Does Trust Matter? Exploring the Impact of Financial Literacy and Perceived Fairness on Tax Compliance in India"

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ABSTRACT

Tax non-compliance remains a significant challenge in India, particularly among Small and Medium Enterprises (SMEs), despite continued tax reforms, digitalization initiatives such as the Goods and Services Tax (GST), and taxpayer awareness programs. Understanding the behavioral and institutional determinants of tax compliance among SMEs is therefore critical for improving voluntary compliance and strengthening revenue mobilization. This study investigates the influence of financial literacy and perceived fairness on tax compliance behavior, with trust in tax authorities acting as a mediating variable. Grounded in the Theory of Planned Behavior and the Slippery Slope Framework, the study employs Partial Least Squares Structural Equation Modelling (PLS-SEM) to analyses primary survey data collected from 600 SMEs across different sectors in India.

The findings indicate that both financial literacy and perceived fairness have a significant positive effect on tax compliance behavior among SMEs. Furthermore, trust in tax authorities partially mediates these relationships, suggesting that voluntary compliance is enhanced when regulatory enforcement is supported by perceptions of institutional legitimacy, transparency, and fairness. The results underscore the importance of strengthening taxpayer education, simplifying tax procedures, and ensuring equitable tax administration to foster trust and promote sustainable tax compliance. This study contributes empirical evidence from the Indian SME context and offers practical insights for policymakers and tax authorities seeking to improve compliance in the SME sector

1. INTRODUCTION

Tax compliance is a cornerstone of effective public finance and sustainable economic development, as it enables governments to mobilize domestic revenue to support infrastructure development, social welfare programs, and economic stability. In both developed and developing economies, ensuring consistent and voluntary tax compliance remains a persistent challenge despite continuous reforms, modernization of tax systems, and technological advancements in tax administration. In developing countries, structural constraints such as large informal sectors, limited administrative capacity, and weak institutional trust further complicate compliance efforts.

India presents a compelling context for examining tax compliance behaviour due to its extensive tax reforms, particularly the introduction of the Goods and Services Tax (GST), digitization of tax filing systems, and the expansion of taxpayer awareness initiatives. These reforms were designed to simplify tax procedures, enhance transparency, and broaden the tax base. Nevertheless, tax non-compliance continues to pose significant challenges, especially among Small and Medium Enterprises (SMEs), which constitute a major share of India's economic activity and employment generation. Despite their importance, SMEs often face difficulties in understanding complex tax regulations, maintaining proper financial records, and navigating administrative procedures, leading to both intentional and unintentional non-compliance.

Prior research on tax compliance has largely focused on deterrence-based approaches, emphasizing audits, penalties, and

enforcement mechanisms as primary tools for improving compliance. While such measures remain important, growing evidence suggests that compliance behaviour is also shaped by behavioural and institutional factors, including financial literacy, perceived fairness of the tax system, and trust in tax authorities. Financial

literacy enhances taxpayers' ability to understand tax obligations and comply accurately, whereas perceived fairness influences attitudes toward the legitimacy and equity of the tax system. Trust in tax authorities further strengthens voluntary compliance by reinforcing the social contract between taxpayers and the state.

International studies increasingly highlight the importance of trust-based and behaviour-oriented compliance strategies over purely coercive approaches. Frameworks such as the Slippery Slope Framework and the Theory of Planned Behaviour provide theoretical foundations for understanding how institutional power and psychological factors jointly influence compliance behaviour. However, empirical research integrating these frameworks remains limited in the Indian context, particularly with respect to SMEs. Existing Indian studies tend to examine financial literacy, fairness perceptions, or enforcement mechanisms in isolation, with little attention given to the mediating role of trust in tax authorities.

This study seeks to address these gaps by examining the influence of financial literacy and perceived fairness on tax compliance behaviour, with trust in tax authorities serving as a mediating variable among SMEs in India.

1.Literature Review-Tax compliance remains a critical issue for revenue mobilisation and sustainable economic development in both developed and developing economies. Despite continuous reforms, modernization of tax systems, and taxpayer education initiatives, many countries continue to experience high levels of tax non-compliance. In developing economies, structural constraints such as large informal sectors, limited administrative capacity, and weak institutional trust exacerbate compliance challenges (Kirchler et al., 2008; Torgler, 2007). India reflects similar concerns despite major tax reforms, including the introduction of the Goods and Services Tax (GST), digital filing platforms, and extensive awareness campaigns. While these reforms have improved efficiency and transparency, compliance levels particularly among Small and Medium Enterprises (SMEs)—remain uneven (Rao & Rao, 2021; Mukherjee, 2022).

SMEs play a vital role in India's economic growth and domestic revenue generation; however, their compliance behaviour is often constrained by limited financial literacy, complex regulations, and perceptions of unfair treatment by tax authorities. Structural challenges such as a large informal sector, administrative discretion, and regional enforcement disparities further weaken compliance outcomes. Reports from the Central Board of Direct Taxes (CBDT) and the GST Council indicate that a significant proportion of registered SMEs delay filings or underreport income, contributing to persistent revenue gaps. These realities suggest that administrative reforms alone are insufficient without addressing behavioural and institutional determinants of compliance.

International literature increasingly emphasizes behavioural and institutional explanations over purely deterrence-based models. The Slippery Slope Framework (SSF) proposed by Kirchler et al. (2008) argues that tax compliance is shaped by two complementary forces: the power of tax authorities, which generates enforced compliance, and trust in tax authorities, which fosters voluntary compliance. When taxpayers perceive authorities as fair, competent, and legitimate, compliance becomes cooperative rather than coerced. Empirical evidence from Europe and Australia demonstrates that trust-based strategies are more effective in sustaining long-term compliance than strict enforcement alone (Hofmann et al., 2014; Gangl et al., 2015).

In India, enforcement mechanisms such as audits and penalties remain central to tax administration. However, excessive reliance on deterrence may create adversarial relationships between taxpayers and authorities, thereby reducing voluntary cooperation (Das-Gupta & Mookherjee, 2020). Studies indicate that institutional trust significantly influences tax morale and willingness to comply, suggesting that compliance behaviour is not driven solely by fear of punishment but also by perceptions of legitimacy and fairness (Bahl & Wallace, 2018).

Financial literacy has emerged as a key behavioural determinant of tax compliance across countries. Financial literacy refers to the ability to understand financial and tax-related information, maintain records, and fulfil regulatory obligations. International evidence consistently shows a positive association between financial literacy and compliance behaviour. Lusardi and Mitchell (2014) argue that financially literate individuals are better equipped to make informed economic decisions, including adherence to tax laws. In Ghana, Anaman et al. (2024) found that financial literacy significantly improved SMEs' compliance by enhancing record-keeping and reducing filing errors. Similarly, Pratama (2019) reported that tax knowledge increased voluntary compliance among Indonesian taxpayers by lowering uncertainty and improving perceived behavioural control.

In the Indian context, financial literacy among SMEs remains relatively low, particularly in semi-urban and rural regions (RBI, 2022; SEBI, 2023). Annamalai and Rao (2020) observed that SMEs with higher financial awareness were more likely to comply with GST regulations and maintain proper accounts. Sharma and Gupta (2021) further noted that limited understanding of tax laws often leads to unintentional non-compliance and dependence on intermediaries. These findings suggest that financial literacy strengthens taxpayers' capacity to comply but may not fully explain compliance behaviour without considering institutional factors such as trust and fairness.

