

# Impact of Digital Literacy, Trust in Government on Tax Compliance: Evidence from Omani SMEs

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## ABSTRACT

One of the most crucial tools of social and economic policy in every nation is taxation. It is the major source of funds that offers financing in infrastructure, health care, and education. Accordingly, the purpose of this study is to examine the relationship between digital literacy and tax compliance among Omani SMEs. A quantitative approach was used by collecting a 384 questionnaire. Using SPSS version 24 the regression analysis demonstrated that, the results discovered a positive and significant relationship between digital literacy on tax compliance among Omani SMEs indicated that the high level of literacy concerning tax technology and systems (Tax Digitalization) encouraged the Omani taxpayers to voluntary tax compliance. In addition, the results discovered a positive and significant relationship between trust in government on tax compliance among Omani SMEs. Indicated that the higher trust in government regarding tax payment treatment, the better level of voluntary tax compliance among Omani SMEs. This study enhances the exciting literature concerning tax compliance in the contexts of Oman. Furthermore, the study provides new empirical data to knowledge related to literature concerning tax compliance in the contexts of Oman. Future research may consider other variables such as digital tax tools adoption as an independent variable to be examined with the study dependent variable; tax compliance.

## INTRODUCTION

In a time of swift technological development and growing digital economies, digital literacy and trust in government agencies are essential for efficient tax administration and compliance, particularly for SMEs. Under Oman Vision 2040, SMEs are the mainstay of economic diversification initiatives in Oman; nevertheless, many still struggle to adjust to new digital tax structures and e-government services (Alyahyaei, Husin & Supian, 2020). According to Sholihah & Nugroho, (2025), giving SME owners and managers the abilities they need to comprehend, access, and utilize digital tax platforms effectively, digital literacy lowers the likelihood of inadvertent non-compliance brought on by technological misunderstandings. Perceptions of tax justice, transparency, and the readiness voluntarily adhering to taxation obligations are all affected by trust in government (Augustine & Rufus, 2019).

This study is one of the few studies in Oman that has explored the relationship between digital literacy and trust in the government regarding tax compliance. Tax compliance has been one of the major challenges for governments in countries like Oman, where small and medium-sized enterprises (SMEs) form a major portion of the economy (Thottoli, 2022). Many businesses find it difficult to comply with tax regulations regularly, even after the government has made many efforts to improve tax compliance. Trust in the government and digital literacy are two major factors that influence tax compliance (Zubairu, I., Atiawin, P. A., & Iddrisu, A. J., 2025 and Falana et al., 2024), which indicated that the high level of tax compliance among taxpayers is strongly correlated with the digital literacy among them. Trust in the government encourages people to comply voluntarily, while digital literacy helps people comply easily by using technology for tax compliance (Alam & Alam, 2019; Widuri & Irawan, 2019; Güzel et al., 2019; and Kiptum et al., 2024), which is stressed about the important role of trust in government in improving tax compliance among taxpayers.

However, empirical data on how these variables affect and interact with the level of tax compliance among small and medium-sized enterprises (SMEs) in Oman is lacking. Understanding this relationship is essential for

designing effective policies that contribute to increasing tax compliance, boosting government revenues, and supporting sustainable economic development in Oman. This study aims to achieve the following objectives:

1. To examine the effect of digital literacy, trust in government on tax compliance.
2. To examine the level of tax compliance among Omani SMEs.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The role of digital literacy and trust in government on the tax compliance of small and medium-sized enterprises (SMEs) in the Sultanate of Oman. Digital literacy has the capacity to comprehend, appraise, and properly utilize data retrieved via digital media, which was first theorized by Gilster in the late 1990s (Pangrazio, 2020). With the increased dependence of SMEs on digital technologies in business activities, digital literacy has now been a key factor that determines organizational efficiency and adherence to regulations. Nonetheless, digital competence differences remain between Omani SMEs because of differences in educational attainment, availability of digital infrastructure, and geography and culture.

Additionally, belief in government was noted as one of the key determinants of tax compliance. Hitlin (2022) noted that trust measures how businesses view the government as an effective, open, and fair implementer of regulations.

