

International Journal of **Economic Policy** (IJECP)

Determinants of Taxpayers' Compliance in Somalia.



**CARI
Journals**

Determinants of Taxpayers' Compliance in Somalia.

^{1*}Amalow, Isse Farah,  ²Professor, Liu, Cheol

¹Graduate student, KDI School of Public Policy and Management

²Associate Professor, KDI School of Public Policy and Management

<https://orcid.org/0000-0002-4524-3351>

Accepted: 3rd Feb, 2025, Received in Revised Form: 3rd Mar, 2025, Published: 3rd Apr, 2025

Abstract

Purpose: This study explored the key factors influencing tax compliance behavior in Somalia, particularly in the Benadir region. It aimed to understand why some taxpayers comply while others don't and to provide practical recommendations for improving tax compliance, reducing reliance on foreign aid, and strengthening domestic revenue collection.

Methodology: The research relied on qualitative analysis using secondary data from government reports, international organizations like the IMF and World Bank, and studies on taxation in Somalia and similar economies. By reviewing existing literature and reports, the study identified patterns and challenges related to tax compliance.

Findings: Three key factors were found to significantly influence tax compliance in Somalia: tax education, taxpayer attitudes toward taxation, and the enforcement of tax laws through penalties and audits. Surprisingly, the study found that corruption perceptions did not play a major role in influencing compliance, suggesting that other factors, such as fairness in taxation and ease of compliance, are more pressing concerns.

Unique Contribution to Theory, Practice, and Policy (Recommendations): The study emphasizes the need for tax authorities to simplify tax processes, enhance transparency, and invest in education to help taxpayers understand their obligations. Strengthening enforcement while ensuring fairness and reducing compliance costs can encourage more people to pay taxes. Future research should include surveys and interviews to gain deeper insights into taxpayer behavior. Ultimately, these efforts can help Somalia build a more sustainable and self-reliant tax system.

Keywords: *Tax Compliance, Tax Education, Taxpayer Attitudes, Revenue Collection*

INTRODUCTION

1.1 Background of the Problem

Taxation is a crucial source of revenue and a key mechanism for funding government services worldwide. Consequently, tax compliance behavior significantly impacts both national and global economies, drawing interest from academics globally (Ross & McGee, 2012). While tax enforcement is a critical factor affecting compliance behavior, income-related factors also play a role in determining taxpayers' adherence to tax obligations (Lestar & Wicaksono, 2017). Unfortunately, negative behavior towards tax compliance remains a recurring challenge for governments, adversely affecting the funding of public operations (Kirchler, 2007). Numerous authors acknowledge tax evasion as a global issue, widely recognized as a pervasive problem in many countries, affecting revenue generation in both developed and emerging nations (Hindriks et al., 2008; Al-Taffi & Abdul-Jabbar, 2015).

Somalia, a developing country, struggles to raise adequate tax revenues to finance government expenditures due to non-compliance by taxpayers. This results in over 30% of its fiscal budget being covered by external subsidies (Hussein, 2015; Ali, 2017). The World Bank (2015) reported that Somalia's tax revenue allocation is less than 25%, the lowest among East African countries, leading to poor economic performance primarily due to taxpayers' non-compliance. The tax authorities' failure to adequately analyze the reasons for non-compliance exacerbates the government's dilemma of low revenue generation (COCA, 2018).

Studies in low-income and resource-limited countries like Yemen, as well as upper-middle-income countries such as Indonesia, Saudi Arabia, Malaysia, and Pakistan, identify several factors influencing taxpayer compliance behavior. These factors include taxpayer perception toward taxation, religiosity, penalty and auditing enforcement, tax education, and corruption (Ali & Abdul-Jabbar, 2015; Obaid et al., 2020; Rahayu et al., 2017; Suyanto & Trisnawati, 2016; Savitri & Musfialdy, 2016; Lestari & Wicaksono, 2017). However, previous studies on taxpayer compliance behavior in Somalia have primarily focused on two factors: tax education and corruption (Hussein, 2015; World Bank, 2015; Ali, 2017; IMF, 2018). Therefore, this SRP aims to identify all factors influencing taxpayer compliance behavior in Somalia, including tax education, taxpayer perceptions and expectations, tax penalties and auditing policies, and corruption in the taxation system, and to explore their effects on compliance behavior.

