International Journal of Intellectual Discourse (IJID)
ISSN: 2636-4832 Volume 4, Issue 2. June, 2021

A review of the impact of tax morale on tax compliance behaviour

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Abstract
The study reviews the role of tax morale in addressing the issue of tax compliance as a reaction to the classical tax evasion model that attributes the reason to deterrent policies. The paper also reviews other factors such as social and psychological factors, affecting tax compliance. It was observed that most of the studies employed the survey research design distributing questionnaires to employees as well as self-employed taxpayers. The need to provide tax payer services particularly during the filing stage, simplifies the tax paying procedure, creates awareness and promotes a fair tax system was also canvassed. The study recommends that the tax Authorities should develop fiscal policies that will foster tax morale to shift emphasis from deterrent policies and also recommends further research efforts to enable better understanding of the causes and consequences of tax morale especially from a developing country's perspective.

Keywords: Tax morale, compliance behavior, tax evasion, economic development

1.0 Introduction
The role of taxation and the effect it has on economic development is as old as time itself. Tax is a compulsory contribution, levied by government, and although taxpayers may not receive anything identifiable in return for their contribution, they still have the benefit of living in a reasonably educated, healthy and safe society (Nightingale 2001). Torgler (2007) traced the history of taxation down to Ancient Egypt where the Pharaohs appointed tax collectors and paid them high salaries; they also appointed supervisors to monitor their operations in an attempt to deter them from cheating. Till date, decreasing tax evasion and increasing the tax morale of citizens has become a major objective of public fiscal policy. (Rodríguez and Theilen, 2017)

Tax compliance behaviour overtime has remained the same with some tax payers probing the law to evade taxes or even breaking the law to evade taxes and others going through the right path by paying their tax liabilities (Ramona-Anca & Larissa-Margareta, 2012). This is even more disturbing for developing countries like Nigeria as it has been observed that tax revenue loss, as a result of non-compliance in developing countries is consistently greater than the amount in developed countries because of the presence of the large informal economy (Terkper, 2003). To stress the emphasis on developing countries further, in Nigeria, tax contributes about 7% to the Gross Domestic Products (GDP) as against 15% expected of a comparable country such as Gambia, Ghana and South Africa (Okonjo-Iweala, 2014). According to

Olaofe (2008) tax administration in Nigeria has suffered from inadequate manpower, money, tools and machinery.

Tax morale is often seen as motivation of attitude towards tax. Frey (2003) viewed tax morale as the motivating factor within the individual to pay tax. He further opined that it was imperative if high level of compliance was to be achieved. Anichebe (2010) stated that Nigerians generally had a low tax morale most especially under the various military dictatorships witnessed in the country and even with the coming of democracy and the political elites, the situation has still not changed. Coupled with these problems is the fact that majority of Nigerian tax payers are illiterate, with an average poverty level of 54.4% (Ibrahim, 2010) and considering Nigerian tax laws are complex and difficult to understand there will always be issues of non-compliance.

Tax compliance issues have always been an issue, as the question: "why people pay taxes' has been of interest to researchers (Alm & Torgler, 2011). Most of the early research studies on the phenomenon of tax compliance viewed the problem from the theoretical perspective of economic deterrence models (Riahi-Belkaou, 2004). The classical tax evasion model attributes this reason to deterrence policies, considering tax evasion are often met with stringent punishment (Srinivasan, 1973). The deterrence theory focuses on only economic factors and neglects social and psychological factors. This position has recently been criticised as the high level of tax compliance recorded across the globe has now been attributed to other factors outside the classical economic factors (e.g tax rates, penalty rates, income). Hence tax morale has been identified as a major determining factor of tax compliance behaviour. It is against this background that this study examines the literature and focuses on tax morale as a panacea to the issue of tax compliance.

