. Individuals, according to Sá et al. (2015), do indulge in self-harm on occasion. They also tend to discuss negative encounters with public officials, which reduces their faith in hierarchical institutions and hence affects overall tax morale among the group. Similarly, when engaging in chats with friends and family, if certain individuals of integrity learn that their peers are dishonestly dodging their tax obligations, their willingness to comply with tax rules decreases due to a loss of mutual confidence.

### 2.2 Empirical Review

Taxpayers' morality is critical to their proper compliance with their tax obligations (Mitu, 2018). Timothy et al. (2021) explored if and to what extent tax morality, trust in public authority, perception of justice, and tax expertise are connected with tax compliance among SMEs. Using a sample of 232 Indonesian SMEs in 2020, the data was analyzed using the Structural Equation Modelling (SEM) Maximum Likelihood method, yielding the following results: SME taxpayers' level of tax compliance is positively associated with their level of tax morality, perception of justice, and trust in public authorities. Tax morality has the strongest connection of any of these criteria, confirming that it is the primary motivator of tax compliance. The findings also revealed that when public authorities are trustworthy, SMEs are more likely to comply with tax regulations. There was also a strong positive relationship between tax knowledge and tax compliance, supporting the idea that taxpayers' inherent desire

should be supplemented with proper tax knowledge. According to the findings, to improve SMEs' tax compliance, authorities could explore developing intrinsic motivation as well as increasing tax knowledge, which fosters a better understanding of tax requirements.

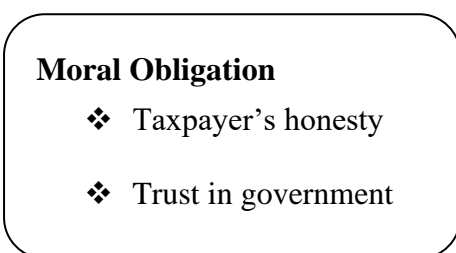
Al-Rahamneh et al. (2023) investigate the relationship between tax transparency and sales tax evasion among Jordanian SMEs, using moral obligation as a moderating factor between endogenous and exogenous variables. This study took a quantitative approach, surveying 400 SME owners/managers. Only 45% of these surveys were suitable for further investigation. For hypothesis testing and data analysis, the partial least squares structural equational modeling (PLS-SEM) technique was used. The findings indicated that tax transparency has a negative and considerable impact on sales tax evasion. This study also shows that incorporating the moderating function of moral obligation significantly improves the model's ability to explain tax evasion and the impact of tax transparency on sales tax evasion.

Kassa (2021) examines Woldia City, Ethiopia, taxpayers' tax evasion motivations. Researchers used quantitative methods and descriptive and explanatory designs. This study used primary and secondary data. A stratified and simple random sample approach selected 370 taxpayers from 4,979. Each variable measured underwent exploratory factor analysis (EFA) Pearson correlation and multiple regression analysis to confirm data quality. The study discovered a positive and statistically significant relationship between independent and dependent variables. The regression study demonstrates that tax fairness, tax knowledge, and moral obligation all significantly affect taxpayers' willingness to evade taxes, whereas subjective norms and attitudes have no statistically significant effect. Since taxpayers were unaware of the moral value of not evading taxes, moral responsibility has positive and statistical relevance.

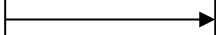
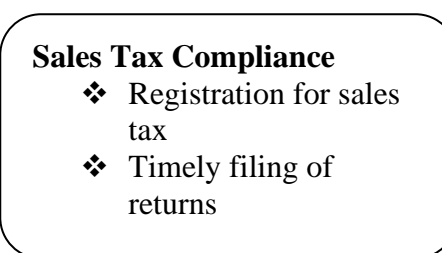
### 2.3 Conceptual Framework

According to Barada (2013), a conceptual framework is a visual graphical representation depicting the link between the independent and dependent variables. In this study, the predictors include; moral obligation, which was measured by the taxpayer's honesty and trust in government. The dependent variable was sales tax compliance, which was measured by registration for sales tax and timely filing of returns as illustrated in Figure 1;

#### Independent Variables



#### Dependent Variable



**Figure 1: Conceptual Framework**

**Source: Researcher, (2024)**

### 3.0 METHODOLOGY

Explanatory research was used in this study. Explanatory research aims to explain why things happen and anticipate what will happen in the future. The primary data and the target population for this study was 1,320 registered small and medium-sized businesses in the Rejaf sub-county of Juba City and a sample size was 307 respondents. Data was collected on a 5-point Likert scale questionnaire. Descriptive statistics were presented in tables and charts.

Regression analysis was used to determine the effect of moral obligation on sales tax compliance among SME taxpayers in Juba, South Sudan.

#### 4.0 RESULTS AND DISCUSSION

##### 4.1 Descriptive Analysis

###### 4.1.1 Moral obligation

The descriptive statistics results for the variable Moral obligation are presented in Table 1.