1.2 Research Objectives

The primary aim of this Supervised Research Project (SRP) was to evaluate and identify factors affecting tax compliance among citizens in Somalia. It also sought to make recommendations for the government to develop a robust fiscal region by promoting education and awareness about the importance of tax revenue for government services. This approach had the potential to reduce dependency on foreign assistance and diversify income sources.

The specific objectives of this study were to:

- Determine and analyze the determinants of taxpayer noncompliance behavior and their impacts on revenue mobilization in Somalia.
- Propose future measures to reduce the impacts of tax non-compliance behavior.

1.3 Research Questions

This thesis **addressed** the following research questions:

1. What **were** the determinants of taxpayer noncompliance in Somalia, and which factors **had** the most significant impact on Somali taxpayers?
2. What strategies **could** be implemented to minimize and compensate for the effects of taxpayer noncompliance while enhancing revenue resilience?

1.4 Significance of the Study

This study could be valuable to researchers focusing on revenue mobilization, compliance management, environmental development, policy review, and the tax attitudes and expectations of Muslim countries. Additionally, the findings will assist governments, international organizations, and non-governmental organizations (NGOs) in targeting, planning, and enforcing more effective growth agendas.

LITERATURE REVIEW

2.1 Background

As cited in Ross & McGee (2012), tax compliance behavior significantly influences both local and global economies, attracting scholarly attention (Al-Ttaffi & Abdul-Jabbar, 2015). According to Mas'ud et al. (2014), the level of tax noncompliance in developing countries is notably higher than in industrialized nations. Compliance is crucial for promoting taxation in any country because it determines state revenues (Lestari & Wicaksono, 2017). When taxpayers comply with tax laws and understand the importance of taxes for economic growth and development, governments can generate more revenue (Susilawati & Budiaartha, 2013). Tax compliance behavior among taxpayers is a key factor affecting tax revenue growth, and understanding the factors influencing this behavior is essential as it impacts state income (Savitri & Mosifialdy, 2015).

2.2 Taxation System in Somalia

Taxation is theoretically described as the method of raising revenue for the state to fulfill its duties toward citizens and public services. It can also protect domestic production from international competition (James & Nobes, 1997). The state enacts tax laws specifying rules and regulations for imposing charges on estates, land, licenses, wages, purchases, and import/export duties.

In Somalia, taxation and money collection are defined by laws derived from the country's constitution, specifically chapter 17, law no. 1 of 1961 on Financial and Accounting, which

stipulates that "taxes must be all amounts that the state has a right to receive, by statute, decree, legislation, or otherwise." All proceeds must be deposited in an appropriate bank account as determined by the Authority (MOF, 1961, p.29). According to this law, the Ministry of Finance is the primary authority for collecting government funds and can be represented by legally authorized individuals. Taxes and revenue can be collected from direct taxes (such as customs duties and stamp taxes) and indirect taxes (such as sales tax and VAT). Non-tax income includes fees for visas and passports.

The Somali government collects various types of taxes: 35% corporate income tax, 5% sales tax, 5% road tax, 20% private income tax (excluding civil servants and non-profit organizations), customs duties (0%-80%), 10% land purchase tax (notary), 10%-100% excise tax, 5% property tax, 2% stamp duty, 0%-25% payroll tax, and non-tax revenue from selling public services and goods such as licenses, work permits, passport fees, documentation, verification, and registration (Isak, 2018).

2.3 Tax Compliance in Somalia

In Somalia, the contribution of taxes to revenue is not motivating, as the government heavily relies on international grants rather than taxes and other income sources (MOF, 2016). Ariyo (1997) notes that overreliance on non-tax revenue sources can lead to tax waivers. The Ministry of Finance (MOF) struggles with low tax income collection due to significant tax evasion (Ali, 2017).

