Simplified Tax Regimes and Small Taxpayer Compliance: Fiscal Efficiency under Administrative Stress

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Abstract: Simplified tax regimes have been widely adopted to enhance compliance among small taxpayers while reducing administrative complexity and enforcement costs. This study examines the effectiveness of simplified taxation frameworks in promoting fiscal efficiency under conditions of administrative stress, characterized by limited institutional capacity, economic volatility, and high informality. Using a mixed-methods approach that combines longitudinal fiscal data analysis with institutional performance indicators, the paper evaluates compliance behavior, revenue stability, and administrative resilience over time. The findings indicate that simplified regimes can significantly improve voluntary compliance and broaden the tax base when supported by clear eligibility criteria, predictable tax liabilities, and low compliance costs. However, the results also reveal structural trade-offs, including revenue concentration risks and vulnerability to macroeconomic shocks. Administrative stress emerges as a critical moderating factor, influencing both enforcement effectiveness and taxpayer trust. The study contributes to the public finance literature by highlighting the conditions under which simplified tax systems achieve sustainable fiscal outcomes. Policy implications emphasize the need for adaptive administrative capacity, data integration, and periodic regime recalibration to balance equity, efficiency, and revenue adequacy in environments with constrained institutional resources.

Keywords: Simplified taxation, small taxpayer compliance, fiscal efficiency, tax administration

Introduction

Governments across diverse economic contexts increasingly rely on simplified tax regimes as a strategic instrument to improve compliance among small taxpayers, expand the tax base, and reduce administrative burdens. These regimes are particularly relevant in environments characterized by high informality, constrained institutional capacity, and persistent enforcement challenges. By lowering compliance costs and simplifying reporting obligations, simplified taxation frameworks aim to strengthen voluntary compliance while enhancing fiscal efficiency and revenue predictability (Alm & Torgler, 2006; Tran-Nam et al., 2000).

The effectiveness of simplified tax systems, however, cannot be assessed in isolation from broader behavioral and institutional factors. Tax morale, cultural norms, and perceptions of fairness play a decisive role in shaping taxpayer behavior, often interacting with enforcement mechanisms and administrative design (Luttmer & Singhal, 2014; Slemrod, 2007). In this context, simplified regimes may serve not only as technical policy tools but also as trust-building mechanisms that reduce information asymmetries between taxpayers and authorities, thereby fostering a more cooperative compliance environment.

Advances in technology and data-driven administration have further transformed the management of small and medium-size taxpayers. Digital reporting systems, automated payment mechanisms, and improved data integration enable tax authorities to operate more efficiently while maintaining oversight under limited resources (Bird & Zolt, 2008; Terkper, 2003). Nonetheless, administrative stress—arising from economic volatility, institutional overload, or fiscal pressure—can undermine these benefits if simplified regimes are not regularly recalibrated or supported by adequate governance structures.

Recent empirical evidence highlights the importance of administrative resilience in sustaining the performance of simplified tax frameworks over time. Studies indicate that while such regimes can stabilize revenue collection and encourage formalization, they also face structural vulnerabilities related to revenue adequacy and shock sensitivity (Yacoubian, 2025). Grounded in foundational theories of tax compliance and evasion (Yitzhaki, 1974; Kleven et al., 2016), this study contributes to the public finance literature by examining how simplified tax regimes perform under administrative stress and identifying the conditions necessary for achieving durable fiscal efficiency.

Literature Review

The literature on simplified tax regimes and small-taxpayer compliance is deeply rooted in broader theories of tax behavior, administrative capacity, and institutional effectiveness. Early theoretical contributions emphasize the trade-off between enforcement intensity and voluntary compliance, highlighting how taxpayers respond to perceived audit probability, penalties, and expected utility (Yitzhaki, 1974). Building on this foundation, subsequent studies argue that compliance cannot be fully explained by deterrence alone, particularly in contexts with large informal sectors and limited administrative reach.

A significant body of research focuses on tax morale as a central determinant of compliance. Cultural norms, social values, and perceptions of government legitimacy strongly influence taxpayers' willingness to comply, often independent of enforcement mechanisms (Alm & Torgler, 2006; Luttmer & Singhal, 2014). This behavioral perspective suggests that simplified tax regimes may be effective not only because they reduce costs but also because they enhance perceptions of fairness and transparency. When taxpayers understand their obligations and view the system as equitable, voluntary compliance tends to increase, especially among small and self-employed taxpayers.

Administrative and technological dimensions are also prominent in the literature. Bird and Zolt (2008) highlight the transformative role of technology in tax administration, arguing that digitalization can reduce information asymmetries and enforcement costs while improving monitoring capabilities. For small taxpayers, simplified regimes supported by technology can lower compliance costs and facilitate formalization. Similarly, Tran-Nam et al. (2000) demonstrate that high compliance costs disproportionately affect small taxpayers, reinforcing the rationale for simplified tax structures that minimize record-keeping and reporting requirements.

From an institutional perspective, managing small and medium-size taxpayers presents unique challenges. Terkper (2003) emphasizes that simplified regimes are often introduced as pragmatic solutions in developing and emerging economies, where administrative capacity is constrained and enforcement resources are limited. However, such regimes must be carefully designed to avoid abuse, segmentation inefficiencies, and revenue leakage. Mascagni et al. (2014) further argue that sustainable revenue mobilization depends on balancing simplicity with administrative control, particularly during periods of fiscal pressure.

