THE EFFECT OF SUBSIDY REMOVAL, POLITICAL INSTABILITY AND INCOME INEQUALITY ON TAX COMPLIANCE AMONG MANUFACTURING COMPANIES IN YEMEN

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Abstract

Worldwide, tax compliance remain one of the most disturbing phenomenon that threaten the integrity of different tax system from developed to developing nations. This study is to examine the effect ofsubsidy removal, political instability and income inequality on tax compliance among manufacturing firms in Yemen. The study adopts a survey research design using self-administered questionnaire to collect data from owner-managers of manufacturing firms in Yemen. The Population of the study is 27,797 firms registered with the Yeminis Tax Authority YTA out of which 490 firms were selected as sample size. The collected data were analyzed using SPSS and PLS softwares. The findings revealed a positive significant association between government subsidy removal and political instability with tax compliance among manufacturing firms in Yemen. Whereas incone inequality shows an insignificant effect with tax compliance among these firms. Therefore, the study recommed that governemnt could emphasize on the significance of paying tax for the national development by committing the collected taxes to populace infrastructure development which inturns can improve the MSMLEs ownesr-managers tax compliance behaviour.

Keywords: *Tax compliance, subsidy removal, income inequality, political instability, MSMLEs, Yemen*

1. Introduction

Globally, from developing to developed nations, tax compliance remains an issue of discussion among scholars and tax administrators. Tax compliance is the act of fulfilling taxpayers' tax obligations as a compulsory contribution to the development of a country (Al-Ttaffi et al., 2025). Evidence from Nigeria indicates that tax compliance remains a major concern in developing economies, particularly where limited administrative capacity, high levels of informality, weak institutional trust, tax evasion, and a narrow tax base constrain the achievement of fiscal policy objectives (Bello, 2025c). The burden associated with complying with tax obligations can also extend beyond the amount of tax payable to include monetary, time-related, and psychological costs, which may influence business and entrepreneurial decisions (Bello, 2025b). In emerging economies, tax reforms are frequently employed as instruments to stimulate investment, promote equity, and enhance revenue generation; however, successive tax policy adjustments may also create new and evolving financial obligations for businesses (Bello, 2025a). On this note, tax compliance significantly affects country income and revenue meant to provide infrastructural and social development, irrespective of a country's level of development and economic well-being (Obaid et al., 2022; Ling et al., 2016). In Yemen, over the decades, Micro, Small, Medium, and Large Enterprises (MSMLEs) have played a vital role in accelerating and fostering physical development and economic growth from different perspectives (Al-Ttaffi et al., 2025). The broader contribution of MSMEs to economic development is well recognised, particularly in developing countries, where these enterprises contribute substantially to employment generation, poverty reduction, and gross domestic product (GDP) (Suleiman et al., 2021). This contribution further underscores the importance of ensuring that MSMLEs operate within an effective tax system capable of generating public revenue while supporting sustainable enterprise development. On the other hand, MSMLEs in Yemen are classified into seven main groups, including farmers, manufacturing, wholesale trade, livestock, services, retail trade, and others not specified above (Yemeni Ministry of Industry and Trade [YMIT], 2014). They are one of the major sources of government tax revenue, with tax collections from these enterprises contributing to economic development. Accordingly, Al-Ttaffi et al. (2023) and Abdullah et al. (2018) have argued differently that, in Yemen, MSMLEs represent about 99.6% of the country's economic growth and development.

Despite the substantial position of the MSMEs engagement in Yemenis economy, in terms of tax compliance and revenue generation to the government, their performance is highly low and worrisome (Al- Ttaffi et al., 2025; Obaid, et al., 2022). Low tax compliance of MSME operators has shrunk the government tax income (Obaid et al., 2020a; Adofi, 2015). Additionally, it was also reported that tax revenue collected from the MSMLEs operators does not exceed 5% of overall government tax revenue collections despite their significant role in the country economic activities (Obaid et al., 2020b).