To address these challenges, taxpayer compliance is crucial for promoting Somalia's taxation system, as it determines state revenues. The tax system in Somalia suffers from non-compliance among taxpayers, as indicated by the Department of Inland Revenue, Ministry of Finance (MOF, 2017). The Ministry reported that 70% of projected road tax revenues were not collected as expected, primarily due to taxpayer non-compliance. Non-compliance can manifest in various forms, including failure to submit tax returns on time, not filing at all, understating income, overestimating deductions, and failing to pay assessed taxes by the due date (James & Alley, 2002; Alabede et al., 2011). Richardson (2006) found that non-economic factors such as peer regulation, religiosity, perceptions toward taxation, and tax education significantly affect tax compliance, including security uncertainties.

2.4 Determinants of Tax Compliance

In Somalia, factors influencing taxpayer compliance include tax rates, awareness of the tax system, corruption in tax collection, and education and income levels (Ali, 2018). Lestari & Wicaksono (2017) identify awareness, knowledge, and attitude toward taxation as key factors affecting taxpayer compliance behavior.

2.4.1 Tax Education

Engaging people in discussions about taxation and explaining how taxes are paid and where tax revenue is allocated are essential components of taxpayer education (OECD, 2013). According to

Kasipillai et al. (2003), taxpayer education can foster positive attitudes toward taxation, understanding of tax laws, and compliance with tax obligations. In Japan, taxation is taught in colleges to increase awareness and influence compliance behavior (NTA, 2016). Several countries have implemented tax education programs to ensure future taxpayer compliance. For instance, the Australian Tax Office developed a curriculum called "Teaching Tax with Tax Files" in 1998 to educate schoolchildren aged 9 to 12 (ATO, 2009).

2.4.2 Attitude & Perception of Taxpayers on Taxation

Taxpayer awareness of timely tax payments affects compliance. Understanding taxpayer attitudes toward taxation helps in understanding the purpose and function of tax payments (Lestari & Wicaksono, 2018). One of the most important factors affecting taxpayer behavior is tax equity (Thomas, 2012). Jackson & Milliron (1986) identified tax equity as a common determinant of tax compliance. Solano-Garcia (2017) found that voters' perceptions of tax fairness strongly influence their reactions to laws and tax compliance.

In Somalia, perceptions regarding the religious legitimacy of taxes affect compliance, as many Somalis believe taxes are haram (Ali, 2013). Understanding Islamic sharia viewpoints on taxation in Muslim-majority countries is crucial, as it influences taxpayer compliance behavior (Al-Ttaffi, 2009). There are differing views among Muslim scholars on the legitimacy of taxes. For example, Ushur was initially a 10% levy on agricultural produce, which Caliph Umar expanded to include border trade revenue (Nienhaus, 2006). In Somalia, taxpayers' religious views may directly impact tax compliance activities.

2.4.3 Penalty & Auditing Enforcement of Tax Law

Umar, Kasim & Martin (2012) found that in developing countries, tax penalties and rates are crucial factors influencing taxpayers' decisions to comply with taxation. Taxation, whether direct or indirect, is enforced by law, and non-compliance results in penalties, which can be administrative or criminal sanctions (Savitri & Musfialdy, 2016).

In Somalia, assessing and enhancing citizen accountability and compliance is challenging due to the underdeveloped finance sector and the government's disconnection from the global financial infrastructure (World Bank, 2015). The lack of a financial market system and perceived unfairness in the tax system contribute to high non-compliance rates (Doran, 2009). Tax penalties support and define tax compliance by establishing codes of conduct for taxpayers, distinguishing compliant from non-compliant taxpayers.

2.4.4 Corruption in the Taxation System

Research indicates that Somalia suffers from significant economic and financial scandals, with high levels of corruption among individuals, systems, and institutions (TIQN, 2005; COCA, 2012). Corruption, a dynamic sociopolitical and economic phenomenon, affects all nations to varying degrees (Campbell, 2013; Rohwer, 2009). It is described as the gross abuse of power for personal

gain, which is common in Somalia (Aguilera & Vadera, 2008). Alm et al. (2016) note that the connection between corruption and tax compliance is well-established, with both being critical issues for modern economies. Akdede (2011) and Okpala (2013) found that corruption among tax officials exacerbates tax evasion, contributing to non-compliance in countries like Nigeria.