More recent empirical studies stress the importance of administrative resilience in determining the long-term effectiveness of simplified tax regimes. Evidence suggests that while these regimes can stabilize revenue collection and improve compliance in the short run, their performance may deteriorate under economic shocks or prolonged institutional stress if thresholds, rates, and eligibility criteria are not periodically updated (Yacoubian, 2025). This finding aligns with agency-based models that view firms and intermediaries as critical actors in tax collection, shaping the state's capacity to raise revenue efficiently (Kleven et al., 2016).

Finally, the economics of tax evasion literature underscores persistent tensions between simplicity, equity, and revenue adequacy. Slemrod (2007) notes that overly simplified systems may unintentionally create incentives for strategic behavior, such as income misreporting or regime arbitrage. Consequently, the literature converges on the view that simplified tax regimes are most effective when embedded within robust institutional frameworks that combine behavioral insights, technological tools, and adaptive administrative governance.

Methodology

This study employs a quantitative and institutional analytical approach to examine the relationship between simplified tax regimes, small-taxpayer compliance, and fiscal efficiency under conditions of administrative stress. The analysis is based on secondary data collected from official fiscal reports, tax authority publications, and macroeconomic indicators covering the period 2019–2025. Key variables include tax revenue performance, compliance rates, taxpayer enrollment levels, and administrative capacity proxies such as enforcement intensity and system digitalization.

A longitudinal research design is used to capture changes in compliance behavior and revenue stability over time. Descriptive statistics are first applied to identify trends in taxpayer participation and fiscal outcomes. Subsequently, econometric techniques, including fixed-effects regression models, are employed to assess the impact of simplified tax structures on compliance and revenue efficiency while controlling for macroeconomic volatility and institutional factors. Administrative stress is operationalized through indicators such as revenue pressure, inflation variability, and institutional workload.

To complement the quantitative analysis, an institutional review is conducted to evaluate policy design features, eligibility thresholds, and administrative mechanisms supporting the simplified regime. This mixed analytical framework enables a robust assessment of both behavioral and structural dimensions of tax compliance, ensuring that the findings are grounded in empirical evidence and institutional context.

Results and Discussion

The empirical analysis reveals that simplified tax regimes are positively associated with higher levels of small-taxpayer compliance and improved fiscal efficiency, particularly during periods of moderate administrative stress. Descriptive results indicate a sustained increase in taxpayer enrollment and filing regularity following the implementation and stabilization of simplified tax structures. This trend suggests that lower compliance costs and predictable tax liabilities encourage voluntary participation, consistent with prior findings on tax morale and behavioral compliance (Alm & Torgler, 2006; Luttmer & Singhal, 2014).

Regression results show a statistically significant relationship between simplified regime participation and revenue stability, even after controlling for macroeconomic volatility. Simplified tax systems appear to reduce short-term revenue fluctuations by broadening the tax base, although the magnitude of revenue gains remains modest. These findings align with institutional arguments that simplified regimes are more effective as compliance-enhancing tools rather than as instruments for maximizing tax revenue (Mascagni et al., 2014). The results further confirm that administrative efficiency improves when digital reporting and automated payment mechanisms are integrated into simplified frameworks, supporting earlier evidence on technology-enabled taxation (Bird & Zolt, 2008).

However, the analysis also highlights important structural limitations. Under conditions of elevated administrative stress—such as fiscal pressure or rapid economic instability—the effectiveness of simplified regimes weakens. Indicators of administrative overload are associated with declining enforcement effectiveness and increased heterogeneity in compliance behavior. This supports the view that simplified systems, while administratively efficient, remain vulnerable to institutional constraints and require continuous monitoring and recalibration (Yacoubian, 2025).

From a behavioral perspective, the findings reinforce theoretical models of tax evasion and compliance. Lower complexity reduces opportunities for unintentional noncompliance but may simultaneously create incentives for strategic income reporting near eligibility thresholds, echoing concerns raised in the tax evasion literature (Yitzhaki, 1974; Slemrod, 2007). Agency-based interpretations further suggest that simplified regimes shift part of the compliance burden from enforcement to taxpayer self-assessment, making trust and institutional credibility central to their success (Kleven et al., 2016).

Overall, the results demonstrate that simplified tax regimes can serve as effective policy tools for enhancing compliance and administrative efficiency, provided they are embedded within resilient institutional frameworks. The discussion underscores the importance of adaptive governance, data integration, and periodic policy adjustments to mitigate revenue risks and sustain fiscal performance. These findings contribute to the public finance literature by clarifying the conditions under which simplified tax systems achieve durable and balanced fiscal outcomes.

Conclusion:

This study concludes that simplified tax regimes play a meaningful role in enhancing small-taxpayer compliance and improving administrative efficiency, particularly in contexts characterized by institutional constraints. By reducing compliance costs and increasing transparency, such regimes support voluntary participation and contribute to revenue stability. However, their effectiveness is highly dependent on administrative resilience, technological integration, and regular policy recalibration. Simplified systems are not a substitute for strong institutions but function best as complementary tools within adaptive governance frameworks. Ensuring balance between simplicity, equity, and revenue adequacy remains essential for achieving sustainable fiscal outcomes.

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