International Journal of Academic Accounting, Finance & Management Research(IJAAFMR)
ISSN: 2643-976X
Vol. 10 Issue 7 July - 2026, Pages: 370-375

The Relationship of Tax Literacy and Tax Compliance Practices of Barangay Micro-Business Enterprises (BMBEs) in Selected Municipalities of Pampanga

Krista Marie D. Laxina [1], Gwyneth Hannah L. Hernandez [2], Jillan Burdah M. Mañalac [3], Kal-el D. Sunga [4], Jason Y. Carreon [5], Alan Y. Cabaluna [6]

[1]College of Business Studies, Pampanga State University, kimlaxina@gmail.com
[2]College of Business Studies, Pampanga State University, gwynethhannahhernandez@gmail.com
[3]College of Business Studies, Pampanga State University, jillanixburdah@gmail.com
[4]College of Business Studies, Pampanga State University, sungakaleld@gmail.com
[5]College of Business Studies, Pampanga State University, jycarreon@pampangastateu.edu.ph
[6]College of Business Studies, Pampanga State University, aycabaluna@pampangastateu.edu.ph

Abstract: *This study assessed the level and relationship of tax literacy and tax compliance among Barangay Micro-Business Enterprises (BMBEs) in selected municipalities of Pampanga. It assessed tax literacy in terms of information on tax obligation, knowledge of taxpayer rights, and awareness of tax incentives, also tax compliance in terms of registration, filing, and payment practices in the context of BMBEs. A descriptive-correlational design was used in the study to analyze the collected data from 103 BMBE respondents through survey. The data were analyzed using mean and standard deviation, Pearson's correlation, and regression analysis. Findings revealed that respondents generally have basic understanding of tax, however, their knowledge on specific provisions under the BMBE law is still limited. BMBEs are also aware of their rights but more emphasis is needed on procedural rights. Furthermore, while respondents know basic incentives, awareness on some support programs is relatively low. As to tax compliance, BMBEs are generally compliant in terms of registration, filing, and payment procedures although gaps are observed in the aspect of digital payment channels. Overall, the results indicated that tax literacy and tax compliance has a significant positive relationship among BMBEs in the selected municipalities of Pampanga.*

Keywords—Tax Literacy; Tax Compliance; Micro Enterprises; Pampanga

1. INTRODUCTION

Taxes are considered the fundamental backbone of the government, as they provide financial resources needed by the government to fund essential public services, infrastructure and programs that sustains economic growth. Without taxes, the government would be unable to fulfill its responsibilities, in effect, be rendered paralyzed. However, its effectiveness highly depends on taxpayers compliance. Barangay Micro-Business Enterprises (BMBEs), in particular, are small-scale businesses that contribute significantly in preserving the stability of the Philippine economy, as micro-businesses make up a large portion of all business enterprises and create the majority of the employment opportunities. Despite their contribution to the economy, many BMBEs encounter difficulties in terms of their understanding and complying with tax regulations due to limited knowledge and awareness.

In the Philippines, several studies have examined the relationship between tax literacy and tax compliance practices among micro-entrepreneurs. For instance, Disate et al. (2025) explored the tax awareness and compliance of BMBEs, emphasizing their role in local employment and economic growth. Umali (2024) investigated the complex relationship between tax literacy and tax compliance, highlighting the various obstacles that owners encounter. Meanwhile, Paco & Quezon (2022) focused on the level of awareness and extent of tax compliance of micro and small enterprises, examining whether the taxpayers profile variables and tax awareness lead to better compliance.

Beyond the Philippine context, studies conducted outside the country provide additional insights. In Indonesia, Rahayu et al. (2025) examined how tax literacy, tax knowledge, perceived fairness and trust in the government impact tax compliance among small and medium enterprises. Similarly, Santosa et al. (2025) further assessed whether taxpayers' knowledge of taxes influences their tax compliance. While these studies are informative, their findings have limited scope of application in the Philippine taxation system.

