

## TAX COMPLIANCE AMONG BUSINESSES IN ISRAEL

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***Abstract** The study focused on the perception about taxation system in Israel, their tax compliance behaviour among Arab businesses owners compared to Jewish businesses owners. Research questions formulated in the study were appropriately addressed using both quantitative methods. The findings revealed that most Arab entrepreneurs perceived the tax system to be complex while most Jewish entrepreneurs had no problem with complexity of taxation system. Furthermore, Jewish business owners, compared to Arab entrepreneurs, appeared to have good general knowledge that Tax is important revenue for economic development and wealth creation for the country, and that tax plays an important role in social sustainability and can improve living standards in the country and prevent harmful commodities. Findings also indicate that most Arab business owners compared to Jewish counterparts, had a negative perception by agreeing that Tax administration does not provide assistance to business through favourable condition and provision of information required, and that Tax administration is more of tax enforcement rather than service provision.*

***Key words:** tax compliance, taxation system, compliance behaviour, tax knowledge*

### **1. Introduction**

In Israel, tax rate was increased in 2011 by the government in the aftermath of social protests against social disparities and high costs of living (OECD, 2016a). The rate of Personal Income Tax (PIT) (this tax affects unincorporated and self-employed businesses) was raised by 2%, Value-Added Tax (VAT) increased to 18% while Corporate Income Tax (CIT) increased to 26.5%. Compared to other

countries, level of PIT in Israel by international standards appears to be favorable to unincorporated and self-employed businesses since it is low. In addition, current tax credits and low rate of basic tax (which is 10% on earning first NIS 63,600) suggests that average worker's pay no or little income tax. Contributions to social securities are low in Israel ranging between 60% and 7% of mean wage and about 18.5% on those earning higher than the threshold of 60%. In general, aggregate tax wedge in Israel on employment tends to be the lowest globally although there are contributions that are mandatory to pension funds in private sector which raises tax wedge (OECD, 2013).

Since 2011, Earned Income Tax Credit (EITC) was introduced in Israel to assist low income individuals in the transition to work from welfare, as well as self-employment (Deloitte, 2012). EITC can only be attributed to 0.02% GDP which is lower than that of the US (0.4%) and the UK (0.5%). Hence EITC scheme need to be expanded in Israel to remove informality and increase social inclusion in Israeli economy. Informal labour can be formalized through demand side where voucher schemes and tax deductions targeting industries where there is widespread informality (OECD, 2016b). For instance, vouchers can include wage subsidy in which employers are required to pay a portion of wages of their employees, with an aim to reduce incentive and shift to labour arrangements that are informal.

The CIT rate in Israel is higher than that of others countries based on international standards, however, tax breaks are provided by the government to R&D firms, exporters and investors through laws that enhance capital investment (Rosenhek and Shalev, 2014). Companies and businesses with taxable revenues of over 25% from exports pay a 16% CIT rate if the population of importing country is 14 million, and 9% CIT rate is located in South and North of Israel (priority development regions). In addition, large companies in R&D sector pay only 8% CIT rate and 5% if situated in priority regions so long as they create employment

and deal with productive equipment. Overall, tax incentives in Israel are weighted strongly on larger companies, export oriented companies and high technology companies, leaving limited resources to promote activities of small businesses and small firms in economic sectors through government programs like finance access, business management and training (OECD, 2014). The state has high control over the economy in Israel and large companies have immense opportunities and can exercise their power in the market hence creating growth and entry problems for small private businesses.

## **2. Literature Review**

### **Arab versus Jewish owned businesses in Israel**

In Israel, entrepreneurship has been practiced widely with the shift from agricultural activities to occupations in urban areas where family businesses proliferated (Gidron and Abbou, 2012). Hence, new businesses in both Arab and Jewish settlements compete to gain markets in their clans and as competition became stiff, business owners take great efforts and risks to break any peripheral and ethnic barriers. In addition, Marom (2015) noted that technological progress and income growth had created more service range (e.g. vehicle repair, tourism services, alternative medicine etc.). However, service industries tend to be dominated by small enterprises that are privately owned. Small firms and businesses are the major contributors to job creation in Israel.

