

CHAPTER 5

DISCUSSION AND CONCLUSION

5.1 Introduction

This chapter highlights the key findings of this study on the relationships between the proposed constructs with respect to the study's objectives and research questions. The obtained results of this study are also discussed in comparison with the results and findings of prior studies. This chapter also presents a brief discussion on SMEs in the UAE and their compliance cost and compliance behaviour of VAT. Besides that, this chapter presents the implications and limitations of this study. Recommendations for future research are also provided in this concluding chapter.

5.2 Summary of Key Findings

With respect to the first objective, namely to evaluate the impact of compliance cost on VAT compliance behaviour among SMEs in the UAE, this study's results demonstrated the significant influence of both internal and external factors on the financial burden borne by SMEs post-implementation of VAT. Understanding the breakdown of compliance cost in terms of internal and external factors is pivotal for SMEs to effectively manage their financial resources while ensuring adherence to tax regulations. The study's results underscored the intricate relationship between compliance cost and compliance behaviour of VAT, highlighting the pivotal role of cost management strategies in fostering greater compliance among SMEs. Identifying the factors driving compliance cost and their impact on compliance behaviour provided valuable insights for policymakers and businesses seeking to enhance compliance

outcomes in the VAT landscape.

With respect to the second objective, namely, to examine the relationship between compliance cost and VAT compliance behaviour at both individual SME and industry levels, this study delved into understanding the nuanced relationship by identifying the dominant components within the compliance cost, revealing the key drivers of compliance cost for SMEs. The results emphasised the strong correlation between compliance cost and VAT compliance behaviour at the individual SME level, suggesting the critical role of effective cost management strategies in ensuring regulatory compliance. Moreover, the analysis extended to SMEs in different industries, which revealed the influence of industry-specific trends and dynamics on compliance behaviour. These insights were deemed instrumental in informing tailored compliance approaches and supporting the mechanisms to address the diverse needs of SMEs across various industries.

The key findings of this study with respect to each research question are summarised in Table 5.1 and Table 5.2.

Table 5.1: Summary of Key Findings for Research Question 1

Research Question (Major)	Findings
How does compliance cost affect the post-implementation of VAT for SMEs in the UAE?	Four major components of compliance cost, namely total time, value of time, total money cost, and total compliance cost, were included in the analysis. The results suggested similar distribution of these four components between the early and late response groups. Therefore, non-response bias was deemed not a concern in this study for the analyses of determinants of internal cost usage and compliance cost.
Research Question (Specific)	Findings
How much is the total estimated compliance cost of all SMEs in complying with VAT in the UAE based on internal and external cost factors?	The respondents were asked to provide or estimate their costs for the financial year 2022. The average tax fee paid by SME companies in 2022 is AED25,000 with the lowest and highest external costs being AED15,000 AED and AED150,000 .
Which component is dominant in the compliance cost of VAT?	The compliance cost of VAT for SMEs in the UAE encompasses the costs of registering, filling, and remitting VAT, as well as the cost of implementing the necessary procedures and systems, which is the dominant component of VAT compliance costs.

Table 5.2: Summary of Key Findings for Research Question 2

Research Question (Major)	Findings
How does compliance cost affect compliance behaviour of VAT among SMEs in the UAE?	The results indicated statistically significant relationship between compliance cost and VAT compliance behaviour ($\beta = 0.798$, $t = 42.603$, $p < 0.000$).
Research Question (Specific)	Findings
To what extent is the relationship between compliance cost and compliance behaviour, taken together with other variables (i.e., penalty, POD, complexity, income level, and tax incentives) for each SME?	The relationships between compliance cost and compliance behaviour with penalty, POD, complexity, income level, and tax incentives for each SME were found to be statistically significant.

Overall, this study demonstrated the statistically significant influence of complexity, penalty, and POD on compliance behaviour. However, the influence of complexity on penalty was found not statistically significant. These results also highlighted the internal and external costs regarding VAT compliance among SMEs in the UAE. Furthermore, the regression results revealed the emergence of several noteworthy patterns concerning VAT compliance behaviour among SMEs.

First and foremost, the complexity of tax regulations appeared to be positively correlated with the severity of penalty for non-compliance, indicating a potential association between regulatory intricacies and enforcement measures. Surprisingly, the

complexity of regulations did not seem to directly impact SMEs' adherence to VAT guidelines, suggesting the potential significance of other factors in shaping VAT compliance behaviour.

