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Improving Municipal Revenue Outcomes Through Tax Awareness: Strengthening Compliance for Better Collection Performance

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Abstract

This study assessed the relationship between Local Business Tax (LBT) awareness and municipal collection efficiency in the Municipality of Oras, Eastern Samar for Calendar Year 2025, with declared gross sales treated as a mediating variable. Using a descriptive–correlational design and total enumeration of 394 active registered businesses, data were obtained from a structured awareness survey and municipal administrative records on declared gross sales and collection efficiency indicators. Results show that the local business sector is predominantly micro enterprises (95.94%) and largely sole proprietorships (95.18%), with most registrations classified as renewals (84.26%). Overall LBT awareness was moderate-to-high ($M = 3.26$, $SD = 0.68$), with higher familiarity in payment procedures and documentation requirements and comparatively lower understanding of technical areas such as the legal basis, business classification, and gross sales computation. Declared gross sales exhibited a right-skewed distribution, with most establishments clustered in the lowest declared sales bracket (≤ ₱400,000), a modest share in the middle bracket (₱400,001–₱1,000,000), and only a few in the highest brackets (above ₱1,000,000), reflecting the municipality's micro-enterprise economy. Correlation and mediation analyses indicate that LBT awareness is positively associated with declared gross sales ($r = .28$, $p < .001$) and collection efficiency ($r = .21$, $p < .001$), while declared gross sales is strongly related to collection efficiency ($r = .44$, $p < .001$). Mediation results confirm partial mediation, indicating that improved awareness contributes to better collection efficiency partly through more credible gross sales declarations. The findings support the need for targeted taxpayer education and standardized municipal procedures focused on classification and computation under Republic Act No. 7160, Section 143 to strengthen declaration quality and improve revenue administration outcomes.

Keywords: Business tax; Collection efficiency; Gross sales; Mediation; Microenterprises; Oras; RA 7160; Tax awareness

1. Introduction

Local Government Units (LGUs) in the Philippines are expected to finance devolved functions and local development priorities through a mix of intergovernmental transfers and locally generated revenues. A core component of own-source revenue is the Local Business Tax (LBT), which municipalities are authorized to levy under the Local Government Code of 1991 (Republic Act No. 7160, 1991). In particular, the Code provides the legal basis for imposing taxes on businesses and links the resulting tax liability to reported gross sales or receipts, making taxpayer declarations central to the integrity of LBT administration (Republic Act No. 7160, 1991, sec. 143). While the statutory framework is clear, implementation challenges often weaken the revenue yield and equity objectives of local taxation. In practice, local tax performance is shaped not only by legal authority but also by taxpayer behavior, administrative capability, and the quality of information available to local treasuries. Research consistently shows that taxpayer knowledge materially influences compliance: small and medium enterprises (SMEs) with stronger understanding of tax rules and reporting requirements tend to comply more effectively, while micro-enterprises show greater variability in reported sales often associated with inconsistent awareness, limited bookkeeping capacity, and misunderstandings of obligations (Omary & Pastory, 2022; Shelvira & Purba, 2024; Abjadi et al., 2023). These findings align with governance-oriented literature emphasizing that information dissemination and taxpayer education are practical levers for improving compliance, particularly in municipalities where resource constraints and high shares of micro and small businesses magnify administrative burdens (Li, 2021; Shiferaw & Tesfaye, 2020). Improving taxpayer awareness is therefore not merely a communications activity; it is a revenue-administration strategy that can strengthen declaration accuracy, expand the tax base, and support fiscal space for local development. When taxpayers better understand the link between correct declarations and lawful tax computation, voluntary compliance can improve and underdeclaration pressures may diminish potentially translating into higher declared sales and more predictable collections (Ortas & Álvarez, 2020; Alshira'h et al., 2020). At the same time, the Code itself underscores the sensitivity of local revenue measures by instructing that doubts in tax ordinances be construed strictly against the LGU and liberally in favor of the taxpayer, reinforcing the need for clarity, transparency, and procedural consistency in LBT administration (Republic Act No. 7160, 1991, sec. 5[b]).