Despite these contributions, existing literature presents certain gaps. Many studies focus their analysis on specific variables and overlook the relationship of tax literacy and tax compliance among BMBEs. In addition, the majority of local studies have been conducted in various locations and may not be relevant to the condition of certain localities. Furthermore, no previous study has specifically examined this relationship in Pampanga. These gaps highlight the need for locally relevant study. Therefore, this study aims to determine the relationship between tax literacy and tax compliance practices among Barangay Micro-Business Enterprises (BMBEs) in the selected municipalities of Pampanga. Specifically, to assess their knowledge of tax obligations, awareness of their rights and responsibilities as a taxpayer. It will also evaluate their ability to comply through proper registration, timely filing,

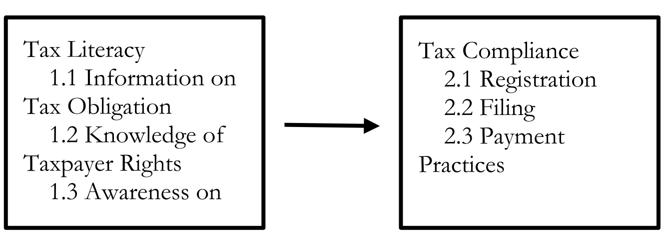
International Journal of Academic Accounting, Finance & Management Research(IJAAFMR)
ISSN: 2643-976X
Vol. 10 Issue 7 July - 2026, Pages: 370-375

and accurate payment practices. By examining the existing premises of tax literacy and tax compliance practices of BMBEs, this study seeks to fill in the gap to understand how these variables play in a micro-economy setting. Not only would this contribute literature but also help revenue authorities and policymakers in facilitating a more simpler and accessible tax compliance system for the localities with emerging economies (Slemrod, 2019). Ultimately, the valuable insights taken from this study would become a powerful tool to empower these micro-entrepreneurs to further strengthen their tax compliance and participation in the formal sector.

2. Conceptual/Theoretical Framework

To anchor this study on Tax Literacy and Tax Compliance Practices of BMBEs in Selected Municipalities of Pampanga the researchers adopted the Theory of Planned Behavior (TPB) as a guiding framework. The TPB, proposed by Ajzen (1991), propound that attitudes, subjective norm, and perceived behavioral control influence one's intention and subsequently that intention will translate to actual behavior. In context of this study, the theory is relevant as it explains how micro-entrepreneurs' personal point of view, social pressures and self assessed ability determine their motivation to in complying with tax regulations.

The conceptual framework of the study illustrates the relationship between tax literacy and tax compliance practices among Barangay Micro-Business Enterprises (BMBEs) in selected municipalities in Pampanga. The independent variable of the study is tax literacy, which is reflected in terms of information on tax obligations, knowledge of taxpayer rights, and awareness of available incentives. Meanwhile, the dependent variable is tax compliance practices, which is measured in terms of registration, filing, and payment practices. The framework indicates a relationship between tax literacy and tax compliance practices.



3. Methods

This section presents the research design, respondents, and survey instrument and validation procedures used in examining the level and relationship of tax literacy and tax compliance practices among BMBEs in selected municipalities of Pampanga

3.1 Research Design

The study primarily examined the level and relationship of tax literacy and tax compliance practices among BMBEs in selected municipalities of Pampanga. To meet this objective, it utilized a quantitative approach using a descriptive-correlational design. As described by Bhandari (2022), quantitative research design is a research method on which its objective is to identify patterns and examine relationships by collecting numerical data. The descriptive part was used to provide a description regarding the current condition of the level of tax literacy and tax compliance practices among the respondents, while correlational research design was employed to examine the relationship between tax literacy and tax compliance practices of respondents without manipulating the variables. According to Creswell and Creswell, (2018) it is a non-experimental method that measures the relationship between two or more variables by using statistical correlation techniques.

3.2 Respondents

The respondents of this study are the registered BMBEs of Bacolor, Guagua, and Lubao Pampanga. A sample of 103 respondents was determined from the 164 registered BMBEs in Pampanga using a Raosoft Sample Size Calculator. Due to the limited number of accessible BMBEs, a purposive sampling method was used. According to Hassan (2024), the purposive sampling method is for selecting respondents based on a particular criteria that are consistent with the purpose of the study. The study included business owners and managers who had been operating for at least one year or the equivalent of one full tax cycle, to ensure relevant experience. Respondents were required to meet the qualifications under Republic Act 9178 (BMBE law)—being registered, having assets not exceeding three million pesos, and being engaged in activities provided by the law. Businesses who are operating in the informal sector and those with expired registration were excluded.