Another notable finding included the substantial influence of compliance cost and the fear of penalty on SMEs' decision to comply with VAT regulations. The results underscored the practical implications of regulatory burdens and the importance of enforcement mechanisms in incentivising business compliance. Moreover, the likelihood of being detected for non-compliance emerged as a significant motivator for adherence to VAT regulations, highlighting the effectiveness of enforcement efforts in deterring non-compliance behaviour. Interestingly, the changes in tax rate did not appear to directly influence SMEs' compliance behaviour, indicating that other factors may outweigh the impact of tax policy changes in shaping SMEs' compliance decision. Conversely, the provision of tax incentives emerged as a significant determinant of VAT compliance behaviour, which suggested the effectiveness of tax incentives to promote voluntary compliance among SMEs.

This study also observed a significant and positive direct influence of POD on VAT compliance behaviour. In other words, an increase in POD promoted VAT compliance among SMEs. Additionally, the study examined the indirect influence of POD on VAT compliance behaviour through other constructs. The findings indicated that the relationship between POD and VAT compliance behaviour was not mediated by complexity. Therefore, POD plays a pivotal role in influencing VAT compliance behaviour, both directly and indirectly, through compliance cost, penalties, and tax incentives. Understanding and effectively managing POD is crucial for promoting VAT compliance among SMEs.

Besides that, this study examined various factors influencing VAT compliance behaviour. The results revealed the significant and positive relationships of compliance cost, penalty, tax incentives, and POD with VAT compliance behaviour. In simpler terms, SMEs tend to comply more with VAT regulations with the increased levels of these factors. This study also assessed the direct relationship between tax rate and VAT compliance behaviour and found no statistical significance. The results indicated that changes in tax rate did not affect SMEs' decision to comply with the VAT regulations.

The obtained results also indicated the significant role of tax incentives in influencing SMEs in the UAE to comply with the VAT regulations. This study found empirical evidence on the significant and positive relationship between tax incentives and VAT compliance behaviour, confirming the role of tax incentives in influencing SMEs' behaviour regarding VAT compliance. In simpler terms, the use of tax incentives increased the tendency of SMEs to comply with the VAT regulations. Tax incentive can be an effective tool to encourage SMEs to adhere to the VAT requirements. Based on the results, tax incentives contributed to the influence of these other factors on VAT compliance behaviour.

5.3 The Relationship Between Compliance Cost and Compliance Behaviour of VAT in the UAE

5.3.1 Comparison with the Existing Literature in the UAE

The compliance cost of VAT in the UAE has been on the rise in recent years. VAT was introduced in 2018, with a standard rate of 5% (Hannoon, 2019). Since then, companies in the UAE have been required to register for VAT and comply with the regulations, which can be rather complex and time-consuming. The compliance cost of VAT for SMEs in the UAE encompasses the costs of registering, filling, and remitting

VAT, as well as the cost of implementing the necessary procedures and systems to ensure compliance. These costs vary, depending on their size, complexity, and the type of business.

Table 5.3: VAT Rate Structure in the UAE

Type	Rate
Standard rate applied	5%
Zero rate applied	0%
Exemption	N/A

Source: Hannoan (2019)

The cost of registering for VAT in the UAE is relatively low. Companies need to register for VAT if their taxable turnover exceeds AED 375,000 in the previous 12 months or if their taxable turnover is expected to exceed AED 375,000 in the next 30 days. Registration involves filling an application with the FTA. The forms and guidance are available free of charge. The costs of filling and remitting VAT in the UAE are potentially the most significant costs associated with VAT compliance. Companies are required to file their VAT returns and pay the required tax to the FTA on a quarterly basis. The deadline for the filling of VAT are generally one month after the end of the quarter, and the payment deadline is generally two months after the end of the quarter.

Thus, this study examined the impact of compliance cost post-implementation of VAT in the UAE. Two reasons set this study apart from other prior studies. Firstly, most of the prior studies, such as Sidek and Abdulraquee (2022), examined the moderating effect of the government's support on SMEs' VAT compliance behaviour. These studies revealed the importance of organisational characteristics, particularly organisational size, in determining their compliance behaviour and its impact on their

growth and economic stability. Furthermore, providing these companies with flexible deadlines and less rigorous compliance conditions can nullify the influence of VAT compliance cost on their economic growth. Secondly, the majority of these prior studies focused on the computerised accounting information system (CAIS), where its role and influence on tax compliance have remained under investigation (Almgrashi, 2018).

In terms of methodology, the current study employed the single approach, specifically the quantitative survey method, which was deemed significant as the data were obtained from the primary source. However, many prior studies, such as Smulders and Evans (2017), focused on the influence of VAT compliance cost within the context of developing countries.

Hannoon (2019) examined the influence of technology-enabled tax paying system in accelerating the tax compliance behaviour among the UAE-based organisations in the private sector. However, the current study focused on the implications borne by SMEs after their compliance to the VAT regulations. Despite certain implications, VAT compliance behaviour remains essential for companies of all sizes, as it ensures their adherence to their tax obligations and fair contributions to the country's economy (Pope & Jabbar, 2008). The importance of being compliant with the VAT regulations is highlighted by the increased focus of tax authorities in the UAE on reducing tax fraud and increasing the recovery rate. It is also important to ensure that SMEs are not exposed to unnecessary financial risks associated with incorrect or incomplete VAT registration and reporting.