Taxation is an essential part of the socioeconomic policy and a core source of revenue used to finance government expenditures on infrastructure, healthcare, and education. Taxation as one of the fiscal policy tools is viewed as a potent tool in controlling economic activity as well as leading to development. In addition to the monetary role, taxation is also a civic duty that consolidates nations and their existence (Musgrave & Musgrave, 2020). Tax systems should be seen as fair, efficient and transparent to ensure people keep the confidence and comply willingly. The tax system is relevant in the context of the Oman Vision 2040 as it aims to promote the diversification of the economy. The fiscal system in Oman has traditionally relied on oil income to a very significant extent. Nevertheless, the changes in the world oil prices have forced the government to diversify its tax base and intensify other non-oil sources of revenue. The major ones are the income tax regulation tightening and Value Added Tax (VAT), that was implemented in 2021, which have helped to build a more robust and diversified fiscal framework (Oman Tax Authority, 2022).

### Tax Compliance

According to the definition of James and Ali (2002), tax compliance means the level to which an individual and organizations can comply with tax regulations and laws. These consist of proper record keeping, paying the taxes at the right time and reporting the entire income. Tax compliance both has a legal and ethical aspect, since taxpayers are obligated to make contributions to national revenues needed to allocate to the expenditure of the populace and economic stability. Therefore, when there is high level of compliance, it is usually taken as sign of high level of awareness, accountability and trust in the society.

### Digital Literacy

In the modern digitalized world, digital literacy (the capability to properly handle digital technologies in accessing, handling, and assessing information) has become the crucial part of significant interaction with the modern tax systems. Taxpayers who are digitally literate can have an advantage of being able to comprehend tax laws more effectively, file their returns without errors and can effectively communicate with online tax systems to increase compliance rates. On the other hand, low levels of digital literacy can serve as an obstruction to compliance, especially to vulnerable populations like the elderly or those in the business fields operating in remote regions.

Education and training programs are thus very important in mitigating the issue of digital disparities by governments. Digital literacy is one of the main pillars of the overall digital transformation skills agenda in Oman. The Public Authority on Taxation has come up with the policies to advance the digital engagement and

increase access to electronic tax services. Educational materials are available to assist taxpayers to understand their digital responsibilities, e.g., the Tax Clarity programmed. Moreover, the adoption of an electronic invoicing system, made along with Oman-Tel, is a major step forward in raising the volume of paper-based transactions down to zero and enhancing the efficiency of compliance. Such actions reveal the intent of the government to encourage voluntary adherence to the rebuild of digital strength and establishment of transparent relationships between taxpayers and tax authorities. (Zubairu et al, 2025), (Falana et al, 2024) examined the relationship between digital literacy and tax compliance and the study found that there is a positive relationship between Digital Literacy and Tax Compliance.

**H1: There is a significant relationship between digital literacy and tax compliance among Omani SMEs.**

**Trust in Government**

The concept of trust in government is based on the belief of the taxpayers in the honesty, equity, and efficiency of the government institutions in the management of the tax revenue (Alghizzawi, & Masruki, 2020). Torgler (2007) believes that taxpayers can be more willing to comply on a voluntary basis when they feel that tax revenues are collected and used in a transparent manner, and to the benefits of the society. When the expenditure of the government is viewed to be responsible, administrative procedures are effective, and taxes are distributed fairly, and trust is enhanced. Conversely, when the levels of trust are low, there is an enhanced tax evasion and compliance.

Trust and tax compliance have a connection that is seen in various cultural and institutional settings. As Kirchler (2008) point out, the cooperative behavior can be nurtured through the fair and transparent administration of taxation, and the lack of trust can be cultivated by the perception of unfairness and promotion of non-compliance. Realizing this, the Public Authority of Taxation in Oman has focused on programs that would promote transparency and build on confidence.

