

An Exploration of Tax Compliance: A Conceptual Study

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Abstract: *This research seeks to expound upon the diverse perspectives held by various scholars regarding tax compliance and its correlations with other variables. This will greatly benefit future academics who are going to do research in this area. It also plays a vital function in acquiring new knowledge and expanding existing knowledge in this specific field. To ascertain the relevant concepts and their relevance to the present context, it examines the previous scholarly literature supplied by past researchers. Consequently, the researcher analyzed over 250 study articles authored by diverse organizations and individuals. Ultimately, a comprehensive analysis of more than 100 papers was carried out to ascertain the relevant topics and their applicability to the present circumstances in India. The conceptual notions discussed in this review paper will pave the way for future research, enhancing our comprehension of the ramifications of these ideas. If these theories prove to be valid in future study, they will be applicable to several real-world scenarios, both in India and elsewhere*

Keywords: Tax compliance, subsidies, economy, organizations

I. INTRODUCTION

Tax compliance has been characterized in various ways by different scholars. Ayuba, Saad, and Ariffin (2016) provided a definition of tax compliance as the act of following and obeying the relevant tax rules and regulations by taxpayers. On the other hand, Marziana, Norkhazimah, and Mohmad (2010) highlighted tax compliance as the degree to which taxpayers adhere to the tax laws and regulations inside their own country. In addition, Alabede, Zaimah, and Kamil (2011) argue that developing nations face significant obstacles that contribute to their persistently low levels of voluntary tax compliance. Tax audits and other enforcement activities are a primary factor contributing to this issue. As per Lediga (2018), South Africa has more than 300,000 enterprises that evade taxes, while reporting lower revenue compared to businesses that consistently comply with tax obligations. As per the data shared by the Indonesian Minister of Finance, just 397,000 small and medium-sized firms (SMEs), which accounts for approximately 0.7% of all SMEs, fulfilled their tax obligations in 2017. This makes the SME sector have the lowest overall tax compliance rates (Rachman, 2017). (2017b). Researchers have found that despite the implementation of various administrative reforms in several states, tax collection levels have remained low due to inadequate tax compliance. This is despite the fact that many governments worldwide have been implementing effective tax administration measures such as penalties and tax audits to enforce tax compliance. In order to demonstrate the connections between tax compliance, which is the variable that is influenced by other factors, such as tax rate, tax information, taxpayers' attitudes, legal framework, and the cost of tax compliance, the researcher examines the different theories proposed by scholars and the perspectives put forth by organizations and other researchers in this field.

II. THEORIES RELATED TO TAX COMPLIANCE

Various scholars have developed the following tax compliance theories to illustrate how numerous elements, such as public faith in the government and the quality of the products and services it provides to its residents, might enhance tax compliance. Here is a concise elucidation of these theories.

2.1 Theory of Optimal Taxation:

The core principle of this theory posits that the government actively employs taxation as a means to collect a predetermined amount of money.

Emanuele (2012) exemplifies how this theory integrates many theories that center on the attributes of a tax system. Furthermore, the objective of these models is to reach a state of balance in the amount of taxes imposed by the government in order to achieve its financial targets. In addition, these models are designed to include some exemplary attributes of a tax system, such as equity, stability, flexibility, and transparency (Emanuele et al., 2012).

2.2 Theory of Political Legitimacy:

According to this concept, the degree of public confidence in a nation's government has a substantial influence on adherence to tax regulations (Tyler, 2006). (Kirchler, 2008). In addition, Persson (2008) observed that the process of cultivating a national identity is more effective in preventing individuals from becoming prominent political adversaries.

2.3 The Theory of Tax Morality:

The tax morale theory was initially formulated by German experts from the Cologne school of tax psychology. Tax morale refers to the individual inclination that motivates people to fulfil their obligations regarding taxes. Multiple studies have demonstrated that tax morale plays a role in tax evasion, as indicated by Mocetti in Volume 18, Issue 6. According to this concept, taxpayers are more inclined to comply with their tax obligations if their friends, family members, and acquaintances also fulfill their tax responsibilities. Taxpayers may also evade tax payment if they see that others are successfully evading it. Put simply, a culture that prioritizes tax evasion would promote and support tax evasion (Waweru, 2004).