Perceived fairness, also referred to as tax justice, is another central determinant of tax compliance. It encompasses distributive fairness (equity of tax burden), procedural fairness (transparency and consistency of processes), and interactional fairness (respectful treatment by tax officials). Tyler's (2006) theory of procedural justice emphasizes that fair treatment enhances institutional legitimacy and voluntary rule-following behaviour. Torgler (2007) similarly demonstrated that perceptions of fairness significantly influence tax morale across countries.

Empirical studies across different contexts confirm the importance of fairness perceptions. Wenzel (2002) found that unfair tax policies increased resistance and non-compliance in Australia, while Gangl et al. (2015) showed that respectful and transparent treatment by authorities strengthened trust and cooperative compliance in Germany. In Sub-Saharan Africa, Mas'ud et al. (2019) reported that corruption and unequal enforcement reduced SMEs' willingness to comply voluntarily.

In India, perceived unfairness and administrative arbitrariness remain significant barriers to compliance. Kumar and Saha (2020) found that SMEs who perceived GST regulations as complex and biased against small firms demonstrated lower compliance intentions. Chattopadhyay and Das (2022) showed that experiences of harassment and discretionary power exercised by tax officials weakened trust in the tax system and reduced compliance motivation. These findings highlight that fairness perceptions shape attitudes toward taxation and institutional

While international evidence strongly supports trust as a mediator, Indian empirical studies remain limited in this regard. Most research in India treats trust either as an independent governance indicator or as a background institutional variable rather than a behavioural pathway through which literacy and fairness influence compliance. This represents a significant gap in the literature.

The Theory of Planned Behaviour (TPB) provides additional psychological insight into tax compliance by linking attitudes, subjective norms, and perceived behavioural control to behavioural intentions (Ajzen, 1991). In the tax context, financial literacy enhances perceived behavioural control by enabling taxpayers to understand and fulfil obligations, while perceived fairness influences attitudes toward compliance. Trust reinforces subjective norms by strengthening beliefs about the legitimacy of tax authorities. Studies in China and Vietnam integrating TPB with institutional variables show that trust mediates the effects of fairness and knowledge on compliance behaviour (Zhang & Wu, 2020; Nguyen et al., 2021)

In summary, existing literature demonstrates that tax compliance is shaped not only by enforcement mechanisms but also by financial literacy, perceived fairness, and institutional trust. International studies provide strong theoretical and empirical support for trust-based and behavioural approaches, while Indian research highlights persistent structural and institutional challenges.

2.Theoretical Review-Slippery Slope Framework (SSF)-The Slippery Slope Framework (SSF), developed by Kirchler, Hoelzl, and Wahl (2008), provides a comprehensive institutional explanation of tax compliance behaviour. The framework posits that tax compliance is driven by two fundamental forces: the power of tax authorities and trust in tax authorities. Power refers to enforcement mechanisms such as audits, penalties, and legal sanctions that generate enforced compliance, while trust refers to taxpayers' belief that tax authorities act fairly, competently, and in the public interest, which fosters voluntary compliance. According to SSF, high levels of trust lead to cooperative relationships between taxpayers and tax authorities, resulting in voluntary and sustainable compliance. Conversely, reliance solely on power-based enforcement may produce short-term compliance but can undermine trust and lead to adversarial relationships. The framework emphasizes the importance of fairness, transparency, and legitimacy in strengthening trust and encouraging compliance even in low-enforcement environments. In the context of SMEs in India, where administrative capacity varies and informal economic activity is widespread, SSF offers a relevant lens for understanding how trust and enforcement jointly shape compliance behaviour.3-Theory of Planned Behavior (TPB)-The Theory of Planned Behaviour (Ajzen, 1991) explains behaviour through three factors: attitude, subjective norms, and perceived behavioural control. In the Indian tax context, SMEs are more likely to comply when they hold positive attitudes toward taxation, perceive social expectations to comply, and believe they have sufficient knowledge and ability to meet tax obligations (Bansal & Sood, 2022). Financial literacy strengthens perceived behavioural control by enabling accurate tax calculation and return filing, while perceived fairness improves attitudes toward compliance. Trust in tax authorities reinforces social norms and moral responsibility (Mukherjee, 2021).

Integration of SSF and TPB-The Slippery Slope Framework emphasizes trust and enforcement, whereas TPB explains how individual beliefs shape compliance intentions. Integrating both frameworks provides a holistic model in which financial literacy enhances perceived behavioural control, perceived fairness shapes attitudes and trust, and trust in tax authorities mediates the relationship between institutional factors and behavioural intentions (Kirchler et al., 2008; Mukherjee & Rao, 2019). This approach is especially relevant for India, where enforcement capacity and institutional trust vary across regions.

Relevance to the Present Study-This study applies SSF and TPB to explain tax compliance among Indian SMEs. It proposes that financial literacy and perceived fairness influence compliance indirectly through trust in tax authorities. The integrated framework shows that compliance depends not only on penalties and audits but also on taxpayers' beliefs, perceptions, and relationships with tax institutions.

3-Empirical review and hypothesis development-

3.1-Perceived tax fairness and tax compliance behaviour-Perceptions of fairness within the tax system play a decisive role in shaping taxpayer compliance in India, particularly in an environment characterized by a large informal sector, complex tax structures, and varying levels of trust in public institutions (Torgler & Schneider, 2007; Mukherjee & Rao, 2019). Procedural fairness in the Indian context refers to taxpayers' judgments about the transparency of tax administration, consistency in enforcement, and respectful treatment by tax authorities under systems such as Goods and Services Tax (GST) and income tax regulations (Rao & Chakraborty, 2020). Distributive fairness further concerns whether tax burdens are perceived as equitably allocated and whether public revenues are utilized effectively for social welfare and infrastructure development (Government of India, 2023).

From a behavioural standpoint, the Theory of Planned Behavior (TPB) suggests that Indian taxpayers' compliance decisions are influenced by attitudes toward taxation, subjective norms linked to civic duty, and perceived behavioural control shaped by digital tax platforms such as GSTN and e-filing portals (Ajzen, 1991; Appiah et al., 2024; Bansal & Sood, 2022). When taxpayers perceive the Indian tax system as transparent and just, they are more likely to internalize tax compliance as a social responsibility, fostering positive attitudes and enhancing voluntary compliance among individuals and MSMEs (Hauptman et al., 2024; Mukherjee, 2021).

The Slippery Slope Framework (SSF) complements this explanation by emphasizing the dual influence of trust in tax authorities and the power of enforcement mechanisms such as audits, penalties, and digital monitoring under GST (Kirchler, 2008). In India, initiatives such as faceless assessment, e-invoicing, and data integration across departments have sought to improve procedural fairness and strengthen institutional trust, thereby encouraging voluntary compliance (CBDT, 2022; RBI, 2023). Empirical studies in the Indian context demonstrate that perceptions of fair treatment by tax authorities and confidence in government spending significantly enhance tax morale and compliance behavior, particularly among small and medium enterprises (Rao & Mukherjee, 2019; Bansal & Sood, 2022).