The current shared some similarities with the previous studies in regards to the use of statistical methods. For example, Abdulraqueeb and Sidek (2022) examined the optimisation of VAT for SMEs in the UAE and its influence on their compliance behaviour. The study also used PLS-SEM, including path analysis and regression

analysis, to examine the data collected from 387 individuals working in food and beverage companies. Notably, the current study primarily focused on the compliance cost, while Abdulraqueeb and Sidek (2022) examined the influence of factors including implementation efficiency on SMEs' compliance cost and compliance behaviour in the UAE.

The results indicated that complexity did not affect VAT compliance behaviour among SMEs in the UAE. In simpler terms, the study observed that a complex VAT compliance system did not influence VAT compliance behavior among SMEs. However, as noted by Swistak (2016), non-compliance is often attributed to a complex tax compliance system, particularly for SMEs. Despite this, complexity was found to be an insignificant predictor in this study.

Compliance cost was identified as the second predictor in the current study to exert significant influence on tax rate and compliance behaviour. Firstly, the statistically significant influence of compliance cost on tax rate indicated the role of compliance cost as a significant determinant of tax rate, which were found to be consistent with the propositions by Alshirah et al. (2021). In other words, a higher compliance cost makes the tax rate more affordable, reinforcing its importance in shaping tax compliance behaviour. This inevitably drives SMEs to comply with the VAT regulations and contribute to the social and economic development. Likewise, Hamid et al. (2019) found compliance cost as an influencing factor of tax rate and compliance behaviour among SMEs. Therefore, it can argued that the declined compliance cost influences tax rate and promotes tax compliance behaviour (Qi & Che Azmi, 2021), including in the UAE.

This study proposed penalty as the third predictor variable and obtained empirical evidence on its significant influence on tax incentive and VAT compliance

behaviour among SMEs in the UAE, which were consistent with the study by Stavrunova and Yerokhin (2014), which argued that penalty is designed to increase tax compliance behaviour. On the other hand, these penalties are also designated to increase the incentives for the taxpaying organizations at maximum. According to Gemmell and Ratto (2018), penalty affects the overall perception and behaviour towards tax incentive and tax compliance behaviour. In general terms, knowledge about the penalty for non-compliance can promote tax compliance behaviour and avail the incentives offered by the tax and audit departments.

Adding to that, POD was indicated as the other predictor variable of complexity and tax compliance behaviour among SMEs in the UAE based on the obtained results on the significance of POD on these two constructs. The relevant proposition was put forward by Modugu and Anyaduba (2014), which indicated that the probability of detecting tax evasion can promote SMEs' compliance behaviour, even with the complex VAT system. On the contrary, Nur-tegin (2008) found the association of factors including POD with compliance behaviour and the mediating role of awareness campaigns organised by the local government in this relationship among taxpayers. The inconsistency in the results may be due to the comparatively flexible VAT compliance rules for SMEs in the UAE and the lower likelihood of the government to imply any specific compliance cost on these taxpayers in general (European Commission, 2018).

Likewise, tax rate was indicated as a predictor for POD and VAT compliance behaviour among SMEs in the UAE. Notably, the general VAT tax rate in the UAE is 5%, which is applied on SMEs in the country. It is comparatively lower and applies to certain products and services only. As a result, tax rate of 0% to 5% is considered affordable for SMEs in the UAE. The obtained results indicated the significant influence of tax rate on POD. In other words, a lower tax rate decreases the concern of

being detected by the audit department since tax compliance behaviour yields tax incentive. These results were in line with the study by Masud et al. (2014), which found average VAT rate as low as 7 in developing countries, with the record of higher compliance behaviour. The UAE is not a developing country (Ministry of Finance UAE, 2017; Saderuddin & Barghathi, 2018), but the strong economic growth and high VAT compliance cost are among the most significant reasons for the increase of the country's annual GDP.

Finally, tax incentive was predicted as a significant determinant of tax compliance behaviour among SMEs in the UAE. According to Feld (2017), tax incentive often works as a psychological contract for taxpayers to comply with the tax regulations. This psychological contact is beyond just paying the tax but rather the refrainment from tax evasion and increases the interest to pay and enjoy the benefits offered by the audit department. This study's results revealed the significant influence of tax incentive on VAT compliance behaviour among SMEs in the UAE. These results were found similar to a longitudinal study by Kasim et al. (2020), which found tax incentive as a significant factor of tax compliance behaviour despite the role of penalty in preventing tax evasion among the Emirati SMEs. These factors collectively play a significant role for post-VAT implementation in promoting increased VAT compliance behaviour.

