Factors Affecting Tax Compliance among Small Medium Sized Enterprises in Lasanod, SSC-Khaatumo, Somalia

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Abstract
Tax compliance among Small and Medium Enterprises (SMEs) is a critical component of economic stability, particularly in developing regions like Somalia, where SMEs form the backbone of the economy. This study examines factors influencing tax compliance among SMEs in Lasanod, SSC-Khaatumo, focusing on perceived fairness of the tax system, tax knowledge and awareness, tax fines and penalties, and tax rates. A quantitative research design was employed, with data collected from 384 SMEs using a structured questionnaire and analyzed through descriptive and inferential statistics. The findings reveal significant relationships between tax compliance and three key predictors: perceived fairness of the tax system (r = 0.749, p < 0.01), tax fines and penalties (r = 0.727, p < 0.01), and tax knowledge and awareness (r = 0.513, p < 0.01). Regression analysis further confirms that tax fines and penalties have the strongest positive effect on compliance (β = 0.497, p < 0.01), followed by perceived fairness of the tax system (β = 0.468, p < 0.01) and tax knowledge and awareness (β = 0.188, p < 0.01). Surprisingly, tax rates showed no statistically significant impact on compliance (β = 0.010, p = 0.763). These results underscore the need for policymakers to prioritize transparent and equitable tax systems, enhance taxpayer education, and implement effective enforcement mechanisms to improve compliance. Addressing these factors can strengthen Somalia's tax base, reduce reliance on external funding, and promote sustainable economic growth, particularly in conflict-affected regions like SSC-Khaatumo.
Keywords: Perceived Tax System, Tax Rates, Tax Fines, Tax Knowledge and Tax Compliance

Introduction
Tax compliance among small and medium enterprises (SMEs) is influenced by various factors. Studies across different countries have identified key determinants, including tax knowledge,

complexity of tax systems, tax rates, and the probability of tax audits. Accounting practices within organizations significantly impact compliance (Le et al., 2020). Social norms, penalties, and perceptions of government spending also play roles (Nguyen, 2022). Income levels, rewards and incentives, and attitudes toward taxation affect compliance behavior (Biru, 2020). For e-commerce SMEs, tax knowledge is crucial, while complex regulations and high tax rates are seen as burdensome (Hamid et al., 2019). To improve compliance, recommendations include simplifying tax procedures, providing education and training, implementing fair penalties, and offering incentives for honest taxpayers (Biru, 2020; Le et al., 2020).

Tax compliance is an important matter and one which must be observed within any economic environment with emphasis placed on the particular political climate of countries, in this case developing countries like Somalia (Ali Abdinur et al., 2020). Somalia's economy is largely dependent on SMEs who are key stakeholders for the nation's tax base. However, tax compliance practices within SMES especially in Somalia are subjected to a wide range of socio-economic structures challenges, notwithstanding the fact that they are crucial. It is suggested these factors need to be well understood to help formulate policies that increase participation in the tax system in such a way that strengthens the public revenue system.(Isak, 2018). The term tax compliance is self-explanatory it is about how much taxpayers do their taxation on legal requirements. While the tax compliance gap may be more prominent in developing countries owing factors mentioned previously, including the misguided perception of the tax system as unfair and the lack of awareness of the tax system, the weaknesses of institutional frameworks exacerbate the situation (Allingham & Sandmo, 1972). In Somalia, the informal nature of the majority of them significantly operates beyond the formal tax framework which exacerbates the central issues mentioned above of a diminished tax base as well as the resultant impairment on the government's ability to provide vital public goods and services.

There are a number of reasons why tax compliance is attributed to SMEs in Somalia. Among such factors, the main reason is the perception of equity in the taxation system. Evidence shows taxpayers' compliance is enhanced whenever the tax system is perceived as just and fair (Kirchler, 2007). On the other hand, tax compliance may be greatly disadvantaged by widespread perceptions of corruption or ineffectiveness of tax administrations. Furthermore, the level of understanding and awareness of the tax matters among the owners of SMEs is of crucial importance. Lack of knowledge of tax duties, its procedures, and advantages sometimes causes individuals to break the law inadvertently (Palil & Mustapha, 2011). A different but important factor is the effect of tax fines and penalties. On the one hand, if penalties are strict enough, it becomes impossible not to comply with some, but on the other hand too many measures may discourage the acts of self-compliance and further push enterprises to operate in the unofficial economy. The other factor that affects level of compliance is tax rates. High tax rate can act as a disincentive, encouraging non tax compliance and decreasing the competitiveness of the SMEs (Ali et al., 2014). Taking into consideration Somalia's prevailing socio-economic and political environment, addressing these obstacles becomes a matter of devising strategies that suit the unique requirements and limitations of the SMEs. For example, advancing taxation education in the society, making taxes more open and less bureaucratic, and increasing audit and enforcement level may help enhance compliance. Also, where tax norms of expectations are instilled, a sense of trust builds up, and people voluntarily adhere to the tax laws.