2.4 The Theory of Planned Behaviour (TPB) is a psychological theory that aims to explain and predict human behavior. The concept of planned conduct is a significant idea in social psychology that aims to elucidate human behavior. Ajzen developed this theory in 1991 as an improved iteration of the Theory of Reasoned Action, which he and Fishbein had previously proposed in 1991 to elucidate conscious behavior. This theory posits that social behaviors are impacted by multiple variables, have distinct causes, and unfold in a predictable fashion (Erten, 2002). Nevertheless, the ability to participate in a specific behavior is contingent upon an individual's motivation to engage in this behavior.

2.5 The fiscal exchange theory, often known as the theory of fiscal exchange, is a concept in economics that explores the relationship between government revenue and expenditure. This illustrates how the government can enhance tax compliance by providing its residents with improved access to products and services in a more efficient and effective manner (Cowell & Gordon, 1988; Levi, 1988; Tilly, 1992; Moore, 2004). Furthermore, this establishes a robust link between the taxpayers and the government (Moore et al., 2004). Given that taxpayers' behavior is more susceptible to being influenced by their degree of pleasure or dissatisfaction with the provision of public goods and services, this premise is more plausible.

2.6 The Allingham and Sandmo Theory, sometimes known as the AS Theory:

Allingham and Sandmo are the authors of this hypothesis. According to Sandmo (1972), the AS theory states that the government takes various measures, such as imposing additional fines and performing tax audits, to discourage tax evasion. If a taxpayer perceives that the consequences of evading taxes are not sufficiently severe, they are more likely to engage in such behavior. If a taxpayer perceives the expense of adhering to tax regulations as exorbitant, they may attempt to evade tax payment.

2.7 The economic deterrence theory is a concept that explores the use of economic measures to prevent or discourage certain behaviors or actions.

Various factors, such as tax rates, fines, and other considerations, influence taxpayers' behavior. Based on the research conducted by Becker in 1968, a small number of individuals will try to avoid paying taxes if the tax audits are rigorous and the penalties are harsh. Conversely, if tax audits lack authority and the penalties are lenient, the probability of tax evasion is significantly increased. In addition, tax administrators depend significantly on this concept while devising efficient strategies.

2.8 Crime Theory:

According to the theory of crime, individuals behave in a manner that would optimize their anticipated benefit. According to Becker et al. (1968), it is important for authorities to find a reasonable middle ground between recognizing individuals who are not following the rules and taking action before their non-compliance becomes unreasonable. Empirical evidence has demonstrated that the utilization of threats and legal coercion can lead to

unfavorable behavior. Such actions are more prone to result in persistent disobedience, innovative forms of compliance (McBarnet, 2003), criminal behavior, or resistance (Murphy and Harris, 2007). The reference is from Fehr and Rokenbach's work published in 2003.

III. PRIOR EMPIRICAL FINDINGS ON ASSOCIATIONS BETWEEN TAX COMPLIANCE AND OTHER VARIABLES

To establish a connection between each of the independent factors and the dependent variable, the researcher collected empirical data from several sources. The nature of these relationships may vary based on the circumstances, ranging from advantageous to detrimental. The subsequent unique heading is where the researcher presents the empirical data.

3.1 The correlation between the tax rate and tax compliance:

(Clotfelter, 1983) employed the logarithm of evaded income to measure tax compliance in three distinct groups of taxpayers, based on the origin of their income. In addition, he included variables such as age, marital status, the taxpayers' fiscal residence, and supplementary sources of income. The income variable that relied on other factors was positively influenced by the variable marginal tax rate when considering three different types of taxpayers. The elasticity values ranged from 0.515 to 0.844. For example, if the marginal tax rate is 40%, a decrease of 10% in this rate is expected to result in a reduction in tax evasion ranging from 5% to 8%. The findings undeniably corroborate the notion that tax evasion will escalate in tandem with rising tax rates. High tax rates have been found to incentivize tax evasion, as indicated by specific study. High tax rates are intended to increase the difficulty of paying taxes and consequently decrease the taxpayer's disposable income. While it is conceivable that additional variables may influence individuals' decision-making process about tax payment. A comprehensive outcome has been obtained for the entire tax system. For example, if the tax rate on profits made by corporations is relatively low while the tax rate on personal income is high, individuals will bear a substantial tax burden. This situation is unjust and discourages taxpayers from fully disclosing their income. The determination of whether to evade tax obligations or not is contingent upon the tax rates and overall structure of the tax system. In addition, Atawodi and Ojeka (2012) found that the primary external factors that contribute to tax non-compliance include elevated tax rates and intricate filing procedures.

