

# INFLUENCING OF TAX PENALTIES ON TAXPAYER COMPLIANCE IN CAMBODIA

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## ABSTRACT

*This paper explores the tax penalties set by General Department of Taxation to the taxpayer in Phnom Penh, Cambodia. The purpose of this study is to feature and to understand the feedback of the business owner who are punished with tax penalties result from fail to file tax return or fail to pay tax. Businesses who violate the tax regulations of Cambodia face a variety of penalties, as outlined by the General Department of Taxation (GDT). None tax compliance is taken very seriously by the GDT. Businesses that violate tax regulations risk facing severe penalties. Businesses can safeguard themselves against financial difficulties by being aware of the tax regulations and taking action to avoid penalties. The penalties can range from a small fine to a significant financial burden, depending on the severity of the offense. In this study there will be used of analysis, survey, interpretation on the registered enterprise who conduct business in the Phnom Penh capital of Cambodia. The result of the study concludes that, low tax penalty discourages taxpayers from evading taxes, while a high tax penalty encourages bribery among tax authorities, resulting in increased revenue losses.*

**Keyword:** - Taxation, Tax penalties in Cambodia

## 1. Introduction

This study looks at how Cambodian SMEs adhere to tax penalties set by the government. Cambodia's informal economy, which is driven by SMEs, is struggling with worldwide tax compliance. This research investigated the influencing factors of tax penalties on tax compliance among registered SMEs in Cambodia. Governments impose financial penalties on individuals or organizations that do not fulfill their tax commitments. These penalties serve as a deterrent against non-compliance and ensure that everyone contributes their fair share to the government's revenue, which is essential for funding public services and infrastructure. Why tax penalties were applied, it because of taxpayer fail to file a tax return, fail to pay tax, underpayment of tax and committed act of obstruction to taxation law. The purpose of tax penalties is to disengage taxpayer from non-compliant behavior, enforcing tax laws, help to level the playing field between compliant taxpayers, generate additional revenue for the government.

## 2. LITERATURE REVIEW

Empirical evidence is suggesting a low tax penalty has a positive effect on tax compliance. These results are supported by Virmani (1989) as well as Tilahun and Yidersal (1989). It has been shown through research conducted by Waithira (2016) and Oladipupo and Obazee (2016) that lenient tax penalties have a negative effect on tax compliance. Even if penalties have been put in place to make sure people pay their taxes, some people still won't (Waithira, 2016). According to research (Pambudi, Restianto, & Wk, 2015), as well as this means that punishments do not work to prevent tax avoidance. High tax fines and enforcement have a negative and considerable effect on tax compliance, according to research by Modugu and Anyaduba (2014) in Nigeria. There will be a decline in tax compliance if the penalty is increased.

Businesses that have already registered with the government may be encouraged to follow the rules by the threat of monetary penalties (Sinaga & Sinaga, 2019). There are a wide range of reasons for businesses to engage in the shadow economy. Obstacles are frequently attributed to cumbersome regulations, multiple and expensive taxes, labor law requirements, bureaucracy, and corruption (Paper et al., 2016). The enactment of tax fines is still another concern. Tax penalties can have a positive or negative impact on a company's decision to incorporate (Afshan & Siddiqui, 2021). Punishments can be seen as a disincentive to formality or an inducement to informality, depending on the context.

Penalties imposed by the tax department might be a deterrent if they are excessive in number or severity. The risk of failing to meet one or more of one's tax obligations and incurring the associated penalties increases as one's tax burden grows (Afshan & Siddiqui, 2021). Combined with a heavy reliance on penalties in tax enforcement actions, this creates a significant barrier to formalizing business operations. The situation deteriorates further if the penalties have little to do with the actual offenses or are used dishonestly. Sometimes, smaller businesses want to stay out of the spotlight to avoid paying taxes or coming into conflict with authorities. The biggest risk that they face is exposure and a single punishment (Afshan & Siddiqui, 2021).