RESEARCH METHODS

This research paper **employed** qualitative research methods to analyze the determinants of taxpayer compliance behavior in Somalia. The study primarily **relied** on secondary sources, which **were** valuable and informative materials. These secondary sources **included** literature and materials accessible through the Ministry of Finance (MOF), studies, and official reports from various international organizations such as the IMF, WCO, World Bank, and ADB. Additionally, government reports from neighboring and related countries **were** incorporated.

The conceptual framework of this study **was illustrated** in Fig. 1, based on the preceding discussions and as demonstrated in previous literature.

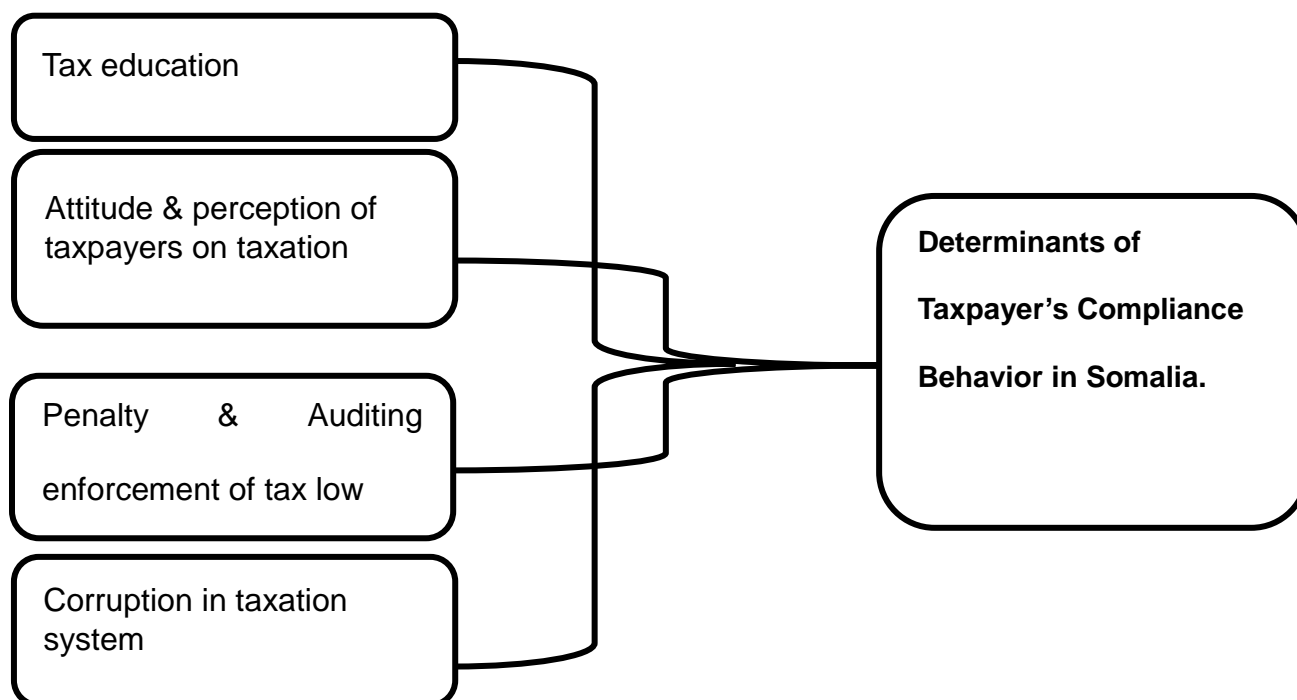


Fig. 1: Conceptual Framework

CHAPTER FOUR: DISCUSSION

The aim of this SRP is to identify all the factors that influence taxpayer compliance behavior in Somalia, such as tax education, taxpayer views and expectations of taxes, tax penalty and auditing policy, and corruption in the taxation system, and to explore their effects on taxpayer enforcement behavior. The research focused on investigating these determinants based on the understanding centered on these four factors.