In order to improve the revenue function of the taxation system in Somalia and sustain future economic growth, it is imperative to understand what the factors are or reasons affecting tax compliance among small and medium sized enterprises (SMEs) in Somalia. In particular, addressing the perceived fairness of the tax system, tax knowledge and awareness, tax fines and penalties and tax rates, Somalia can improve the equity and efficiency of the taxation system for the government and the business sector. In Somalia, tax compliance is much worse. Increased reliance on outside grants has weakened tax institutions that are supposed to collect public revenue. Also, the informal economy already presents a heavy burden for enforcing and complying with tax laws. For instance, the Ministry of Finance (2024) reported that about 24 % of the expected revenue are coming from taxes while 76% of revenues are coming from either grants or other support. Only SMEs are at a particular point forced to grapple with specific tax compliance challenges, yet in Somalia no sufficient empirical research currently exists examining the influences of such factors on their tax compliance behavior.

The issue of tax compliance among SMEs in Lasanod, SSC-Khaatumo, is under-researched. While global and regional studies have explored the determinants of tax compliance, there is a lack of data specific to Somalia. No previous studies have thoroughly investigated the factors affecting tax compliance among SMEs in Lasanod, a critical gap in the literature. Understanding these factors is essential for designing effective tax policies that encourage voluntary compliance and support the growth of SMEs. Therefore, this research aims to identify and analyze the key factors influencing tax compliance among SMEs in Lasanod, focusing on perceived fairness of the tax system, tax knowledge and awareness, tax fines and penalties, and tax rates.

Literature Review

The Theory of Planned Behavior (TPB), developed by Ajzen (1991), is a prominent framework for understanding human behavior in various contexts, including tax compliance. The TPB posits that behavior is influenced by three key factors: attitudes, subjective norms, and perceived behavioral control. Each of these constructs offers valuable insights into understanding why small and medium enterprises (SMEs) may or may not comply with tax regulations in Somalia. Attitudes refer to the individual's positive or negative evaluation of performing a behavior. For SMEs in Somalia, attitudes toward tax compliance can be shaped by perceptions of the tax system's fairness, the benefits derived from public goods funded by taxes, and the burden of tax rates. If SMEs perceive tax compliance as beneficial—contributing to societal development and enhancing their business legitimacy—they are more likely to exhibit compliant behavior (Saad, 2014). Subjective norms represent the perceived social pressure to perform or abstain from a behavior. In Somalia, SMEs often operate within close-knit communities where the expectations of peers, business networks, and local leaders significantly influence decision-making. A strong normative belief that peers comply with tax regulations can encourage SMEs to follow suit, whereas perceptions of widespread non-compliance may discourage compliance (Hofmann et al., 2017).

Perceived behavioral control pertains to the individual's belief in their capability to perform the behavior, influenced by both internal and external factors. For SMEs, this includes understanding tax laws, accessing resources to meet tax obligations, and the perceived ease of interacting with tax authorities. Challenges such as low tax awareness, lack

of digital tools, or bureaucratic hurdles can diminish perceived control and hinder compliance (Carnahan, 2015)

In Somalia, Small and Medium Enterprises (SME's) are the backbone of the nation's economy and act as a catalyst for development. These firms engage in diverse economic activities that include trade, agriculture, services and crafts, and thus are a key provider of jobs and economic activities (Maow, 2021). SME's also provide employment to many women, youth and other underprivileged communities and one of the biggest achievements is reducing the unemployment rates. Moreover, SMEs are a source of creativity and development of local economies because they promote local products rather than pat tonic other countries' goods. Current researches underscores that these firms' fuel growth of economic and social security by providing banking and other services which derives people and other businesses, which are prone to violence (World Bank, 2022). An evaluation done by the international finance corporation reveals that approximately 80% of economic performance the developing nations is constituted by SME's which is of vital importance to Somalia which has just emerged from decades of continuous conflict and is striving to revive its economy. SMEs in Somalia play crucial way in achieving sustainable development by enhancing people's living standards, raising their income levels and providing their local populations with affordable goods and services (Hassan, 2022). With government support and donor funding, SMEs can translate into long-term economic benefits associated with creating a diversified and sustainable economy. A number of studies emphasize the need to build a supportive regulatory environment for SMEs to ensure their continuity and success (UNDP, 2020). SMEs are a cornerstone in the Somali economy, since they address a number of economic and social problems. Support through finances and regulations to these enterprises will be a key factor in the economy's stability and development in the long-term and sustainable kinds in Somalia (*Somalia_MSMEs_Ecosystem.Pdf.Crdownload*, n.d.).