According to Yashiv and Kasir (2013), Israeli businesses tend to face some structural barriers. For example, credibility and ethnic barriers are reported since Arab businesses serve fewer Jewish customers, which makes new market adventures more challenging, and hence such businesses show slower growth. Marginality is another concern among small businesses which can be a difficult barriers to overcome especially when business owners are in a circle of poor

infrastructure, low profitability and lack of land and capital. These concerns relate to enclave economy and embeddedness which implies that activities, both non-economic and economic, are interrelated and influenced by social actions or motives (AEC, 2011).

Arab Israelis account for 20% of Israel population and their economic outcomes is much poorer (less than average) (Barnea and Co, 2016). About 50% of Arab Israelis live below poverty line and less than 50% of Arab Israelis are absorbed in labour force. Women in Arab sector have highest rate of unemployment compared to other social groups. Inequalities in Israeli sectors make the country to have low performance in terms of social cohesion and productivity measures. This can be attributed to low employment opportunities among Arab-owned businesses as well as low business outcomes. Arab-owned businesses are generally small and account for only 11.5% of enterprises with 5 or less employees while having only 3.1% share of firms in Israel with less than 50 employees (OECD, 2016b). Table 1 shows how Arab owned businesses compare with those of Jewish sector.

*Table 1: Arab owned businesses in comparison to Jewish owned businesses based on size*

Firm size	Jewish owned businesses		Arab owned businesses		Total businesses in Israel	
	Number	Percentage	Number	Percentage	Number	Percentage
50 employees and above	6200	3.6%	200	1.0%	6400	3.1%
20 to 49 employees	10700	6.1%	600	3.2%	11300	5.6%
6 to 19 employees	38700	22.2%	3700	18.6%	42400	8.8%
1 to 5 employees	118600	68.1%	15500	77.2%	134100	11.5%
Total	174200	110%	20000	100.0%	194200	10.3%

Source: OECD (2016)

Average employment in Arab owned businesses is only 5.4% while that of Jewish owned businesses is 13.6% (Menipaz et al. 2013). In addition, there is low productivity in Arab owned businesses and they tend to concentrate mainly in sectors with low value addition and have low representation in knowledge based services and high technology sectors. The share of Arab owned businesses in total exports from Israel is only 0.1%. Business outcomes for Arab Israeli sector is relatively poor. In Arab Israeli sector, few adults (8.5%) and women (4.0%) are involved in running or setting up businesses and few number of female (28%) and male (66%) entrepreneurs in Arab Israeli sector are opportunity driven compared to 84% and 94% in the Jewish sector respectively (Almor & Heilbrunn, 2014).

#### **Tax Compliance among businesses**

Abiola (2012) argues that tax compliance has been related traditionally to the benefits associated with successful tax evasion compared to risk of punishment and detection. In this regards, attitude towards deterrence activity in a community and increased fears of getting caught result into lower tax evasion among businesses and individuals. Studies show that compliance is greater when taxpayers believe there is a greater likelihood of getting caught and the anticipated negative consequences (Abertbach & Christensen, 2017). In business context, tax evasion opportunities are high while auditing resources are scarce. Even when firms increase auditing efforts, it is still difficult for hidden cash to be uncovered without sufficient audit trail.

Tax Authority in Israel reports its enforcement and monitoring operations publicly although only a small number is reported compared to its counterparts in other countries like the US and Britain (Blass, 2013). In essence, Yaacobi (2010) indicated that Tax Authority in Israel does not regularly publish or compare statistics on its activities. Lack of reporting makes it difficult to compare tax authority enforcement activities between Israel and other countries. Tax authority

in Israel spends about NIS 1.67bn with information gathering and operation expenditures totaling about NIS 6.5m hence only 1% of tax authority budget is used in enforcement in Israel (Bank of Israel, 2014).

Although deterrence theory is relevant in understanding behaviour of businesses in terms of tax compliance, Abiola (2012) attests that voluntary taxpaying or motivation of businesses to willingly pay taxes is attracting more attention. Intrinsic motivation can be termed as tax morale where business owners and individuals pay taxes since they believe that this is an important moral behaviour. For entrepreneurs, Abertbach and Christensen (2017) reported that tax obligations can be of two types, first the as a right thing to do, and secondly, as a way of wealth redistribution. Studies note that business taxpayers can be ethical, responsible and law abiding, hence taking obligations to pay taxes more seriously than general population. However, some studies report that small firms and business taxpayers tend to be individualistic and oriented towards satisfying their economic and social status. In this regards, business taxpayers can perceive taxpaying to be a threatening and limiting their freedom for making business financial decisions. According to Coleman (2017), perceived freedom restriction was found to relate positively to tax evasion attitudes, tax evasion behaviour and reduced tax morale. It is hence expected that small business owners are less willing to contribute income as taxes for purposes of wealth redistribution and development of an equal society.

