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ROLE OF TAX PENALTIES AND TIMELY TAX COMPLIANCE AMONG THE FOOD INDUSTRY IN DAVAO CITY

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ABSTRACT

This study examined the role of tax penalties on timely tax compliance among 100 small and medium enterprises (SMEs) in the food industry of Davao City. Using a quantitative research design and purposive sampling, data were collected from SME owners and managers via structured questionnaires. Tax penalties were measured through default and late payment penalties, while compliance was assessed based on filing accuracy, record maintenance, and registration. Descriptive statistics and Pearson's correlation coefficient were applied to analyze the relationship between variables. Results showed a high level of awareness of tax penalties (mean = 3.16) and a high level of timely compliance (mean = 3.40). A strong positive and statistically significant relationship was found between tax penalties and timely compliance (r = 0.717, p = 0.001). The study concludes that awareness of penalties significantly influences compliance behavior. It recommends strengthening tax education initiatives and establishing better feedback mechanisms between tax authorities and SMEs to ensure long-term regulatory adherence and economic resilience.

KEYWORDS: *Tax Education, Default Penalties, regresssion, Philippine SME's*

INTRODUCTION

Small and medium-sized enterprises (SMEs) around the world are continuously struggling with complying with taxation requirements, particularly where enforcement is primarily geared towards penalty charges. Ndlovu and Schutte (2023) stated that rather than encouraging compliance, South African tax penalties predominantly translate into additional cost burdens for small businesses. These issues are intensified by systemic deficiencies and a lack of trust in institutions. The Philippine tax enforcement system at the national level has heavily focused on corrective action, which inadvertently promotes non-compliance among small and medium-sized enterprises. Mendoza and Vergara (2019) propose that excessive penalties, which may prove to be disproportionate, discourage formal compliance with the tax regime.

This strategy often disregards variation in the ability of SMEs to accommodate these monetary penalties. As per the study by Cardenas and Nadera-Codnita (2024), small and medium-sized enterprises in the Philippines are having difficulty meeting their tax payments, even though they play a pivotal role in the country's economic development. Micro, Small, and Medium-Sized Enterprises (MSMEs) represent 99.51% of all enterprises in the Philippines, with Small and Medium-sized Enterprises (SMEs) representing 0.09% of the total sum. Such enterprises frequently struggle to meet their tax obligations because of their limited means, ignorance, and bureaucratic system of regulations (Cardenas and Nadera-Codnita 2024). Small Taxpayers of Small Businesses in Davao City have been faced with difficulty in complying with the tax laws of the city, including penalties. Maquiling et al. (2023) highlighted the complex institutional and financial determinants that face voluntary tax compliance of self-employed taxpayers. Local SMEs find it hard to deal with complex tax legislation and are further burdened by the imposition of penalties. There is still a lack of localized research that explores the true perceptions, experiences, and behavioral reactions of SME owners in Davao City, despite the fact that many international studies (Ndlovu & Schutte, 2023) and national analyses like (Mendoza & Vergara, 2019) and Cardenas and Nadera-Codnita (2024) have examined the impact of tax penalties on timely tax compliance within the food industry.

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The majority of recent research focuses on macroeconomic or policy-level evaluations, but little is known about how local SMEs perceive the fairness, proportionality, and financial impact of these fines, particularly in light of issues like low financial literacy and limited access to tax guidance services, as highlighted by Maquiling et al. (2023) and others. Through investigating whether tax fines serve as effective deterrents for SMEs in Davao City or if they unintentionally result in higher financial strain and tax evasion, this study seeks to close that gap. Policymakers and aspiring tax professionals will benefit from this study's analysis of SME owners' experiences and perspectives, which will shed light on the efficacy of current tax enforcement tactics and offer context-specific suggestions to improve tax compliance

STATEMENT OF THE PROBLEM

This study looks primarily into the role of tax penalties and timely tax compliance among the food industry in Davao City. Specifically, it sought to answer the following:

1. What is the level of awareness of the food industry on tax penalties in terms of:
1.1 Default penalty
1.2 Late payment penalty
2. What is the level of timely tax compliance among the food industry in Davao City?
3. Is there a significant relationship between tax penalties and timely tax compliance among the food industry in Davao City?

RESEARCH DESIGN

This study used a quantitative research method, as stated by Anahita Ghanad (2023), it is a systematic gathering, analysis, and interpretation of numerical data. This method uses survey questionnaires to obtain data that were quantitatively evaluated in order to determine patterns and relationship of the research objectives. The researchers also used a purposive sampling research method to identify SME owners of Food Industry or managers who had direct exposure to timely tax compliance and any other employee who had prior experience with tax penalties in Davao City.

Purposive sampling, study of Memon et al. (2025), is a research method that is used by researchers in which they make their own judgement to particular criteria in selecting respondents to be involved in their study. It ensures that the participants are appropriately selected to provide relevant and accurate data. Campbell et al. (2020) further emphasizes that purposeful sampling looks for pertinent data from specific individuals who can provide crucial information regarding the problem. The researchers used survey questionnaires to a representative population of the study relevance. This research explored whether timely tax compliance by SMEs in the Food Industry was influenced by tax penalties.