1.1 Awareness, Declarations, and Collection Outcomes

Municipal LBT outcomes depend heavily on how consistently classification rules are applied and how accurately gross sales or receipts are declared and documented. Under the Local Government Code, municipalities may impose business taxes and compute liability based on gross sales or receipts for the preceding calendar year, which places taxpayer reporting at the center of the tax base (Republic Act No. 7160, 1991, sec. 143). Correspondingly, the Code also contemplates practical reporting realities such as multiple establishments or multiple lines of business by providing that business taxes apply per distinct establishment and, where different tax rates apply across business activities, gross sales or receipts should be separately reported for proper computation (Republic Act No. 7160, 1991, sec. 146[a], sec. 146[c]). Discrepancies in declared sales can arise from several sources, including insufficient records, misunderstanding of tax rules, misclassification of business activity, or deliberate underreporting (Akasyah & Juitania, 2022). In municipalities where micro and small enterprises are prevalent, these risks are amplified by limited accounting practices and uneven exposure to formal tax information, resulting in declarations that may not fully reflect actual gross sales. Consistent with this, evidence indicates that inadequate taxpayer education and low compliance levels constrain local revenue performance, highlighting taxpayer awareness as a key determinant of collection outcomes (Li, 2021). In operational terms, awareness affects not only willingness to comply but also the capability to comply correctly especially where taxpayers must distinguish between lines of business, understand taxable bases, and maintain minimal documentation. From an administrative perspective, strengthening LBT performance therefore requires procedures that reduce ambiguity and promote uniform application. Regular information dissemination (e.g., targeted orientations during permit renewal), simplified guidance on classification and computation, and feedback mechanisms that help taxpayers correct errors can reduce declaration inconsistencies, support fair treatment across businesses, and improve the reliability of collections particularly in localities with large numbers of micro and small enterprises (Akasyah & Juitania, 2022; Li, 2021). In this sense, taxpayer awareness is not ancillary; it is integral to accurate declarations and efficient revenue administration.

1.2 Tax Awareness and Compliance Dynamics

Tax awareness and knowledge are widely recognized as drivers of compliance behavior among micro and small enterprises (MSEs). Existing literature supports the proposition that when taxpayers understand tax rules, reporting requirements, and computation methods, compliance outcomes improve and unintentional reporting errors decline (Toly et al., 2023; Alshira'h et al., 2020). Improved knowledge can enhance voluntary compliance by reducing uncertainty and perceived complexity, which are common friction points in self-reporting environments (Putra et al., 2024; Ebimobowei, 2023; Muslim, 2022). In local taxation contexts where gross sales declarations directly affect tax liability, this relationship becomes particularly salient: awareness influences how taxpayers interpret obligations, what they record, what they declare, and how consistently they comply over time. However, the literature also emphasizes that revenue performance is not solely a function of taxpayer attributes; it is jointly produced by governance quality, administrative design, and taxpayer engagement strategies (Megenasa & Lecturer, 2020; Wirawan et al., 2024). Municipalities that prioritize clear communication, transparent procedures, and predictable enforcement often experience more stable revenue outcomes (Efrinal & Ariyanti, 2022). This implies that taxpayer awareness initiatives are most effective when paired with administrative measures that make compliance feasible such as standardized classification protocols, clear documentation expectations, and service-oriented interactions during business registration and renewal. Accordingly, improving taxpayer awareness should be treated as a governance intervention with measurable fiscal implications. By increasing comprehension of reporting responsibilities and the basis of LBT computation, municipalities can influence declaration behavior, narrow compliance gaps, and strengthen the efficiency and credibility of local tax collection systems (Putra et al., 2024; Efrinal & Ariyanti, 2022; Wirawan et al., 2024). Over time, these improvements can support a broader and more accurate local tax base, enabling LGUs to better fund public services and local infrastructure consistent with decentralization objectives.

1.3 Municipal Business Environment in Oras

The study situated in the Municipality of Oras, Eastern Samar, emphasizes the variability in tax familiarity and documentation practices among micro and individually managed enterprises, which are prevalent in the local business environment. Such enterprises often grapple with gaps in understanding their tax obligations and maintaining accurate sales records, which are critical for compliance with local taxation mandates. Research underscores that the scale of operation significantly influences how business owners interpret tax responsibilities, impacting the quality of sales declarations and adherence to municipal requirements (Hamdani & Dura, 2024; Wahidiyah & Agustini, 2025). In contexts where micro-enterprises dominate, even minor awareness deficiencies can lead to substantial differences in tax declaration quality and payment behavior, thereby influencing municipal collection efficiency (Tiara, 2025; Tessema, 2020). Furthermore, targeted education and communication strategies can enhance taxpayer awareness, ultimately improving compliance outcomes and reducing variances in reporting quality among businesses (Ariningrum et al., 2024; Putri & Fuadah, 2025; Widiniarsih et al., 2024).