H1: perceived tax fairness has significant positive effect on tax compliance behaviour

3.2-Perceived tax fairness and trust in tax authorities-Recent research highlights that trust in tax authorities is a fundamental factor influencing tax compliance behaviour, particularly in developing economies such as India where administrative capacity and institutional effectiveness vary across regions (Mukherjee & Rao, 2019; Torgler & Schneider, 2007). The Slippery Slope Framework (SSF) proposed by Kirchler et al. (2008) offers a strong theoretical explanation by suggesting that compliance emerges from a dynamic interaction between trust in authorities and the power of enforcement mechanisms. In the Indian tax environment, perceptions of fairness—both procedural fairness (how taxpayers are treated by tax officials) and distributive fairness (how tax burdens and benefits are allocated)—play a crucial role in shaping taxpayer behavior under systems such as the Goods and Services Tax (GST) and income tax administration (Rao & Chakraborty, 2020). When businesses perceive tax rules and enforcement as transparent, consistent, and impartial, they are more likely to view compliance as legitimate and cooperate voluntarily with tax authorities (Mukherjee, 2021;).

This theoretical perspective is closely aligned with the Theory of Planned Behavior (TPB), which emphasizes the importance of attitudes, subjective norms, and perceived behavioral control in determining compliance intentions and actions (Ajzen, 1991). In India, the expansion of digital tax systems such as GSTN, faceless assessment, and e-invoicing has improved perceived control and reduced discretionary contact with officials, thereby strengthening trust and encouraging voluntary compliance (CBDT, 2022; RBI, 2023). While SSF explains how institutional trust promotes voluntary compliance, TPB further clarifies how individual perceptions and social norms shape behavioral intentions. The integration of these two frameworks therefore provides a comprehensive understanding of tax compliance by combining psychological and institutional dimensions.

Empirical evidence from the Indian context supports this theoretical linkage. Studies indicate that fair treatment by tax authorities and confidence in government spending significantly enhance tax morale and compliance among firms and small enterprises (Rao & Mukherjee, 2019; Bansal & Sood, 2022). Conversely, weak enforcement, administrative complexity, and perceptions of corruption continue to undermine trust and discourage compliance despite the presence of legal deterrents (Government of India, 2023; Appiah et al., 2024).

Given the dominance of MSMEs in India's economy, this issue is particularly critical for business taxpayers whose compliance decisions are shaped by both institutional trust and perceived legitimacy of tax authorities. Drawing on both theoretical and empirical insights, this study proposes that fairness perceptions and trust significantly influence tax compliance behaviour in the Indian context.

H2:perceived tax fairness has a significant positive effect on trust on tax authorities

3.3-Taxpayer specific financial literacy and self-reported tax compliance among SME

in contemporary tax compliance research, taxpayer financial literacy has emerged as a crucial determinant of compliance behaviour, particularly in developing economies such as India where tax systems are complex and administrative capacity varies across regions (Mukherjee & Rao, 2019). According to the Theory of Planned Behavior (TPB), financial literacy

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strengthens individuals' attitudes toward compliance and enhances perceived behavioral control, thereby influencing both compliance intentions and actual tax-paying behaviour (Ajzen, 1991; Beni-Khaled et al., 2022; Bansal & Sood, 2022). Taxpayers with sound knowledge of tax laws and procedures are better equipped to understand regulatory requirements, accurately compute tax liabilities, and recognize the legal and financial consequences of non-compliance (Rao & Chakraborty, 2020; Mukherjee, 2021). This understanding reduces uncertainty and builds confidence in engaging with the formal tax system, ultimately encouraging voluntary compliance.

The importance of financial literacy is particularly evident in India's MSME sector, where limited awareness of GST provisions, digital filing procedures, and compliance deadlines continues to pose significant challenges (2024; Bansal & Sood, 2022). Business taxpayers often rely on intermediaries such as tax consultants and digital platforms for compliance decisions, and insufficient financial literacy can increase dependency, errors, and non-compliance risks In line with the Slippery Slope Framework (SSF), financial literacy also interacts with trust in tax authorities and perceptions of enforcement. Informed taxpayers are more likely to view the tax system as legitimate and transparent, which enhances voluntary compliance and reduces resistance to regulation (Kirchler et al., 2008; Mukherjee & Rao, 2019).

Empirical evidence from the Indian context supports this relationship. Studies indicate that higher levels of tax knowledge and financial awareness are positively associated with compliance behavior, particularly when accompanied by procedural fairness and consistent enforcement (Mukherjee, 2021; Rao & Mukherjee, 2019;). Conversely, administrative complexity, frequent regulatory changes under GST, and dependence on third-party filing systems can weaken the effect of financial literacy and generate uncertainty among small businesses (Government of India, 2023).

H3:taxpayer financial literacy a significant positive effect on compliance behaviour

3.4-Taxpayer specific financial literacy and trust in tax authority-Beyond its direct influence on compliance behaviour, taxpayer financial literacy plays a critical role in strengthening trust in tax authorities, which is a central component of the Slippery Slope Framework (SSF) (Kirchler et al., 2008)In the Indian context, voluntary tax compliance is more effectively promoted through trust-based mechanisms rather than reliance solely on coercive enforcement, particularly for business taxpayers who face capacity constraints and complex administrative procedures under the Goods and Services Tax (GST) regime (Financially literate taxpayers are better able to understand the roles, responsibilities, and performance of tax institutions, allowing them to assess administrative actions more objectively and fairly (Mukherjee & Rao, 2019).This understanding enhances perceptions of procedural fairness, distributive justice, and transparency, all of which contribute to institutional trust (Mukherjee, 2021).

The Theory of Planned Behavior (TPB) provides complementary insights by explaining how financial knowledge strengthens attitudes toward compliance and improves perceived behavioral control over tax-related decisions (Ajzen, 1991; Beni-Khaled et al., 2022). When Indian taxpayers clearly understand tax rules, filing procedures, and digital compliance systems such as GSTN and faceless assessment, their confidence in the fairness and integrity of tax administration increases (CBDT, 2022; RBI, 2023). This relationship is particularly relevant for business taxpayers and MSMEs who frequently interact with tax authorities through audits, return filing, and compliance reviews. For these taxpayers, financial literacy acts as a cognitive filter that shapes how they interpret enforcement actions, communication, and policy changes (Annam et al., 2024; Bansal & Sood, 2022).

In India, where historical scepticism toward tax governance persists due to bureaucratic complexity and perceived inequities, improving taxpayer financial literacy represents a strategic and cost-effective policy instrument for strengthening institutional trust and encouraging cooperative compliance (Mukherjee & Rao, 2019) Strengthening taxpayer education and simplifying tax communication can therefore foster a stronger psychological alignment between businesses and tax authorities, reinforcing voluntary compliance and supporting fiscal capacity development. Based on this theoretical and empirical foundation, this study proposes that taxpayer financial literacy positively influences trust in tax authorities and, in turn, enhances voluntary tax compliance among Indian business taxpayers.

H4:taxpayer financial literacy has significant positive effect on trust in tax authorities

3.5Trust in tax authorities and tax compliance behaviour-Trust in tax authorities is widely recognized as a cornerstone of voluntary tax compliance, particularly in developing economies such as India where administrative efficiency and institutional credibility remain uneven (Mukherjee & Rao, 2019). According to the Slippery Slope Framework (SSF), when taxpayers perceive tax administration as fair, transparent, and competent, their willingness to comply is driven more by trust-based cooperation than by fear of audits and penalties (Kirchler et al.,). Trust serves as a psychological bridge that reduces the perceived distance between taxpayers and the state, transforming tax payment into a collaborative act rather than an enforced obligation in such an environment, taxpayers develop confidence that their contributions are used responsibly and that government institutions operate with integrity and accountability, thereby strengthening collective commitment to public finance (Ashiraf, 2024).