3.3 Instrument

This study utilized a questionnaire adapted from the instrument made by Umali (2024) which was modified to align and target it towards Barangay Micro-Business Enterprises (BMBEs). The questionnaire used a four-point Likert scale which allowed respondents to express their agreement with each item in the instrument. The use of Likert scale helped the researcher to analyze the quantitative data and obtain an understanding on the level of tax literacy and tax compliance practices among BMBEs in Bacolor, Guagua, and Lubao Pampanga. To ensure that the content was relevant, clear, and consistent with research objectives, the survey instrument underwent validation from experts such as tax accountants, business researchers, and accounting instructors. Necessary revisions were made based on their suggestion to enhance the quality of each item of the survey. Furthermore, the questionnaire was tested for reliability testing using Cronbach's Alpha after conducting a pilot test with 20 samples similar to the main sample. Cronbach Alpha is a reliability test which is used to assess the internal consistency among items. The results indicated an acceptable reliability for both variables including their sub-variables indicating that the instrument was suitable for data collection.

3.4 Data Gathering Procedure

With regards to the process for data collection, it began with the Dean of the College of Business Studies' and the Research Adviser's approval. After approval, a formal letter of request was distributed to the BMBEs located in Bacolor, Guagua and Lubao, Pampanga. Once their permission was granted, a consent form was provided and explained to the respondents to protect their rights, and ensure utmost confidentiality. The research experts validated the survey questionnaire then, distributed personally or via electronic means. To maintain ethical standards as provided by the Data Privacy Act of 2012 (Republic Act No. 10173), the respondents were duly informed that they have the absolute right to withdraw participation or decline to answer any questions without prejudice. After the process of data collection, all answered questionnaires were retrieved and checked for completeness. The data were encoded and tabulated in preparation for statistical analysis. Follow-up communication regarding clarification of the responses or validity of consent was made when deemed necessary.

3.5 Data Processing and Statistical Treatment

All collected data were encoded and processed using the Statistical Package for the Social Sciences (SPSS) software. Descriptive and inferential statistics are employed to analyze the data as follows: Mean and Standard Deviation was used to determine the respondents' level of agreement regarding the extent of tax literacy and tax compliance practices. Pearson Correlation Coefficient (r) was used to measure the level of the relationship between the variables–tax literacy and tax compliance practices. Regression Analysis was employed to determine the extent of influence or predictive relationship of tax literacy on tax compliance practices. According to Pallant (2020), pSPSS is a robust statistical tool that allows researchers to be able to manage data in an efficient manner and conduct accurate computations for descriptive and inferential statistics. The statistical findings were interpreted at a 0.05 level of significance to determine whether relationships between variables were significant.

3.6 Ethical Considerations

This study observed the ethical standards that governed the research involving human respondents to ensure protection, rights and welfare of all. Voluntary participation in the duration of data gathering was ensured. This was upheld all throughout the data collection process and the respondents were allowed to withdraw their participation and consent when necessary. In addition, anonymity and confidentiality was strictly maintained. The researchers ensured that the data gathered are given utmost protection from any unauthorized access. With regards to the research data disposal, hard copy information was held for as long as necessary and disposed via shredding. This study complied with the guidelines set forth under Republic Act 10173, Data Privacy Act of 2012. Lastly, any compensation or incentive was strictly prohibited from the research. The respondents were not given direct benefit from the study other than the awareness of their tax literacy and tax compliance practices as micro-entrepreneurs.

4. Results and Discussion

Table 1. Frequency Distribution and Descriptive Measure of Information on Tax Obligations

Indicators	Frequency				Mean	Verbal Interpretation
	4	3	2	1		
Knowledge about the BMBE Law Act of 2002	22	12	7	60	3.10	Agree
Understanding of basic tax types applicable to the business	15	80	6	0	3.22	Agree
Familiarity with documentation for income tax exemption	13	80	8	0	3.14	Agree
TOTAL MEAN					**3.15**	**Agree**

The results show that the current state of tax literacy is solely for compliance, focusing heavily on fulfilling tax responsibilities to avoid tax consequences, rather than cultivating an understanding of taxation as a whole. Overall, the results imply that taxpayers demonstrate a moderate level of tax literacy, particularly in basic tax concepts and compliance requirements. However, there is a need to strengthen awareness of specific tax laws and programs to enhance overall tax knowledge and compliance.