Tax Education

The findings revealed that taxpayer education had a substantial impact on compliance. Knowledge of tax laws, acquired through both formal and non-formal education, positively influences taxpayer awareness and willingness to pay taxes. However, this does not guarantee that individuals will consistently fulfill their tax obligations. Studies by Muliari (2010), Ali (2015), and Ratriana Dyah Safri (2013) support this, indicating that educated taxpayers are more likely to comply with tax laws, recognizing the importance of tax revenue for national development. On the other hand, Ulfa Herlina Istika (2012) and Timoria Febri Putri Kusuma (2013) found no significant impact of taxpayer education on compliance, while Mellisa and Mienati (2014) noted that a lack of tax knowledge negatively affects compliance. This suggests that while tax education is important, it alone may not be sufficient to ensure compliance.

Taxpayer Attitudes and Perceptions

The attitude and perception of taxpayers towards taxation are critical factors influencing compliance behavior. Religious views, particularly in Muslim countries, significantly affect taxpayer behavior. Islamic opinions on taxation can vary from being entirely prohibited to permissible under certain conditions. This is consistent with findings by Al-Ttaffi and Abdul-Jabbar (2015) and Ulfa (2012), who observed that religiosity significantly affects tax compliance. However, Benk (2016) and Mohdali & Pope (2014) argued that religiosity has only a modest positive influence on taxpayer attitudes. Sociological, psychological, and economic theories also play roles in shaping tax compliance behavior, suggesting that multiple factors must be considered to understand taxpayer attitudes fully.

Tax Penalty and Auditing Policy

The study found a positive relationship between tax law effectiveness and tax compliance in Somalia. Taxpayers showed concern for effective and efficient tax laws when complying with tax rules. This supports the findings of Ali (2015), Lutfi (2009), Mughal and Akram (2012), and Fakile and Uwuigbe (2012), who found that effective tax laws positively influence compliance. Somali taxpayers prefer a fair approach over strict penalties, indicating that fairness in the tax system and appropriate training for taxpayers are crucial. The results suggest that both fairness and punitive measures in the tax system have a significant positive impact on compliance behavior in Somalia.

Corruption in the Taxation System

Contrary to the hypothesis, the findings did not show that corruption significantly increased taxpayer noncompliance. This contradicts prior research (Joulfaian, 2009) but aligns with the findings of Imam and Jacobs (2014) and Musa (2018). Somalia's history of political instability and recent efforts to combat corruption may have altered taxpayer attitudes. Despite being regarded as one of the most corrupt countries, with a low Transparency International score, the Somali government has actively combated corruption, punishing corrupt officials and promoting transparency. Consequently, the perception of corruption did not play a major role in influencing tax compliance behavior among Somalis.

In conclusion, this study highlights the multifaceted nature of tax compliance behavior in Somalia. While tax education, taxpayer attitudes, and the fairness of tax laws significantly influence compliance, the perception of corruption does not have a direct impact. Continued efforts to improve tax education, ensure fair and effective tax laws, and combat corruption are essential for enhancing taxpayer compliance and supporting national development.

CONCLUSION, IMPLICATIONS FOR POLICY, LIMITATIONS, AND RECOMMENDATIONS

Conclusion

This study provided important insights into tax compliance behavior in Somalia, particularly in the Benadir area, filling a critical gap in the literature. The research identified three key factors that positively influenced taxpayer compliance: tax education, taxpayer attitudes and perceptions on taxation, and the enforcement of tax laws through penalties and audits. These findings reinforced the importance of education and enforcement in fostering a compliant tax culture. Interestingly, contrary to initial assumptions, the perception of corruption did not significantly impact tax compliance, suggesting that while corruption remained a broader concern, it did not directly influence taxpayers' willingness to comply with tax laws in this context. Given the limited research on tax compliance in Somalia, especially in relation to tax education, taxpayer attitudes, penalties, and corruption perceptions in East Africa, this study offered valuable insights for policymakers seeking to improve tax collection and revenue mobilization.