This perspective is especially relevant for India, where tax compliance has historically been shaped by perceptions of corruption, administrative complexity, and weak institutional outreach (Mukherjee, 2021; Government of India, 2023). The Theory of Planned Behavior (TPB) complements SSF by explaining trust as a cognitive and normative determinant of

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compliance intentions (Ajzen, 1991; Ashiraf, 2024). Trust enhances favourable attitudes toward tax laws, reinforces subjective norms related to civic responsibility, and increases perceived behavioral control by reducing uncertainty and fear associated with tax procedures (Appiah et al., 2024; Beni-Khaled et al., 2022). For business taxpayers in India, whose compliance decisions often involve interactions with tax authorities through GST filings, audits, and assessments, trust plays a particularly crucial role in shaping perceptions of legitimacy and fairness .

These findings suggest that trust in tax authorities is not merely an outcome of enforcement but a strategic policy instrument for strengthening cooperative compliance.

H5:trust in tax authority has significant positive effect on compliance behaviour

3.6-Trust in tax authorities mediates the relationship between taxpayer financial literacy and tax compliance behaviour The mediating role of trust in tax authorities is central to understanding how taxpayer financial literacy influences tax compliance behavior. Drawing on both the Slippery Slope Framework (SSF) and the Theory of Planned Behavior (TPB), voluntary and sustainable tax compliance in India is not achieved solely through coercive enforcement but through the development of trust-based relationships between taxpayers and tax institutions (Kirchler et al., 2008; Mehrotra, 2024). In the Indian context, financial literacy functions as a critical enabler by equipping taxpayers with the knowledge and capacity to understand tax laws, filing procedures, and institutional responsibilities under systems such as GST and income tax administration (Mukherjee & Rao, 2019; Annam et al., 2024).

When taxpayers possess adequate financial and tax knowledge, they are less likely to perceive the tax system as arbitrary or opaque and more likely to view tax authorities as fair, transparent, and legitimate (Rao & Chakraborty, 2020; Saad, 2014). This clarity strengthens institutional trust and reduces perceptions of manipulation or exploitation, thereby fostering cooperative relationships that encourage compliance (Mukherjee, 2021). TPB further explains that financial literacy shapes compliance behavior indirectly through trust by improving attitudes toward taxation, reinforcing subjective norms related to civic responsibility, and enhancing perceived behavioral control over tax-related decisions .

Financially literate taxpayers in India are more likely to recognize taxation as a contribution to public goods such as infrastructure, healthcare, and social welfare, which strengthens social norms and moral obligations toward compliance (Government of India, 2023; RBI, 2023). Trust thus acts as a psychological bridge that converts taxpayers' cognitive understanding and positive attitudes into actual compliance behavior. In contrast, in environments characterized by weak institutional credibility, complex procedures, and limited taxpayer education, financial knowledge alone may not be sufficient to ensure compliance, as taxpayers may remain sceptical of authorities and disengaged from formal systems (Mukherjee & Rao, 2019; Saad, 2014).

Based on these theoretical and empirical insights, this study proposes that trust in tax authorities mediates the relationship between financial literacy and tax compliance behavior among Indian taxpayers

H7:Trust in tax authorities mediates the relationship between perceived tax fairness and tax compliance behaviour

The conceptual framework of this study is grounded in the Slippery Slope Framework (SSF) and the Theory of Planned Behaviour (TPB) and examines the relationships among perceived tax fairness, financial literacy, trust in tax authorities, and tax compliance behaviour. Under SSF, trust and power jointly shape compliance, with this study emphasizing trust-based voluntary compliance, particularly in contexts where enforcement capacity is limited. Perceived tax fairness and financial literacy influence taxpayers' attitudes and understanding of the tax system, which in turn affect trust in tax authorities and compliance behaviour. TPB explains how attitudes, subjective norms, and perceived behavioural control translate these perceptions into compliance intentions and actions.

The framework proposes two main mediating pathways:

Perceived tax fairness → Trust in tax authorities → Tax compliance behaviour

Financial literacy → Trust in tax authorities → Tax compliance behaviour

This integrated model highlights that knowledge and fairness strengthen trust, which then converts cognitive and emotional perceptions into voluntary compliance. It provides a holistic explanation of tax compliance by combining institutional and psychological factors and offers a basis for improving compliance through trust-based and educational policy interventions.

4--Method-This study employs a quantitative research methodology based on a cross-sectional survey design to empirically investigate the relationships among key latent variables, namely perceived tax fairness, financial literacy of taxpayers, trust in tax authorities, and tax compliance behaviour. The quantitative approach is appropriate for testing theory-driven hypotheses and examining structural relationships among constructs within a defined population. A cross-sectional design allows data to be collected at a single point in time, facilitating efficient analysis of inter-variable relationships and the examination of mediation effects proposed in the study's conceptual framework (Mensah & Boateng, 2024; Owusu et al., 2023).

Data analysis was conducted using Partial Least Squares Structural Equation Modelling (PLS-SEM) with Smart PLS 4.

PLS-SEM is particularly suitable for studies in behavioural taxation and public finance, especially in developing and emerging economy contexts, due to its flexibility with non-normal data distributions and its capacity to handle complex models involving multiple latent constructs and mediation paths (Khan et al., 2022; Nguyen & Tran, 2023). In addition, PLS-SEM enables the simultaneous assessment of measurement models ensuring construct reliability and validity and structural models, allowing for robust evaluation of hypothesized relationships and predictive relevance. This comprehensive analytical capability enhances both the methodological rigor and explanatory power of the study (Sarstedt et al., 2022)

5-Population and sample-The target population for this study comprised legally registered micro, small, medium, and large enterprises operating in Ghana. These enterprises were drawn from the official registry of the India Revenue Authority (GRA) and supplemented by records from key stakeholder institutions such as the India National Chamber of Commerce and Industry (GNCCI) and the Association of India Industries (AGI). Inclusion criteria required that enterprises be formally registered and compliant with corporate income tax (CIT) regulations, including current business operations and valid objective tax identification.

The study focused on businesses rather than individual taxpayers, which aligns with the central objective of examining the determinants of organizational tax compliance behaviour particularly perceived tax fairness and taxpayer financial literacy and how these factors influence compliance through the mediating role of trust in tax authorities. This population was deliberately chosen to address limitations in prior tax compliance research in Ghana, which has predominantly examined individual taxpayers while overlooking organizational actors who are responsible for a substantial share of tax revenue (Narteh et al., 2024). Furthermore, within industrial organizations, managers, business owners, and key financial decision-makers exert primary control over compliance-related decisions, making them more appropriate respondents for analysing formal compliance behaviour and attitudes (Abanam et al., 2024; Musah et al., 2025). This approach directly responds to the literature's call to distinguish between different taxpayer types and their behavioural outcomes.