Among the notable challenges and problems that have contributed to this situation are government subsidy removal, political instability, and income inequality (Al-Ttaffi et al., 2025). The economic consequences of abrupt government policy interventions should not be overlooked, as evidence from Nigeria shows that an unexpected fuel subsidy removal announcement constituted a significant policy shock with implications for the stock market and the wider economic environment (Bello, 2022). Although the Nigerian and Yemeni contexts differ considerably, this evidence illustrates how major government policy decisions can generate economic uncertainty and consequences for businesses and other economic actors. Even though MSMLEs occupied a large portion of the economic workforce, accounting for 11.9% with an employee turnover of 485,000, their low tax compliance rate is very alarming for a country such as Yemen (Al-Ttaffi et al., 2020; Ministry of Planning and International Cooperation, 2018). Thus, MSMLEs' operations in the country are crucial to government revenue. Political instability in Yemen has been a problem for more than a decade since the Arab uprising in 2011. This situation has resulted in uncertainty in government, followed by military intervention and other tribal clashes (Bin-Nashwan et al., 2023). On the other hand, income inequality, arising from poor economic conditions in the country, has compounded the already severe economic hardship experienced by individuals and business operators (Al-Ttaffi et al., 2025). This situation has placed additional pressure on the government to provide infrastructure and social development with limited resources at its disposal.

Conversely, Yemenis government tried different measures to improve tax compliance among various taxpayers including MSMLEs, but their effort yield not much positive result. Among the measures taken include physical intensive motivation through minimizing the tax rate from 0.20% to 0.10% to encourage MSMLEs and other taxpayers to comply as enshrine in the government regulation of 2010 No. 17 (Al- Ttaffi et al., 2025). Moreover, Yemeni Ministry of Industry and Trade YMIT (2014) added that the manufacturing sector of MSMLEs are among the most critical and effective players in the country economy.

Earlier, Al-Shamahi (2015) argued that in Yemen, the effect of removal of government subsidies on goods and services, income inequalities and political instability positively affected the tax compliance among the MSMLEs and individual taxpayers. This is because the act increase the budden on the taxpayers and reduces their earnings. It is also postulated that removal in fuel subsidy can trigger more pressure to the government disposal revenues wich could resulted in loss of tax revenues and increases the enforcement cost from the tax administration on tax compliance strategies (Taiwo, 2013). Hence, in Yemen, some MSMLEs are on view that the difficulties they encountered in their routen operational activities is attributed directly to the act of government by removing the subsidy and the existence of other socie-economic factorswhich in turns affected their cost of production as well as cost of transportation (Obaid, et al., 2022). Similarly, some of the social and economics operational hardship has exerted substantial moderating impact on the factors that could determine taxpayers compliance in Yemen (Obaid, 2021).

However, there is scanty literature that examine the relationship between subsidy removal, political instability and income inequality and their impact on tax compliance from the perspective of MSMLEs in Yemen. Therefore, the objective of this study is to empirically examine the effect of subsidies removal, income inequality, political instability on MSMLEs tax compliance in Yemen

2. Literature Review

This section provides reviewed literarture on some related concepts, emperical studies and draw its hypotheses of the study.

2.1 Tax Compliance and MSMLEs

Generally, taxation is a concept that was described as a compulsory payment made to the government or relavant authority chargeable on individual and corporate bodies on their wealth and income to support government expenditure (Al-Ttaffi, et al., 2025; Khasawneh, et al., 2008). It is an obligatory levy mandated on all economic activities by individual and corporate organization as their responsibility to support the gorvenment activities. Tax compliance remain one of the most important way to generate income by a country. However, Alm and Torgler, (2011), Devos (2008) and Fischer et al., (1992) differently argued that there is no generally common defination of tax compliance and tax noncompliance by scholars.

Accordingly, Abubakar et al. (2025) stated that tax compliance refers to taxpayer ability to filed all necessary tax returns at the right time and the tax returns shall be acurately reflect his tax liabilities and in accordance with the prevailing rules and regulation at the time of the file return to the relevant authority. Earlier, Jackson and Milliron (1986) posit that tax compliance is reporting all income and pay all due taxes in compliance with all the provisions of the tax laws, rules and regulations and other court judgement. Al-Ttaffi, et al. (2025) viewed tax compliance as willingness of taxpayer to comply with the tax laws of a tax jurisdiction to compliment government effort to the economy balance in a country.

Conversely, Isyaku et al. (2023) noted that tax compliance is the individual and taxble organization willingness to act in accordance with the provision of tax laws and tax administration voluntarly without any enforcement. Similarly, Abubakar, et al. (2025) asserted that tax compliance is perceived as the degree to which taxpayer is compel to tax laws, rules and regulation willingly. However, to Obaid, et al. (2022) tax compliance determinants can be grouped into three; economic, socio psychological, and political factors that can be varied from one country to another as well as the taxpayers alike. Alm (1999) and Jackson and Milliron (1986) suggested that tax compliance can be best suitabily explained from the perspective of social, economical and psychological point of view. for Instance, political instability is viewed from social perspective, whereas subsidy removal and income inequality is seing from psychological and economic perspective.