Table 2. Frequency Distribution and Descriptive Measure of Knowledge of Taxpayer Rights

Indicators	Frequency				Mean	Verbal Interpretation
	4	3	2	1		
The taxpayer is aware of the rights granted by the law	19	68	10	5	3.28	Strongly Agree
The taxpayer is familiar with due process prior	7	62	31	4	3.12	Agree

to tax assessments						
The taxpayer is aware of confidentiality of records and tax information	30	65	5	0	3.30	Strongly Agree
The taxpayer understands the right to appeal incorrect tax assessment	7	58	27	9	3.24	Agree
The taxpayer knows the right to proper treatment from tax personnel	5	60	30	6	3.32	Strongly Agree
TOTAL MEAN					**3.25**	**Strongly Agree**

The results imply that taxpayers possess a strong level of awareness regarding their rights, particularly in terms of confidentiality and proper treatment. However, there is a need to further enhance understanding of procedural rights and legal processes to ensure full protection and compliance.

Table 3. Frequency Distribution and Descriptive Measure of Awareness of Available Tax Incentives

Indicators	Frequency				Mean	Verbal Interpretation
	4	3	2	1		
Awareness that BMBEs are exempt from income tax on business income	20	72	8	3	3.14	Agree
Awareness of exemption from minimum wage requirement under BMBE law	9	63	23	6	2.98	Agree
Awareness of marketing assistance under the BMBE Act	11	47	31	13	2.90	Agree
Awareness of special credit window provided by authorized banks	4	31	51	17	2.92	Agree
Awareness of special credit programs from LBP and DBP	1	31	51	20	2.88	Agree
TOTAL MEAN					***2.96***	**Agree**

The results imply that while taxpayers have a general awareness of tax incentives under the BMBE law, there is a need to improve dissemination of information regarding support programs and financial assistance to maximize the benefits available to small enterprises.

Table 4. Frequency Distribution and Descriptive Measure of Registration

Indicators	Frequency				Mean	Verbal Interpretation
	4	3	2	1		
The taxpayer has properly registered the business as a BMBE with relevant agencies	18	82	1	0	3.18	Agree
TOTAL MEAN					***3.18***	**Agree**

The results imply that while there is a reasonable level of compliance in terms of BMBE registration, there is still a need to enhance awareness, simplify procedures, and improve access to registration services to encourage full participation among small enterprises.

Table 5. Frequency Distribution and Descriptive Measure of Filing

Indicators	Frequency				Mean	Verbal Interpretation
	4	3	2	1		

Taxpayer knows the different tax forms required for filing	14	76	10	1	3.20	Agree
Taxpayer applies relevant tax laws even with minimal income	23	72	6	0	3.16	Agree
Taxpayer ensures timely, accurate, and complete filing of tax returns	38	63	0	0	3.28	Strongly Agree
Taxpayer keeps copies of tax returns for record-keeping	22	69	9	1	3.30	Strongly Agree
Taxpayer maintains accurate and organized business records	19	76	5	0	3.32	Strongly Agree
TOTAL MEAN					*3.25*	**Strongly Agree**

Overall, the results imply that taxpayers demonstrate a high level of compliance in tax filing practices, particularly in maintaining records, ensuring timely filing, and adhering to reporting requirements.

Table 6. Frequency Distribution and Descriptive Measure of Payment Practices

Indicators	Frequency				Mean	Verbal Interpretation
	4	3	2	1		
Taxpayer knows the different tax forms required for filing	31	68	2	1	3.26	Strongly Agree
Taxpayer applies relevant tax laws even with minimal income	17	47	28	10	3.18	Agree
TOTAL MEAN					*3.22*	**Strongly Agree**

Overall, the results imply that taxpayers demonstrate a high level of compliance in payment practices, particularly in following prescribed procedures, although the use of modern digital payment systems may still require further promotion and accessibility improvements.