The tax rate and penalty structure, as described by Sapiei and Kasipillai (2013), determine the monetary worth of adhering to tax regulations, which in turn affects taxpayers' compliance actions. Furthermore, the taxpayer assesses the costs linked to remaining in default, the penalties connected to fraudulent activities, and the advantages of not fulfilling tax obligations before making the decision to refrain from doing so, if the benefits surpass the expenses (Walsh, 2012). Ali (2018) discovered that the tax rate has a significant and beneficial impact on income tax compliance. Additionally, Ali revealed that the tax penalty rate also affects tax compliance. According to Mas' ul (2014), there exists a significant negative correlation between tax rate and tax compliance. The study by Anderhub (2001) discovered a positive correlation between higher tax rates and a reduction in tax evasion. Friedland, Collins, and Plumlee (1991) and Collins and Plumlee (1978) conducted research that shows a weak association between tax compliance levels and tax rates.

3.2 The relationship between tax information and tax compliance

The study findings indicate that individuals with lower levels of education have limited exposure to information on tax compliance and the relevant tax laws. Therefore, they require constant assistance. For example, Kenya has been implementing continuous tax education programs for both taxpayers and young individuals who may ultimately become taxpayers (Palil, 2010). Understanding tax legislation, together with tax education, plays a crucial role in influencing taxpayers' adherence to tax regulations. Although 65 percent of the questioned SMEs were aware of their tax obligations, more than half of them lacked a thorough understanding of the reasons behind these obligations. Additionally, over 50 percent of the SMEs surveyed were unaware of the taxation policies applicable to businesses operating in the informal sector in Ghana, as reported by Carroll (2011). However, relying just on tax education would not ensure continuous tax compliance. The research conducted by Nugroho and Zulaikha (2012) and Munari (2005), which examined the socioeconomic status of a society, aligns with the results of this study (Carroll et al., 2011). For example, this will progressively determine who will acquire a substantial amount of information regarding taxation expertise and its many impacts on society. During such circumstances, the public is given the opportunity to pay taxes promptly to prevent incurring penalties. This serves as a means to increase awareness about the importance of tax

payment for the progress of the nation. This study demonstrates the correlation between individuals' understanding of tax regulations and their level of compliance with such regulations, leading to improved social compliance.

According to Krause (2000) and Santoso (2008), an increase in public awareness of the importance of taxes to the government leads to a corresponding increase in the revenue generated from the tax sector. This study illustrates the concept of formal compliance, which refers to the timely completion of tax payments and reports. It indicates that taxpayers possess an understanding of the importance of fulfilling these obligations. In addition, Saad (2003) found that the insufficient technical knowledge among taxpayers in Malaysia led to a rapid increase in the need for tax agents. The Institute of Policy Studies (IPS) conducted a country research on India in 2015, which revealed important information concerning the decision of small and medium-sized enterprises (SMEs) to follow tax regulations. This study suggests implementing several tax awareness initiatives and workshops to enhance the level of voluntary tax compliance among SMEs, as the majority of SMEs demonstrate a lack of concern over the need of adhering to tax regulations. According to a tax research conducted by Andreoni and Errard in 1998, the amount of information available plays a crucial influence in shaping taxpayers' behavior and its impact on tax evasion. Individuals with lower levels of education generally exhibit lower levels of concern for tax compliance information and are more prone to engaging in tax evasion. Some taxpayers may find it more challenging to interpret tax information due to its sophistication compared to others. If individuals encounter difficulties in filling out their tax forms, this complexity can lead to unintentional noncompliance. (Troiano, 2017) observed that the exchange of tax information across American governments (federal and state) has been found to enhance compliance. Research conducted by Beeson (2016) and Geletaw (2017) indicates that tax knowledge and education exert a significant and detrimental impact on tax compliance. In Bernadette's (2010) study, it was discovered that owners of small companies have a lower probability of fulfilling their tax obligations due to their limited knowledge and understanding of the tax system. Laksono and Ardiyanto (2007), Kariyoto (2010), Pratama (2012), and Sjursen (2014) all agreed that the level of tax compliance is affected by an individual's understanding and awareness of tax obligations. Mckerchar (1995) and Loo (2008) discovered that individuals who lack technical skills inadvertently contravene tax legislation.