Scholars argued that successful and prosperious tax collection has to do with the economic persuation, influence and control, social values, and a perceive fairness in the tax system (Kessler, et al., 2016). On the other hand, Jacson and Milliron (1986) conclude that there is no general agreement among the scholars why people evade taxes however, some theories posit that embarking on the principle of compensate for tax enforcement activity is the prime principle of socio psychological and deterrence theories. Conversely, scholars from sociology and psychology showed that tax compliance is a phenomenon that is related to a social issue. In essence, socio psychological theory implied that tax compliance or noncompliance happened when a taxpayer agreed to be encourage and influence by another taxpayer or group attitude in an attempt to attain a positive yield from one another (Al-Ttaffi, et al., 2020).

Therefore, this study belief that removal of subsidy, income inequality, and political instabilty will no doubt increase the cost of production, rawmaterial, transportation and other related overheads which have direct and positive impact on the MSMLEs taxpayers. Accordingly, Al-Ttaffi, et al. (2023) reiterated that in Yemen, removal of fuel subsidy have compounded the burden on the chargeable income of taxpayers and this leads to more loss to the tax revenues to the government coffers. Meanwhile, Abubakar, et al. (2025) noted that when talking about the determinants of tax compliance, it is impossible not to consider the concepts of social approach instruments that tax departments apply to combat tax non-compliance.

2.2 Subsidy Removal

Obaid et al. (2022) defined subsidy removal as removing some typical burden by the government which is consider as an overall to the public interest, in an attemp to boost the provision of economic policy and social good and services. Raji et al. (2018) submit that subsidy could be any activity that regulate and aimed to maintain a price of a goods or product consumers paid below the market price to the producers for the benefit of all. Therefore, the major goal for subsidy is to assist individuals and businesses to possess required goods and services which under normal circumtances to be realize at a higher cost or rate without subsidy.

However, government subsidy removal have been studied in different capacity and its effect on the societal and economy of a country. For instance, in Nigeria, Ayuba et al. (2015) examine the association of fuel subsidy removal and perceived service orientation and tax compliance. Their findings shows a positive relationship. Likewise, Akerele (2018) studied the effect of partial removal of fuel subsidy on livelihood of Nigerian rural populace and found that increase in fuel price has neitively affected agricultural product by increasing the cost of transportation and other farm impliment. Similarly, Ling et al. (2015) also reported that there is positive association between GST tax compliance and government subsidies in Malaysia.

Additionally, Yusoff and Bekhet (2016) reported that removal of fuel subsidy has significant positve implication on tax policy, potential enegy savings and and stronger impact on enegy demand.

Mashchenko and Khodus (2024) concludes that positive incentive to the taxpayers tend to increase citizens willingness and commitment to the tax compliance. Bordignon (1993) added that positive inducement such as subsidy could serves as a reward to the public that motivate the commitment to towards tax compliance. Alm et al. (2023) postulate that tax compliance will increase when taxpayers appreciated the government provision to the social needs funded by the taxpayers taxes. Based on the previous findings, thus, this study hypothesized that:

H_1: *There is a positive relationship between government subsidy removal and tax compliance of Yemeni Manufacturing MSMLEs*

2.3 Income Inequality

Inequality of income distribution among individuals and businesses across the various categories within an economy is what constitute income inequality (Obaid, et al., 2020a). Jackson Milliron (1986) stated that income level is consider one of the most determinants of tax compliance. Obaid et al. (2022) reported that income differences is one of the most common factor responsible for tax evasion among individual and businesses that could leads to noncompliance behaviour. Noncompliance is the degree of which a business or individual willingly to not comply with the existing tax laws, rules and regulation to the personal gain and prosperity (Al-Ttaffi, et al., 2025). Based on the above assertion, tax noncompliance by MSMLEs due to income inequality could be base described as a degree to which MSMLEs decide to avoid complying with tax provision and cancealling their income.