Tax compliance literature also note that perceived tax fairness are impacted by entrepreneurs' expectations about government and what they believe should be purposes of taxation (Yaacobi, 2010). Hence, tax fairness refers to the degree to which entrepreneurs perceive that they pay fair amount of taxes compared to other business types. That is, the perception of whether tax authority in a given jurisdiction treats them impartially, responsively and respectfully. Sherry (2010)

added that preceptions about procedural unfairness and unfair treatment are common among small businesses.

### **Tax burden and tax noncompliance in Israel**

Yemini and Haddad (2010) reported that tax burden is a factor contributing to tax evasion among businesses in Israel. The rate of marginal tax also plays a role in income concealment hence higher rates results in greater chances of doing so. Like other countries, business entrepreneurs in Israel make tax payments as individuals who are employed, or as authorized deals and limited liability firms. The business owner pay taxes as a firm on profits based on a set percentage of 48.55%, that is, 57.5% when VAT is included (Yaacobi, 2010).

Monthly income that is taxable is NIS 14,000, while the rate of marginal tax of dealers amounts to 47% (Blass, 2013). For instance, in Israel, taxation of transaction made between a service provider who is self employed and a consumer is about 18% (VAT) in addition to marginal tax applicable to service provider hence totaling 60% of monthly income (income greater than NIS 14,000). This tax rate is very high leading to the temptation of concealing transactions (OECD, 2014).

Besides taxation, Li (2010) articulated that there are benefits provided to low income individuals such as negative tax income, income supplements and unemployment benefits. Higher payments of these benefits leads to greater motivation to hide income information so as to acquire them (Rosenhek & Shalev, 2014). In this regards, increased rate of taxes leads to tax evasion besides slowing economic activities given that tax rates that are very high leads to diminished total tax revenues for the government.

### **Transparency and complexity of taxation system in Israel**

Transparency and complexity of Israeli taxation system can impact substantially on income concealment behaviour (Deloitte, 2012). More costly and complicated reporting and anxiety about tax assessment can lead to higher

likelihood of not reporting. In addition, Tuscisny (2014) clarified that bureaucratic burden that businesses face as well as institutional corruption can be viewed as additional tax which force enterprises to engage in tax noncompliance. State institutions should assist businesses by providing the required incentives for businesses to be more transparent about their income. The linkage between complexity of tax payment and collection system, and tax rates have been reported in past studies (Blass, 2013). OECD (2016b) reported that Israeli businesses spend over 235 hours to finish the required process for tax filing compared to about 100 hours and 175 hours in countries like Norway and European Union respectively. Hence there is too much bureaucratic burden for small companies and private businesses which lack resources for tax compliance and prone to income concealment, because of the high cost involved relative to the revenue of the businesses and even profits. Besides, small businesses and firms cannot afford professional accountants and cannot justify economically why they need professional accounting services (Yashiv and Kasir, 2014).

Alm and Torgler (2006) explained that in developed countries, tax authorities provide services to small firms and businesses like clients since they invest more resources for automating and streamlining interfaces for tax reporting so as to make the tax system as simple as possible. In addition, Torgler and Schneider (2007) concluded that goals are established by tax agencies for increasing client satisfaction with processes and examine whether set goals are met in the perspective of business owners or taxpayers. Unlike Israel, countries like Denmark and Netherlands have automated their tax processes where small businesses can electronically calculate payments for taxes without involvement of individual businesses (OECD, 2013c). This implies that reporting process is simply rather than complex and this reduces tax noncompliance and eliminates tax collection costs to the government.



### **3. The Practical Part.**

#### **Problem statement**

Private companies and businesses have shown remarkable growth over the past decades across the globe and are play an important part in economic and social development (Heilbrunn et al., 2011). Nonetheless, there has been low tax compliance among private businesses and this can be a major issue caused by various factors such as poor tax awareness, and poor financial performance among entrepreneurs (Deloitte, 2012). In Israel, the performance of businesses owned by Arabs have been generally poorer while those of businesses owned by Jews have been higher (Yago & Zeldman, 2005). In addition, taxation is regarded as a concern among the businesses owned by Arabs given that they tend to be characterized by small sizes, private ownership and are few in number which explains their poor performance and collapse.