RESEARCH RESPONDENT

The respondents of this research were 100 small and medium enterprises (SMEs), the ones that are involved in the food business sector in Davao City. Purposive sampling was applied by the researchers in identifying the right subjects where the subjects were selected according to specific criteria such that the research becomes relevant. The respondents should be, according to the definition of the Bureau of Internal Revenue (BIR), small enterprises, taxpayers whose gross sales for the taxable year are three million pesos (Php 3,000,000.00) and less than twenty million pesos (Php 20,000,000.00), and must have been in business for at least three (3) years and hold a valid Mayor's Permit. These are the criteria used to select a sample that is relevant and focused since it aims to collect information from stable and operationally experienced SMEs that are representative of the food industry sector in Davao City.

RESEARCH INSTRUMENT

The survey questionnaire used in this study was adapted from prior works on tax knowledge, tax penalties, and tax compliance among small and medium enterprises, particularly the instruments employed by Aondo (2018) in Nakuru County, Kenya, and Estifanos (2022) in West Addis Ababa. Relevant items from these studies were reviewed and then modified to fit the context of SMEs in the food industry in Davao City, focusing on the constructs of tax penalties (default and late payment penalties) and timely tax compliance, and the adapted questionnaire was further refined by revising and limiting certain questions to the most relevant items to ensure cultural appropriateness, clarity, and alignment with the present research objectives, after which it was pilot-tested to establish reliability before the final data collection. The first survey questionnaire used to measure the perception and awareness regarding tax penalties is composed of two indicators, Default Penalty and Late Payment Penalty, which aimed to assess respondents' understanding and perceptions related to different aspects of tax penalties.

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Perception of tax penalties was measured on awareness, understanding of consequences, perceived affordability, perceived encouragement of higher rates, and perceived sufficiency as a deterrent. The questionnaire covered Default Penalty, focusing on how penalty levels influence individual tax compliance behaviors. The second survey questionnaire was designed to assess individual timely tax compliance behavior. Timely tax compliance was measured using five criteria: accurate filing, timely filing, filing of correct returns, maintenance of updated records, and taxpayer registration.

Pilot testing was conducted to ensure the reliability research instruments before doing an actual data collection. The questionnaire, developed by the researchers based on a number of related studies they reviewed, was the main instrument used for data gathering. Modifications were made and delimited to few questions to obtain pertinent information and data about the factors that are related to the impact of tax penalties on timely tax compliance among small and medium enterprises (SMEs) in Davao City. This survey assessed how awareness, perception, and enforcement of tax penalties influence timely tax compliance behaviors such as accurate filing, timely submission, and proper record-keeping.

Researchers provided a Likert-scale questionnaire with different factors for the respondents to rate their answers from 1 = strongly disagree, 2 = disagree, 3 = agree, 4 = strongly agree regarding the tax-related information. Data was collected online using Google Forms, facilitating efficient distribution and compilation. This structured format allowed the researchers to quantitatively assess perceptions and behaviors associated with tax compliance, enabling a more in depth analysis of how tax penalties influence SMEs' decision-making process.

Data Gathering Procedure

For the conduct of our study we get the information we needed, starting with finding out what the biggest debt management issues were for small food businesses. After we had narrowed down our topic, we asked our research instructor for feedback and the head of the program for official approval. The Center of Research and Development and a group of academics put our survey tool, which was based on known studies, through a strict validation process.

We began collecting data after getting the go-ahead from the Center of Research and Development . We used Google Forms to get people online, and we gave businesses printed copies so they could fill them out by hand if they wanted to. We worked with local microenterprise networks to make sure that the gathering process was complete. In less than a month, all the information, including informed consent, was gathered, checked for accuracy, and prepared for statistical analysis to see how managing debt affects a business's long-term health.

Ethical Considerations

Respondent who took part did so of their own free volition, there was no fraud or manipulation in this study. There was no harm done to the people who answered the questions, either physically, mentally, or socially. The study's only goal was to add to the body of knowledge that will help micro food businesses do better and last longer. All of the respondents, who were of legal age, gave informed consent after being fully informed of the research goals and their right to leave at any time without penalty, in accordance with the following ethics standards set by the Center for Research and Development.

The study followed the rules of ethics set by Center for Research and Development, its usefulness to society, and its fairness. The Data Privacy Act of 2012 protected privacy and confidentiality by storing data in password-protected files and deleting it after the study was over. In Davao City, some store owners made sure that the process was fair. Lastly, the researchers were honest and competent because they were accounting students with a well-known mentor. This made sure that the results were clear and correct.

RESULTS AND DISCUSSION

Table 1 presents the computed means and standard deviations for respondents' awareness of tax penalties. The findings indicate a high level of awareness, with an overall mean of 3.16 (SD = 0.49). Respondents reported slightly greater awareness of late payment penalties (M = 3.20) than of default penalties (M = 3.12), suggesting that they are generally informed about sanctions associated with non-compliance.