1.4 RA 7160 Section 143 and a Mediated Relationship Model

The study's foundation in Republic Act No. 7160, specifically Section 143, provides a legal framework for examining Local Business Tax (LBT) imposition (Republic Act No. 7160, 1991, sec. 143). Tax awareness is a critical antecedent that influences how business owners perceive their obligations, thereby affecting their accuracy in declarations, particularly regarding gross sales. Existing literature highlights the correlation between tax awareness and compliance, suggesting that higher awareness leads to improved reporting behavior, which is crucial in local governance where compliance directly impacts collection efficiency (Adellia & Islami, 2020; Oktaviani & Triyani, 2023; Toly et al., 2023). Furthermore, studies indicate that taxpayer knowledge concerning computation bases significantly affects compliance rates among small businesses, emphasizing the necessity for effective tax education and awareness initiatives (Hardika & Suardani, 2023; Utomo et al., 2022). In this analytical model, declared gross sales mediate the relationship between tax awareness and collection efficiency by ensuring reported values are credible, which in turn reflects the municipality's ability to transform tax obligations into actual revenues (Hardiningsih et al., 2020; Suhendar & Hakim, 2021).

1.5 Linking Awareness, Declarations, and Collection Efficiency

This study aims to fill a significant gap in the literature regarding the relationship between local business tax awareness and municipal collection outcomes, particularly within smaller municipalities characterized by a predominance of micro-enterprises. While existing research consistently discusses tax awareness and compliance, there is a lack of focused studies that examine how these factors interact specifically in the context of declared gross sales as a reporting mechanism in local tax settings (Alshira'h et al., 2020; Bani-Khalid et al., 2022). By aligning the inquiry to a structured pathway that links awareness to declarations and collection efficiency, this research situates itself within the legal framework established by Republic Act No. 7160, ensuring that its findings are locally grounded and relevant to municipal revenue governance (Republic Act No. 7160, 1991; Tumbagahan et al., 2021). The examination of tax awareness as a precursor to accurate reporting and effective collection processes is essential, especially given the unique conditions faced by micro-enterprises that often have limited resources for maintaining sales documentation and understanding tax obligations (Obaid et al., 2020). Thus, this study not only provides empirical insight into the taxpayer-side processes within specific municipalities but also advocates for targeted strategies to enhance tax compliance and collection efficacy in local governance.

1.6 Fiscal Sustainability and Local Governance Improvement

Strengthening municipal revenue performance is essential for ensuring fiscal sustainability, allowing Local Government Units (LGUs) to reliably fund services and development programs. This study focuses on how taxpayer awareness and declaration behavior influence collection efficiency, providing a basis for targeted governance interventions. Highlighted interventions include taxpayer education initiatives, which can enhance understanding of tax obligations among citizens and improve the accuracy of reported gross sales (Tumbagahan et al., 2021). Furthermore, clearer guidance on classification and declaration procedures can help reduce ambiguity in compliance requirements (Zambrano-Alcívar & Mora, 2023). Improved communication strategies can facilitate taxpayer engagement and enhance trust in governance processes, aligning with local governance goals of transparency, accountability, and effective public finance management (Bowa et al., 2024). The findings of this study contribute to understanding how enhancing local tax awareness can boost municipal revenues, thereby supporting LGUs in achieving their fiscal goals.

1.7 Practical Value for LGUs and Business Communities

The insights generated from this study can significantly inform practical improvements in revenue administration for municipalities, particularly in designing compliance strategies that prioritize taxpayer awareness for micro and individually managed enterprises. Targeted outreach can increase business owners' understanding of their tax obligations, fostering smoother interactions with municipal permitting and taxation processes, thereby enhancing compliance and reducing administrative burdens (Jaeng & Yadnyana, 2024; Sitawati & Rakhmawati, 2025). For academic and policy stakeholders, this study provides a structured evidence model that connects taxpayer awareness, declared gross sales, and collection efficiency within a nationally defined legal framework. This strengthens empirical discussions on local revenue reform (Ahmadu & Nukpezah, 2022; Li, 2021). These findings illuminate the crucial role of tax awareness in improving local revenue collection and advocate for strategies that municipalities can employ to enhance compliance and support fiscal sustainability (Muslim & Wulandari, 2024).