5.3.2 Comparison with the International Literature

Prior studies that were conducted in the United Kingdom, Tanzania, Jordan, and other countries highlighted different factors affecting VAT compliance behaviour. For example, Shakkour (2021) examined factors affecting VAT compliance among the SMEs in the Jordan. The study's results revealed the positive correlations of VAT

compliance cost and audit system with VAT compliance. The study also emphasised the importance of VAT practice among SMEs and provided guidance to governments and policymakers to develop and implement VAT regulations. The study recommended the need to further investigate the factors that influence VAT compliance behaviour in Jordan using the proposed conceptual model.

Focusing on the manufacturing industries in Tanzania, Kessi (2013) examined factors affecting VAT compliance behaviour as well. The obtained results revealed that about 93.3% of the total respondents believed that the current VAT rate (18%) was too high, leading to VAT evasion and informal operations. Additionally, the majority of the respondents (93.3%) agreed that multiplicity of tax laws in Tanzania was the main cause of non-compliance, driving the confusion in interpretation and difficulty in complying with the laws. Out of 10 respondents (tax expertise), eight of them (93.3%) stated that VAT exemptions caused non-compliance of tax for manufacturing industries, as it created opportunities for tax evasion. In this regard, Mardhiyah (2016) suggested the needs to reduce the current VAT rate from 18% to 15%, simplify the multiplicity of tax laws, and implement strong tax administration by authorities to monitor and control VAT exemption for higher tax compliance.

Similarly, Hansford et al. (2013) focused on the impact of VAT regulations and compliance costs on SMEs. The costs associated with complying with VAT regulations were divided into two categories, namely core costs, which are obligatory expenses that must be incurred to meet the legal requirements, and total costs, which include VAT planning and one-off payments. SMEs have a higher proportion of core costs in their total compliance cost than larger companies. Reducing these core costs can significantly influence their overall compliance cost. The obtained results showed the association of higher compliance cost with increased turnover, newly registered companies, and

increased complexity. Additionally, companies with higher compliance cost perceived higher psychological cost of VAT compliance. However, by keeping in view the multiplexity of the existing literature and recent findings, it can be assumed that there is no single factor that determines tax compliance behaviour in general and VAT compliance in particular (Sandford, 1973; Pope & Rametse, 2001; Symons et al., 2010; Highfield et al., 2017; Nura et al., 2017; Saderuddin et al., 2017).

Talking about the statistical approaches, most of these international studies focused on PLS-SEM and regression analysis and provided correlation results involving different predictor variables of tax compliance behaviour (Hansford et al., 2013; Fjeldstad, 2016; Misuko, 2019; Naomi, 2022), except for the study by Mansor and Ferdjani (2017), which proposed influential strategies to determine VAT compliance among SMEs in Tunisia based on a systematic review of prior related studies.

Omar (2020) noted the growing gap between the amount of remitted VAT returns, the reported tax assessments, and the amount of voluntarily paid tax liabilities among SMEs in Kenya despite the significance of SMEs as part of the VAT system in many other countries. Addressing this challenge, governments have attempted to understand the root causes of the phenomenon and gain deeper comprehension of the factors that encourage VAT compliance. Focusing on traders in Mandera Town, a smaller Kenyan town, which has received minimal attention in literature, Omar (2020) examined the influence of availability of tax information, penalties and fines, non-compliance opportunities, and enforcement on VAT compliance. The study employed a descriptive research design and found the significant and positive influence of the availability of tax information, penalties and fines, and enforcement on the level of VAT compliance among the participating traders. In contrast, non-compliance opportunities exerted significant and negative influence on VAT compliance. Among these proposed

factors, tax enforcement exerted the most substantial influence on VAT compliance. The findings of this study suggested the importance of providing adequate and simplified tax information, imposing proper penalties and fines, and implementing effective enforcement to promote higher level of VAT compliance among traders in Manderia Town. Additionally, non-compliance opportunities were identified as a threat to the compliance of these traders.

Although the current study identified compliance cost, penalty, tax rate, tax incentives, and POD as the main factors affecting VAT compliance behavior among SMEs in the UAE (Hamid et al., 2019), it also introduced additional factors into the international literature on tax compliance behaviour.

5.4 Implications of the Study

This study presented significant implications to the overall understanding of VAT compliance behaviour within the context of the UAE. Exploring six key factors—complexity, penalty, compliance cost, tax rate, tax incentive, and POD—provided valuable insights on the dynamics shaping VAT compliance among SMEs. The findings of this study extended the existing literature on VAT compliance by delving deeper into the interactions between various influencing factors. Unlike previous studies that primarily focused on individual factors, this study explored the interconnectedness of these factors and their collective impact on tax compliance behaviour.

