

**VAT COMPLIANCE COST AND COMPLIANCE BEHAVIOUR
AMONG SMES IN UAE**

ADIL DARWISH HUMAID AL ZAABI

UNIVERSITI SAINS ISLAM MALAYSIA

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AMONG SMES IN UAE**

Adil Darwish Humaid Al Zaabi

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AUTHOR DECLARATION

I hereby declare that the work in this thesis is my own except for quotations and summaries which have been duly acknowledged.

Date: 15th July 2025

Signature:



Name : Adil Darwish Humaid Al Zaabi

Matric No: 4181481

Address : Kalba, Sharjah, UAE

UNIVERSITI SAINS ISLAM MALAYSIA
جامعة العلوم الإسلامية
ISLAMIC SCIENCE UNIVERSITY OF MALAYSIA

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ABSTRAK

Pelaksanaan cukai nilai tambah (VAT) menyebabkan beban kos pematuhan kepada Perusahaan Kecil dan Sederhana (PKS). Beban ini boleh menyebabkan ketidakpatuhan atau separa pematuhan terhadap sistem VAT. Dalam dekad kebelakangan ini, terdapat banyak penyelidikan global mengenai kos pematuhan cukai, meneliti perkembangan kewajipan cukai, terutamanya di Emiriah Arab Bersatu (UAE). Kajian ini bertujuan untuk mengenal pasti kos pematuhan, dalaman dan luaran, dan kesannya terhadap tingkah laku PKS di UAE di bawah teori Pencegahan Ekonomi dan Teori Institusi. Untuk mencapai matlamat kajian, pendekatan metodologi kuantitatif diguna pakai. Penglibatan peribadi, termasuk lawatan fizikal dan komunikasi melalui e-mel, telah dijalankan dan memperolehi maklum balas sebanyak 384 responden. Kesemua data yang diperolehi dianalisis menggunakan pemodelan persamaan struktur (PLS-SEM). Sebagai salah satu penyelidikan perintis yang dijalankan di UAE, menyepadukan hubungan antara kos pematuhan dan tingkah laku, ia menyumbang dengan ketara kepada literatur tentang pematuhan VAT. Analisis mendedahkan beberapa hubungan yang signifikan antara pembolehubah bebas dan tingkah laku pematuhan VAT. Kerumitan secara positif mempengaruhi pengenaan penalti, yang seterusnya menjejaskan tingkah laku pematuhan VAT. Kos pematuhan juga memberi kesan positif kepada tingkah laku pematuhan VAT. Selain itu, kebarangkalian pengesanan dan kadar cukai dikaitkan secara positif dengan tingkah laku pematuhan VAT. Walau bagaimanapun, hubungan antara kerumitan dan tingkah laku pematuhan VAT melalui kebarangkalian pengesanan adalah tidak signifikan. Begitu juga, analisis pengantaraan menunjukkan kesan tidak langsung di mana kerumitan yang membawa kepada pengenaan penalti dan kos pematuhan yang membawa kepada kadar cukai memberi kesan positif kepada tingkah laku pematuhan VAT. Selain itu, pengenaan penalti yang membawa kepada insentif cukai mempengaruhi tingkah laku pematuhan VAT secara positif. Penemuan ini menyerlahkan sifat pelbagai faktor yang mempengaruhi tingkah laku pematuhan VAT dan menyerlahkan kepentingan penalti, kos pematuhan, kebarangkalian pengesanan dan insentif cukai dalam membentuk tingkah laku pematuhan dalam kalangan pembayar cukai. Oleh itu, penyelidikan ini menekankan pengaruh besar faktor seperti kerumitan, penalti dan kebarangkalian pengesanan terhadap tingkah laku pematuhan dalam PKS di UAE. Walaupun kajian itu tidak menemui hubungan yang signifikan antara kerumitan dan penalti, ia menekankan keperluan untuk memahami kos dalaman dan luaran pematuhan VAT dalam kalangan PKS di UAE. Cerapan ini penting bagi penggubal dasar dan pihak berkepentingan yang ingin menambah baik amalan pematuhan VAT dan mewujudkan rangka kerja kawal selia yang menyokong PKS di UAE.

