UNIVERSITI TEKNOLOGI MARA

THE INFLUENCE OF TAX INFORMATION TECHNOLOGY, POWER AND INTEGRITY ON TAX COMPLIANCE AMONG SMES IN CHINA

YANG LI

Thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Philosophy
(Accounting)

Faculty of Accountancy

June 2025

ACKNOWLEDGEMENT

Firstly, I wish to thank God for giving me the opportunity to embark on my PhD and for completing this long and challenging journey successfully.

I would like to express my deepest gratitude to my supervisors Assoc Prof Norlaila Md Zin and Assoc Prof Halil Paino. Their professional guidance, insightful advice, and unwavering support have been instrumental in the successful completion of my doctoral dissertation. Beyond their academic mentoring, I am also immensely grateful for their patience, encouragement, and understanding, which allowed me to navigate the challenges of research with confidence.

My heartfelt appreciation also goes to my colleagues and leaders, whose generous assistance and unwavering support provided me with the necessary resources and environment to focus on my research. Their encouragement and collaboration played a crucial role in my academic journey, making the completion of my PhD.

I am equally thankful to my fellow doctoral students. Their companionship, shared experiences, and mutual encouragement gave me the motivation to persevere. The countless discussions, brainstorming sessions, and collaborative learning experiences we shared not only enriched my understanding of the subject but also helped me refine my academic skills and broaden my perspectives.

Above all, I am profoundly grateful to my family. My parents, with their boundless love and selflessness, took on the responsibility of caring for my children and managing family affairs, allowing me to devote myself wholeheartedly to my studies. My husband and children have been my greatest pillars of strength, offering unconditional support, understanding, and encouragement throughout this journey. Their unwavering belief in me has been the driving force behind my perseverance.

This dissertation is not merely the result of my individual effort but a reflection of the collective support, kindness, and generosity I have received from so many people. To all who have been a part of this journey, I extend my sincerest gratitude.

ABSTRACT

Tax evasion poses significant challenges, prompting governments to adopt various strategies to enhance taxpayer compliance. In China, this challenge is particularly pronounced among small and medium-sized enterprises, which are critical to the national economy yet frequently struggle to fulfil their tax obligations, resulting in substantial compliance gaps. Historically, the Chinese government has relied heavily on stringent regulatory measures and the exercise of governmental authority to deter noncompliance. However, widespread concerns regarding the integrity of tax officials have significantly diminished the effectiveness of these approaches. In recent years, the widespread application of information technology in tax administration has gradually transformed the regulatory landscape and subtly influenced taxpayer behaviour. Against this backdrop, the present study examines the impact of governmental power, the integrity of tax officials, and information technology on tax compliance, as well as their roles in fostering taxpayer trust. Drawing on data collected from a questionnaire survey of 407 small and medium-sized enterprises, the analysis demonstrates that power, integrity, and IT each exert a significant effect on tax compliance, with advanced information technology showing the most substantial influence. This finding indicates that, compared to traditional supervisory methods employed by tax authorities, the integration of information technology into tax administration has begun to reshape the compliance environment, and may become the most critical determinant of taxpayer behaviour in the future. Furthermore, the mediating effects of power, integrity, and IT on taxpayer trust are also found to be significant, underscoring the increasing importance of trust in the compliance process. Among these factors, the integrity of tax officials emerges as the most influential determinant of taxpayer trust. Overall, this study confirms the distinct effects of information technology, governmental power, and the integrity of tax officials on tax compliance in China. It not only highlights how improvements in regulatory enforcement (power), institutional integrity (integrity), and technological tools (information technology) can enhance compliance, but also offers a fresh perspective on the role of taxpayer and tax authority relationships in addressing compliance challenges. Ultimately, the study provides a strong theoretical foundation and empirical support for efforts aimed at improving tax compliance, promoting tax equity, and optimising the efficiency of tax administration.

TABLE OF CONTENTS

Page

CHAPTER 1
INTRODUCTION

This chapter serves as the foundation for the study, introducing the background and rationale behind the research. It begins by outlining the significance of tax compliance in the broader economic and institutional context, particularly in the case of China, where small and medium-sized enterprises (SMEs) play a critical role. Given the challenges SMEs face in meeting tax obligations, the chapter highlights the importance of addressing the tax compliance, particularly in light of the government's push for digitalisation and modernization of tax systems.

Moreover, this chapter formulates the research questions and objectives that guide the investigation, offering a comprehensive approach to understanding tax compliance in the context of China’s evolving tax system. In addition, the chapter further clarifies the scope of the investigation, defining the core concepts and setting the stage for the theoretical framework and hypothesis development. By addressing key gaps in the current literature and emphasizing the practical relevance of the study, this chapter underscores the necessity of exploring these issues in order to improve tax compliance among SMEs in China.

1.1 Background of the Study

Taxation, as a crucial component of economic sectors, constitutes the primary source of national income and plays a pivotal role in the realm of finance (Al-Maghrebi et al., 2022). Many essential services and public goods are funded through revenue generated from taxes. Simultaneously, taxation is also vital for enabling redistribution and reducing reliance on foreign aid and revenues from natural resources (Okunogbe & Santoro, 2023). Thus, preserving tax stability is a budgetary goal of every country, and increasing taxpayer compliance is an effective strategy to achieve this stability. However, the widespread occurrence of tax evasion continues across global jurisdictions (Alshira’h et al., 2020). Therefore, Tax compliance is crucial to the health of any economy, particularly in ensuring that governments can provide essential public services and maintain infrastructure (Al-Maghrebi et al., 2022).