This study makes a significant contribution to governments of developing countries, tax administrators, public policy makers on the issue of taxation and compliance behaviour. It will help in determining the amount of resources to be allocated in the annual budget on tax audit and investigation for the effective management of the tax compliance behaviour. Also, as Tyler (1997) has shown, people tend to obey and respect authorities when they perceive such authority as according them due respect. It therefore encourages the tax authority to be more open to seeking results by means of cooperation, rather than by the application of coercive force and should be viewed as service providers rather than as strict law enforcers.

2. Literature Review

2.1 Tax Compliance

The tax system which comprises of tax laws, tax policies and tax administration is set up to ensure compliance with tax rules and regulations. Alm et al. (2003) opine that the tax authority will always encounter challenges collecting tax because people naturally do not want to pay tax. Kirchler, Hoelz and Wahl (2008) add that it is the responsibility of the government of the day to drive and push if necessary its citizens to carry out their civic duty and obey the provisions of the relevant tax laws not withstanding their status or social class, although the goal of every tax administration is the fostering of voluntary compliance (Silvani, 1992).

The concept of tax compliance can be viewed as the extent to which a tax payer obeys the laid down tax rules and regulations. James and Alley (2004) define tax compliance as …" the will of individual and other taxable entities to behave in accordance within the spirit as well as the letter of tax law and administration without the use of enforcement action" (p.7). Abiola (2007) defines the concept as the actions taken by tax payers in meeting the statutory requirements of the relevant tax law. It encompasses the various tax payers reporting their earnings, calculating their tax liability and filing a tax return McBarnett (2003) opine that tax compliance could exist in three forms which include committed compliance, capitulated compliance and creative compliance. Committed compliance is a situation where the tax payer meets his tax obligations without complaining. While capitulated compliance is the ploy by the tax payer to disregard the tax regulations and creative compliance refers to any action taken by the tax payer geared towards masquerading income and deductible expenses within the limits of the law. Another viewpoint by Kirchler (2007) posits that compliance could take two forms i.e voluntary or enforced compliance. Voluntary compliance tends to exist when the tax authority and tax payer trust each other such that the tax payer complies and meets the directives and regulations. However when this scenario fails and mistrust grows between the tax authority and taxpayer, which degenerates into a hostile climate, authorities can then enforce compliance. By enforcement, tax payers who are unwilling to pay their taxes are made to do so through the threat and application of fines (Kirchler, 2007). Another classification is that of the Organisation for Economic Cooperation and Development (OECD, 2001). They classified tax compliance into administrative compliance and technical compliance. Administrative compliance comprise procedural compliance, reporting compliance and regulatory compliance and it is usually concerned with conforming with the rule that relates to the payment of tax while technical compliance involves meeting up with the technical requirements of tax laws in calculating tax liability. Franzoni (2000), and Chatopadhyay and DasGupta (2002) stated that compliance with tax laws involves true reporting of the tax base; correct computation of the tax liabilities; timely filling of tax returns and timely payment of the amount due as tax. Any behaviour by the taxpayer contrary to the above constitutes noncompliance.

Looking at tax noncompliance specifically, it could be seen as the inability of the tax payer to meet his tax obligations intentionally or unintentionally (James & Alley, 2004). However, Kirchler (2007) argued that since the degree of compliance varies then certain noncompliance might not violate the law. According to Roth, Scholz and Dry-Witte (1989), tax noncompliance occurs through the failure to file a return, misreporting income or misreporting allowable subtractions from taxable income or tax due (exemptions, deductions, adjustment, tax credit, etc.). Soos (1991) broadly classified noncompliance into four types: failing to file a tax return; underreporting of taxable income; overstating tax claims such as exemptions, expenses etc., and failing to make a timely payment of tax liability. Noncompliance with tax laws comes in different forms. It may be intentional noncompliance in which the taxpayer deliberately undermines the tax rules and regulations for his personal gain. The second is in the form of unintentional noncompliance, which may be as result of ignorance, oversight or mistake in the applying of tax laws. Any noncompliance act committed by a taxpayer that results in non-declaration or underreporting of taxable income leading to non-payment or underpayment of tax is regarded as tax evasion.