Recommendations

The study's findings underscored the importance of tax fairness, peer influence, and tax education in improving tax compliance. Tax authorities should implement equitable registration processes, reduce compliance costs for businesses, and ensure transparency in tax administration to enhance taxpayer trust. Investing in educational initiatives to raise awareness about tax laws and the benefits of compliance can positively shape taxpayer attitudes. Additionally, enforcing effective penalty and audit policies can serve as a deterrent to non-compliance. However, the study's reliance on secondary data from other countries presented a limitation, as it may not fully reflect Somalia's

unique tax environment. Future research should incorporate structured questionnaires or mixed-method approaches to gain deeper insights into tax compliance behavior. Exploring additional factors such as tax information, religion, external audits, tax morale, compliance expenses, and service quality could further contribute to developing more effective tax policies and improving compliance rates.

Final Remarks

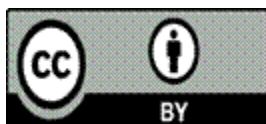
This study is a pioneering effort in examining tax compliance behavior in East Africa, particularly in Somalia. By identifying the primary determinants of tax compliance, it lays the groundwork for future research and policy development aimed at enhancing tax compliance and, consequently, revenue generation in Somalia. The insights gained from this study can inform the design of more effective tax policies and educational programs, ultimately contributing to the country's economic development and fiscal stability.

References

- Aliyu, A. A., Alkali, M. Y., & Alkali, I. (2016). Islamic Perspective on the Impact of Ethics and Tax for Nigerian Economic Development. *International Journal of Islamic Economics and Finance Studies*, 2(3), 137–149. <https://doi.org/10.12816/0036632>
- Almustapha, A. A., Mohammed, Y. A., & Ibrahim, A. (2016). Islamic Perspective on the Impact of Ethics and Tax for Nigerian Economic Development. *International Journal of Islamic Economics and Finance Studies*, 2, 137–150.
- Ali, H., Abdullah, R., & Zaini, M. Z. (2019). Fintech and Its Potential Impact on Islamic Banking and Finance Industry: A Case Study of Brunei Darussalam and Malaysia. *International Journal of Islamic Economics and Finance (IJIEF)*, 2(1), 73–108. <https://doi.org/10.18196/ijief.2116>
- Biancone, P., Pietro, Secinaro, S., & Kamal, M. (2019). Crowdfunding and Fintech: Business Model Sharia Compliant. *European Journal of Islamic Finance*, 0(12). <https://doi.org/10.13135/2421-2172/3260>
- Hasan, R., Hassan, M. K., & Aliyu, S. (2020). Fintech and Islamic Finance: Literature Review and Research Agenda. *International Journal of Islamic Economics and Finance (IJIEF)*, 3(1). <https://doi.org/10.18196/ijief.2122>
- Saba, I., Kouser, R., & Chaudhry, I. S. (2019). Fintech and Islamic Finance - Challenges and Opportunities. *Review of Economics and Development Studies*, 5(4), 581–590. <https://doi.org/10.26710/reads.v5i4.887>
- Nugraheni, N., Huda, M. K., & Kamarudin, K. (2016). Taxation in Islamic Law Perspective. 7(January), 214–221.

OECD. (2010). Forum on Tax Administration: Taxpayer Services Sub-group Survey Report Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery. Centre For Tax Policy and Administration, March, 1–115.

Shaikh, I. M., Qureshi, M. A., Noordin, K., Shaikh, J. M., Khan, A., & Shahbaz, M. S. (2020). Acceptance of Islamic Financial Technology (FinTech) Banking Services by Malaysian Users: An Extension of Technology Acceptance Model. *Foresight*, 22(3), 367–383. <https://doi.org/10.1108/FS-12-2019-0105>



©2025 by the Authors. This Article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>)