ABSTRACT

The implementation of value added tax (VAT) imposes a compliance cost burden on Small and Medium Enterprises (SMEs). This burden may lead to non-compliance or partial compliance with the VAT system. In recent decades, there has been considerable global research on tax compliance costs, examining the development of tax obligations, especially in the United Arab Emirates (UAE). This study aims to identify the compliance costs, both internal and external, and their effects on the behavior of SMEs in the UAE under the Economic Deterrence theory and Institutional Theory. With that, a quantitative methodology was adopted. Personal engagement, including both physical visits and email communication, was conducted, resulting in responses from 384 participants. All collected data were analysed using structural equation modelling (PLS-SEM). As one of the pioneering research studies conducted in the UAE, integrating the relationship between compliance costs and behavior, it significantly contributes to the literature on VAT compliance. The analysis revealed several significant relationships between independent variables and VAT compliance behavior. Complexity positively influenced penalty imposition, which in turn affected VAT compliance behavior. Compliance cost also positively impacted VAT compliance behavior. Moreover, the probability of detection and tax rate were positively associated with VAT compliance behavior. However, the relationship between complexity and VAT compliance behavior via probability of detection was not significant. Additionally, penalty imposition leading to tax incentives positively influences VAT compliance behavior. These findings highlight the multifaceted nature of factors influencing VAT compliance behavior and highlight the importance of penalties, compliance costs, probability of detection, and tax incentives in shaping compliance behavior among taxpayers. Thus, this research emphasizes the substantial influence of factors like complexity, penalty, and probability of detection on compliance behavior within SMEs in the UAE. Although the study did not find a significant relationship between complexity and penalty, it underscores the necessity of comprehending the internal and external costs of VAT compliance among SMEs in the UAE. These insights are important for policymakers and stakeholders seeking to improve VAT compliance practices and establish a supportive regulatory framework for SMEs in the UAE.

الملخص

تفرض ضريبة القيمة المضافة (VAT) عبء تكلفة الامتثال على الشركات الصغيرة والمتوسطة (SMEs). وقد يؤدي هذا العبء إلى عدم الالتزام أو الامتثال الجزئي لنظام ضريبة القيمة المضافة. في العقود الأخيرة، كان هناك قدر كبير من الأبحاث العالمية حول تكاليف الامتثال الضريبي، ودراسة تطور الالتزامات الضريبية، وخاصة في دولة الإمارات. تهدف هذه الدراسة إلى التعرف على تكاليف الامتثال، الداخلية والخارجية، وتأثيرها على سلوك الشركات الصغيرة والمتوسطة في الدولة في ظل نظرية الردع الاقتصادي والنظرية المؤسسية. وتم اعتماد المنهج الكمي لهذه الدراسة واستخدمت تقنية الاستبيان كأداة للدراسة. يتلقى ٣٨٤ مشاركاً من الشركات الصغيرة والمتوسطة في دولة الإمارات العربية المتحدة، ويجري تحليل البيانات باستخدام نموذج المعادلات الهيكلية (PLS-SEM). باعتباره أول بحث يتم إجراؤه في الدولة، ويدمج العلاقة بين تكاليف الامتثال والسلوك، فإنه يساهم بشكل كبير في الأدبيات المتعلقة بالامتثال لضريبة القيمة المضافة. وكشف التحليل عن العديد من العلاقات الهامة بين المتغيرات المستقلة وسلوك الامتثال لضريبة القيمة المضافة. وقد أثر التعقيد بشكل إيجابي على فرض العقوبات، مما أثر بدوره على سلوك الامتثال لضريبة القيمة المضافة. كما أثرت تكلفة الامتثال بشكل إيجابي على سلوك الامتثال لضريبة القيمة المضافة. علاوة على ذلك، فإن احتمالية الكشف ومعدل الضريبة ارتبطا بشكل إيجابي بسلوك الامتثال لضريبة القيمة المضافة. ومع ذلك، فإن العلاقة بين التعقيد وسلوك الامتثال لضريبة القيمة المضافة من خلال احتمالية الاكتشاف لم تكن ذات أهمية. بالإضافة إلى ذلك، فإن فرض العقوبات التي تؤدي إلى حوافز ضريبية يؤثر بشكل إيجابي على سلوك الامتثال لضريبة القيمة المضافة. تسلط هذه النتائج الضوء على الطبيعة المتعددة الأوجه للعوامل التي تؤثر على سلوك الامتثال لضريبة القيمة المضافة وتسلط الضوء على أهمية العقوبات وتكاليف الامتثال واحتمال الكشف والحوافز الضريبية في تشكيل سلوك الامتثال بين دافعي الضرائب. وبالتالي، يؤكد هذا البحث على التأثير الكبير لعوامل مثل التعقيد والعقوبات واحتمالية الكشف على سلوك الامتثال داخل الشركات الصغيرة والمتوسطة في دولة الإمارات العربية المتحدة. وعلى الرغم من أن الدراسة لم تجد علاقة ذات دلالة إحصائية بين التعقيد والعقوبة، إلا أنها تؤكد ضرورة فهم التكاليف الداخلية والخارجية للامتثال لضريبة القيمة المضافة بين الشركات الصغيرة والمتوسطة في دولة الإمارات العربية المتحدة. تعتبر هذه الأفكار مهمة لصانعي السياسات وأصحاب المصلحة الذين يسعون إلى تحسين ممارسات الامتثال لضريبة القيمة المضافة وإنشاء إطار تنظيمي داعم للشركات الصغيرة والمتوسطة في دولة الإمارات العربية المتحدة.