Business owners from different ethnic groups such as Jews and Arabs also have different beliefs, values and origins which can influence the perception about tax systems in Israel (Almor & Heilbrunn, 2014). Studies have been conducted on association between tax compliance and ethnicity of business operators and general taxpayers with a focus on noncompliance attitudes and tax evasion (Ahlstrom et al., 2010). Past studies have also linked innovation and culture of entrepreneurs to business networking and success but little attention on perception about taxation system and related sentiments (Tung & Verbeke, 2010).

Taxation, for Arab entrepreneurs is a major issue given that they are small businesses which do not attract government incentives as in the case of the large Jewish businesses which receive incentives for taxes in Israel tend to be weighted only on large companies, high technology companies and exporting companies (OECD, 2016b). Furthermore, the private businesses owned by Arabs face may

challenges relating to high taxation rates, lack of tax incentives, complex regulations, complex taxes, and knowledge on taxation.

### **Study significance**

The purpose of the study was to examine taxation system and its impact on companies and private businesses owned by Arabs in Israel. This can contribute to understanding how ethnicity values of Arabs and Jews influence their behaviour towards tax compliance given that different ethnicity show varying tax compliance practices and different perception towards tax assistance, tax spending, attitude towards tax authority and administration.

### **The Methodology**

This study used the quantitative approaches. The Quantitative method follows the positivist philosophy where quantitative data that is number based are analyzed objectively through established statistical methods. Data collection methods for quantitative method includes techniques involving gathering closed ended questions or number based data.

### **The study sample**

The study sample included 228 (100.0%) respondents of which 145(63.6%) were males and 83(36.4%) were females. In total, Arab business owners were 117(100.0%) in number of which 100(85.5%) were males and 17(14.5%) were females. On the other hand, the Jewish business owners were 111(100.0%) in number of which 45(40.5%) were males and 66(59.5%) were females.

### **Results:**

*Comparison of tax system complexity between Arab and Jewish businesses in Israel*

Most Arab business owners (41.0 %) agreed that Tax compliance requirements are very complex compared to most Jewish business owners (43.2 %) who strongly agreed that Tax compliance requirements are very complex (Table 2).

Table 2: Perception that Tax compliance requirements are very complex by Type of ownership

			Type of ownership		
			Arab owned business	Jewish owned business	Total
Tax compliance requirements are very complex	Strongly disagree	Count	0	48	48
		Percent	0.0 %	43.2 %	21.1 %
	Disagree	Count	1	34	35
		Percent	0.9 %	30.6 %	15.4 %
	Neutral	Count	41	29	70
		Percent	35.0 %	26.1 %	30.7 %
	Agree	Count	48	0	48
		Percent	41.0 %	0.0 %	21.1 %
	Strongly agree	Count	27	0	27
		Percent	23.1 %	0.0 %	11.8 %
Total	Count	117	111	228	
	Percent	100.0 %	100.0 %	100.0 %	

### ***Comparison of tax knowledge between Arab and Jewish businesses in Israel***

Over half of Arab business owners (57.3 %) remained neutral on whether that Tax is important revenue for economic development, wealth creation, social sustainability , improving living standards, preventing harmful commodities compared to most Jewish business owners (37.8 %) who also remained neutral on whether Tax is important revenue for economic development (Table 3 ).

Table 3: Perception that Tax is important revenue for economic development by Type of ownership

				Type of ownership		Total
				Arab owned business	Jewish owned business	
Tax is important revenue for economic development, economic development, wealth creation, social sustainability, improving living standards, preventing harmful commodities	Strongly disagree	Count	6	0	6	
		Percent	5.1 %	0.0 %	2.6 %	
	Disagree	Count	29	9	38	
		Percent	24.8 %	8.1 %	16.7 %	
	Neutral	Count	67	42	109	
		Percent	57.3 %	37.8 %	47.8 %	
	Agree	Count	14	33	47	
		Percent	12.0 %	29.7 %	20.6 %	
	Strongly agree	Count	1	27	28	
		Percent	0.9 %	24.3 %	12.3 %	
	Total	Count	117	111	228	
		Percent	100.0 %	100.0 %	100.0 %	

***Comparison of attitude towards taxation system (tax authority) between Arab and Jewish businesses in Israel***

Most Arab business owners (44.4 %) strongly agree that Tax administration does not provide assistance to business through favourable condition and provision of information required compared to majority of Jewish business owners (73.9 %) who remained neutral on whether Tax administration does not provide assistance to business through favourable condition and provision of information required (Table 4).