Hofmann, et al. (2017) studied tax compliance among socio-demographic taxpayers. Their result shows that effect of income level among western nation on tax compliance is very minimal. However, Buettner et al. (2019) reported that the distribution among the MSMLEs matters when it come to effect of income level on tax compliance. This implied that on one way of the other income level of taxpayer could be among the determinant factor for tax compliance irrespective of the degree of effect. In a contrary findings, Bloomquist (2003) affirms that wide rage of income inequality among the taxpayers could contribute to the possibility of tax noncompliance and evasion if the opportunity exist. It is also reported a negetive association between income inequality and GST tax compliance in Malaysia (Ling, et al., 2015). To Abubakar et al. (2025) the higher the level of income inequality among the taxpayers and intollerance by tax administration the more it creates mistrust and low level of tax compliance. While, Inasius (2015) reported that tax compliance and income inequality have significant association. Implying that the more income inequality or parity exist among taxpayers the more likely tax noncompliance will be recorded. On this note, this study hypothesized that:

H$_2$: *There is a negetive relationship between income inequality and tax compliance of Yemeni Manufacturing MSMLEs*

2.4 Political Instability

Edwards (2007) submit that political is the recognition of an individual or group of individuals with a specific political affiliation with the political system. Alm et al. (1992) argued that experimental economists reported that citizens would have pay more tax and value public good if they partaken in selecting the government or associated themselves with the ruling party. However, political instability according to Alesina et al. (1996) is the inclination of a change in the administration in either by adherence to constituted laws or by otherwise i.e uncontitutional. Therefore, frequent changes in executive and government could triggered political instability in country which resulted in mistrust, political bias and uncertainty that could have a positive effect of taxpayers perception. Isyaku, et al. (2023) posit that uncertainty is among the main determinants related to tax compliance and well as determinants of bad tax structure. Cullen et al. (2018) contented that if a large number of country citizens holds a negetive impresion about a government there is high tendency of tax shrinking and probably tax noncompliance will persist. Eventhough, frequent and unauthorize change in government can create fears, uncertainty, and political instability in a country (Obaid, et al., 2020a; Abodher, et al., 2018).

It is also indicated that uncertainty has a positive significant effect with MSMLEs tax compliance (Obaid, et al., 2020a). Thus, the studies on effect of uncertainty on tax compliance are much in the literature, however, positive relationship between uncertainty and tax compliance have been reported (Obaid, et al., 2020a; Elbahnasawy, 2020; Tarmidi, 2019; D'Attoma, 2018; Nur-tegin, 2008; Alm et al., 1992). On the other hand, negetive relationship between uncertainty and tax compliance were also reported in the literature (Zheng et al., 2019; Abodher, et al., 2018; Torgler, 2003). While other studies reported no relationship between the uncerteinty and tax compliance (Filippin et al., 2013). Tirmidi (2019) added that citizen perceived government uncertainty could demorilize taxpayers and this can eventually leads to decrease in tax compliance. Based on the above literature, this study hypothesized that:

H$_3$: *There is a positive relationship between political instability and tax compliance of Yemeni Manufacturing MSMLEs*

3. Method

This study is quantitative study that adopt correlational research design using survey self-administered questionnaire. This study focuses on the manufacturing sector in Yemen. The population of the study according to the Yemen Tax Authority YTA is 27,797 MSMLEs. The sample size according to Krejcie and Morgan (1970) is

377. To minimize non respond rate, it was suggested that the sample size shall be increase by 30% in an anticipated less survey respond rate countries like Yemen (Al-Ttaffi, 2017). Thefore, the study sample size now became 490 manufacturing MSMLEs. The study used systematic random sampling to choose the respondent among the MSMLEs manufacturing in the country. The respondents of the questionnaire are the owners/managers of the MSMLEs who are in the best position to determine the MSMLEs income. Based on the available data from Yemen Ministry of Industry and Trade YMIT, 82.95% of the MSMLEs in Yemen are located within the Ten governorates as depicted in Table 3.1 below.

Table 3.1. Ten Governorates in Yemen with their MSMLEs

Governorates	Number of MSMLEs in governorates	The proportion of MSMLEs in the strata	The proportion of each stratum in the sample (Adjusted rates)	Number of respondents in the Sample
Sana'a	6190	22.27%	27%	132
Ta'izz	3871	13.93%	17%	83
Dhamar,	2237	8.05%	9.7%	47
Hadramaut,	2082	7.49%	9%	44
Ibb	3402	12.24%	14.8%	73
Al Hudaydah	1911	6.88%	8.3%	41
Adan	735	2.64%	3.2%	16
Shabwah	802	2.89%	3.5%	17
Lahij	717	2.58%	3.1%	15
Amran	1051	3.78%	4.5%	22
other Governorates	4798	17.3%	-	-
Total	**27,796**	**100%**	**100%**	**490**