The main indicators are the digitalization of income tax and VAT filing systems which has minimized paperwork and enhanced communication between the taxpayers and the authorities. The reforms aim to build mutual trust and a spirit of shared responsibility by becoming more accessible, efficient, and transparent. In the end, the increase in trust in government is likely to improve voluntary compliance with taxes, increase fiscal sustainability and enhance legitimacy of the emerging tax regime in Oman. (Güzel et al,2019), (Widuri & Irawan, 2019) showed the relationship between trust in government and tax compliance and the study found that there is a positive relationship between trust in government and tax compliance.

**H2: There is significant relationship between trust in government and tax compliance among Omani SMEs.**

**Model of the Study**

This study proposes the following model based on a review of the related literature. It proposes that Digital Literacy and Trust in Government impact Tax Compliance among Omani SMEs. Fig. 1 depicts the model of the study.

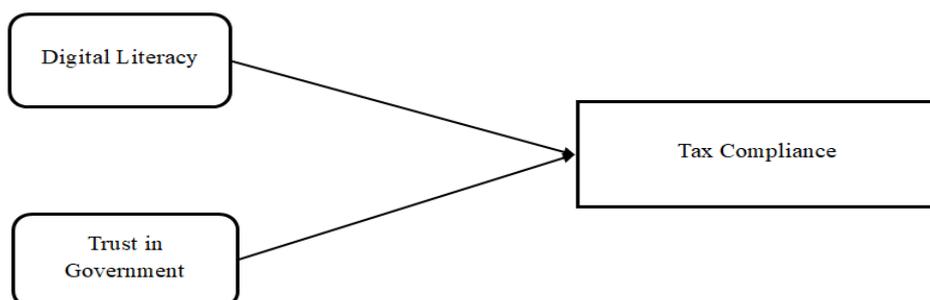


Fig 1: Model of the Study

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## METHODOLOGY

The study employed a quantitative approach using a questionnaire survey, which usually serves to assess a phenomenon of interest upon gathering and analysis of the numerical data employing statistically designed methods (Aliaga & Gunderson, 1999).

To ensure that only SMEs with active tax obligations and internet connection were included, a simple random sampling technique was employed. The population was 147,215 according to SMEs development authority (2025), the sample size is 384 SMEs based on Krejcie & Morgan (1970), which was found to be adequate for statistical analysis based on the objectives of the study and the resources available. The estimated population size, confidence level, and allowable margin of error were all taken into consideration while calculating this sample size using conventional methods for survey research. It is anticipated that the selected sample will offer trustworthy and broadly applicable insights into the connection between tax compliance, government trust, and digital literacy among Omani SMEs.

Regarding measurements of the study variables; for tax compliance, 5 items were adopted from (Saptono et al., 2023). Meanwhile, 3 items were adopted from Brewer and Sigelman (2002) and Colesca (2009) for trust in government. For digital literacy, 4 items was adopted from Haggai, B., & Odunga, R. (2025).

### Pilot Study

According to Sekaran and Bougie (2010), reliability is a measure used to assess the internal consistency and/or stability of the instrument utilized. As well as the extent to which a scale consistently gives dependable results when the measurements are repeated under different conditions. Therefore, the reliability test is determined by assessing the level of consistent variation in a scale, which may be achieved by establishing the correlation between the scores obtained from different respondents on the scale. Therefore, a strong correlation in the reliability test and consistent results from the scale indicate that the items are dependable (Gliem & Gliem, 2003).

To assess the reliability of the data obtained, the pilot study was conducted with 36 respondents. The purpose of the pilot study was to enable the implementation of appropriate statistical testing techniques. The respondents were provided with clear and rational information regarding the objective of this study and were well acquainted with the contents of the study. The Cronbach alpha coefficient was utilized to evaluate the dependability of the data and measurements. Churchill (1979) asserts that the primary criterion for evaluating the quality of the instrument is reliability. "Typically, the minimum acceptable value for Cronbach's alpha is between 0.60 and 0.70 (Hair, Anderson, Tatham, & William, 1998)". However, the results of Cronbach's alpha for this study were ranged within the acceptable values.