Table 6. Correlation Analysis of Tax Literacy and Tax Compliance Practices

Variables	r-value	Interpretation	p-value	Decision
Tax Literacy → Registration	**0.62**	Strong Positive	0.000	Significant
Tax Literacy → Filing	**0.70**	Strong Positive	0.000	Significant
Tax Literacy → Payment	**0.68**	Strong Positive	0.000	Significant

CONCLUSIONS

Based on the findings of the study, the following conclusions were drawn:

1. The BMBEs in selected municipalities of Pampanga possess sufficient tax literacy–although only in a general sense–this contributes to their attitude and practice on tax compliance and overall business operations. The basic understanding necessary for their tax obligations, rights, and incentives allows them to perform such responsibilities effectively and arrive at a more informed decision-making.
2. Tax literacy significantly influences the tax compliance of BMBEs, particularly in terms of registration, filing and payment practices. Of the said aspects, filing practices had shown the strongest relationship with tax literacy, further stressing the purpose of having the knowledge to ensure proper compliance with tax requirements.
3. The findings also highlight the gaps that remain in the certain, more technical provisions of the BMBE Law, particularly when it comes to due process in tax assessments and access to institutional financial support such as the special credit programs.
4. With regards to payment, usage of online channels are less preferred as compared to the manual systems (i.e., payment through cash).
5. Compliance with filing are found to have been inconsistent during the periods of minimal income.

All together, these imply that BMBEs are indeed knowledgeable about the basic compliance but improved information dissemination or practical guidance are needed to further enhance their understanding and be able to utilize the benefits under the BMBE program.

RECOMMENDATIONS

Based on the conclusions drawn, the following actionable recommendations are proposed:

1. It is recommended that BMBEs remain keen on the relevant laws, memorandums and issuances that might affect not only their registration but also obligations and incentives.
2. Collaboration from national and local government agencies to government financial institutions should be integrated to strengthen the dissemination efforts through seminars, brochures and educational programs that simplify the technical provisions and tax procedures under the law.

In applying these interventions with the shared goal of ensuring the compliance from BMBEs and the necessary involvement from tax authorities, allows both the micro-enterprises and the regulatory institutions to enhance the overall effectiveness of the program.

REFERENCES

Ajzen, I. (1991). The theory of planned behavior. Organizational Behavior and Human Decision Processes, 50(2), 179–211. https://doi.org/10.1016/0749-5978(91)90020-T

Bhandari, P. (2023, June 22). What is quantitative research? Definition, uses & methods. Scribbr. https://www.scribbr.com/methodology/quantitative-research/

Creswell, J. W., & Creswell, J. D. (2018). Research design: Qualitative, Quantitative, and Mixed Methods Approaches Fifth Edition (4th ed.) SAGE Publications. https://spada.uns.ac.id/pluginfile.php/510378/mod_resource/content/1/creswell.pdf

Disate, R. G., Beltejar, M. R. B., Escobedo, L. M., Gadon, D. V., & Reyes, J. P. M. (2025, August). Relationship between tax awareness and compliance among Barangay Micro Business Enterprises (BMBE's) in Brgy. Uno, Calamba City, Laguna (Undergraduate Thesis). PHINMA Rizal College of Laguna. DOI:10.13140/RG.2.2.10445.70889

Hassan, M. (2024, March 25). Purposive sampling – Methods, types and examples. ResearchMethod.net. https://researchmethod.net/purposive-sampling/

Paco, D. L. J. A., & Quezon, M. S. (2022). Tax Awareness and Compliance of Micro and Small enterprises. Journal of Positive School Psychology, 6(4), 6264-6281. https://journalppw.com/index.php/jpsp/article/view/4482

Pallant, J. (2020). SPSS survival manual: A step by step guide to data analysis using IBM SPSS (7th ed.). Routledge. https://doi.org/10.4324/9781003117452�

Rahayu, D. P., Larasati, M., Wibowo, B. P., Saad, J. (2025). Understanding tax compliance in Indonesian SMEs: a structural equation modeling approach to tax literacy, knowledge, fairness, power and trust. 4:3164. https://doi.org/10.56294/sctconf20251364

Santosa, A., Rahman, A., & Fadillah, Syarif, S., (2019). The Power of Tax Knowledge: Key Factors to Boost Tax Compliance. Journal Borneo Administrator. 21. 141-154. DOI:10.24258/jba.v21i2.1635

Slemrod, J. (2019). Tax Compliance and Enforcement. Journal of Economic Literature, 57 (4): 904–54. DOI: 10.1257/jel.20181437

Umali, O. S. (2024). Tax literacy and tax compliance of the selected micro business in Cabuyao City. International Journal of Multidisciplinary and Current Educational Research, 6(3), 349–350. Retrieved from https://www.ijmcer.com/wp-content/uploads/2024/06/IJMCER_Y0630333363.pdf