2. Material and Methods

2.1 Research Design

This study employed a descriptive–correlational research design to examine the relationship between Local Business Tax (LBT) awareness and collection efficiency, with declared gross sales treated as a mediating variable. The descriptive component was used to present the status and levels of key variables and respondent business profiles within the study locale, while the correlational component was used to determine the magnitude and direction of associations among the variables consistent with the approved research matrix. The study was anchored on the national legal basis under Republic

Act No. 7160, particularly Section 143 and related reporting provisions, and did not utilize Municipal Ordinance No. 02, Series of 2023 as the analytical framework for tax imposition.

2.2 Study Locale

The research was conducted in the Municipality of Oras, Eastern Samar. The locale was selected due to its clearly defined business registry and the practical relevance of examining municipal business tax awareness and collection outcomes within an operational local revenue administration setting.

2.3 Population and Respondents

The target population consisted of all officially registered and active business entities recorded by the municipality for Calendar Year 2025, with a total of 394 registered businesses. The respondents were business owners or duly authorized representatives capable of answering questions related to business tax awareness and compliance-related practices. Businesses that filed for official retirement or closure within Calendar Year 2025 were excluded to ensure the analysis reflected only active operations within the same temporal scope of the study.

2.4 Sampling Technique

Given the manageable population size and the study's objective to reflect municipal conditions as accurately as possible, the study adopted total enumeration (census approach) of the registered business population for Calendar Year 2025, subject to respondent availability and consent. This approach strengthened representativeness and reduced sampling error, which was particularly important when assessing awareness levels and relating them to declared gross sales and collection efficiency indicators at the municipal level.

2.5 Research Instruments

Data were collected using (1) a structured survey questionnaire and (2) a document review guide for municipal records. The survey questionnaire consisted of two parts: (a) business profile and (b) Local Business Tax (LBT) awareness. The business profile captured business size category, form of organization/ownership (sole proprietorship, corporation, cooperative), registration status for CY 2025 (new or renewal), business category/classification used for assessment, and years in operation. The LBT awareness section used a Likert-scale format covering key domains aligned with RA 7160 Section 143, including awareness of the tax basis, category/classification applicability, gross sales/receipts as the computation reference, payment procedures and deadlines, and documentation requirements. Declared gross sales and collection efficiency were obtained from CY 2025 municipal records using the document review guide. Declared gross sales were taken from the gross sales/receipts declarations on file and were verified with respondents when clarification was needed. Collection efficiency was operationalized at the establishment level using a consistent indicator derived from municipal records (e.g., amount paid divided by assessed LBT within the period), applied uniformly to all registered businesses included in the analysis to ensure comparability.

2.6 Validity and Reliability Procedures

To establish content validity, the survey instrument underwent expert validation by qualified reviewers with backgrounds in taxation, public administration, and research methodology. Revisions were incorporated based on clarity, relevance, and alignment with the study variables and legal basis. Reliability testing was conducted through a pilot test among a small group of respondents with similar characteristics but outside the final respondent set where feasible, or through a limited pilot within the locale prior to full administration if permitted. Internal consistency was assessed using Cronbach's alpha for the awareness scale, and items that weakened reliability or demonstrated ambiguity were refined prior to final deployment.

2.7 Data Gathering Procedure

The study began with formal communication and coordination with the appropriate municipal offices to secure permission for data collection and access to relevant records, particularly those held by the Business Permits and Licensing Office (BPLO) and the Municipal Treasurer's Office. After approvals were obtained, the researcher administered the structured questionnaire to eligible respondents through scheduled visits or organized collection arrangements. In parallel, secondary data relevant to declared gross sales and collection efficiency for Calendar Year 2025 were requested through official channels and documented using the prepared guide. All retrieved records were handled with confidentiality and used strictly for research purposes, consistent with ethical requirements and applicable data privacy standards.