TABLE OF CONTENTS

CONTENT	PAGE
AUTHOR DECLARATION	ii
ACKNOWLEDGEMENTS	iii
ABSTRAK	iv
ABSTRACT	v
AL-MULAKHKHAS	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	x
LIST OF FIGURES	xii
LIST OF APPENDICES	xiii
LIST OF EQUATIONS	xiv
LIST OF ABBREVIATIONS	xv
CHAPTER 1: INTRODUCTION	1
1.1 Introduction	1
1.2 Problem Statement	5
1.3 Research Objectives	11
1.4 Research Questions	11
1.5 Significant of the Study	12
1.6 Scope of the Study	14
1.7 Definition of Key Term	14
1.8 Thesis Organisation	16
CHAPTER 2: LITERATURE REVIEW	18
2.1 Introduction	18
2.2 An Overview of the Tax System in the UAE	18
2.3 An Overview of VAT	20
2.3.1 Corporate Tax	28
2.3.2 Excise Tax	28
2.3.3 Customs Duties	29
2.3.4 Real Estate Taxes	29
2.3.5 Economic Substance Regulations (ESR)	29
2.4 General Overview of Tax Compliance	30
2.5 Internal and External Factors Affecting Compliance Behaviour	31
2.5.1 Monetary Costs	31
2.5.2 Time Costs	33
2.5.3 Psychological Costs	34
2.6 SMEs in the UAE	37
2.7 VAT Compliance and Government in the UAE	43
2.8 Factors Affecting VAT Compliance in the UAE	46
2.8.1 Penalty Imposition	49
2.8.2 Complexity	51
2.8.3 Probability of Detection	53
2.8.4 Tax Rate	55
2.8.5 Tax Incentives	57
2.8.6 Challenges of VAT Compliance	59
2.9 Tax Compliance Theories	61

2.10	Theoretical Framework	70
2.10.1	Deterrence Theory	70
2.10.2	Institutional Theory	72
2.10.2.1	Institutional Theory and Tax Compliance by SMEs	74
2.11	Development of the Conceptual Framework	75
2.11.1	Development of the Conceptual Framework for Compliance Costs	75
2.11.2	Development of the Conceptual Framework for Compliance Behaviour	79
2.11.3	Development of Overall Framework	83
2.12	Chapter Summary	84
CHAPTER 3: RESEARCH METHODOLOGY		85
3.1	Introduction	85
3.2	Research Approach	85
3.3	Research Design	85
3.3.1	Data Collection Method	88
3.3.2	Questionnaire Design	89
3.3.3	Population and Sample of the Study	92
3.3.4	Pilot Study	94
3.3.5	Non-response Bias	95
3.4	Data Measurement and Approach	95
3.4.1	Compliance Costs	96
3.4.2	Compliance Behaviour	98
3.5	Data Analysis	102
3.5.1	Overall Approach	103
3.5.2	Estimation of Compliance Costs	103
3.5.3	Relationship between Compliance Costs and Compliance Behaviour	104
3.6	Ethical Consideration	105
3.7	Chapter Summary	105
CHAPTER 4: DATA ANALYSIS		106
4.1	Introduction	106
4.2	Data preparation	106
4.3	Data Collection Method	106
4.4	Demographic Profile of Respondents	108
4.4.1	Compliance Costs	111
4.4.2	Internal Costs	111
4.4.3	External Costs	115
4.5	Descriptive Statistics	117
4.5.1	Independent Variables	117
4.5.2	Dependents Variables	122
4.6	Assessment of Measurement Model	124
4.6.1	Reliability Analysis	124
4.6.2	Discriminant Validity	129
4.7	Assessment of Structural Model	131
4.7.1	Predictive Relevance (Q^2)	132
4.7.2	Effect size (f^2)	133