Besides that, this study elucidated the complex dynamics of VAT compliance, which offered practical implications for designing policies and initiatives aimed at enhancing VAT compliance rate and ensuring a fair and transparent tax system. The positive role of tax incentive discussed in this study would drive SMEs to comply with VAT regulations. Identifying tax incentive as a significant driver of VAT compliance

behaviour in this study also underscored the importance of policy measures aimed at incentivising timely VAT payments. Additionally, this study underscored the relevance of penalty, compliance cost, and tax rate in influencing VAT compliance behaviour among SMEs. Understanding the multifaceted nature of these factors is crucial for policymakers and tax authorities in designing effective compliance strategies and fostering a culture of tax compliance. Adding to that, this study provided valuable insights for policymakers in the UAE and other jurisdictions grappling with VAT implementation and enforcement.

Overall, this study significantly contributed to the academic discourse on VAT compliance behaviour and offered practical implications for policymakers, tax authorities, and SMEs in the UAE and beyond. By deepening the overall understanding of the factors influencing VAT compliance behaviour, this study laid the groundwork for future research and policy interventions aimed at fostering tax compliance and promoting economic development. Theoretical and practical implications of this study are further discussed in the following subsections.

5.4.1 Theoretical Implications

The existing literature on VAT compliance has yielded diverse findings, focusing largely on individual factors influencing compliance behaviour among taxpayers across various regions, including the UAE (Fjeldstad, 2016; Nur-tegin, 2008; Mativo et al., 2018; Hamid et al., 2019). This study extended beyond prior studies by examining the interplays of six key factors—complexity, penalty, compliance cost, tax rate, tax incentive, and POD—on VAT compliance behaviour. This study shared similarities with prior studies, but its scope and depth were deemed more extensive, providing a comprehensive understanding of VAT compliance dynamics.

Furthermore, this study's results underscored the significant and positive impact of tax incentive on tax compliance behaviour. Tax incentive serves as a powerful motivator that fosters positive taxpayer attitude and encouraging timely VAT compliance. Moreover, penalty, compliance cost, tax rate, and other factors play a pivotal role in positively influencing VAT compliance behaviour among SMEs. However, the comparison made with prior studies conducted in developing countries may be less relevant due to the variations in VAT rates and compliance behaviour; thus, making comparison with studies conducted in developed regions more appropriate (Alotaibi, 2021; Shakkour, 2021; Bala et al., 2019).

Thus, this study shed light on the overall relationship and influence of crucial factors influencing VAT compliance behaviour among SMEs in the UAE. Despite the widespread observance of VAT compliance in the country, there is still ample room for further investigation, especially in the Emirati context. With the recent increase in VAT rate, additional studies are essential to delve deeper into the factors shaping compliance behaviour in the UAE, contributing to a more nuanced understanding of VAT dynamics across the region.

5.4.2 Practical Implications

The implications proposed by this study under the institutional theory suggested the significant influence of regulatory environment and institutional pressures on SMEs' compliance behaviours in the UAE. According to the theory, SMEs are subject to various forms of institutional pressure, including coercive, mimetic, and normative isomorphism, which consequently shape their compliance decision. Coercive isomorphism, stemming from the threat of penalties and legal sanctions, compels SMEs to adhere to tax regulations to maintain legitimacy and avoid punitive measures.

Mimetic isomorphism, driven by the observation of industry peers and competitors, influences SMEs to emulate perceived best practices in tax compliance. Normative isomorphism, rooted in societal expectations and professional norms, fosters a culture of ethical tax behaviour among SMEs.

This obtained results of this study suggested that SMEs in the UAE navigate a complex institutional landscape characterised by regulatory frameworks, industry standards, and social norms. Compliance with tax regulations is not only a legal obligation but also a strategic imperative for SMEs seeking to build trust with stakeholders and sustain their competitive advantage. However, SMEs need help in balancing compliance requirements with operational demands and resource constraints. Economic factors, limited resources, and bureaucratic hurdles may hinder SMEs' ability to meet regulatory standards, underscoring the need for tailored support mechanisms and capacity-building initiatives.

Furthermore, this study highlighted the role of government policies and institutional arrangements in shaping SMEs' tax compliance behaviour. Effective enforcement mechanisms, transparent regulatory processes, and targeted outreach efforts can enhance SMEs' understanding of tax obligations and foster a culture of voluntary compliance. Moreover, the obtained results underscored the importance of stakeholder collaboration and knowledge-sharing initiatives to address SMEs' compliance challenges holistically.