Recent studies highlight the complex relationship between perceived tax system fairness, trust in government, and tax compliance. Perceptions of tax system effectiveness and fairness positively influence tax compliance, mediated by taxpayer awareness. However, one study found no direct effect of perceived tax fairness on compliance (Merkusiwati & Suaryana, 2021). Trust in government and perceptions of corruption show mixed results, with some studies finding no significant impact on compliance (Inayah & Utomo, 2023). Market competition between formal and informal sectors affects tax compliance, with higher perceived competition potentially leading to tax avoidance (Damayanti et al., 2021). Technological advancements in tax systems can improve compliance by enhancing perceived usefulness and ease of use (Perveen & Ahmad 2022). Overall, these findings suggest that governments should focus on creating fair tax systems and reducing perceived market competition to enhance tax compliance. While economic deterrence theory plays a role in compliance motivation, other factors such as social norms and perceptions of fairness also contribute (Alm, 2019).

Furthermore, Tax knowledge and transparency have been found to positively influence tax awareness and compliance (Fuad & Khusfiyah, 2019). Similarly, tax knowledge, self-assessment systems, and awareness significantly affect taxpayer compliance (Asrinanda & Diantimala 2018). Research on potential taxpayers revealed a negative relationship between tax awareness and knowledge with non-compliance, suggesting that higher levels of

awareness and knowledge lead to lower non-compliance (Ishak et al., 2023). This emphasizes the importance of tax education for tertiary students. Additionally, a study on e-commerce entrepreneurs found that tax knowledge and awareness positively impact tax compliance (Chanita & Sitinjak, 2021). These findings consistently demonstrate the crucial role of tax knowledge and awareness in promoting compliance across various taxpayer groups, highlighting the need for effective tax education and transparency to improve overall tax compliance. Tax knowledge plays a moderating role, with increased knowledge improving compliance among small businesses (Ellawule et al., 2024). Additionally, tax knowledge and education have been found to positively impact tax compliance (Alemu, 2020).

On the other hand Tax compliance is influenced by various factors, including penalties, audits, and taxpayer awareness. Studies have shown that tax penalties and audits positively affect corporate taxpayer compliance and increase compliance among small and medium-sized enterprises (Rahmayanti et al., 2020). The imposition of fines and penalties makes businesses more tax compliant, suggesting that tax authorities should improve the effectiveness of penalty systems (Muhwa & Omboi, 2023). To improve compliance, governments should consider implementing a combination of strategies, including enforcing penalties, conducting audits, simplifying tax processes, and providing tax education to taxpayers (Alemu, 2020; Alm, 2018).

Besides, Research on tax rates and compliance reveals complex relationships. Studies indicate that higher tax rates can increase compliance due to perceived consequences of non-compliance (Fauziyyah et al., 2020). However, other findings suggest lower rates may be more effective for compliance while the probability of tax audits also influences compliance, with higher audit probabilities leading to greater compliance (Rudianto, 2018). Cross-country analysis of BRICS nations shows a negative correlation between tax rates and compliance, suggesting that stable tax policies may positively impact taxpayer behavior (Agarwal, 2024). Overall, aforementioned researches indicate that optimal tax compliance strategies should consider multiple factors, including tax rates, tax fines, audit probabilities, and taxpayer education & knowledge, to create effective and fair tax systems.

SMEs' attitudes are shaped by the fairness of the tax system, which affects how they view justice and equality in tax duties. Inequitable tax laws or high tax rates may encourage unfavorable sentiments and lower compliance. In a similar vein, tax awareness and expertise are essential for improving SMEs' perceived behavioral control as they help entrepreneurs successfully negotiate intricate tax structures. Depending on the attitudes that are prevalent in society, subjective norms that are impacted by peer and community behavior can either promote or discourage compliance. Last but not least, tax fines and penalties serve as deterrents, influencing attitudes and highlighting the significance of compliance. Furthermore, through the use of the TPB, this study identifies the factors that influence tax compliance and provide policymakers with useful information to help them create interventions to improve SMEs' compliance practices. Thus, this theory facilitates the use of quantitative techniques, allowing for the evaluation of the connections between constructs and compliance results (Ajzen, 2020).

Methodology

Research Design

This study adopts a quantitative research design, aiming to investigate the factors influencing tax compliance among small and medium enterprises (SMEs) in Somalia. The design is chosen for its ability to quantify relationships between variables and provide generalizable insights. A descriptive and explanatory research approach is employed to explore and explain the relationships between the independent variables (fairness of the tax system, tax rates, tax fines and penalties, and tax knowledge and awareness) and the dependent variable (tax compliance).

Target Population and Sampling

The target population for this study comprises SMEs operating in Somalia, with a specific focus on major urban centers. Since the exact number of SMEs is unknown, Cochrans formula is applied to determine the sample size, with a confidence level of 95% and a margin of error of 5%. The calculated sample size is 384 respondents. A simple random sampling technique is used to ensure every SME has an equal chance of selection, minimizing bias and enhancing the representativeness of the sample.

Data Collection

Primary data is collected using a structured questionnaire designed to capture information on the independent and dependent variables. The questionnaire includes Likert scale questions ranging from 1 (strongly disagree) to 5 (strongly agree) to measure respondents' perceptions and experiences. The instrument is pre-tested with a small sample to ensure clarity, reliability, and validity before full-scale administration.