Source: Prepared by the authors (2024) Based on Yemen Ministry of Industry and Trade YMIT

A total of 385 (78.6%) questionnaires were retrieved out of the 490 self-administered to the MSMLEs. However, 6 questionnaires were found not properly completed and hence, were discarded. Therefore, 379 (77.3 %) questionnaires were considered valid and usable for data analysis. A five-point Likert-type scale was used to measure all latent variables with answers ranging from strongly disagree (1) to strongly agree (5). Specifically, the nine items of government subsidies removal were adapted from the study of Abdelrahim (2014) and the nine items of political instability were adapted from Grootel (2010), six items of MSMLEs tax compliance behaviour was adapted from Gilligan and Richardson (2005) and the item of income inequality of MSMLEs was adapted from Obaid (2017). The technique used to analyzed the collected data is Partial least squares structural equation modelling (PLS-SEM) analysis technique using Smart PLS 3.0.

4. Result and Discussion

4.1 Assessment of Measurement Model

In this stusy, the study model was measured in light of discriminant and convergent validity. Hair et al. (2016) convergent validity implied the degree to which variables indicators measure and represent the variables to enable then qualify to correlate positively with other measurement of same variables. It is use to evaluate the indicators composite reliability, loading and average variance extract (AVE). As to seen in Table 4.1 below the cronbach's alpha, indicator loading and composite realiability all exceed the miminimu threshold of 0.40 and 0.70 respectively as suggested by Hair et al. (2016). Although, item number nine of government subsidy removal, political instability items number 6, 9, and 1 were all deleted due to their low indicator loandings and to increase the composite reliability of the model.

Table 4.1. Convergent Validity Assessment

Latent construct	Items	Loading	CA	CR	AVE
STCB	STCB1	0.805	0.820	0.869	0.528
	STCB2	0.770			
	STCB3	0.760			
	STCB4	0.662			
	STCB5	0.727			
	STCB6	0.617			
GS	GS1	0.788	0.843	0.915	0.573
	GS2	0.805			
	GS3	0.796			
	GS4	0.755			
	GS5	0.758			
	GS6	0.751			
	GS7	0.706			
	GS8	0.691			
PS	PS2	0.792	0.842	0.884	0.562
	PS3	0.613			
	PS4	0.812			
	PS5	0.754			
	PS7	0.764			
	PS8	0.747			

Note: PS9, PS1, PS6, PS9 were deleted because of low AVE

After achieving the convergent vality of the model then discriminant validity. Discriminant vality is the degree in which study variables varries from others in the same model (Duarte & Raposo, (2010). Thus, this study examined its discriminant validity according to Fornell-Larcker's criterion suggested by Hair et al. (2016). therefore, the discriminant validity of this study latent variables is done by comparing the correlation coefficient and AVE squared root among the variables. As depicted in

Table 4.2 below, the AVE squared roots is greater than all the diagonal values shows in their various rows. This shows how much variance were explained in the DV by matching the strength of the IV's (Barclay et al., 1995).

Table 4.2: Discriminant Validity

Constructs	PS	GSR	STC
PS	0.750		
GSR	0.419	0.757	
STC	0.418	0.696	0.727

However, this study also assessed the model measurement by employing PLS-SEM to get R^2 value. R^2 represent the value of variance in the dependent variable the can be interpreted by one or many independent variables. R^2 values 0.25, 0.50, and 0.75 are regarded weak, moderate, and substantial accordingly (Hair et al., 2016). Based on the Hair et al. (2016) recommendations the R^2 value of this study is regarded as adequate. This is because all the variables shows a R^2 value ranging from 0.504 is moderate and explained the variance in MSMLEs tax compliance by income inequality, government subsidy removal and politacal instability among manufacturing MSMLE in Yemen.

4.2 Predictive Relevance

Hair et al. (2010) suggested that studied that employed PLS-SEM in their data analysis shall utilize predictive relevance in measuring and assessing the quality of the study model. However, if the cross validated reduncy measure value (Q2) is greater than zero, it is assume then the predictive relevance of the study model is confirmed then (Hair et al., 2019). In line with this suggestions, in this study, the cross validation measure (Q2) for the study variables is 0.233, which indicates that the study model has a prdictive relevance as shown in Table 4.3 below.