**Table 1: Moral Obligation**

Items	Mean	Std. Deviation	Skewness	Kurtosis
I think it is morally right to engage in sales tax compliance.	4.39	.764	-.854	-.568
Tax non-compliance is not considered a serious offense.	3.97	1.129	-.619	-1.087
I fill out, count, and report tax notification letters honestly, completely, and correctly by applicable sales tax rules.	4.01	1.152	-.699	-1.040
I would not feel guilty if I cheated on taxes.	3.99	1.133	-.610	-1.133
Cheating on taxes goes against my principles.	4.07	1.112	-.755	-.915
<b>Average mean</b>	<b>4.086</b>			

##### Source: Research Data (2024)

Moral obligation descriptive data are in Table 1: I think sales tax compliance is moral (Mean=4.39, SD=0.764): Tax non-compliance is not considered a serious offense (Mean=3.97, SD=1.129). I fill out, count, and report tax notification letters honestly, completely, and correctly according to applicable sales tax rules (Mean=4.01, SD=1.152). I would not feel guilty if I cheated on taxes (Mean=3.99, SD=1.133). Cheating on taxes goes against my principles (Mean=4.07, SD=1.112).

###### 4.1.2 Sales Tax Compliance

The descriptive statistics results for the dependent variable Sales tax compliance are presented in Table 2.

**Table 2: Sales Tax Compliance**

Items	Mean	Std. Deviation	Skewness	Kurtosis
I have registered for sales tax and tax identification numbers voluntarily.	4.53	.650	-1.165	.615
As a taxpayer, I file tax returns every month.	4.51	.657	-1.004	-.140
I pay taxes voluntarily according to the sales tax payments schedule and on time.	4.55	.643	-1.104	.089
I record the financial business regularly and declare the correct monthly income.	4.27	.867	-.964	.017

Filing of returns and making payments via tax identification number has enhanced voluntary compliance. 4.41 .761 -.971 -.186

**Average mean** 4.454

**Source: Research Data (2024)**

I have registered for sales tax and tax identification numbers voluntarily (Mean=4.53, SD=0.650) As a taxpayer, I file tax returns every month (Mean=4.51, SD=0.657). I pay taxes voluntarily according to the sales tax payments schedule and on time (Mean=4.55, SD=0.643). I record the financial business regularly and declare the correct monthly income (Mean=4.27, SD=0.867). Filing of returns and making payments via tax identification number has enhanced voluntary compliance (Mean=4.41, SD=0.761).

**4.2 Regression Analysis**

The model summary to determine the correlation and coefficient of determination was conducted in Table 3. which indicates that there is a positive correlation between moral obligation and Sales tax compliance up to 54.1%. The coefficient of determination R-square shows that 29.2% of the variation caused by sales tax compliance is caused by moral obligation leaving 70.8% of the remaining variation caused by factors not analyzed in this model.

**Table 3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.541 <sup>a</sup>	.292	.287	0.35872

a. Predictors: (Constant), moral obligation \_mean

**Source: Research data (2024)**

Regression was conducted to establish the effect of moral obligation on sales tax compliance

**Table 4: Regression of Coefficients**

	Standardized Coefficients		Sig.	
	B	Std. Error	B	t
(Constant)	0.635	0.244		2.602 0.010
moral obligation	0.241	0.073	.227	3.301 0.001

**Source: Research data (2024)**

Table 4; shows at a constant of 0.635 a unit change in moral obligation causes an increase of 0.241 in Sales tax compliance. **H<sub>01</sub>** The null hypothesis was that moral obligation has no significant effect on sales tax compliance among SME taxpayers in Juba, South Sudan. The study found that moral obligation has a positive and significant effect on sales tax compliance (p=0.001<0.05) the null hypothesis is therefore rejected.

**4.3 Discussion of Findings**

The study sought to examine how moral obligation affects sales tax compliance among SME taxpayers in Juba, South Sudan. The findings showed that the regression model showed there

was a positive and statistically significant effect of moral obligation on Sales tax compliance ( $\beta=0.241$ ,  $p=0.001$ ), this indicated that change in moral obligation positively explains Sales tax compliance among SME taxpayers in Juba, South Sudan. A study by Timothy et al. (2021) examined the relationship between tax compliance by small and medium-sized enterprises (SMEs) and factors such as tax morality, trust in public authority, perception of fairness, and tax expertise. Out of all these characteristics, tax morality has the strongest correlation with tax compliance, indicating that tax morality is the primary factor influencing tax compliance.

## 5.0 CONCLUSION

The study found a significant positive relationship between moral obligation and sales tax compliance among SME taxpayers in Juba, South Sudan. The study concluded that a sense of moral obligation leads to better levels of sales tax compliance, as seen by a steady increase over time. This emphasizes the importance of ethical concerns in fostering tax compliance. According to the study, taxpayers' trust in the government, as well as both parties' honesty, have a major influence on their adherence to tax compliance requirements.

## 6.0 RECOMMENDATIONS

Based on the findings It is recommended that South Sudan's Ministry of Finance and Economic Planning build a strong mechanism for monitoring and evaluating the efficiency of tax policy implementation. Regularly evaluate the impact of educational programmes, ethical measures, and e-tax system adoption to ensure they are aligned with the broader goal of improving sales tax compliance. It is proposed that the Ministry of Finance and Economic Planning establish and implement efforts to promote ethical tax compliance practices. By contemplating include ethical considerations in the tax code. Furthermore, research should involve a more diversified set of SMEs to capture a greater variety of opinions, taking into account differences in size, industry, and ownership structure

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