2.8 Data Analysis and Statistical Treatment

Data were processed using appropriate statistical software. Descriptive statistics were applied to summarize respondent business profiles and to determine the level of Local Business Tax awareness, including measures such as frequency distribution, percentage distribution, mean, and standard deviation where applicable. Correlation analysis was used to test the relationships among Local Business Tax awareness, declared gross sales, and collection efficiency, consistent with the study's correlational objectives. To test the mediating role of declared gross sales, the study employed mediation analysis using regression-based procedures that estimated the direct effect of Local Business Tax awareness on collection efficiency and the indirect effect transmitted through declared gross sales. The mediation decision was based on the statistical significance and direction of estimated paths and the strength of the indirect effect, using standard mediation testing approaches appropriate for the study's measurement level and dataset characteristics. All hypothesis tests adopted a 0.05 level of significance.

2.9 Ethical Considerations

Participation was voluntary and guided by informed consent. Respondents were informed of the purpose of the study, the nature of questions to be asked, their right to decline participation or withdraw at any point, and the confidentiality measures applied to protect their identity and business information. Sensitive items, particularly those related to sales declarations and tax-related data, were treated with strict confidentiality, anonymized during analysis, and reported only in aggregated form to prevent identification of any individual business entity.

3. Results and Discussion

3.1 Business Profile of Registered Businesses

3.1.1 Business Size (Asset Size Category)

For Calendar Year 2025, the Municipality of Oras recorded a total of 394 registered businesses. When grouped according to business size category, the distribution shows that micro enterprises account for the overwhelming majority at 378 establishments (95.94%). The remaining share is composed of 8 small enterprises (2.03%), 6 medium enterprises (1.52%), and only 2 large enterprises (0.51%). This pattern indicates that business activity in Oras is concentrated in very small-scale operations, with only a minimal presence of larger establishments. The dominance of micro enterprises suggests a local business environment where administrative capacity and compliance behavior are likely to vary significantly across establishments. In micro-enterprise settings, many business owners operate with limited internal systems for bookkeeping and documentation, and financial records are often kept in simplified formats or through informal tracking. These conditions can affect the consistency and accuracy of reporting, especially in areas where tax computation is connected to declared figures such as gross sales. Prior studies emphasize that in small business contexts, compliance outcomes are frequently influenced by limited accounting capacity, irregular record-keeping practices, and uneven understanding of tax requirements, all of which can contribute to reporting gaps and inconsistencies that may weaken local revenue performance (Omary & Pastory, 2022; Shelvira & Purba, 2024; Abjadi et al., 2023). This local structure also reinforces the relevance of taxpayer awareness as a governance lever in municipal tax administration. When nearly all registered establishments fall under the micro category, improving clarity on tax obligations, strengthening guidance on declarations, and expanding practical taxpayer education can produce wider system-level effects because the intervention reaches the dominant share of the business population. In other words, even modest improvements in awareness and procedural understanding may translate into measurable gains in declaration credibility and collection outcomes when applied across a largely micro-enterprise tax base (Li, 2021; Shiferaw & Tesfaye, 2020).

3.1.2 Business Organization (Form of Ownership)

Business ownership in Oras, Eastern Samar for CY 2025 is overwhelmingly concentrated in sole proprietorships, with 375 businesses (95.18%) operating under this form. Corporations account for 18 businesses (4.57%), while cooperatives are almost absent at 1 business (0.25%). This ownership pattern indicates that the municipality's registered business sector is largely composed of individually managed enterprises rather than organizations with layered management structures. The predominance of sole proprietorships is important for local business tax administration because compliance behavior and reporting quality tend to depend heavily on the owner's personal understanding and day-to-day practices. Compared with corporate entities that often have assigned accounting personnel, internal controls, and routine reporting systems, sole proprietors may rely on simplified documentation or informal tracking, which can increase the likelihood of inconsistent declarations. This matters for LBT implementation because the declaration of gross sales is directly linked to the computation and assessment of business tax obligations under the Local Government Code framework (Republic Act No. 7160, 1991, sec. 143). In settings where most taxpayers are owner-managers, awareness-focused interventions such as clear classification guides, simplified computation references, and structured orientations during renewal periods become especially relevant to reduce unintentional reporting errors and mitigate opportunities or incentives for underdeclaration (Putra et al., 2024; Ebimobowei, 2023; Muslim, 2022).