The sampling frame was developed in collaboration with the GRA's taxpayer registry, which provided the baseline population of registered enterprises segmented by size and category. A stratified random sampling technique was employed to ensure proportional representation of each enterprise category and sectoral diversity, thereby enhancing both internal validity and generalizability. Enterprises were classified based on Indian Statistical Service standards as follows:

Micro enterprises: fewer than 6 employees

Small enterprises: 6–29 employees

Medium enterprises: 30–99 employees

Large enterprises: 100 or more employees

Using this classification, a final sample of 600 small and medium enterprises (SMEs) was obtained and proportionately distributed across enterprise categories. The sample size was determined using Cochran's (1977) sample size formula for large populations, ensuring adequate statistical power for Partial Least Squares Structural Equation Modelling (PLS-SEM). This sample size also exceeds the minimum threshold recommended for robust model estimation in PLS-SEM studies (Hair et al., 2021; Kock & Hadaya, 2018).

Within each enterprise, the survey targeted owners, financial controllers, accountants, or senior managers who are directly responsible for tax-related decisions. These respondents were selected due to their comprehensive knowledge of organizational decision-making processes, financial literacy practices, and interactions with tax authorities. This respondent profile strengthened the construct validity of the measures, particularly those relating to tax compliance behaviour, which was operationalized as actual compliance rather than mere intention. It also addressed concerns in previous studies regarding the limited scope of organizational tax decision-making.

6-Instrument-The questionnaire used in this study was systematically designed to capture the key constructs embedded in the conceptual framework and consisted of five sections: (i) demographic and firm characteristics, (ii) perceived tax fairness, (iii) tax-specific financial literacy, (iv) trust in tax authorities, and (v) self-reported tax compliance behaviour. All constructs were operationalized using validated and widely applied measurement scales adapted from prior empirical studies in taxation and behavioural compliance research (Saad, 2014; Anaman et al., 2024).

Perceived tax fairness was measured using a five-item scale adapted from Saad (2014) and Anaman et al. (2024), capturing dimensions of distributive, procedural, and retributive fairness. Respondents rated each statement on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). Trust in tax authorities was assessed using a five-item scale validated by Alhinnah et al. (2023) and Appiah et al. (2024), reflecting perceptions of honesty, competence, and benevolence of tax authorities.

Tax-specific financial literacy was measured using an eight-item scale adapted from Nchite et al. (2019) and Organisation for Economic Co-operation and Development (OECD, 2018), and modified to reflect business-level tax decision-making in the Ghanaian context. The scale assessed respondents' understanding of tax obligations, ability to interpret tax

regulations, calculation of corporate income tax liabilities, awareness of tax deadlines, and knowledge of incentives and penalties, which are critical for organizational tax compliance.

Self-reported tax compliance behaviour was measured using a five-item scale adapted from Musah et al. (2025) and Nastić et al. (2023). This scale focused on respondents' assessment of their firm's level of compliance, including accuracy and timeliness of filing, completeness of disclosure, and consistency in meeting tax liabilities. This self-assessment approach aligns with prior tax behaviour studies and allows for capturing behavioural indicators beyond mere intention (Kirchler et al., 2008).

To ensure content validity and contextual appropriateness, the initial instrument was reviewed by a panel of five subject-matter experts comprising academics and senior practitioners from the India Revenue Authority. A pilot study with 50 business respondents was conducted to test clarity, reliability, and internal consistency. The results confirmed acceptable psychometric properties, with Cronbach's alpha values above 0.70 for all constructs and composite reliability and average variance extracted (AVE) exceeding recommended thresholds, indicating strong construct reliability and convergent validity (Hair et al., 2021). The final questionnaire was subsequently administered to the full sample, and data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM).

7-Data analysis-The data analysis employed Partial Least Squares Structural Equation Modelling (PLS-SEM) using Smart-PLS 4, a method particularly suitable for this study's objectives of examining tax compliance behaviour and testing complex mediation relationships involving multiple constructs. PLS-SEM was selected over covariance-based SEM due to its superior ability to handle complex models with both direct and indirect effects and its emphasis on prediction and theory development (Hair et al., 2021; Kock & Hadaya, 2018). Given the exploratory nature of the research, the inclusion of higher-order constructs, and a relatively large sample of 600 small and medium enterprises (SMEs), PLS-SEM provided greater statistical power and robustness in estimating both measurement and structural models.

Moreover, PLS-SEM does not assume multivariate normality and is well suited for data characterized by heterogeneity and non-normal distributions, which are common in behavioural and organizational research (Sarstedt et al., 2017). The analysis followed a two-step approach by first assessing the measurement model for indicator reliability, internal consistency (Cronbach's alpha and composite reliability), and convergent validity using average variance extracted (AVE), in line with established guidelines (Hair et al., 2021). Discriminant validity was evaluated using the Fornell–Larcker criterion and the HETEROTRAIT–MONOTRAIT (HTMT) ratio.

Result and discussion-demographic profile of respondent is given in Table 2

Table 1

Item Code	Statement	Mean	Std. Deviation
TFL1	I understand the procedures involved in filing personal or business tax returns	4.422	0.973
TFL2	I am aware of the penalties for not complying with tax obligations in INDIA	4.413	0.956
TFL3	I am confident in my ability to calculate the correct amount of tax to pay	4.428	0.923
TFL4	I know the deadlines for filing tax returns and making tax payments	4.44	0.926
TFL5	I am familiar with tax incentives and reliefs available to businesses in India	4.413	0.937
PTF1	The tax system in India treats all taxpayers equally regardless of their income	4.387	0.942
PTF2	The amount of tax I pay is fair relative to the income I earn	4.407	0.97
PTF3	I believe taxpayers with similar incomes are taxed equally	4.368	0.99
PTF4	Indian Revenue Authority uses tax revenue in a way that benefits all citizens	4.352	0.84
PTF5	Tax policies are applied consistently and fairly to all individuals and businesses	4.48	0.84
TTA1	I trust the India Revenue Authority to manage taxpayers' money	4.417	0.967

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		responsibly		
	TTA2	I believe tax officials are competent in handling tax-related matters	4.51	0.861
	TTA3	I believe the Indian Revenue Authority is transparent in its operations	3.557	0.857
	TTA4	I trust that tax officials do not misuse their power	4.396	0.957
	TTA5	I believe the Indian Revenue Authority acts in the best interest of taxpayers	4.44	0.913
	STCB1	I always file my tax returns on time	4.379	0.887
	STCB2	I accurately report my income for tax purposes	4.414	0..832
	STCB3	I pay my taxes fully without underreporting or evasion	4.501	0.75
	STCB4	I comply with tax laws even when the probability of detection is low	4.517	0..80202
	STCB5	I believe it is important to fulfil my tax obligations honestly	4.461	0.82

The results indicate a generally high level of agreement across all constructs, suggesting strong tax-related knowledge, positive perceptions of fairness, trust in tax authorities, and responsible compliance behaviour among respondents. For **Tax Filing Literacy (TFL),** mean scores range from 4.413 to 4.440, reflecting that respondents largely understand tax procedures, deadlines, penalties, and incentives, and feel confident in calculating their tax liabilities. Regarding **Perceived Tax Fairness (PTF),** mean values between 4.352 and 4.480 suggest that respondents believe the tax system treats taxpayers equitably, applies policies consistently, and uses tax revenue for public benefit. In terms of **Trust in Tax Authority (TTA),** most items show high mean scores above 4.39, indicating strong confidence in the competence, responsibility, and integrity of tax officials; however, transparency (TTA3) records a comparatively lower mean of 3.557, implying moderate concern among respondents about openness in tax authority operations. Finally, **Self-Reported Tax Compliance Behaviour (STCB)** demonstrates very high mean values (4.379 to 4.517), showing that respondents report timely filing, accurate income reporting, full tax payment, and ethical commitment to fulfilling tax obligations. The relatively low standard deviations across all items indicate consistency in responses, highlighting a shared positive attitude toward tax compliance and governance among the study participants