Variables and Measurement

The independent variables (IVs) in this study are:

1. Fairness of the Tax System is assessed through perceptions of equity and transparency in tax policies.
2. Tax Rates are evaluated based on the level of tax burden perceived by SMEs.
3. Tax Fines and Penalties are measured by the deterrent effects of fines on non-compliance.
4. Tax Knowledge and Awareness is gauged by the respondents' understanding of tax laws and obligations.
5. The dependent variable (DV) is Tax Compliance, which reflects the extent to which SMEs adhere to tax regulations.

Data Analysis

The collected data is analyzed using descriptive and inferential statistical methods. Descriptive statistics such as frequencies, means, and standard deviations summarize the data. For inferential analysis, regression analysis is employed to examine the relationships between the independent variables and the dependent variable. The Statistical Package for the Social Sciences (SPSS) software is used to facilitate data analysis and ensure accuracy.

Ethical Considerations
The study adheres to ethical research standards, ensuring voluntary participation, confidentiality, and anonymity of respondents. Informed consent is obtained from all participants, and the data collected is used solely for academic purposes.

Data Analysis
Table 1
Demographic Analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	255	66.4	66.4	66.4
	Female	129	33.6	33.6	100.0
	Total	**384**	**100.0**	**100.0**	
Age	Younger than 25 Years	29	7.6	7.6	7.6
	25-30	63	16.4	16.4	24.0
	31-35	102	26.6	26.6	50.5
	36-40	146	38.0	38.0	88.5
	41-50	44	11.5	11.5	100.0
	Total	**384**	**100.0**	**100.0**	
Highest Eductional Level Of The Respondent	Below Secondary School	65	16.9	16.9	16.9
	Secondary School	167	43.5	43.5	60.4
	Diploma	10	2.6	2.6	63.0
	Bachlor Degree	127	33.1	33.1	96.1
	Master Degree	15	3.9	3.9	100.0
	Total	**384**	**100.0**	**100.0**	
Experience in Years	Less than 1 Year	15	3.9	3.9	3.9
	1-5 Years	141	36.7	36.7	40.6
	6-10 Years	117	30.5	30.5	71.1
	11-15 Years	81	21.1	21.1	92.2
	More than 15 Years	30	7.8	7.8	100.0
	Total	**384**	**100.0**	**100.0**	
Business Type	Retail	336	87.5	87.5	87.5
	Service	31	8.1	8.1	95.6
	Manufacturing	10	2.6	2.6	98.2
	Construction	7	1.8	1.8	100.0
	Total	**384**	**100.0**	**100.0**	
Ownership Type	Sole Proprietorship	164	42.7	42.7	42.7
	Partnership	220	57.3	57.3	100.0
	Total	**384**	**100.0**	**100.0**	

Table 1 presents the demographic profile of the respondents, including gender, age, education level, years of experience, type of business, and ownership structure. A total of 384 respondents participated in the survey.

The sample comprises a majority of male respondents (66.4%), while females constitute 33.6%. This gender disparity reflects the male-dominated nature of business ownership or management roles in the study area, potentially influenced by cultural and societal norms. The respondents' ages are diverse, with the largest proportion (38%) aged between 36 and 40 years. This group is followed by those aged 31–35 years (26.6%) and 25–30 years (16.4%). Younger respondents (below 25 years) make up 7.6%, while those aged 41–50 years constitute 11.5%. This distribution indicates that the majority of business owners or managers are in their prime working years (31–40), which aligns with expectations for active participation in business activities. The educational background of the respondents shows that 43.5% have attained secondary school education, while 33.1% hold a bachelor's degree. A smaller proportion of respondents have qualifications below secondary school (16.9%), a diploma (2.6%), or a master's degree (3.9%). These findings suggest that a substantial number of respondents possess at least a secondary education, which may contribute to their ability to manage businesses effectively. However, the limited number of respondents with higher education (master's degree) might reflect challenges in accessing advanced education in the region. The respondents have varying levels of experience in business, with the majority (36.7%) reporting 1–5 years of experience, followed by 30.5% with 6–10 years and 21.1% with 11–15 years. A smaller group has less than one year (3.9%) or more than 15 years (7.8%) of experience. This distribution highlights that most respondents are in the early to mid-stages of their business careers, which could influence their approach to decision-making and business growth.

Retail businesses dominate the sample, accounting for 87.5% of respondents. Service businesses follow at 8.1%, while manufacturing (2.6%) and construction (1.8%) are underrepresented. This indicates that the local economy is heavily reliant on retail activities, with limited diversification into other sectors such as manufacturing or construction. Regarding ownership structure, 57.3% of businesses are partnerships, while 42.7% are sole proprietorships. This suggests that collaborative business ownership models, such as partnerships, are slightly more prevalent in the region, potentially driven by resource-sharing and risk mitigation strategies.