4.7.3	Collinearity Statistics	133
4.7.4	Testing of Variables	136
4.7.5	Regression Analysis	138
4.8	Chapter Summary	140
CHAPTER 5: DISCUSSION AND CONCLUSION		142
5.1	Introduction	142
5.2	Summary of the Key Findings	142
5.3	The relationship between Compliance Costs and Compliance Behaviour of VAT in the UAE	147
5.3.1	Comparison with the Existing Literature in the UAE	147
5.3.2	Comparison with the International Literature	152
5.4	Implications of the Study	155
5.4.1	Theoretical Implications	156
5.4.2	Practical Implications	157
5.4.2.1	SMEs	160
5.4.2.2	Government	160
5.4.2.3	Policymakers	161
5.5	Research Limitations	162
5.6	Recommendations	163
5.6.1	Policy Recommendations	163
5.6.2	Practical Recommendations	164
5.6.3	Recommendations for Future Research	166
5.7	Conclusion	168
REFERENCES		170
APPENDICES		193

LIST OF TABLES

Tables	Page
Table 1.1: Main and Specific Research Objectives	11
Table 1.2: Main and Specific Research Questions	12
Table 2.1: Types of SMEs in the UAE	39
Table 2.2: Sources of Internal and External Compliance Costs for SMEs	48
Table 3.1: Instrument Development	90
Table 3.2: Sample size for $\pm 3\%$, $\pm 5\%$, $\pm 7\%$, and $\pm 10\%$ Precision Levels	93
Table 3.3: Measures of Compliance Behaviour of the Dependent Variables	99
Table 3.4: Statement to Measure Compliance Behaviour of the Independent Variables	100
Table 4.1: Constructs, Dimensions, and Indicators	108
Table 4.2: Demographic Profile of Respondents	109
Table 4.3: Compliance Cost Items	113
Table 4.4: Test for Compliance Cost Items	114
Table 4.5: External Costs of SMEs in the UAE for the Financial Year of 2022	116
Table 4.6: A Summary of External Costs	117
Table 4.7: Descriptive Statistics (Item-Wise) for Independent Variables	119
Table 4.8: VAT Compliance Behaviour	122
Table 4.9: Reliability and Validity Results	125
Table 4.10: Variance Inflation Factor, T-Statistics, and Significance Results	127
Table 4.11: Fornel-Larcker Criterion	130
Table 4.12: Summary of the Cross Loadings	130
Table 4.13: Coefficient of Determination and Predictive Relevance	133
Table 4.14: Variance Inflation Factor (Analysis)	135

Table 4.15: Results of the Direct Relationship	137
Table 4.16: Multiple Regression Analysis'	139
Table 5.1: Summary of Key Findings for Research Question 1	144
Table 5.2: Summary of Key Findings for Research Question 2	145
Table 5.3: VAT Rate Structure in the UAE	148

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LIST OF FIGURES

Figures	Page
Figure 1.1: Division of Thesis Analyses	5
Figure 1.2: UAE VAT compliance in 2018	7
Figure 2.1: The Economic Deterrence Model (Becker, 1968)	64
Figure 2.2: Financial Self-Interest Model	66
Figure 2.3: Model of Taxpayer Compliance (Expanded)	67
Figure 2.4: Research Model for the Compliance Costs of VAT	79
Figure 2.5: Research Model for the Determinants of VAT Compliance Behaviour	83
Figure 2.6: Overall Conceptual Framework	84
Figure 3.1: The Research Design of this Study	87
Figure 4.1: Path Coefficient	140

LIST OF APPENDICES

Appendices	Page
Appendix 1: The Survey Instrument	193
Appendix 2: Variance Inflation Factor (Analysis)	199



LIST OF EQUATIONS

Equations	Page
3.1: Formula for the Computation of Sample Size	93
3.2: Calculation of Sample Size	94

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LIST OF ABBREVIATIONS

AED	UAE Dirham
AUD	Australian Dollar
EU	European Union
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GST	Goods and Services Tax
Ksh	Kenyan Shilling
NZD	New Zealand Dollar
RMCD	Royal Malaysian Custom Department
SAS	Self-assessment System
SD	Standard Deviation
SME	Small and Medium Enterprise
UAE	United Arab Emirates
USD	United States Dollar
VAT	Value Added Tax