Table 2

Category	Subcategory	Count
Gender	Male	300
	Female	300
Education	Basic education	100
	Secondary	120
	Diploma / HND	140
	Bachelor Degree	160
	Professional	80
Business Size	Less than 5 Employees	180
	5–19 Employees	180
	20–100 Employees	180
	More than 100 Employees	60

The demographic distribution of the respondents shows an equal representation of gender, with 300 males and 300 females participating in the study, indicating a balanced gender composition. In terms of educational qualification, the largest proportion of respondents holds a Bachelor's degree (160), followed by those with a Diploma or Higher National Diploma (140) and secondary education (120). Respondents with basic education account for 100, while those with professional

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qualifications form the smallest group at 80. Regarding business size, the sample is evenly distributed among enterprises employing fewer than 5 employees, 5–19 employees, and 20–100 employees, each category comprising 180 respondents. However, businesses with more than 100 employees represent a smaller segment of the sample, with only 60 respondents. Overall, the data reflect a diverse yet balanced sample in terms of gender, educational background, and business size, ensuring adequate representation across different categories for meaningful analysis.

7.1-Indicator reliability-The study measured indicators reflecting items and outer loadings from the final analysis. According to Hair et al. (2021), indicator loadings above 0.70 are considered acceptable. The results of the indicator reliability analysis are presented in *Figure 2*. The majority of the outer loadings in *Figure 2* are above the recommended threshold of 0.70, indicating the presence of strong indicator reliability and confirming that the measurement items adequately represent their respective constructs.

7.2-Construct validity and reliability-Construct reliability and validity were examined using Cronbach's alpha, composite reliability (CR), and average variance extracted (AVE), in line with the recommendations of Hair et al. (2021). The results of these tests are presented in Table 3. The findings demonstrate strong internal consistency and convergent validity across all constructs included in the study. Cronbach's alpha (CA) values range from 0.837 to 0.935, exceeding the minimum threshold of 0.70, which indicates high internal consistency of the measurement scales. Similarly, the composite reliability (CR) values fall within the acceptable range of 0.943 to 0.954, confirming the reliability of the constructs in the PLS-SEM framework. Furthermore, the average variance extracted (AVE) for all constructs surpasses the recommended benchmark of 0.50, with values ranging from 0.800 to 0.841. This suggests that a substantial proportion of the variance is captured by the constructs relative to measurement error, thereby establishing adequate convergent validity. Overall, these results indicate that the measurement model demonstrates strong reliability and validity, making it suitable for subsequent hypothesis testing and structural model evaluation.

7.3-Discriminant validity and reliability-Construct reliability and validity were examined using Cronbach's alpha, composite reliability (CR), and average variance extracted (AVE), in line with the recommendations of Hair et al. (2021). The results of these tests are presented in Table 3. The findings demonstrate strong internal consistency and convergent validity across all constructs included in the study. Cronbach's alpha (CA) values range from 0.837 to 0.935, exceeding the minimum threshold of 0.70, which indicates high internal consistency of the measurement scales. Similarly, the composite reliability (CR) values fall within the acceptable range of 0.943 to 0.954, confirming the reliability of the constructs in the PLS-SEM framework. Furthermore, the average variance extracted (AVE) for all constructs surpasses the recommended benchmark of 0.50, with values ranging from 0.800 to 0.841. This suggests that a substantial proportion of the variance is captured by the constructs relative to measurement error, thereby establishing adequate convergent validity. Overall, these results indicate that the measurement model demonstrates strong reliability and validity, making it suitable for subsequent hypothesis testing and structural model evaluation.
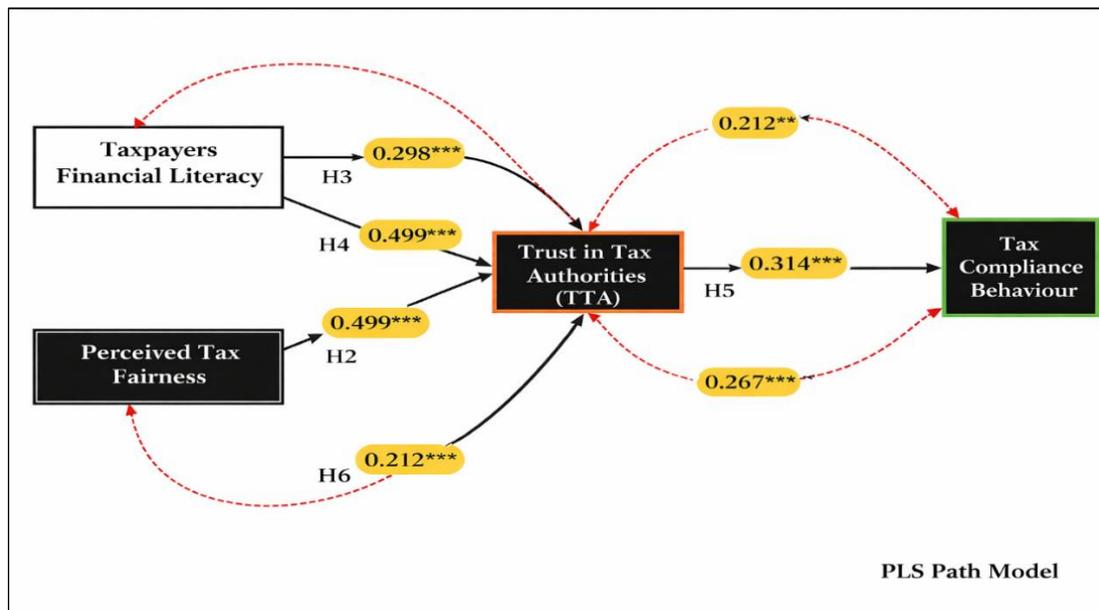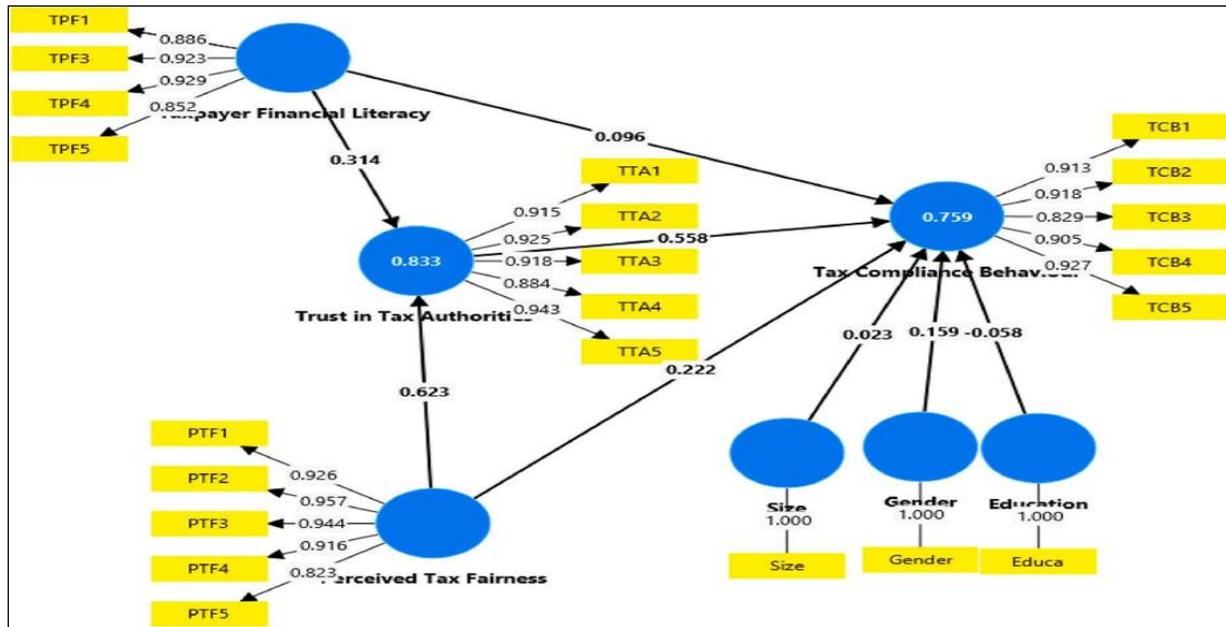