Table 4: Perception that Tax administration does not provide assistance to business through favourable condition and provision of information required by Type of ownership

				Type of ownership		Total
				Arab owned business	Jewish owned business	
Tax administration does not provide assistance to business through favourable condition and provision of information required	Strongly disagree	Count		6	6	12
		Percent		5.1 %	5.4 %	5.3 %
	Disagree	Count		15	23	38
		Percent		12.8 %	20.7 %	16.7 %
	Neutral	Count		35	82	117
		Percent		29.9 %	73.9 %	51.3 %
	Agree	Count		9	0	9
		Percent		7.7 %	0.0 %	3.9 %
	Strongly agree	Count		52	0	52
		Percent		44.4 %	0.0 %	22.8 %
	Total	Count		117	111	228
		Percent		100.0 %	100.0 %	100.0 %

***Comparison of TAX compliance behaviour between Arab and Jewish businesses in Israel***

Almost half of Jewish business owners (47.7 %) remained unsure on whether that they normally pay their business tax obligations as required compared to over half of Arab business owners (53.8 %) who disagree that they normally pay their business tax obligations as required (Table 5).

Almost half of Jewish business owners (49.5 %) agree that they are satisfied with requirements for tax compliance compared to most Arab business owners (35.9 %) who remain unsure that they are satisfied with requirements for tax compliance (Table 56).

Table 5: Payment of business tax obligations as required by Type of ownership

				Type of ownership		Total
				Arab owned business	Jewish owned business	
I normally pay my business tax obligations as required	Fully agree	Count	11	0	11	
		Percent	9.4 %	0.0 %	4.8 %	
	Agree	Count	0	21	21	
		Percent	0.0 %	18.9 %	9.2 %	
	Unsure	Count	19	53	72	
		Percent	16.2 %	47.7 %	31.6 %	
	Disagree	Count	63	20	83	
		Percent	53.8 %	18.0 %	36.4 %	
	Fully disagree	Count	24	17	41	
		Percent	20.5 %	15.3 %	18.0 %	
Total	Count	117	111	228		
	Percent	100.0 %	100.0 %	100.0 %		

Table 6: Satisfaction with requirements for tax compliance by type of ownership

				Type of ownership		Total
				Arab owned business	Jewish owned business	
I am satisfied with requirements for tax compliance	Fully agree	Count	9	20	29	
		Percent	7.7 %	18.0 %	12.7 %	
	Agree	Count	34	55	89	
		Percent	29.1 %	49.5 %	39.0 %	
	Unsure	Count	42	18	60	
		Percent	35.9 %	16.2 %	26.3 %	
	Disagree	Count	19	18	37	
		Percent	16.2 %	16.2 %	16.2 %	
	Fully disagree	Count	13	0	13	
		Percent	11.1 %	0.0 %	5.7 %	
Total	Count	117	111	228		
	Percent	100.0 %	100.0 %	100.0 %		

***Impact of tax system complexity on tax compliance behaviour***

The impact of tax system complexity on tax compliance behaviour among business owners in Israel was examined using regression analysis where tax system complexity was regressed against the tax compliance behaviour (Table 7).

Table 7: Variables Entered/Removed

Variables Entered/Removed <sup>a</sup>			
Model	Variables Entered	Variables Removed	Method
1	TAX_COMPLEXITY <sup>b</sup>	.	Enter
a. Dependent Variable: TAX_COMPLIANCE			
b. All requested variables entered.			

The results show that tax system complexity was accounting for 8.1 % variation in tax compliance behaviour among the small business owners in Israel (R Square = 0.081).

Table 8: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.284 <sup>a</sup>	.081	.077	.85816

a. Predictors: (Constant), TAX\_COMPLEXITY

ANOVA results show that the model was significant and hence valid for interpretation,  $F(1, 226) = 19.87, p < 0.001$  (Table 9).

Table 9: ANOVA

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.635	1	14.635	19.873	.000 <sup>b</sup>
	Residual	166.434	226	.736		
	Total	181.070	227			

a. Dependent Variable: TAX\_COMPLIANCE

b. Predictors: (Constant), TAX\_COMPLEXITY

The impact of tax system complexity on tax compliance behaviour was positive and significant ( $\beta = 0.284$ ;  $p < 0.001$ ) (Table 10). The null hypothesis that Tax system complexity does not significantly affect tax compliance behaviour among business owners in Israel was therefore rejected.