3.3 Correlation between Taxpayers' Attitudes and Tax Compliance:

In a study conducted by Torgler (2005), it was found that more than 46% of the participants attributed non-payment of taxes to a significant tax burden. The most commonly mentioned explanation for this was that the taxes were excessively high. The study investigated the level of tax morale in 17 Latin American countries. Subjects in specific research (Alm, Jackson, & Mckee, 1992) done outside the study period but still relevant in this field were exposed to tax rates varying from 10% to 50%, along with penalties equivalent to or exceeding the amount of taxes evaded. The findings revealed that the participants' perspectives on noncompliance and tax evasion were mostly shaped by their income and tax rates. The participants' perspectives on noncompliance and efforts to avoid tax payment intensified with higher tax rates and lower incomes. Most studies have found that both developed and developing countries have negative views towards tax compliance due to the heavy tax burdens they face. According to a study conducted by Garboua in 2006, which involved polling respondents in Romania regarding the country's taxation system, the majority of taxpayers expressed that fairness was more important than the amount of taxes, tax rates, and the efficiency of government expenditure. The overwhelming majority asserted that there was a clear and direct relationship between justice and tax compliance. The study additionally discovered that the maximum tax rate that Americans are willing to accept is 50%. According to a survey done by Porschke & Witte in 2002, it was found that a tax rate of 30% was considered sufficiently acceptable.

The Asia Pacific Journal of Research (2015) has published the findings of a study conducted by M.B.M. Amjath on the perceptions of Indian taxpayers towards the country's income tax system.

Research conducted by the economy watchdog in 2015 on tax burdens faced by small and medium enterprises (SMEs) in South Africa found that the processes involved in fulfilling tax obligations acted as a hindrance to tax compliance. This is because the act of paying taxes frequently depletes resources that small and medium-sized enterprises (SMEs) could have otherwise utilized to operate their businesses more efficiently. Many small and medium-sized enterprises (SMEs) perceive their tax responsibilities as an increasing burden due to a lack of adequately skilled personnel to handle tax compliance matters, resulting in the necessity to pay "extra" taxes. The research also highlighted that

alterations in tax legislation could potentially exacerbate the complexity of the tax system. An evident observation is that complex tax incentive programs often result in increased costs for compliance rather than actual tax savings. These programs require advanced technology and skilled workers. Given that tax evasion diminishes tax compliance, small businesses (and possibly other taxpayers) would prefer direct reductions in tax rates and penalties. Previous research has shown that individuals with higher levels of education have a better understanding of the tax code and therefore tend to comply with tax laws more frequently compared to individuals with lower levels of education (Schmolders, 1960; Song & Yarbrough, 1978; and Spicer & Lundstedt, 1978).

Mehari, Daniel, and Pasha (2017) found that the techniques used for tax collection and law enforcement positively influence taxpayers' willingness to comply with their obligations. Although countries such as Australia, France, New Zealand, and the USA have implemented significant initiatives to simplify tax laws, their efforts have not had a substantial impact on the overall situation. Nevertheless, it had a negligible effect on the increase in tax compliance. According to Kogler (2016), the effect of delayed tax audit replies on compliance is far more significant than the effect of swift replies. Jayawardane and Low (2016) found that the intricacy of the tax code negatively affects individuals' decisions regarding tax compliance. A considerable proportion of SME taxpayers who comply with VAT regulations have identified the intricate nature of Bangladesh's VAT legislation and the high cost of adhering to it as the primary factors contributing to VAT non-compliance among SMEs (Nahida, 2014). Marshall (1998) and Owens and Hamilton (2004) have demonstrated the considerable challenge of determining whether a taxpayer's activities align with the tax code. Multiple studies have indicated that the intricate nature of tax laws leads to individuals experiencing uncertainty, resulting in a decrease in their adherence to tax regulations.

IV. CONCLUSION

The main objective of this study is to elucidate the conceptual perspectives that many scholars hold on this specific topic. To ascertain the relevant concepts and their relevance to the present setting, it examines the previous scholarly literature supplied by earlier researchers. Consequently, the researcher analyzed over 250 study articles authored by diverse organizations and individuals. Ultimately, a comprehensive analysis of more than 100 papers was carried out to ascertain the relevant topics and their applicability to the present circumstances in India.

The researcher utilized the correlation matrix and regression analysis, which are significant statistical techniques, to scrutinize the data and ascertain the associations between tax compliance and the other independent variables.

To acquire new knowledge and expand the knowledge base in this specific subject area, it is essential for future scholars to be able to identify the different concepts and their relative significance to the current situation in India. This review study presents several perspectives expressed by experts regarding tax compliance and its correlations with other variables. Consequently, the theoretical notions discussed in this review paper will pave the way for future research, enhancing our comprehension of the significance of these ideas. If these theories are found to be applicable in future research, they will be relevant to several real-life scenarios, both in India and elsewhere.

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