Table 4.3 Variables Cross Validated Redundancy (Q2)

Independent Variables	SSO	SSE	1-SSE/SSO
MSMLEs Tax Compliance	2,232.000	1,712.099	0.233

4.3 Discussion of the Result

The objective of this study is to examine the effect of subsidies removal, income inequality, political instability on MSMLEs tax compliance in Yemen. Based on the regression result of subsidy removal shows $\beta = 0.637$, $t = 16.749$, $p<0.05$ which indicates a significant and positive association with MSMLEs tax compliance. This revealed that removal of government subsidy play a vital role in determining the tax compliance among the manufacturing MSMLEs in Yemen. This is because the MSMLEs are facing additional cost and other related expenses following the subsidy backslash and eventually decrease in the income resulted of increase in running and other operational expenses. The finding of this study is inline with findings of Ling, et al., (2015), Yusoff and Bekhet (2016) and Akerele (2018) who reported positive association between government subsidy removal and tax compliance. However, the regression result of income inequality shows $\beta = 0.023$, $t = 0.537$, $p<0.29$ which represent a negetive significant relationship with MSMLEs tax compliance in Yemen. Economic crisis that the Yemen taxpayers are associated as a result of government instability be one of the main factor to determine the income inequality (Obaid, 2017). Eventhough, some measure was taken by the government to determine and regulate the economic and income imbalance but it proven abbortive. It is also evedent that some literature indicates that high income level earners are more likely to dodge and even tend to pay low tax through various means (Fišar et al., 2020). Therefore, this study result reveal income inequality has nothing to do with tax compliance; it could be other factors. The findings is supported by the study of Ling, et al., (2015) who reported income inequality has negetive association with tax compliance. Finally, the regression result of political instability $\beta = 0.154$, $t = 3.255$, $p<0.01$ which indicates positive significant with tax compliance. This is because trust in government and political stability tend to bring accountability and transparency. However, political instabilty could hampered the taxpayers trust in governement due to possibility in policy changes that could affect tax reulations and other operation activities. Therefore, political instability could leads to more tax noncompliance than compliance behaviour among the MSMLEs in Yene. Yemen was in government uncertainty and tumoil since 2011 as result of Arab uprising which distablise the political formation of the government and since then it is countenously impacting on the economic activities of the country (Al-Ttaffi, et al., 2025; Al-Ttaffi, et al., 2023). The of this study is inline with the study of Obaid, et al., (2020a), Elbahnasawy, (2020) and Tarmidi (2019) who differently revealed that political instability (government uncertainty) positively related with tax compliance.

4.4 Hypotheses Testing

The objective of testing hypothesis is to examine the effect of independent variables on the dependent variable. To achieved this significance path coefficient is calculated via the boostrapping function with 5000 resampled. Table 4.5 below depicted the path coefficient t-value, b-value, and p-value of the proposed hypotheses of this study. The result generally, shows that (government) subsidy removal has $b = 0.637$, $t = 16.749$, $p< 0.001$; income inequality $b = -0.023$, $t = 0.537$, $p<0.296$ while political instability has $b = 0.154$, $t = 3.255$, $p<0.001$. This findings implied that H1 and H3 were suppoerted while H2 is rejected.

Table 4.5 Hypotheses Testing

Hypotheses No	Relationship	Path coefficient	T-value	P-value	Decisions
H1	GSR->STC	0.637	16.749	0.000*	Suppoerted
H2	II->STC	-0.023	0.537	0.296	Rejected
H3	PIS->STC	0.154	3.255	0.001*	Suppoerted

Notes: *p < 0.001, (one-tailed)

5. Conclusion and Recommendation

This study examined the relationship between government subsidy removal, income inequality, political instability and MSMLEs tax compliance in Yemen. The finding indicates that government subsidy removal and political instability has positive significant relationship with MSMLEs tax compliance. While the income inequality has a negetive association with MSMLEs tax compliance. This study concludes that removal of fuel subsidy and political instability are major determinants of tax compliance that any government policy shall be made with caution. Thus, the result of income inequality could not much determined taxpayers compliance in Yemen. The implication of this study is therefore, tax authority shall increase their operational inspection of the MSMLES performing in their area in order to ensure their compliance level with tax laws and government shall think other policy that will address the taxpayers concern. Policy makers, researchers and Yemenis government shall consider the findings of this study very useful in tackling issues related to MSMLES tax compliance and in general the perception of taxpayers on tax compliance determinants in a wide range. Future study could verify the result of this study using different variables and context among the other corporate taxpayer's categories of MSMLEs in Yemen.

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