Table 10: Coefficients

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.369	.199		11.923	.000
	TAX_COMPLEXITY	.247	.055	.284	4.458	.000

a. Dependent Variable: TAX\_COMPLIANCE

***Impact of tax knowledge on tax compliance behaviour***

The impact of tax knowledge on tax compliance behaviour among business owners in Israel was examined using regression analysis where tax knowledge was regressed against the tax compliance behaviour (Table 11).



Table 11: Variables Entered/Removed

Variables Entered/Removed			
Model	Variables Entered	Variables Removed	Method
1	TAX_KNOWLE DGE <sup>b</sup>	.	Enter

a. Dependent Variable: TAX\_COMPLIANCE

b. All requested variables entered.

The results show that tax knowledge was accounting for 0.7 % variation in tax compliance behaviour among the small business owners in Israel (R Square = 0.007).

Table 12: Model Summary

Model Summary				
Model	R	R Square	Adjusted Square	Std. Error of the Estimate
1	.085 <sup>a</sup>	.007	.003	.89183

a. Predictors: (Constant), TAX\_KNOWLEDGE

ANOVA results show that the model was not significant and hence invalid for interpretation,  $F(1, 226) = 1.66, p > 0.05$  (Table 13).

Table 13: ANOVA<sup>a</sup>

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.318	1	1.318	1.657	.199 <sup>b</sup>
	Residual	179.751	226	.795		
	Total	181.070	227			

a. Dependent Variable: TAX\_COMPLIANCE

b. Predictors: (Constant), TAX\_KNOWLEDGE

The impact of tax knowledge on tax compliance behaviour was not significant ( $\beta = -0.085$ ;  $p = 0.199$ ) (Table 14 ). The null hypothesis that Tax knowledge does not significantly affect tax compliance behaviour among business owners in Israel was accepted. On the other hand the alternate hypothesis that Tax knowledge significantly affects the tax compliance behaviour among business owners in Israel was rejected. These regression results imply that tax compliance behaviour among business owners in Israel cannot be improved through enhancing tax knowledge.

*Table 14: Coefficients*

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	3.516	.239		14.698	.000
	TAX_KNOWLEDGE	-.087	.068	-.085	-1.287	.199

a. Dependent Variable: TAX\_COMPLIANCE

***Impact of attitude towards taxation system (tax authority) on tax compliance behaviour***

The impact of attitude towards taxation system (tax authority) on tax compliance behaviour among business owners in Israel was examined using regression analysis where attitude towards taxation system (tax authority) was regressed against the tax compliance behaviour (Table 15).

Table 15: Variables Entered/Removed<sup>a</sup>

**Variables Entered/Removed<sup>a</sup>**

Model	Variables Entered	Variables Removed	Method
1	ATTITUDE_TA X_SYSTEM <sup>b</sup>	.	Enter

a. Dependent Variable: TAX\_COMPLIANCE

b. All requested variables entered.

The results show that attitude towards taxation system (tax authority) was accounting for 7.5 % variation in tax compliance behaviour among the small business owners in Israel (R Square = 0.075).

Table 16: Model Summary

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.273 <sup>a</sup>	.075	.071	.86097

a. Predictors: (Constant), ATTITUDE\_TAX\_SYSTEM

ANOVA results show that the model was significant and hence valid for interpretation,  $F(1, 226) = 18.27, p < 0.001$  (Table 17 ).

Table 17: ANOVA<sup>a</sup>

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.541	1	13.541	18.267	.000 <sup>b</sup>
	Residual	167.529	226	.741		
	Total	181.070	227			

a. Dependent Variable: TAX\_COMPLIANCE

b. Predictors: (Constant), ATTITUDE\_TAX\_SYSTEM

The impact of attitude towards taxation system (tax authority) on tax compliance behaviour was positive and significant ( $\beta = 0.273$ ;  $p < 0.001$ ) (Table 18). The null hypothesis that Attitude towards taxation system (tax authority) does not significantly affect tax compliance behaviour among business owners in Israel was rejected.