The demographic profile reveals key insights into the characteristics of business owners and managers in the study area. The prevalence of males, middle-aged individuals, and those with secondary or bachelor's education reflects the typical profile of business operators in developing economies. The dominance of retail businesses underscores the importance of trade in the local economy, while the relatively low representation of manufacturing and construction suggests untapped potential in these sectors. The findings highlight the need for tailored interventions to support business owners, particularly women and younger entrepreneurs, who appear underrepresented. Additionally, fostering access to higher education and promoting sectoral diversification could enhance the overall development of the business environment. Future research might explore the challenges faced by female entrepreneurs and the factors limiting the growth of non-retail businesses in the region.

Table 2
Perceived Tax Fairness

	N	Minimum	Maximum	Mean	Std. Deviation
The current tax system in Lasanod treats all businesses fairly, regardless of their size.	384	3.00	5.00	4.3828	.55206
I believe that the tax system in SSC-Khaatumo is transparent in how tax rates are determined.	384	1.00	5.00	4.3828	.93765
The tax system in Lasanod is designed to ensure that every business pays a fair share of taxes.	384	3.00	5.00	4.5547	.53311
I feel that the taxes imposed on SMEs in Lasanod are justified given the public services provided in return.	384	2.00	5.00	2.3516	.57252
The procedures for tax assessment and collection are fair for all SMEs in Lasanod.	384	3.00	5.00	4.5000	.66623
The government provides clear explanations about how tax revenues are used, which increases my trust in the tax system.	384	1.00	5.00	2.4349	.73760
I believe that businesses similar to mine are treated equally under the current tax system.	384	4.00	5.00	4.7448	.43655
The tax system in SSC-Khaatumo is structured in a way that avoids discrimination or favoritism toward certain businesses	384	3.00	5.00	4.4896	.52099
Valid N (listwise)	384				

Table 2 describes the respondents' perception towards the tax system in Lasanod and SSC-Khaatumo. 384 valid responses were evaluated, and the data was interpreted using mean scores and standard deviations. The statements assessed the fairness, transparency, rationale, and non-discrimination of the tax system, as well as tax collecting techniques and faith in government activities. The descriptive statistics reveal mixed perceptions of the tax system in Lasanod and SSC-Khaatumo. Respondents generally agreed that the tax system treats businesses fairly, regardless of their size, and that tax assessment and collection procedures are equitable, as reflected in mean scores of 4.38 and 4.50, respectively. Transparency in determining tax rates also received a positive response, with a mean score of 4.38, although the relatively higher standard deviation indicates some variability in opinions. Furthermore, respondents strongly believed that businesses are treated equally under the current tax system (mean = 4.74) and that the system avoids discrimination or favoritism toward certain businesses (mean = 4.49). These findings suggest that the tax system is perceived as equitable, transparent, and designed to ensure that every business pays its fair share of taxes. However, significant concerns were noted regarding the justification of taxes imposed on SMEs and the lack of clear communication about how tax revenues are used. The perception that taxes are justified given public services received a low mean score of 2.35, indicating dissatisfaction with the value derived from public services

relative to the taxes levied. Similarly, trust in the government's use of tax revenues was weak, with a mean score of 2.43, highlighting a gap in communication and trust. These results underscore the need for policymakers to enhance public service delivery and improve transparency in how tax revenues are allocated and explained to taxpayers. Addressing these concerns could foster greater trust in the tax system and encourage compliance among businesses in the region.

Table 3
Tax Knowledge and Awareness

	N	Minimum	Maximum	Mean	Std. Deviation
I am aware of the basic tax obligations for businesses, even though the tax system in SSC-Khaatumo is informal.	384	4.00	5.00	4.7917	.40665
I have limited understanding of how to properly calculate my taxable income.	384	4.00	5.00	4.7682	.42251
Despite the lack of formal education on tax matters, I believe paying taxes is important for the development of our region.	384	4.00	5.00	4.8073	.39494
I am unsure about the procedures for reporting my business income to the tax authorities.	384	2.00	5.00	4.1354	.45976
I would benefit from more information or education on how to comply with tax regulations.	384	4.00	5.00	4.6172	.48671
Even with minimal awareness, I know that it is my responsibility to pay taxes to the government.	384	4.00	5.00	4.9010	.29900
I am aware that keeping proper records of my business transactions could help me comply with tax obligations	384	4.00	5.00	4.0026	.05103
I actively seek information on tax regulations to ensure I am fulfilling my obligations correctly.	384	2.00	5.00	2.6641	1.15357
Valid N (listwise)	384				