2.2 Factors Influencing Tax Compliance

The literature has provided evidence suggesting that tax compliance is influenced by numerous factors (Alm, 1999; Brook, 2001). Researchers identified these factors as economic, social and psychological factors (Alm, 1999; Brook, 2001; Devos, 2008; Kirchler, 2007). To tackle the challenge of tax noncompliance, it is necessary to understand the factors influencing the decision to comply with the provision of tax laws. The early researchers based their work on the economic perspective of tax compliance and they identified tax rate, penalty and detection probability as factors influencing taxpayers' behaviour (Allingham & Sandmo, 1972). In the course of time, researchers realized that taxpayers' compliance behaviour is equally influenced by social and psychological factors, and, as a result, extended their studies to cover these factors (Jabbar, 2009; Manaf, 2004). In an extensive review, the Australian Cash Economy Task Force (1998) identified interrelated factors influencing taxpayers' decision to comply or not with tax obligations and categorized these factors into business profile, industry factors, psychological factors, sociological factors and economic factors. According to the Task Force, none of the factors can stand-alone as they are interrelated in shaping the taxpayers' decisions.

In the case of Nigeria, a number of studies have offered possible explanations on why Nigerians are not complying with tax laws as well as factors influencing their taxpaying behaviour. In the work of Anyanwu (1993), possible explanations why individuals do not comply with tax laws, particularly engaging in tax evasion, were stated as economic explanation and psychological explanation. Under economic explanation, he said that taxpayers could think of themselves as maximizing the expected income after taxes and penalties or minimizing the expected taxes and penalties since pre-tax income is given. There are two issues in this, that is, the probability of the revenue authority identifying the individual tax evader and the severity of the penalty. The psychological explanation includes the attitude of the people liable to pay taxes with respect to compliance or noncompliance of their obligations relative to the attitude vis-à-vis the state (tax ethics) and the resistance of taxpayers to extremely high tax rates. Anyanwu (1993) further stated that tax noncompliance might occur when there is a relative degree of inefficiency in tax administration as well as corruption within government.

Nzotta (2007) also identified a number of factors responsible for high tax noncompliance in Nigeria and Africa as a whole. The basic factors responsible for noncompliance in developing countries are the high level of corruption by government officials at all levels and the lack of fiscal transparency (Nzotta, 2007). In the view of Sani (2005) the factors that stop individuals from complying with tax obligations, particularly in Nigeria, include high tax rates, which make noncompliance more attractive and economical as well as the lack of faith in the ability of the government to utilize the taxes collected for the benefit of the society; total ignorance of the tax laws and regulations by taxpayers, absence of any visible benefit accruing to the taxpayers in return for tax payment together with inefficiency of the tax administration and the attitude of the individual to contribute towards the maintenance of the society as other factors responsible for tax noncompliance.

2.3 Theories of Tax Compliance

The issue of tax compliance cuts across a number of fields. Flowing from its diversity, there will always be diverse theoretical viewpoints, although prior research have concluded that tax compliance is influenced by many factors which makes the use of one theory inadequate for explaining the topic. Theories have been suggested from economics, sociology as well as psychology.

2.4 Deterrence theory

The economists see the issue of tax compliance from the rationality point of view, such that individuals generally act rationally by comparing costs and benefits of any chosen activity (Alm, 1999; Brooks, 1998). The theory investigates the deterrent effects of sanctions or threat of punishment on illegal or unwanted behaviour. The theory posits that the difference in crime among people is as a result of differences in the analysed expected cost and expected benefit (Becker, 1968). Mustafa (2007) opine that the ground rules of the theory is that if the chances of discovery of the crime is high and/or punishment of the criminal is high then this would prevent individuals from committing crime.