Therefore, the implications proposed by this study underscored the multifaceted nature of tax compliance among SMEs in the UAE and emphasised the pivotal role of institutional factors in shaping their compliance behaviour. Understanding and addressing the diverse institutional pressures faced by SMEs, policymakers, regulatory authorities, and business support can promote a conducive environment for SMEs'

growth and development while ensuring adherence to tax regulations and fostering trust in the business community.

Similarly, under the economic deterrence theory, the study's results suggested significant implications for understanding compliance behaviour and regulatory results within the economic frameworks. The obtained results suggested the significant influence of perceived economic costs associated with non-compliance, including penalties, fines, and potential legal repercussions, on individuals' and companies' decisions concerning tax compliance. When the possible costs of non-compliance outweigh its perceived benefits, taxpayers are more inclined to adhere to the tax regulations to avoid financial losses and legal liabilities. Therefore, emphasis should be placed on designing and implementing enforcement mechanisms that increase the perceived risks and consequences of non-compliance while promoting voluntary compliance among taxpayers.

Furthermore, the study highlighted the importance of tailoring deterrence strategies to address the unique characteristics and dynamics of economic systems. Effective deterrence measures should be designed to enhance the POD and ensure the swift and proportional imposition of penalty for non-compliance. Through the adoption of a proactive approach to enforcement and the investment in technological solutions and data analytics, regulatory authorities can optimise deterrence outcomes and minimise the prevalence of tax evasion and fraud. Additionally, the study's results highlighted the need for continuous evaluation and refinement of deterrence strategies to adapt to the evolving economic landscapes and emerging compliance challenges. With respect to the economic deterrence theory, fostering the culture of compliance and accountability offers a practical framework for promoting regulatory compliance and upholding the integrity of economic systems in contemporary contexts.

5.4.2.1 SMEs

The imposition of VAT by the UAE government represents significant indirect tax on products and services throughout the production and distribution stages. Given the pivotal role of SMEs in the UAE's economy, the application of VAT holds substantial implications for their competitiveness and growth within the Middle Eastern region. VAT offers SMEs in the UAE the advantage of reclaiming VAT paid on business expenses, known as input VAT. This provision serves to lower operational costs and bolster cash flow for SMEs. Additionally, VAT fosters a fair business landscape by ensuring SMEs compete equitably with their larger counterparts, which are also subject to VAT regulations. Moreover, the UAE government extends VAT exemptions to SMEs with turnover profits below specified thresholds. However, the forthcoming changes in VAT regulations and rates post-June 2023 may introduce complexities and compliance burdens for SMEs. The transition from the tax rate of 5% to 9%, along with varied VAT regulations, exemptions, and special regulations, is poised to pose challenges for SMEs navigating the new system. Consequently, SMEs in the UAE may incur administrative and compliance expenses, potentially eroding their competitiveness and profitability over time.

5.4.2.2 Government

VAT compliance in the UAE not only contributes to reducing the government's reliance on income from oil and petroleum but also introduces a fresh revenue stream to diversify the economy. However, the government must establish clear and straightforward VAT regulations and guidelines for SMEs, thereby easing the compliance burden and fostering their growth and development.

The UAE government upholds the moral obligation of ensuring the ethical and equitable execution of VAT compliance. This entails transparent communication of VAT laws and regulations to individuals and SMEs, along with the provision of resources to facilitate understanding and adherence. Furthermore, the government is committed to treating all businesses impartially and justly concerning VAT compliance, taking appropriate measures against non-compliant entities while extending support and guidance to those facing compliance challenges. Moreover, the government bears the responsibility of judiciously and transparently utilising the revenues generated from VAT. This necessitates regular reporting and disclosure of VAT revenue utilisation, ensuring that the funds are utilised for the welfare and benefits of UAE citizens. Therefore, the UAE government is morally obligated to uphold fair and ethical VAT compliance practices, treat businesses equitably, assist struggling SMEs, and utilise the revenues generated from VAT responsibly and transparently.

5.4.2.3 Policymakers

Policymakers who are tasked with implementing VAT in the UAE face critical considerations. Firstly, they must ensure the effective and equitable implementation of the VAT system. Clear and concise laws and regulations are essential for individuals and businesses to comprehend and comply with, reducing confusion and facilitating accurate reporting and payment of VAT obligations. Moreover, Emirati policymakers need to assess the potential impact of VAT on various industries, particularly on low-income households and small businesses. Mitigation measures like tax exemptions, credits, or relief programmes may be necessary to alleviate potential adverse effects. Additionally, a robust system for collecting and enforcing VAT compliance is paramount. This entails allocating adequate resources for compliance and enforcement

efforts and taking decisive actions against non-compliant businesses. Furthermore, policymakers must ensure responsible and transparent utilisation of the revenues generated from VAT. Regular reporting and updates on revenue utilisation are imperative, which ensure the contribution of the funds to the welfare of the country's citizens. Hence, Emirati policymakers bear significant responsibilities in ensuring the fair and effective implementation of VAT, which include providing clear regulations, considering sectoral impacts, establishing efficient compliance systems, and transparently utilising revenues generated from VAT. These measures are essential for fostering trust, fairness, and economic stability within the UAE.