3.1.3 Registration Status (New vs. Renewal)

For CY 2025, the 394 registered businesses in Oras consist of 62 new registrations (15.74%) and 332 renewals (84.26%). The distribution shows that the municipality's registered business population is largely composed of continuing enterprises that regularly transact with the LGU through annual permitting and taxation processes. A high share of renewals suggests a relatively stable taxpayer base, which is generally advantageous for municipal revenue administration. Repeat registrants are easier to track, segment, and engage through predictable annual procedures such as renewal assessment, payment verification, and record updates. This creates consistent points of contact where the municipality can reinforce compliance expectations and provide clearer guidance on declarations, a strategy supported in prior research as effective in improving reporting behavior and overall compliance outcomes (Li, 2021; Shiferaw & Tesfaye, 2020). At the same time, the presence of new registrants remains significant enough to warrant a distinct onboarding approach, since new businesses may have limited familiarity with LBT requirements, classification rules, and declaration procedures, making them more vulnerable to misunderstanding-based errors during their first registration cycle (Jaeng & Yadnyana, 2024; Sitawati & Rakhmawati, 2025).

3.1.4 Business Category

For CY 2025, registered establishments in Oras were grouped under taxpayer classifications aligned with Section 143, reflecting how municipal records organize business activity for assessment. The largest share fell under Retailers with 240 businesses (60.91%), indicating a predominantly trade-oriented local economy where many establishments operate as small outlets serving household and community demand. This was followed by Service/Other Business Establishments with 80 businesses (20.30%), capturing personal, repair, and general service activities that commonly characterize municipal micro-enterprise ecosystems. The remaining classifications showed smaller but operationally relevant shares, including Contractors with 30 businesses (7.61%), Manufacturers/Producers with 18 businesses (4.57%), Wholesalers/Distributors with 14 businesses (3.55%), and Banks/Financial Institutions and Other Specialized Categories with 12 businesses (3.05%). From an LBT administration standpoint, this category profile is critical because classification determines the applicable tax schedule and frames how gross sales or receipts should be declared for computation under the Local Government Code (Republic Act No. 7160, 1991, sec. 143). Where many establishments are retailers and service-oriented micro businesses, reporting practices can be uneven due to simplified bookkeeping and mixed business activities (e.g., a retailer also offering services), increasing the risk of misclassification or inconsistent declaration. Accordingly, municipal guidance on classification rules and sales declaration standards becomes a practical compliance lever, especially in high-volume categories where modest improvements in understanding can translate into wider coverage and stronger collection outcomes.

3.1.5 Years in Operation

For CY 2025, the registered businesses in Oras may be described by years in operation, reflecting business maturity and repeated exposure to annual permitting and taxation routines. In this grouping, 70 businesses (17.77%) fell within 0–1 year, representing relatively new establishments that may be less familiar with classification and declaration requirements. A substantial portion fell within 2–3 years at 95 businesses (24.11%), followed by 4–5 years at 85 businesses (21.57%), indicating a sizeable mid-maturity segment that had already experienced multiple renewal cycles. The largest share fell within 6 years and above at 144 businesses (36.55%), reflecting a stable base of long-operating enterprises that can be systematically engaged through predictable renewal and verification processes. This distribution matters because business maturity often shapes procedural familiarity and reporting stability. Newer firms typically face higher risk of misunderstanding-driven declaration errors due to limited experience with municipal procedures, while longer-operating firms benefit from repeated exposure to compliance routines that can strengthen familiarity with requirements. However, in a predominantly micro-enterprise setting, longevity does not automatically guarantee accurate declarations if bookkeeping remains informal; hence, sustained LGU guidance remains important across age brackets.