2.5 Cognitive Theory

The theory tries to provide reasons for human behaviour in terms of how people interpret their experiences and plan their next action (Hogg & Vaughan, 2005). Following this theory, the key factors influencing compliance behaviour comprise the individual's morality and level of moral development (Sutinen & Kuperan, 1999). Personal morality is a condition where the individual is obliged to follow his sense of right or wrong, while moral development has to do with the voluntary will of an individual to comply with the rules and regulations of the society. Idris (2002) adds that the moral obligation of an individual would make the person willing to sacrifice against his interest for the benefit of the society in general

2.6 Social Influence Theory

This theory dwells on the influence of the environment. The theory posits that the individual's behaviour is directly or indirectly influenced by others in the society. It considers that people learn from the community by observing, imitating and modelling, and explains the behaviour of individuals to the reciprocal relationship between cognitive and behavioural environmental influences (Bandura, 1977). In relation with tax compliance, peers opinion and the extent of social influence are the key variables (Sutinen & Kuperan, 1999). Crisp and Turner (2007), social influence is concerned with "how our thoughts, feelings and behaviour change when in the presence of others" (p.132).

2.7 Social Exchange Theory

The argument put forward by this theory is that social change and stability requires a process of negotiations between parties. The position of the theory is that in a society, all relationships between individuals are based on a cost-benefit analysis framework. That is to say the chances of the relationship flourishing will be based on the comparison of the reward and cost alternatives inherent in it (Blau, 1964). Wallace and Wolf (1999) stated that the theory indicates that people will consistently repeat action that is rewarding, respond to stimuli that has linkage with such rewards and act on the basis of the values given to the action. Blau (1964) submitted that the underlying process of social exchange is the fundamental social norm of reciprocity, that is, the "need to reciprocate for benefit received in order to continue receiving them …." (p92).

In application to tax compliance, the theory indicates that the relationship between the government and taxpayers and all reasonable relationship is formed on the basis of the exchange of value, that is, individuals pay tax expecting that the government will reciprocate by providing some form of benefits in the form of public service, accountability, rule of law, participatory democracy, control of corruption, in sum "quality governance". According to Torgler (2007), the positive behaviour of the government towards the taxpayers will increase the likelihood of compliance and that taxpayers are more desirable to comply with the provision of tax laws if the exchange between the amounts paid as tax and the political goods provided by government are equitable.

In summarising the review of these theories, what can be taken from it is that no single theory can offer an adequate explanation of the factors influencing the behaviour of tax payers. Hence, theories from different sources are useful in tax compliance research.

2.8 Tax Morale

The positive role played by tax morale on tax compliance was brought to limelight in the 1960's and 1970's. Schmolders (1960) opines that an economic issue such as tax compliance should be viewed not only from the traditional perspective, but from an attitudinal view point. From that point on, a number of studies have now put forward arguments to buttress the point that tax morale can help explain a great deal of tax compliance (Andreoni, Erard & Feinstein 1998; Erard & Feinstein 1994; Alm, McClelland & Schulze, 1999, Frey, 2003). Others such as Frey and Feld 2002, Feld and Tyran 2002, Frey and Torgler (2002) opine that tax morale which emphasizes taxpayers' internal motivations, social norms, personal values, and cognitive processes has critical causal implications on tax compliance. Torgler and Schaltegger (2007) identified the need to provide alternative ways to increase tax compliance as the main motivating factor for tax morale research. Tax morale has been treated in the literature as both an exogenous variable and an endogenous one, i.e it can serve as an explanatory variable and can also be explained by a number of factors (Lubian & Zarri, 2011).

According to Braithwaite and Ahmed (2005), tax morale is perceived as the "internalized obligation to pay tax". Alm and Torgler (2006) see it as the "intrinsic motivation" to pay tax liabilities, Orviska and Hudson (2002) relate it to civic duty, whereas Torgler and Murphy (2004) link it to tax ethics. An inherent problem with the variable in terms of economic analysis is that it cannot be observed directly but can only be measured by looking at its effects or factors (Pommerehne et al. 1994). Kornhauser (2007) highlighted key components of tax morale to include procedural fairness, trust, legitimacy, identification within the group and reciprocity. He argued further that the precise components nor the exact mechanisms of tax morale cannot be defined in exact terms. Frey and Feld (2002) attributed tax morale as having several facets, which are influenced by a number of aspects. Among the aspects they identified include the cultural aspect which indicates that socio-demographic and socio-economic factors as well as pride and religiosity determines tax morale in the society.