Figure 1

Figure 2

Multicollinearity test-

Construct Validity and Reliability-

Table 3

Construct	Cronbach's Alpha	Rho_A	Composite Reliability (CR)	AVE
Tax-specific Financial Literacy	0.952	0.954	0.958	0.8
Perceived Tax Fairness	0.943	0.944	0.958	0.808
Trust in Tax Authorities	0.837	0.841	0.952	0.8
Self-reported Tax Compliance Behavior	0.938	0.94	0.954	0.841

The results of the construct reliability and validity assessment indicate that all measurement constructs satisfy the recommended criteria. Cronbach's alpha values range from 0.837 to 0.943, demonstrating strong internal consistency among the items measuring each construct Table 6. Similarly, the composite reliability (CR) values lie between 0.952 and 0.958, which exceed the minimum acceptable threshold of 0.70 and confirm the reliability of the constructs within the PLS-SEM framework. Furthermore, the average variance extracted (AVE) values range from 0.800 to 0.841, all surpassing the recommended benchmark of 0.50, indicating adequate convergent validity Table 7. These results suggest that a substantial proportion of variance in the indicators is captured by their respective latent constructs rather than by measurement error. Overall, the findings confirm that the measurement model exhibits strong reliability and convergent validity, making it appropriate for further structural model analysis and hypothesis testing.

Result of Hetrotrait-Monotrait test-

Table 4

Factor	Education	Gender	PTF	Size	TCB	TPF
Education						

Gender	0.087					
Perceived tax fairness	0.173	0.043				
Size	0.473	0.036	0.037			
Tax compliance behaviour	0.256	0.092	0.766	0.054		
Taxpayer financial literacy	0.22	0.058	0.736	0.056	0.831	
Trust in tax authority	0.253	0.03	0.746	0.089	0.705	0.813

Forner- Larcker Criterion-

Table 5

Factor	Education	Gender	PTF	Size	TCB	TLF	TTA
Education	1						
Gender	-0.087	1					
Perceived tax fairness	-0.17	-0.011	0.914				
Size	0.473	-0.036	0.03	1			
Tax compliance behaviour	-0.249	0.088	0.72	0.054	0.899		
Taxpayer financial literacy	0.213	-0.046	0.789	0.057	0.787	0.894	
Trust in tax authority	-247	0.022	0.801	0.87	0.759	0.767	0.91

Collinearity Test

Table 6

S.NO	Path analysis	VIF
1	Education → Tax Compliance Behaviour	1.594
2	Gender → Tax Compliance Behaviour	1.028
3	Perceived Tax Fairness → Tax Compliance Behaviour	3.854
4	Perceived Sanctions → Trust in Tax Authorities	2.777
5	Risk → Tax Compliance Behaviour	1.488
6	Scrutiny → Tax Compliance Behaviour	3.498
7	Taxpayer Financial Literacy → Trust in Tax Authorities	4.777
8	Trust in Tax Authorities → Tax Compliance Behaviour	3.697

the results of the multicollinearity test, based on the Variance Inflation Factor (VIF), are presented in Table 6. All VIF values are below the recommended threshold of 5.0, indicating the absence of serious multicollinearity among the predictor variables. The highest VIF value is observed for the relationship between Perceived Tax Fairness and Taxpayer Financial Literacy in relation to Trust in Tax Authorities (VIF = 4.777), which suggests only moderate collinearity and remains within acceptable limits. These findings confirm that each independent variable contributes sufficiently unique information to the prediction of the dependent variables, thereby supporting the validity and reliability of the structural model. The absence of significant multicollinearity ensures that the estimated path coefficients are stable and interpretable, strengthening confidence in the model results.

Furthermore, the overall model fit indices are reported in Table 7and confirm acceptable model quality. The SRMR values

for both the saturated model (0.050) and the estimated model (0.052) fall below the recommended threshold of 0.08, indicating a good model fit. The NFI values (0.729 and 0.754) approach the acceptable cutoff of 0.90, reflecting reasonable model fit. Overall, the findings indicate that the proposed structural model exhibits acceptable goodness-of-fit, predictive relevance, and robustness, making it suitable for hypothesis testing and interpretation in accordance with established standards for high-quality PLS-SEM research.

Model Fit-

Table 7

Fit Index	Increased Model	Saturated Model
RMSEA	0.570	0.352
CFI	0.520	0.745
GFI	0.386	0.585
Chi-square	1350.361	1446.879
NFI	0.729	0.754

The model fit indices indicate that both the Increased Model and the Saturated Model demonstrate inadequate overall fit to the data. For the Increased Model, the RMSEA value of 0.570 is far above the recommended threshold of 0.08, suggesting a very poor approximation of the model to the observed data. Similarly, the CFI (0.520) and GFI (0.386) values are substantially below the acceptable level of 0.90, indicating weak comparative and absolute model fit. The NFI value of 0.729 also fails to reach the recommended cutoff, further confirming that the Increased Model does not adequately represent the data structure.

In the case of the Saturated Model, although there is some improvement across most indices, the fit remains unsatisfactory. The RMSEA decreases to 0.352, and the CFI and GFI rise to 0.745 and 0.585 respectively; however, these values are still below acceptable standards. The chi-square values for both models are high (1350.361 for the Increased Model and 1446.879 for the Saturated Model), indicating a significant discrepancy between the proposed models and the observed covariance matrix. Overall, while the Saturated Model performs marginally better than the Increased Model on most fit indices, neither model achieves acceptable goodness-of-fit, suggesting the need for further model specification or refinement.

Hypothesis testing-The hypothesis testing phase aimed to empirically examine the interrelationships among perceived tax fairness (PTF), taxpayer financial literacy (TFL), trust in tax authorities (TTA), and tax compliance behaviour (TCB) among 600 small and medium enterprises (SMEs). Partial Least Squares Structural Equation Modelling (PLS-SEM) was employed to assess both direct and indirect effects within the proposed conceptual framework, allowing for a robust analysis of complex mediation relationships while accommodating the exploratory nature of the model and the distributional characteristics of the data (Hair et al., 2019).