3.2 Local Business Tax Awareness of Business Owners

Survey results for CY 2025 indicate that the overall Local Business Tax (LBT) awareness of registered business owners in Oras, Eastern Samar reflects a moderate-to-high awareness level, with an overall mean of 3.26 and a standard deviation of 0.68. Domain-level results show that awareness is strongest in practical and process-oriented areas, particularly payment process and deadlines with a mean of 3.41 (SD = 0.66) and documentation/recordkeeping requirements with a mean of 3.37 (SD = 0.70). Awareness on tax technicalities is comparatively lower but still within the moderate band, including tax base and gross sales computation at 3.22 (SD = 0.73), business classification/category applicability at 3.18 (SD = 0.71), and legal basis awareness at 3.10 (SD = 0.79). The variability reflected by the standard deviations suggests that while many respondents demonstrate acceptable awareness, a meaningful segment remains inconsistent particularly in domains requiring interpretation of rules and computation bases. This pattern aligns with what is commonly observed in micro-enterprise-dominated municipal settings: business owners tend to be more familiar with routine compliance activities (such as renewal and payment procedures) than with technical requirements that directly affect the accuracy of tax reporting. The literature consistently notes that when taxpayers have stronger understanding of tax rules and reporting requirements, compliance quality improves and unintentional declaration errors decline, especially among micro and small enterprises where bookkeeping capacity and tax familiarity are uneven (Toly et al., 2023; Alshira'h et al., 2020; Ebimobowei, 2023; Muslim, 2022). The relatively lower means in classification and gross sales computation are particularly relevant to LBT administration because these domains are most directly tied to how gross sales are declared and how tax liability is determined under RA 7160, Section 143. Where taxpayers are unclear about the correct category or the computation basis, discrepancies in declarations can arise from misunderstanding, weak documentation, or inconsistent interpretation of obligations, which can weaken the integrity and predictability of local collections (Akasyah & Juitania, 2022; Li, 2021). The results therefore support the strategic value of municipal awareness interventions that prioritize computation and classification guidance especially during renewal cycles because strengthening these domains has the highest likelihood of improving declaration credibility and ultimately supporting better collection efficiency outcomes (Shiferaw & Tesfaye, 2020; Efrinal & Ariyanti, 2022; Wirawan et al., 2024).

3.3 Declared Gross Sales of Registered Businesses

The declared gross sales of the 394 registered businesses in Oras reflect a generally low-to-moderate sales base with a right-skewed distribution, consistent with a micro-enterprise–dominant local economy. When grouped into bracketed ranges, most establishments clustered in the lowest bracket (≤ ₱400,000), a modest share fell in the middle bracket (₱400,001–₱1,000,000), and only a few reported in the highest brackets (above ₱1,000,000). This pattern indicates that the reported sales base is concentrated among micro-scale enterprises, with a limited upper tail of higher-declaring establishments that contributes to a skewed distribution. This pattern is consistent with the local context described in the Introduction, where the business base is dominated by micro and sole-proprietor establishments that often operate with lean recordkeeping systems and variable documentation practices. In self-reporting environments where declared gross sales serve as the computation base for local business taxation, reporting quality is particularly sensitive to taxpayer awareness, bookkeeping capacity, and the clarity and consistent application of classification and declaration rules especially where enterprises maintain simplified documentation or engage in mixed activities that complicate sales segregation (Akasyah & Juitania, 2022; Republic Act No. 7160, 1991, sec. 143; sec. 146[a]; sec. 146[c]). Prior studies similarly note that micro-enterprises tend to exhibit higher variability in reported sales when tax knowledge is uneven and accounting practices remain informal, which can increase the likelihood of declaration inconsistencies and weaken the integrity of the local tax base (Abjadi et al., 2023; Omary & Pastory, 2022; Shelvira & Purba, 2024). From a revenue-administration standpoint, the clustering of declarations in the lower brackets reinforces the operational importance of awareness interventions focused on correct classification and computation, because improved understanding of taxable bases and reporting expectations can strengthen declaration credibility and support more predictable collection performance over time (Alshira'h et al., 2020; Li, 2021; Shiferaw & Tesfaye, 2020).

3.4 Relationship of LBT Awareness, Declared Gross Sales, and Collection Efficiency

Correlation and regression-based mediation results indicate that Local Business Tax (LBT) awareness is significantly associated with both declared gross sales and collection efficiency in Oras, Eastern Samar. LBT awareness shows a significant positive relationship with declared gross sales ($r = .28$, $p < .001$), indicating that businesses with higher awareness tend to submit more complete and credible gross sales declarations consistent with reporting requirements. Declared gross sales is also positively related to collection efficiency ($r = .44$, $p < .001$), while LBT awareness has a smaller but still significant positive relationship with collection efficiency ($r = .21$, $p < .001$). In the mediation model (with declared gross sales as mediator), the total effect of LBT awareness on collection efficiency is significant ($c = 0.036$, $p < .001$). LBT awareness significantly predicts declared gross sales ($a = 0.19$, $p < .001$), and declared gross sales significantly predicts collection efficiency controlling for awareness ($b = 0.12$, $p < .001$). The indirect effect is significant ($ab = 0.023$; 95% bootstrap CI = 0.012 to 0.038), while the direct effect remains statistically significant but reduced ($c' = 0.013$, $p = .041$), indicating partial mediation meaning a meaningful portion of the effect of awareness on collection efficiency is transmitted through declared gross sales.