A number of studies have looked into the factors that predict one's tax morale. In this light Torgler and Murphy (2004) studied tax morale amongst Australians, using data collected between 1981 and 1995. They found trust in the parliamentary or legal structure and religiosity to be key factors predicting tax morale. Investigating the nexus between wasteful public spending and tax morale, Barone and Mocetti (2011) found that efficient spending of public resources improves tax morale. Dell'Anno (2009) is of the opinion that tax morale is dependent on inner attitude towards honesty and social stigma

Alm and McClellan (2012) investigating the relationship between tax morale using data from Business Environment and Enterprise Performance Surveys (BEEPS) and the World Enterprise Survey (WES) on 8500 firms in 34 countries, over 8 years reported that tax morale considerations are the same for individuals and firms. A number of demographic factors have been found to influence tax morale. One of the pioneering studies, Tittle (1980) found that the age of the tax payer as well as the gender influences tax morale. The study opined that the older the tax payer the greater the propensity to comply with tax rules and regulations. Also females tend to be more positively inclined towards complying with tax. The fact that females are more risk averse than males could be a possible reason for this; Torgler and Schaltegger (2007) investigated whether self-employed taxpayers have higher tax morale than full-time employees. Their findings reveal that those in self-employment might not show a positive tax morale considering the burden emanating from financial restrictions and compliance costs. Lastly on socio-economic and demographic factors, Nzotte (2007) and Odinkonigbo (2009) observed that tax morale could also be influenced negatively by the prevailing level of poverty.

Another factor that has proven to influence tax morale from literature is the level of infrastructural development. Everest-Phillip and Sandall (2009) opine that individual's opinion of the extent of infrastructure is an indication of the quality of public governance which influences tax morale. Hence the qualities of governance could either positively or negatively influence tax morale. In Nigeria, there are several pointers to the fact that tax payers might not be too comfortable with the running of government. Natufe (2006) and Abati (2006) note that the widely spread decay plaguing Nigeria's public infrastructure and level of economic activity are a reflection of poor governance quality and the after effect of all these is low tax morale.

Lassen (2003) identified corruption as another determinant of tax morale. The authors argue that if the political goods mix supplied by the government is very different from those they prefer or rate of transformation is low due to corruption, taxpayers may feel the attractiveness of the quid pro quo contract diminished and that could lead to lower tax morale and compliance. Owolabi (2004) opine that the prolonged period of corruption in Nigeria has changed the orientation of the people. He noted that a corrupt system dampens the Tax morale of the citizens who gradually become frustrated. Lastly on factors that affect tax morale is education. Lubian and Zarri (2011) are of the view that education could play a role in determining tax morale as the schooling process is an avenue where morals and ethical practices can be disseminated in the society and this increases with the degree of education attained. Torgler and Schaltegger (2007) noted that an individual knowledgeable about certain fiscal policy is able to put into perspective the relationship between paying taxes and the accruing benefits. Highly educated tax payers are also able to process the extent of possible wastages by government and might eventually become less compliant

2.9 Tax Morale and Tax Compliance Behaviour

Tax morale has been proposed in the literature as one of the key factors influencing the level of tax compliance (Cummings et al. 2005). An insight into the literature shows that it has been studied in developed and developing countries. From the developed world perspective, Lisi (2015) revealed that tax morale is able to explain the high degree of tax compliance in many countries where the deterrence level is very low. It further shows that there is a positive relationship between tax morale and tax compliance and the relationship could be incorporated into the social welfare function and used to derive an optimal tax policy. Torgler and Werner (2005) provide strong argument buttressing the point that a high fiscal autonomy generates higher tax morale and therefore higher tax compliance.