The results are similar to the findings of Muhwa & Omboi (2023), who reported that SMEs in Nairobi County clearly understood tax penalties and voluntary compliance with their tax responsibilities. Cain & Montaño (2020) results also suggested that knowing about penalties and fair treatment encourages taxpayers to comply. Being knowledgeable about tax

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penalties helps businesses follow the rules and see the tax system as fair. In addition, Alhempi et al. (2020) stated that when taxpayers have a good understanding of taxation, they can fulfill their obligations more effectively.

Table 1
Level of Awareness among Food Industry on Tax Penalties

Latent Variables	Mean	SD	Description
Default Penalty	3.12	0.55	High
Late Payment Penalty	3.20	0.51	High
Overall Mean and SD	**3.16**	**0.49**	**High**

As shown in Table 2, respondents' timely tax compliance yielded an overall mean of 3.40 (SD = 0.56), which is interpreted as high. The highest-rated indicator was being registered taxpayers (M = 3.48), followed by maintaining updated records (M = 3.42). All compliance indicators fall within the high range, indicating that tax compliance practices are frequently observed among the respondents.

The timely tax compliance findings indicate a high level of accordance, as evidenced by the high mean scores for accurate filing, timely filing, accurate returns, updated records, and appropriate taxpayer registration. It corroborates with Yunus et al. (2017) states that the importance of knowledge and awareness of tax penalties for timely tax compliance among the SMEs in Malaysia leads to increased understanding of the penalty system and higher compliance levels. It was also supported by the study of Alhempi et al. (2020), a well-designed penalty system strengthens voluntary compliance when taxpayers perceive regulations as fair, reasonable, and consistently applied when taxpayers understand how the system works including the consequences of non-compliance and are more likely to exhibit responsible tax behavior.

Table 2
Level of Timely Tax Compliance among Food Industry in Davao City

Latent Variables	Mean	SD	Description
Accurate Filing	3.35	0.64	High
Timely Filing	3.33	0.67	High
Filing of Correct Returns	3.41	0.60	High
Updated Records	3.42	0.64	High
Registered Taxpayers	3.48	0.67	High
Overall Mean and SD	**3.40**	0.56	**High**

Table 3 shows a correlation analysis in determining the relationship between tax penalties and timely tax compliance. The results show a strong positive correlation between awareness of tax penalties and timely tax compliance ($r = 0.717$, $p = 0.001$) at the 0.05 level of significance. In view of this, the null hypothesis is rejected, indicating that awareness of tax penalties is significantly associated with timely tax compliance.

Table 3
Test of Significant Correlation between Tax Penalties and Timely Tax Compliance

Variables Paired	R	*p*	Interpretation
Tax Penalties and Timely Tax Compliance	.717**	.001	Significant

***Significant at 0.05 level*

The correlation results confirmed that tax penalties and timely tax compliance have a significant relationship. This suggests that higher or more enforced tax penalties are associated with increased tax compliance behavior. This aligns with another local study by Cain and Montaño (2020) in Tagum City, which emphasizes that SMEs believe that fines and penalties influence their decision to comply with tax policies, leading researchers to recommend proper reporting of income taxes.

Similarly, it is consistent with research conducted in Nigeria by Oladipupo and Obazee (2016), which indicated that tax compliance was positively and significantly impacted by tax fines.

RECOMMENDATION

Based on the overall results of the study, several recommendations are provided to help further improve and sustain tax compliance practices among food businesses in Davao City.

For SMEs, BIR and local government units (LGU) should continue to offer seminars or training about the updated tax regulations. These sessions can help businesses stay informed about new laws, deadlines, and penalties, ensuring their high level of awareness is maintained. Aside from that, this may also help to improve tax compliance through enhanced online awareness campaigns, providing easy step-by-step guidelines for filing tax returns. These tasks can also be accomplished with help from BIR and LGU through promoting basic online training for taxpayers, especially SMEs from food businesses taxpayers in Davao City, as well as encouraging them to maintain updated records using bookkeeping softwares.

Tax compliance can be improved by providing more efficient tax filing and payment systems. Making these platforms more accessible, user-friendly, and reliable to encourage taxpayers to file and pay on time. Additionally, tax authorities, together with business associations and chambers of commerce, may establish a structured feedback mechanism dedicated to food industry taxpayers in Davao City. This platform can allow SMEs to raise concerns, share practical challenges, and suggest improvements related to tax filing, payment systems, and penalty administration. By regularly holding consultations or dialogue sessions and integrating the feedback into policy and system enhancements, authorities can strengthen trust, address barriers to compliance, and further encourage timely and voluntary observance of tax obligations.

Finally, encourage universities to deploy their accounting interns in sectors that primarily handle tax-related work to train them and assist SMEs with basic tax tasks. This benefits both parties: students gain practical experience, and SMEs receive free, guided support.

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