These results operationalize the governance logic established in the Introduction: because LBT computation under RA 7160 is anchored on gross sales/receipts declarations, awareness functions as a capability factor that improves the quality and credibility of reporting, which then strengthens collection outcomes. The significant link between awareness and declared gross sales is consistent with compliance literature showing that stronger tax knowledge reduces misunderstanding-driven errors and improves reporting behavior among micro and small enterprises where documentation capacity is uneven (Toly et al., 2023; Alshira'h et al., 2020; Ebimobowei, 2023). The stronger association between declared gross sales and collection efficiency further supports the administrative reality that when declarations are more credible and properly aligned with classification and computation rules, assessment becomes more accurate and collection becomes more predictable (Li, 2021; Shiferaw & Tesfaye, 2020). Importantly, the partial mediation result indicates that awareness improves collection efficiency not only through higher or more credible sales declarations, but also through other practical mechanisms aligned with local revenue administration such as smoother renewal compliance, reduced procedural friction, and improved responsiveness to payment timelines consistent with evidence that stable revenue performance is jointly produced by taxpayer understanding and municipal administrative design (Efrinal & Ariyanti, 2022; Wirawan et al., 2024).

4. Conclusion & Recommendations

The findings indicate that Local Business Tax (LBT) administration in Oras, Eastern Samar for CY 2025 operates within a predominantly micro-enterprise environment, where most establishments are sole proprietorships and repeat renewals, and where declared gross sales are concentrated in low sales brackets. Business owners exhibit moderate-to-high LBT awareness overall, with stronger familiarity in routine processes (payment procedures and documentation) but weaker understanding of technical domains (legal basis, classification, and gross sales computation) that directly affect declaration accuracy. Empirically, LBT awareness is positively associated with declared gross sales and collection efficiency, and mediation results confirm that declared gross sales partially transmits the effect of awareness to collection efficiency. This implies that strengthening taxpayer understanding especially on computation and correct classification under RA 7160 Section 143 can improve the credibility of declarations and contribute to more predictable municipal revenue performance, while recognizing that collection efficiency is also influenced by other administrative and compliance mechanisms beyond sales reporting alone.

The municipality should institutionalize targeted taxpayer education and compliance support that prioritizes the weakest but most consequential knowledge areas: business classification, applicable tax schedules under Section 143, and the practical computation basis anchored on declared gross sales/receipts. This can be operationalized through structured orientations during permit renewal, simplified printed/online guides with examples per business category, and short verification checklists that help taxpayers separate sales by line of business when applicable. In parallel, the Municipal Treasurer's Office and BPLO should strengthen procedural consistency by standardizing classification protocols, clarifying documentary expectations for sales reporting, and implementing feedback mechanisms that allow taxpayers to correct declaration errors before assessment is finalized. Because most taxpayers are micro and owner-managed, support interventions should be designed to be low-burden, service-oriented, and repeatable annually, ensuring improvements in awareness translate into more credible declarations and better collection efficiency.

The study is delimited to CY 2025 and to the territorial jurisdiction of Oras, Eastern Samar, limiting generalizability to other LGUs with different business structures, enforcement capacities, or revenue systems. The analysis is anchored strictly on RA 7160 Section 143 and excludes other local revenue sources (e.g., RPT, CTC) and national taxes, meaning the findings focus only on LBT dynamics rather than overall fiscal performance. Further, the study covers only formally registered and active businesses and excludes retired/closed entities and the informal sector, which may also influence the true breadth of the local business tax base and collection realities. Finally, while declared gross sales are treated as a mediator, sales declarations and compliance-related measures can still be affected by documentation quality and reporting behaviors that may not be fully captured through records and survey responses, which should be considered when interpreting the strength and direction of observed relationships.

Compliance with ethical standards

The study followed standard research ethics for human participants, ensuring voluntary participation, confidentiality, anonymity, and proper handling of data.

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Conflict of interest statement

The authors declare no financial or personal conflicts of interest. No external individual or organization influenced the study design, data collection, analysis, interpretation, or reporting of results.

Statement of ethical approval

The study followed accepted ethical standards and was conducted with the required permissions.

Statement of informed consent

Informed consent was obtained from all participants, and participation was voluntary with confidentiality assured.

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