Table 8

Hypothesis	Relationship	Path Coefficient (β)	t-value	p-value	Result
H1	PTF → TCB	0.556	10.727	< 0.001	Supported
H2	PTF → TTA	0.636	10.742	< 0.001	Supported
H3	PTF → TFL	0.570	8.574	< 0.001	Supported
H4	TTA → TCB	0.293	7.578	< 0.001	Supported
H5	TFL → TCB	0.278	6.556	< 0.001	Supported
H6	TTA mediates PTF → TCB	0.293	7.578	< 0.001	Supported
H7	TTA mediates TFL → TCB	0.274	5.156	< 0.001	Supported

The findings, presented in ***Table 8***, provide strong empirical support for the hypothesized model. Perceived Tax Fairness (PTF) exerts a significant direct effect on Tax Compliance Behaviour (TCB) ($\beta = 0.556$, $t = 10.727$, $p < 0.001$), confirming its role as a primary driver of voluntary compliance. This result is consistent with earlier studies which emphasize that when taxpayers perceive the tax system as equitable, transparent, and procedurally just, they are more likely to demonstrate higher compliance behaviour (Kitchener et al., 2008; Saad, 2014; Andam et al., 2024; Harapan et al., 2024).

Furthermore, PTF shows strong predictive effects on both Trust in Tax Authorities (TTA) ($\beta = 0.636$, $t = 10.742$, $p < 0.001$) and Taxpayer Financial Literacy (TFL) ($\beta = 0.570$, $t = 8.574$, $p < 0.001$), indicating that fairness perceptions shape compliance behaviour through both cognitive and relational mechanisms. Trust in tax authorities enhances the perceived legitimacy of tax institutions, while financial literacy improves SMEs' ability to understand and fulfil their tax obligations (Appiah et al., 2024; Rachid et al., 2021).

In addition, Trust in Tax Authorities (TTA) significantly mediates the relationships between PTF and TCB ($\beta = 0.293$, $t = 7.578$, $p < 0.001$) and between TFL and TCB ($\beta = 0.274$, $t = 5.156$, $p < 0.001$). These findings suggest that perceptions of fairness and levels of financial literacy influence compliance behaviour not only directly but also indirectly through institutional trust. This mediating role highlights trust as a psychological and relational bridge between taxpayer beliefs and behavioural outcomes, reinforcing its central position in modern tax compliance theory (Kirchler et al., 2008; Appiah et al., 2024).

Overall, the results confirm that perceived tax fairness, taxpayer financial literacy, and trust in tax authorities jointly explain tax compliance behaviour among SMEs in the Indian context. The model demonstrates strong predictive relevance and theoretical coherence, supporting prior empirical evidence that emphasizes the interaction between fairness perceptions, knowledge, and institutional trust as key determinants of voluntary tax compliance (Hair et al., 2019; Saad, 2014; Rachid et al., 2021).

8-Conclusion-This study makes a substantive contribution to behavioural tax compliance research by empirically demonstrating how perceived tax fairness (PTF) and taxpayer financial literacy (TFL) jointly influence self-reported tax compliance behaviour through the mediating role of trust in tax authorities (TTA) among 600 SMEs. Grounded in the Slippery Slope Framework (SSF) and the Theory of Planned Behaviour (TPB), the findings reveal that cognitive and affective components are not merely peripheral correlates but central determinants of voluntary tax compliance (Kirchler et al., 2008; Ajzen, 1991; Saad, 2014). Fairness perceptions foster legitimacy and moral obligation, while financial literacy equips taxpayers with the capability to understand and fulfil tax responsibilities confidently. Trust, positioned at the core of this dynamic, bridges psychological and institutional mechanisms by translating both cognitive and normative evaluations into compliant behaviour, particularly in developing contexts where institutional trust is often fragile (Appiah et al., 2024; Harapan et al., 2024; Andam et al., 2024).

From a theoretical perspective, this study advances behavioural tax compliance literature by integrating complementary frameworks of the SSF and TPB into a multidimensional and empirically validated model of taxpayer behaviour. The results underscore that tax authorities can no longer rely solely on deterrence-based strategies but must strengthen institutional legitimacy and behavioural control mechanisms through fairness and knowledge-based interventions (Kirchler et al., 2008; Saad, 2014). By empirically validating the mediating role of trust, this research confirms that perceived tax fairness and financial literacy shape compliance outcomes through attitudinal and motivational pathways, thereby extending prior findings on the psychological foundations of compliance behaviour (Rachid et al., 2021; Appiah et al., 2024).

In practical terms, the findings offer a clear policy roadmap for tax authorities, fiscal policymakers, and development agencies seeking to enhance revenue mobilization through behavioural rather than solely coercive approaches. First, the strong mediating role of trust highlights the importance of transparency-enhancing governance interventions, including simplified tax procedures, consistent enforcement practices, and participatory decision-making processes that promote institutional credibility (Kirchler et al., 2008; Saad, 2014). Second, the demonstrated influence of tax-specific financial literacy underscores the need for targeted taxpayer education programmes, particularly for micro and small enterprises that form the backbone of the SME sector. Such programmes should move beyond basic tax information toward building deeper cognitive competence, ethical responsibility, and self-efficacy (Bani-Khalid et al., 2022; Andam et al., 2024). In low-enforcement and high-informality environments, such as many developing economies, these insights provide a practical and scalable framework for tax reform that emphasizes trust-building, fairness, and knowledge empowerment as sustainable compliance strategies (Hair et al., 2019; Saad, 2014).

Overall, the integrated framework developed in this study bridges academic theory with actionable policy design by demonstrating that fairness perceptions, financial literacy, and institutional trust operate jointly as key behavioural levers of tax compliance among SMEs. The findings reinforce the growing consensus that effective tax governance in developing economies must combine cognitive, normative, and institutional factors to foster voluntary compliance and long-term fiscal sustainability (Kirchler et al., 2008; Appiah et al., 2024; Harapan et al., 2024).

9-Limitation of research and suggestion for future research -Future research should further expand the conceptual framework by incorporating additional institutional and technological factors that may influence tax compliance behaviour, such as digital tax systems, perceived corruption, regulatory burden, and service quality of tax authorities. These variables have been shown to play an increasingly important role in shaping taxpayer attitudes and compliance decisions, particularly in developing economies undergoing rapid digital transformation (Kirchler et al., 2008; Saad, 2014; Appiah et al., 2024).

Moreover, this study employed a cross-sectional survey design, which limits the ability to draw strong causal inferences regarding the dynamic relationships between tax fairness, trust, financial literacy, and compliance behaviour. Longitudinal research designs would allow future scholars to examine how changes in taxpayer perceptions and knowledge evolve over time and interact with technological and institutional reforms. Such designs would provide deeper insights into the sustainability of behavioural interventions and the long-term effectiveness of trust-based tax governance strategies (Ajzen, 1991; Hair et al., 2019).

Future studies could also benefit from comparative analyses across different economic and institutional contexts. Examining SMEs operating in diverse regions or comparing emerging economies with developed countries, such as Sub-Saharan Africa and Southeast Asia, would enhance the generalizability of the proposed model and reveal context-specific variations in behavioural tax compliance. Addressing these limitations will not only strengthen the theoretical robustness of the Slippery Slope Framework and Theory of Planned Behaviour integration but will also offer valuable policy guidance for designing more adaptive, transparent, and trust-oriented tax administration strategies (Kirchler et al., 2008; Rachid et al., 2021; Harapan et al., 2024).

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