5.5 Research Limitations

Overall, this study provided pertinent insights on VAT compliance in the UAE. However, like any other studies, this study encountered several key limitations. Firstly, a self-proposed, structured questionnaire survey was employed. Despite being a standardised and widely employed method for data collection purpose, there are some areas for improvement that may question the generalisability of the results. For instance, respondents' honesty and biases are two major concerns that contribute to the limitations to the survey method. Since the results rely on respondents' honesty, any exaggeration or omission of facts can impact the findings and undermine the credibility of the study. Additionally, the interpretation of results, varying perspectives on additional questions, and other concerns can also be considered limitations.

Secondly, although the response rate was deemed satisfactory, with the use of different methods for the distribution of questionnaire survey, the targeted response rate was substantially higher. If all questionnaire sets were gathered, the acquired results may have been affected as well. Additionally, uncontrollable circumstances, time

constraints, and resource limitations, which would potentially hinder the data collection process, were present in this study. Besides that, the unavailability of some respondents, unexpected delay in responding, and some respondents' concern of sharing sensitive details about their company's VAT compliance were other major limitations of this study.

Thirdly, despite collecting data from SMEs in the UAE, we cannot ensure that all SMEs complied with VAT rules and tax obligations. Their profit or turnover information was not investigated in this study. Notably, the UAE government has granted exemptions for certain products and companies whose profits do not exceed a specific threshold. In this regard, the gathered data can only be considered fully generalizable to some SMEs in the country.

Finally, using PLS-SEM as a single analysis tool for the current study added to its limitation. As this study proposed a one-directional structural model aimed at analysing the survey-based data, the use of PLS-SEM was the most suitable selection. However, the scope of the study could be extended through the use of other analysis techniques, including on those examining the performance of all predictor variables. Nevertheless, adding more details to the descriptive analysis could provide a deeper understanding of each response linked to the questionnaire items. Additionally, various other factors may indirectly influence VAT compliance behaviour, as evidenced in the existing literature.

5.6 Recommendations

5.6.1 Policy Recommendations

Initially, being a tax-free zone for businesses contributed to the appeal of UAE. After 2018, tax laws were imposed, which noted the increase in the tax rate after June

2023. In this regard, despite the compliance with the VAT regulations among many existing SMEs, much is still needed to spread awareness about the role and importance of VAT to avoid any tax evasion in the future. Certain awareness and training programmes can help to reduce the potential chance of tax evasion, especially after the increase in the tax rate (from 5% to 9%). VAT compliance awareness and training programmes are important for a number of reasons. These programmes help to educate individuals and businesses about their VAT obligations, which can help to minimise confusion and ensure accurate tax reporting and payment.

This can also reduce the likelihood of non-compliance and increase the overall effectiveness of the VAT system. Besides that, compliance awareness and training programmes help to build trust and confidence in the VAT system. Providing accurate and up-to-date information about VAT regulations and related resources help individuals and businesses to comply with the regulations. These programs can help to improve the overall perception about the fairness and effectiveness of the VAT system. This can ultimately lead to greater tax compliance and cooperation from taxpayers. VAT compliance in the UAE offers positive contributions, such as increasing revenues, promoting transparency in business transactions, fostering economic growth, and reducing the government's dependence on oil and petroleum.

5.6.2 Practical Recommendations

Based on the obtained results, this study put forward several recommendations to enhance VAT compliance behaviour among SMEs in the UAE:

i) Understanding compliance cost

SMEs must comprehensively understand the compliance cost associated with VAT implementation, which encompasses both internal and external factors.

Identifying and analysing these factors can help SMEs develop strategies to manage their compliance cost effectively.

ii) Industry-specific dynamics

Given the variations in compliance costs and behaviours across different industries, SMEs should analyse industry-specific trends and dynamics. Understanding how compliance costs and behaviours differ among various industries can help SMEs tailor their compliance strategies to specific industry requirements and challenges.

iii) Enhanced awareness and education

SMEs need to be supported with comprehensive education and awareness programmes regarding VAT compliance, which include understanding the implications of non-compliance, the benefits of tax compliance, and practical strategies for meeting compliance requirements. Government agencies and industry associations play a significant role in organising such programmes.