## RESULTS AND DISCUSSION

### Normality Test

Prior to conducting the regression analysis, normality tests are considered very important to ensure whether the data of the study is normally distributed. According to Brown (2012), the non-normal distribution of the data will appear to skew to the left or to the right because of the presence of kurtotic variables, which may lead to shortcomings in terms of the relationships of the study variables. Accordingly, the normality should be assessed with respect to skewness and kurtosis (the skewness value should be within  $\pm 2$ , and the kurtosis should be within  $\pm 7$  (Olsson, Foss, Troye, & Howell, 2000; Ho, 2006).

The data analysis of this study demonstrated that the values of skewness ranged from -0.475840 and -0.841200, while the values of kurtosis ranged from 0.189097 and 1.049796. in conclusion, these values showed that the data of this study were normally distributed.

### Demographic Analysis

Table 1 next providing the frequency analysis of the study respondents:

Table 1: Demographics.

#	Profile	Frequency	Percentage	Cumulative percentage
Gender	Male	250	65.1	65.1
	Female	134	34.9	100
Age	20-30 years	32	8.33	8.33
	31-40 years	134	34.90	43.23
	41-50 years	153	39.84	83.07
	51 years and above	65	16.93	100
Education	Diploma	76	19.79	19.79
	Bachelor's degree	250	65.10	84.89
	Master's degree	38	9.90	94.79
	Doctorate	20	5.21	100
Specialization	Accounting	180	46.88	46.88
	Finance	115	29.95	76.83
	Management	15	3.91	80.74
	Human resources	53	13.80	94.54
	Other	21	5.47	100
Sector	Service	54	14.06	14.06
	Industrial	51	13.28	27.34
	Retailer	165	42.97	70.31
	Telecommunication	80	20.83	91.14
	Other	34	8.86	100

Table 1 above showed that the majority of the respondents were male (65.1%), while 34.9% of the respondents were female.

In respect to respondents age, the analysis showed that the category (41-50 years) represented 39.84% of the respondents. Following by the category (31-40 years) which was represented by 34.90%. following by the category (51 and above), and the minority was for the category (20-30) 8.33%. Indicating that most of the respondents (41-50 years and 31-40 years) have experience regarding their businesses.

In regard to respondents' education, table 1 presented that the majority of respondents holding bachelor's degree (65.10%), followed by diploma degree (19.79%), and the minority was for doctorate degree (5.21%). Indicating that the respondents have good knowledge regarding how to run a business.

For the specialization of the respondents, the analysis showed that the majority of the study samples were in accounting area (46.88%), followed by finance area (29.95%), and the minority was for management area. These results provide a very good indicator regarding the specialization of the respondents, which is very consistent with the subject of this study (tax compliance).

Lastly, the analysis showed that the respondents' sector (SMEs) was (Retailer: 42.97%, Telecommunication: 20.83%, Service: 14.06%, Industrial: 13.28%, other: 8.86%). The high percentage of retailer sector may refer to that the most of SMEs in Oman doing this type of business.

### Descriptive analysis

The descriptive statistics method was employed in this study to compute the descriptive function, enabling the inclusion of all variables in the analysis. The composite scores of the variables were calculated by dividing the original measurement item scores into smaller parts. Parcels are created by combining multiple separate indicators or elements based on their factor loadings on the construct (Coffman & Maccallum, 2005). Table 2 presents the means and standard deviation of the components, which were evaluated using a 5-point Likert scale.

Table 2: Descriptive Analysis

Variable	Mean	Standard deviation.	Minimum	Maximum
Trust in government.	3.711	0.610	1.0	5.0
Digital literacy.	3.752	0.664	1.0	5.0
Tax compliance.	3.700	0.593	1.0	5.0

The result of descriptive analysis presented that the average mean values were ranging from 3.70 to 3.75, showing that the perceptions of the respondents above the mid-point level of 5-point Likert scale which can be interpreted that the tax payaras in Oman trust in the Omani government and have a good level of digital literacy resulting in complying with tax requirements.