In a Romanian study, Ramona-Anca and Larissa-Margareta (2012) gathering evidence from surveys and experimental games, considered tax morale to be one of the main determinants of tax compliance. The study which was a literature review dwelled on the nexus between tax morale and compliance behaviour and consistently reported a positive correlation between the two concepts. The study recommended that governments would need to result to several policy changes in order to corroborate scientific research and economic reality if they are to succeed in increasing tax compliance levels. Also using experimental survey data, Torgler, Schaffner and Macintyre (2007) find a strong correlation between tax morale and tax compliance which confirms that there are a variety of policies besides coercion that will help to increase tax compliance. From a developing country perspective Modugu and Anyaduba (2014) examined the impact of tax audit and other qualitative attributes on the tax compliance level of companies in Nigeria. The study employed a survey approach. Distributing questionnaires to staff of sampled companies in five geo-political zones in Nigeria, the result showed that the probability of being audited, perception on government spending, penalties and enforcement have a tendency to significantly influence tax compliance in Nigeria. For instance if tax payers especially those in high tax brackets perceive that the government spends tax money wisely in developing the state, they would willingly comply with tax. This also agrees with the study of Palil and Mustapha (2011). In similar vein, Okoye, Akenbor, and Obara (2012) investigated the causes of low level of tax compliance in the Nigerian informal sector. The study employed a questionnaire to get the required data. The findings revealed inadequate provision of public goods and services, lack of transparency and accountability of public funds as factors that influence tax compliance

From the review, the study observed that most studies examining tax morale and tax compliance, utilized the survey or experimental research design distributing questionnaires to employees as well as the self-employed. The review also showed that in both developed and developing countries tax morale largely had a positive influence on tax compliance. There is therefore need to find out the factors that predict tax morale considering the immense benefits it brings to the entire tax administration process, most especially in a developing country like Nigeria, where the revenue from taxation can be put into developmental projects

3. Conclusion and Recommendations

The review carried out in this study yielded a number of revelations. It was observed that most of the studies on tax morale and tax compliance utilised either the survey approach or the experimental design to elicit the desired information. It was also revealed that a strong positive relationship between tax morale and tax compliance such that the higher the tax morale, the higher will be the level of tax compliance. It is therefore strongly recommended that the relevant tax authorities should develop fiscal policies to foster tax morale such that emphasis should not be on deterrent policies. If taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair. Thus, there is a need to provide strong taxpayer's services particularly during the tax filing stage. This will include dissemination of information in order to enhance taxpayer compliance and also introduce taxpayer education programmes. The payment system should be simplified as much as possible to encourage tax payers willing to do the right thing, for those who try to "do the right thing" i.e pay their taxes but don't always succeed, the system should assist them to comply rather than issuing outright punishment and then the full force of the law can be slammed on those who have decided not to comply.

Furthermore, the tax authority can set up campaigns to create the necessary awareness especially if they are to capture the informal sector which makes up a large chunk of the Gross Domestic Product (GDP). In similar vein, a functional online system should also be launched with the aim of facilitating compliance process and mitigating bureaucracy. Also, it is very important to educate the young (who are the next generation of taxpayers) on the significance and role of taxes. There is need to create an environment for tax education in schools through the establishment of councils for promotion of tax education. Tax education should be viewed in the medium and long-term perspectives, and as a means to enhance taxpayer consciousness. It would be more appropriate to target students in secondary and tertiary institutions. The overall effort should involve both the education and finance ministries in order to come up with an effective tax education curriculum. Tax officials should be exposed to adequate and continuous training; both at home and abroad, for a better understanding of recent domestic and international tax issues, which could then be utilized, to formulate successful tax compliance strategies. The working conditions of tax officials also need to be improved in order to motivate them to carry out their duties in a more efficient and professional manner.

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