Table 3 shows that respondents exhibit high awareness of basic tax obligations and responsibilities, even within the context of an informal tax system in SSC-Khaatumo. The statement "I am aware of the basic tax obligations for businesses, even though the tax system in SSC-Khaatumo is informal" received a mean score of 4.79, while "Even with minimal awareness, I know that it is my responsibility to pay taxes to the government" scored the highest mean of 4.90, indicating strong acknowledgment of tax-related duties. Respondents also demonstrated an understanding of the importance of paying taxes for regional development (mean = 4.81). Additionally, the awareness of record-keeping as a tool for tax compliance received a mean score of 4.00, though with minimal variability. These findings suggest that despite the lack of formal structures, there is significant recognition of tax responsibilities and their importance for societal growth. However, respondents also highlighted areas requiring attention. A notable concern was the limited understanding of tax procedures and regulations, as reflected by the mean score of 4.13 for "I am unsure about the procedures for reporting my business income to the tax authorities" and 4.62 for "I would

benefit from more information or education on how to comply with tax regulations." Furthermore, while respondents actively seek information on tax regulations, the lower mean score of 2.66 indicates room for improvement in proactive engagement. These results suggest that providing formal tax education and resources, as well as enhancing access to tax information, could empower businesses to comply effectively with tax regulations and address existing knowledge gaps.

Table 4
Tax Fines and Penalties

	N	Minimum	Maximum	Mean	Std. Deviation
The fear of being fined or penalized encourages me to comply with tax regulations.	384	1.00	5.00	2.3177	1.07091
I believe the current fines for late tax payment are too harsh for small businesses like mine.	384	1.00	3.00	1.7630	.58581
I am aware of the penalties for not paying my taxes on time.	384	2.00	5.00	3.2734	1.27467
Unclear or inconsistent penalties make it difficult for me to understand the consequences of non-compliance.	384	3.00	5.00	4.4141	.49847
Penalties for tax evasion are necessary to ensure that businesses pay their fair share of taxes.	384	3.00	5.00	4.5911	.49754
I believe that reducing fines for minor tax offenses would improve tax compliance.	384	1.00	5.00	3.9948	.71535
I am more likely to comply with tax regulations to avoid the risk of financial penalties.	384	4.00	5.00	4.5599	.49705
The possibility of receiving penalties motivates me to stay informed about my tax obligations	384	1.00	4.00	2.0260	.70013
Valid N (listwise)	384				

Table 4 highlights mixed perspectives on tax fines & penalties and their influence on tax compliance among businesses. Respondents strongly agreed that penalties for tax evasion are necessary to ensure businesses pay their fair share of taxes (mean = 4.59) and that avoiding financial penalties motivates compliance (mean = 4.56). However, many expressed challenges arising from unclear or inconsistent penalties, which hinder their understanding of the consequences of non-compliance (mean = 4.41). These findings underscore the importance of transparent and consistent enforcement mechanisms to foster better understanding and compliance among taxpayers. On the other hand, the effectiveness of penalties in motivating proactive tax compliance was less evident. Respondents perceived fines for late payments as harsh for small businesses (mean = 1.76) and did not strongly agree that the fear of penalties encourages compliance (mean = 2.32). Furthermore, the potential of penalties to motivate staying informed about tax obligations was weakly endorsed (mean = 2.03). These results suggest that while penalties play a role in enforcing compliance, the current structure may not effectively support voluntary compliance or awareness, particularly

for small businesses. Tailoring penalty structures and improving clarity could enhance their impact on compliance behavior.

Table 5
Tax Rates

	N	Minimum	Maximum	Mean	Std. Deviation
The current tax rates are too high for SMEs to manage, especially during the ongoing financial crisis.	384	1.00	5.00	2.2031	.94793
I believe that recent conflicts have led to tax rates that are difficult for businesses to afford.	384	3.00	5.00	4.5547	.52819
Lowering tax rates would help SMEs in SSC-Khaatumo recover from the effects of the financial crisis and recent conflict.	384	4.00	5.00	4.6172	.48671
The current tax rates make it hard for my business to remain financially sustainable.	384	1.00	3.00	1.7891	.62145
High tax rates discourage me from fully complying with tax regulations.	384	4.00	5.00	4.4297	.49568
I feel that the government should adjust tax rates to reflect the financial hardships caused by global economic challenges.	384	3.00	5.00	4.8906	.37342
Valid N (listwise)	384				

Table 5 reveals significant concerns among SMEs regarding tax rates and their impact during periods of financial strain. Respondents overwhelmingly agreed that the government should adjust tax rates to reflect the financial hardships caused by global economic challenges (mean = 4.89). Similarly, there is strong support for lowering tax rates to help SMEs recover from the effects of the financial crisis and recent conflict (mean = 4.62). Respondents also believe that recent conflicts have resulted in tax rates that are difficult for businesses to afford (mean = 4.55). These findings emphasize the need for government interventions to create tax policies that consider the broader economic context and challenges faced by businesses. On the other hand, high tax rates appear to significantly discourage compliance, as reflected in a high mean score (mean = 4.43). However, the respondents largely disagreed with statements suggesting that current tax rates make their businesses financially unsustainable (mean = 1.79) or too high to manage (mean = 2.20). These results suggest that while tax rates pose challenges, businesses recognize the potential for adjustments and reforms to improve their viability and compliance. Tailored tax policies that balance government revenue needs with SME sustainability could mitigate these issues and foster a more supportive business environment.