### Correlation analysis

In order to check the strength and direction of the relationship between the variables of this study, it's very important to calculate the correlation coefficients, such as person coefficient. This coefficient should be ranged between  $\pm 1$ . Inducting that if the value of this coefficient is positive, then the relationship between the variables should be positive and so on.... Besides that, the correlation can be used to find out the effect of change in one variable in others (Franzese & Iuliano, 2018).

Table 3: Correlation Matrix of the Study Constructs

Variable	Tax Compliance	Trust in Government	Digital Literacy
Tax compliance	1.00		
Trust in Government	0.75	1.00	
Digital Literacy	0.45	0.50	1.00

Table 3 above, discovered that trust in government strongly and positively correlated with tax compliance of Omani SMEs. Which means those SMEs how are more trusted in the Omani government are more comply with tax payments. Besides that, the table showed that digital literacy strongly and positively correlated with tax compliance of Omani SMEs. Indicating that taxpayers how are digitally knowledgeable and experienced specially with the Omani tax system are more likely to comply with tax payments.

Regarding the correlation between trust in government and digital literacy, table 3 showed a positive correlation between the two variables. Suggesting that taxpayers with high level of digital skills are able to access their needs of government information which intern improving their trust in the Omani government institutions.

### Regression Analysis

To examine the relationship between the variables of this study, regression analysis was employed to test the model of this study; namely, trust in government and digital literacy as independent variables, meanwhile tax compliance as dependent variable. The role of regression analysis is very important to predict the value of dependent variables, which intern tests the strength and the direction of the relationship between the variables of this study. Accordingly, linear regression was used for this study as it is very common test in many areas (Sarstedt & Mooi, 2018).

Table 4: Regression Analysis of Independent Variables on tax compliance

Variable	Coefficient	St. Error	T value	P value
Intercept	0.173	0.09	2.053	0.05
Trust in government	0.185	0.12	2.058	0.03
Digital literacy	0.079	0.18	0.189	0.01

Table 4 above demonstrated that the regression analysis revealed that the variables trust in government and digital literacy significantly affect tax compliance.

Starting by trust in government, the analysis showed that a positive direction with a p value of 0.03, indicating a positive significant relationship between trust in government and tax compliance. which means the increase level of trust in government resulting in increasing the level of tax compliance of Omani SMEs.

Moreover, the analysis presented a positive direction with a p value of 0.01, indicating a positive significant relationship between digital literacy and tax compliance. which means the high level of digital literacy resulting in increasing the level of tax compliance of Omani SMEs.

Overall, these findings demonstrated that the high level of trust in government has contributed positively and significantly to Omani taxpayers' compliance. besides that, the high level of digital literacy has improved tax compliance level among the Omani taxpayers.

### CONCLUSION

This study discovered that digital literacy, trust in government positively effect tax compliance among Omani SMEs. This study has implications in two aspects: practically and theoretically. Practically, the study has emphasized the significant role of digital literacy along with trust in government among Omani SMEs in improving their tax compliance. The taxpayers' compliance is based on their literacy in the tax technology and systems. Besides that, the government has integrity in treating the tax amount improving tax compliance among taxpayers. Accordingly, the study provides empirical guidance for policymakers in Oman on how to increase the tax compliance among Omani SMEs.

Theoretically, this study enhances the exciting literature concerning tax compliance in the contexts of Oman. Furthermore, the study provides new empirical data to knowledge related to literature concerning tax compliance in the contexts of Oman.

Like any research, this study has several limitations that could be recommended for future research. Firstly, the study sample was only SMEs in the capital city of Oman; muscat, which may affect the generalization of the study results on the population of the interest. Therefore, it is recommended for future research to consider other

areas and cities in Oman. Secondly, another limitation is that the majority of the study sample are from the male category, which may causing bias in the study results. Hence, it is recommended for future research to take into account this limitation in doing tax compliance research. This study relied on quantitative, which may affect the study sample point of view regarding tax compliance. accordingly, it is recommended for future research to consider the qualitative approach by conducting interviews with the sample of interest. Lastly, future research may consider other variables such as digital tax tools adoption as in independent variable to be examined with the study dependent variable; tax compliance.

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