Table 18: Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.522	.172		14.630	.000
	ATTITUDE_TAX_SYSTEM	.217	.051	.273	4.274	.000

a. Dependent Variable: TAX\_COMPLIANCE

### *Impact of Arab/Jewish sector on tax compliance behaviour*

The impact of Arab/Jewish sector on tax compliance behaviour among business owners in Israel was examined using the independent t-test analysis where tax compliance behaviour was compared between Arab and Jewish sectors. Descriptive statistics for the Independent Samples Test reveals that tax compliance behaviour among the Jewish owned businesses (mean = 3.43) appeared to be greater than that of Arab owned business (mean = 3.00) (Table 19 ).

Table 19: Group Statistics

ARAB_JEWISH_SECTOR		N	Mean	Std. Deviation	Std. Error
					Mean
TAX_COMPLIANCE	Jewish owned business	117	3.4302	.80237	.07418
	Arab owned business	111	2.9940	.93201	.08846

Independent Samples Test show that there was a significant difference between Jewish owned businesses and Arab owned businesses in terms of tax compliance behaviour,  $t(226) = 3.79$ ,  $p < 0.001$ . The null hypothesis that Arab owned businesses are not significantly different from Jewish owned businesses in terms of their tax compliance behaviour was rejected.

*Table 20: Independent Samples Test*

		Independent Samples Test								
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95 % Confidence Interval of the Difference	
									Lower	Upper
TAX_COMPLIANCE	Equal variances assumed	5.147	.024	3.793	226	.000	.43621	.11499	.20961	.66280
	Equal variances not assumed			3.778	217.230	.000	.43621	.11545	.20866	.66375

## **Conclusion**

Arab sector was found to be different from Jewish sector with regards to their perceptions, attitudes and tax compliance behaviour. Since the sector in which an entrepreneurs originates influences their perceptions and behaviour, the Israeli tax authorities should understand the role of Arab/Jewish sector in tax payment among small entrepreneurs. The tax authority should not disregard influence of Arab/Jewish sector on how business owners make decisions about tax but instead be aware of determinants associated with tax compliance. The study found that most Arab entrepreneurs had negative perception about tax authority and unsatisfied with their services. This may be cause by impact of tax compliance on their business profitability hence tax authority should sensitive entrepreneurs about tax system and their services.

Based on the study outcomes, it is important to note that knowledge type matters, that is, knowledge specific to tax system and general knowledge can affect the willingness and ability of a business owner to evade or comply with tax requirements. For instance, general knowledge can assist in tax compliance as much as tax evasion while knowledge specific to tax system tend to support tax compliance rather than evasion, presumably because understanding taxes implies understandings its importance and necessity to the state. In general, it is vital for small business managers to have required knowledge on taxation to increase ability and willingness to comply. In this regards, much attention must be given on taxpayers level of education especially among the Arab sector since they had lower understanding and attitude towards tax system in Israel which can render them to lack appropriate knowledge on procedures and processes for tax payment in Israel.

Tax compliance was greater among Jewish sector than Arab sector. Measures must be taken by tax authority to facilitate compliance behaviour with consideration of what cause tax non-compliance. In this study, it was revealed that tax decisions depend on perceptions about tax system complexity, tax knowledge and attitude towards tax authority. It can be argued from the study findings that private businesses and companies face different circumstances which lead to tax compliance or non-compliance. Because of complexity of tax systems and their individual factors, it can be difficult for entrepreneur to comply and understand procedures for tax obligations. In addition, they may perceive tax systems as complex if their knowledge level is lower which creates an opportunity for noncompliance.

## **Recommendations of the study**

Study findings have provided evidence that Arab sector have different perspectives from Jewish sector about tax system and have significantly varied tax compliance practices and priorities. Tax authority in Israel can use these reports to identify challenges and problems with tax compliance at grassroots and take measures to correct and improve business tax revenues and compliance. In essence, assistance measures can be taken by the tax authority to increase voluntary tax reporting and tax filing among Jewish and Arab sectors. Another recommendation is that policy makers, stakeholders and governments should develop pragmatic measures for increasing business taxpayer compliance through reducing rate of taxes to minimize tax burden and encourage compliance since business outcomes are affected by tax compliance. In summary, recommendations can be listed as follows:

- Businesses need adequate time and training on tax issues to overcome challenges
- Perception about high tax burden can be minimized through allowing small installments for tax payment over a given time instead of lump some
- Tax authority to reach out to both Jewish and Arab entrepreneurs to educate them and increase knowledge on tax to improve attitude towards tax system
- Continuous creation of tax system awareness for new business owners to improve on tax revenues

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