However, tax penalties are levied on taxpayers to get them to pay their taxes, which in turn raises government revenue right away (Doran, 2009). The fundamental role of taxes is to generate revenue that can be used to promote civic welfare and economic progress by providing services to the public, and the primary aim of tax law is to force tax evaders to respect government laws and regulations, as stated by Palil (2010). The availability within social and economic sectors of the economy was reaffirmed by Abiola and Asiweh (2012), who both argued that the government should find ways to apply tax penalties.

Because they motivate taxpayers to meet their responsibilities with the government, tax fines are a useful tool for increasing government income, according to Sanni (2007). According to Jakir (2011), the government's efforts to crack down on tax evasion are a major contributor to the country's overall tax take. Since the government was unable to enforce tax regulations, people did not pay them, as stated by Sanni (2012). Allingham and Sandmo (1972) argued that people will always pay their taxes if there is a system of checks and balances in place.

Numerous research (including Loo, Evans, and McKerchar (2012), Palil (2010), Yusof, Ling, and Wah (2014), Sapiei and Kasipillai (2013), Sheikh-Obid (2004) have stressed the significance of tax fines and punishments in resolving tax compliance issues. An important factor in this equation is, and often is, tax penalties (Devos, 2004; Poppelwell et al., 2012). The idea that punishment is effective is false, as Matthews (2005) explains. Tax penalties have the potential to be more effective if used in addition to delivering and implementing a sound compliance strategy.

The tax penalty should not be too severe or detrimental (Paper et al., 2016). Excessive repression has never been effective, and not just in the area of taxation. While deciding on an appropriate punishment, it is important to strike a balance between the desired degree of discomfort and the need to avoid repression. This means that several factors must be considered while determining an appropriate punishment. It needs to be able to tell what kind of noncompliance is being reported. Punishing careless mistakes and deliberate dishonesty, in the same way, is unfair (Afshan & Siddiqui, 2021).

### 3. METHODOLOGY

Because it is consistent with the study's concept, quantitative and qualitative approaches were used in this investigation. The research study sites is Phnom Penh Capital of Cambodia. The sample size technique is determined in two phases. To begin, we calculate the sample size for an infinite population. The sample size is then adjusted to meet the people we are interested in participating in the survey. The sample size formula is expressed as follows:

Formula 1: Sample number for an infinite population:

$$S = Z^2 \frac{P(1-P)}{M^2}$$

Formula 2: Adjusted sample size for a finite group

$$\text{Adjusted Sample Size} = \frac{\text{Population (S)}_1 + \text{Population (S)}_1 + \text{Population (S)}_1}{2}$$

Where:

S = sample size for an infinite group

Z = Z score = 95% = 1.96

P = the percentage of the population (assumed to be 50%, or 0.5).

M = error rate of 0.05 or 5%

#### 4. RESULTS

Impact of Tax Penalty on Tax Compliance					
Codes	Scale	N	Mean	Std. Deviation	Variance
TPEN1	The penalty for tax evaders is really high	460	3.3804	0.95249	0.907
TPEN2	Fines as the penalty fulfill the principle of justice	460	3.5739	0.86883	0.755
TPEN3	Penalties as the sanction are imposed to create compliance among taxpayers	460	3.5043	0.83365	0.695
TPEN4	Taxpayers who do not comply are subject to the applicable sanctions.	460	3.5391	0.91263	0.833
TPEN5	Tax penalties can deter taxpayers	460	3.5457	2.04952	4.201

**Source:** Survey results conducted by researcher in Phnom Penh Capital of Cambodia (2023)

#### 5. CONCLUSION AND RECOMMENDATION

In terms of tax penalties, survey respondents agree that: (a) the penalty for tax evaders is extremely high (3.3804); (b) fines as a penalty fulfill the principle of justice (3.5739); (c) penalties as a sanction are imposed to create compliance among taxpayers (3.5043); (d) taxpayers who do not comply face the applicable sanctions (3.5391); and (e) tax penalties can deter taxpayers (3.5457).

According to the research, low tax penalties have a substantial beneficial link with tax compliance. Based on the study, the government should consider using modest tax penalties to enhance tax compliance. A low tax penalty discourages taxpayers from evading taxes, while a high tax penalty encourages bribery among tax authorities, resulting in increased revenue losses.

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## BIOGRAPHIES



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