iv) Streamlining compliance processes

In order to alleviate the burden of compliance cost, authorities should consider streamlining VAT compliance processes for SMEs. This may involve simplifying reporting requirements, providing user-friendly compliance tools and resources, and offering support mechanisms to help SMEs navigate complex regulatory frameworks more efficiently.

v) **Incentivising compliance**

Various incentives can be explored to encourage VAT compliance among SMEs. These incentives may include tax credits, deductions, or preferential treatment for compliant businesses. Offering tangible benefits for tax compliance can motivate SMEs to prioritise adherence to the VAT regulations.

vi) **Improving detection mechanisms**

Enhancing detection mechanisms for non-compliance can act as a deterrent and encourage SMEs to adhere to the VAT regulations. This may involve leveraging technology, data analytics, and risk-based approaches to identify potential instances of non-compliance more effectively. Additionally, increasing the POD can send a strong signal about the seriousness of compliance enforcement.

vii) **Continuous monitoring and evaluation**

Authorities need to implement robust monitoring and evaluation mechanisms to assess the effectiveness of compliance initiatives over time. Regular audits, surveys, and feedback mechanisms can provide valuable insights on the challenges faced by SMEs and the efficacy of existing compliance measures. Based on these assessments, appropriate adjustments and refinements can be made to optimise compliance outcomes.

5.6.3 Recommendations for Future Research

In consideration of the current study's objectives, problem statement, and research design, there are several recommendations for future research. Firstly, it is recommended for future research to explore VAT compliance among SMEs and factors

like consumers' behaviour that would affect compliance conduct. This may include examining the relationship between a business owner's knowledge of VAT regulations and the likelihood of VAT compliance, as well as examining the role of financial resources and access to professional advice in compliance. Additionally, the perception about the impact of government's tax enforcement and penalties, particularly in the case of SMEs, may offer valuable insights.

Besides that, it is recommended for future research to explore the economic impact of VAT compliance among SMEs in the UAE. This may include assessing the effect of compliance on the profitability and growth of businesses and exploring how non-compliance affects the competition within a market. Investigating the relationship between VAT compliance and the ability to have access to financing or investment is also worthwhile.

Moreover, a comparative study of VAT compliance among SMEs across different states, cultures, and regions would be an interesting dimension to explore. It would be an opportunity to understand the variations and similarities in VAT compliance behaviour among SMEs. Additionally, studying the influence of different VAT systems (e.g., standard rate versus reduced rate) on VAT compliance among SMEs may offer interesting perspectives.

Finally, understanding the role of technology and digitalisation in VAT compliance among SMEs is a highly relevant dimension to explore. It is recommended for future research to explore the use of software and digital platforms to manage VAT compliance to comprehend how all these would affect compliance rate and the ease of compliance.

5.7 Conclusion

This study was conducted in the UAE to examine factors affecting VAT compliance among SMEs in the UAE. The constructs were adopted from previously conducted studies, providing conceptual support to the current study. The results demonstrated the internal and external costs of SMEs' VAT compliance behaviour and indicated the relationships of these factors with VAT compliance behaviour.

In this study, SMEs responded positively to VAT implementation, primarily due to its flexible rates and requirements. Moreover, certain products and services are exempt from VAT. For SMEs that comply with VAT regulations, it was considered plausible to assess whether VAT had an overall positive or negative impact and whether they fully adhered to taxpaying practices. The results also reflected the overall acceptance of VAT compliance and the potential challenges at different levels. SMEs with weak tax and legislative infrastructures may need to better understand VAT compliance. These companies may engage in VAT evasion and provide inaccurate details, raising concerns about VAT regulations in the UAE, which require strict enforcement.

This study shed light on various aspects related to VAT compliance among SMEs in the UAE by assessing the influence of compliance cost in the post-implementation phase of VAT in the country. It was observed that the distribution of major compliance cost items remained consistent across different stages of response, indicating minimal non-response bias in the analysis. In terms of the total estimated compliance cost borne by SMEs for VAT compliance in the UAE, the average tax fee paid in 2022 was found to be AED25,000.

This study also explored the relationship between compliance cost and VAT compliance behaviour among SMEs in the UAE. The obtained results underscored the

significant relationship between compliance cost and VAT compliance behaviour, emphasising the influence of compliance cost on SMEs' adherence to the VAT regulations. This relationship was found statistically significant even when other factors like penalty, POD, complexity, income level, and tax incentives were taken into account.

Overall, this study highlighted the significant influence of complexity, penalty imposition, and POD on VAT compliance behaviour among SMEs in the UAE. The impact of complexity on penalty was found to be statistically insignificant. Nonetheless, the results underscored the importance of understanding both internal and external costs associated with VAT compliance among SMEs in the UAE. These findings provided valuable insights for policymakers and stakeholders aiming to enhance VAT compliance and foster a conducive regulatory environment for SMEs in the UAE.