Table 6
Correlation

		Tax Compliance	Perceived fairness of the tax system	Tax knowledge and awareness	Tax Fines and penalties	Tax rates
Tax Compliance	Pearson Correlation	1	.749**	.513**	.727**	-.263**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	384	384	384	384	384
Perceived fairness of the tax system	Pearson Correlation	.749**	1	.429**	.407**	-.165**
	Sig. (2-tailed)	.000		.000	.000	.001
	N	384	384	384	384	384
Tax knowledge and awareness	Pearson Correlation	.513**	.429**	1	.243**	.355**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	384	384	384	384	384
Tax Fines and penalties	Pearson Correlation	.727**	.407**	.243**	1	-.529**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	384	384	384	384	384
Tax rates	Pearson Correlation	-.263**	-.165**	.355**	-.529**	1
	Sig. (2-tailed)	.000	.001	.000	.000	
	N	384	384	384	384	384

Table 6 depicts the correlation analysis and highlights significant relationships between the dependent variable (tax compliance) and the independent variables. Tax compliance demonstrates a strong positive correlation with the perceived fairness of the tax system (r = 0.749, p < 0.01) and tax fines and penalties (r = 0.727, p < 0.01). These findings suggest that taxpayers are more likely to comply when they perceive the tax system as fair and when penalties for non-compliance are effective. Tax knowledge and awareness also show a moderate positive correlation with tax compliance (r = 0.513, p < 0.01), indicating the importance of education and awareness programs in fostering compliance. Conversely, tax rates exhibit a weak negative correlation with tax compliance (r = -0.263, p < 0.01), suggesting that higher tax rates may discourage compliance to some extent. Further, the perceived fairness of the tax system correlates positively with tax knowledge and awareness (r = 0.429, p < 0.01) and tax fines and penalties (r = 0.407, p < 0.01), reflecting the interconnectedness of these variables. Tax fines and penalties exhibit a strong negative correlation with tax rates (r = -0.529, p < 0.01), indicating that higher tax fines might coexist with lower tax rates. Interestingly, tax knowledge and awareness positively correlate with tax rates (r = 0.355, p < 0.01), possibly implying that individuals who are more aware of tax obligations are better informed about tax rates. These findings underscore the multifaceted nature of tax compliance, influenced by perceptions of fairness, awareness, enforcement, and economic factors.

Regression Analysis

Table 7

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.898ᵃ	.806	.804	.03445

a. Predictors: (Constant), Tax rates, Perceived fairness of the tax system, Tax knowledge and awareness, Tax Fines and penalties

b. Dependent Variable: Tax Compliance

Table 7 is the model summary which provides an overview of the regression analysis results. The R value of 0.898 indicates a strong positive correlation between the predictors (tax rates, perceived fairness of the tax system, tax knowledge and awareness, and tax fines and penalties) and the dependent variable (tax compliance). The R Square value of 0.806 signifies that 80.6% of the variance in tax compliance can be explained by the independent variables included in the model. The Adjusted R Square, slightly lower at 0.804, accounts for the number of predictors in the model and ensures the reliability of the results. The standard error of the estimate (0.03445) represents the average deviation of observed values from the predicted values, suggesting that the model has a good fit. These results indicate that the predictors collectively have a substantial impact on tax compliance among SMEs.

Table 8

Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.864	4	.466	392.557	.000ᵇ
	Residual	.450	379	.001		
	Total	2.313	383			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), Tax rates, Perceived fairness of the tax system, Tax knowledge and awareness, Tax Fines and penalties

Table 8 provides statistical evidence of the model's overall significance. The regression sum of squares (1.864) indicates the variation in tax compliance explained by the independent variables (tax rates, perceived fairness of the tax system, tax knowledge and awareness, and tax fines and penalties). The residual sum of squares (0.450) represents the unexplained variation in tax compliance. Together, these add up to the total sum of squares (2.313). The model has an F-statistic of 392.557, with a significance value (Sig.) of 0.000. This p-value being less than 0.05 indicates that the independent variables significantly predict tax compliance. In other words, the regression model is statistically significant and reliable for explaining the relationship between the predictors and the dependent variable.

Table 9
Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.206	.032		133.092	.000
	Perceived fairness of the tax system	.086	.005	.468	17.141	.000
	Tax knowledge and awareness	.033	.006	.188	5.926	.000
	Tax Fines and penalties	.096	.006	.497	15.495	.000
	Tax rates	.002	.005	.010	.302	.763

a. Dependent Variable: Tax Compliance

Table 9 provides insights into the relationship between the independent variables and tax compliance, which is the dependent variable. The constant value of 4.206 represents the baseline level of tax compliance when all independent variables are held at zero. Among the independent variables, the perceived fairness of the tax system, tax knowledge and awareness, and tax fines and penalties emerged as significant predictors of tax compliance, as evidenced by their p-values being less than 0.05. The perceived fairness of the tax system has a statistically significant positive effect on tax compliance, with an unstandardized coefficient (B = 0.086) indicating that a one-unit increase in perceived fairness leads to a 0.086 increase in tax compliance. Its standardized coefficient (Beta = 0.468) further highlights its strong influence, making it the second most impactful predictor in the model. Similarly, tax knowledge and awareness also positively contribute to tax compliance, with B = 0.033 and Beta = 0.188, suggesting that enhancing taxpayers' understanding and awareness of tax obligations can significantly improve compliance. Although its effect size is smaller than other predictors, it remains statistically significant.

Tax fines and penalties have the strongest positive influence on tax compliance, as evidenced by B = 0.096 and Beta = 0.497, indicating that stricter enforcement mechanisms and penalties serve as a powerful deterrent against non-compliance. This variable's high t-value (15.495) further underscores its importance in promoting tax compliance. However, tax rates do not show a statistically significant effect on tax compliance, with B = 0.002 and a p-value of 0.763, suggesting that the level of tax rates, on its own, does not significantly influence the willingness of taxpayers to comply. In summary, the results demonstrate that taxpayers' perception of fairness, awareness of tax obligations, and the presence of penalties are key drivers of tax compliance. Policymakers should focus on enhancing the fairness of the tax system, increasing education and awareness, and ensuring effective enforcement mechanisms to improve compliance rates. Conversely, merely adjusting tax rates may not have a substantial impact on compliance behavior.

Conclusions
This study examined the factors influencing tax compliance among Small and Medium Enterprises (SMEs) in Lasanod, SSC-Khaatumo, Somalia, focusing on perceived fairness of the tax system, tax knowledge and awareness, tax fines and penalties, and tax rates. The findings underscore the complex interplay of these factors in shaping compliance behavior in a region characterized by unique socio-economic and political challenges.

Perceived fairness of the tax system emerged as a significant determinant of tax compliance, with a strong positive correlation (r = 0.749, p < 0.01). This indicates that equitable and transparent tax policies enhance taxpayer trust and willingness to comply. Tax fines and penalties were found to be the most influential factor (β = 0.497, p < 0.01), demonstrating the effectiveness of enforcement mechanisms in deterring non-compliance. Similarly, tax knowledge and awareness positively influenced compliance (β = 0.188, p < 0.01), emphasizing the importance of education and outreach programs to improve understanding of tax obligations.

In contrast, tax rates showed no statistically significant impact on compliance (β = 0.010, p = 0.763), suggesting that while tax rates are often cited as a barrier, other factors such as fairness and awareness are more critical in the Somali context. This finding challenges conventional assumptions and calls for a nuanced approach to tax policy.

The study highlights the need for Somalia to reform its tax system by prioritizing transparency, fairness, and education. Addressing taxpayers' concerns about the equitable distribution of tax burdens and enhancing communication on the use of tax revenues can foster trust in the system. Additionally, strengthening enforcement mechanisms through consistent and clear penalties can further promote compliance. Given Somalia's reliance on SMEs for economic growth and its limited fiscal capacity, improving tax compliance is imperative for sustainable development. Policymakers must consider these findings to design targeted interventions that enhance voluntary compliance while supporting SME growth. Future research should explore the impact of digital tools and technology adoption on tax compliance to complement these insights and address emerging trends in taxation.

Contribution of the Study

This research contributes to the theoretical understanding of tax compliance by highlighting the critical role of perceived fairness, taxpayer education, and enforcement mechanisms in shaping compliance behavior. The findings extend existing tax compliance models by demonstrating the relatively limited influence of tax rates, challenging conventional assumptions in similar contexts. Contextually, this study provides a nuanced understanding of tax compliance dynamics in Somalia, a country characterized by a fragile institutional framework and ongoing conflict. By focusing on SMEs in SSC-Khaatumo, this research fills a significant gap in the literature by examining tax compliance in a post-conflict environment. The insights generated can inform policy interventions tailored to Somalia's unique socio-political and economic landscape, offering a roadmap for strengthening fiscal systems in other developing regions with similar challenges.

Recommendations

Based on the findings of this study, several actionable recommendations are proposed to enhance tax compliance among SMEs in Lasanod, SSC-Khaatumo:

1. Enhance Taxpayer Education: Efforts should focus on improving SMEs' awareness and understanding of tax obligations. Regular workshops, simplified guidelines, and accessible resources can empower business owners to comply with tax regulations effectively.
2. Strengthen Enforcement Mechanisms: Clear and consistent penalties for non-compliance, coupled with regular audits, can deter evasion. However, penalties

should be proportional to the offense to avoid undue burden on SMEs.
3. Reassess Tax Policies: While tax rates were not a significant predictor of compliance, adjusting rates to reflect the economic realities of SMEs and mitigating the effects of recent conflicts may ease financial pressure and foster goodwill.
4. Support SMEs with Digital Tools: Introducing technology-driven solutions, such as online tax payment systems, can simplify compliance processes and reduce bureaucratic hurdles, especially in regions with limited infrastructure.

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