Reconceptualizing Tax Compliance Behavior: A Theoretical Matrix Approach

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Received: January 3, 2024 Accepted: February 15, 2024 Online Published: February 22, 2024

doi:10.5430/afr.v13n1p67 URL: https://doi.org/10.5430/afr.v13n1p67

Abstract

Tax compliance behavior is a multifaceted and extensively explored phenomenon within behavioral economics. However, due to its intricate nature, achieving a full grasp of this topic remains a challenge. This paper is motivated by the lack of coherent structure and lucidity in the existing theoretical frameworks employed to elucidate tax compliance behavior. Firstly, this paper puts forth a novel perspective that seeks to transcend the traditional binary framework of taxpayer behavior, which typically categorizes taxpayers as either compliant or non-compliant. Instead, this paper posits that taxpayer behavior may exist along a spectrum spanning from complete compliance to absolute non-compliance. This conceptual shift aims to provide a more nuanced understanding of taxpayer behavior by acknowledging the potential for varying degrees of compliance. Secondly, to address the existing gaps in the theoretical foundations of factors influencing tax compliance behaviour, the paper introduces a theoretical matrix. This matrix is intended to serve as an organized framework that succinctly encapsulates the prevalent theories underpinning studies concerning the determinants of tax compliance behavior. By methodically categorizing these theories based on 'types of compliance' and 'types of factors' dimensions, the matrix provides researchers and practitioners with a cohesive overview of the diverse factors influencing taxpayer behavior.

Keywords: behavioral economics, continuum perspective, tax compliance, theoretical matrix

1. Introduction

Taxation is the primary source of revenue for most governments (Federal Government Revenues, 2021). Tax non-compliance may dramatically suppress tax revenue collection, which is detrimental to the government budget (Oh & Ki, 2020). Hence, it is critical to ensure that all taxpayers pay their tax obligations. To this end, the government enacted tax laws to regulate tax collection and exert control over the macroeconomic environment (Nguyen et al., 2020). Despite the efforts of tax authorities, the government continues to struggle with tax non-compliance issues.

Tax compliance presents a fascinating dynamic, encompassing voluntary, forced, or a mixture of both. The challenge for researchers lies in the inherent unobservability of these compliance types. Even in the absence of severe tax-related sanctions, certain taxpayers may voluntarily fulfill their tax obligations as a matter of personal responsibility. This phenomenon perplexes researchers employing the economic deterrence theory to decipher taxpayer behavior. Adding complexity, compliance behavior is dynamic, subject to change due to various factors influencing taxpayers' capacity and motives to comply (Kasipillai & Abdul-Jabbar, 2006; Stam & Verbeeten, 2017).

Factors such as an increased probability of detection, taxpayers' level of tax knowledge, tax penalties, and a taxpayer's financial situation wield distinct effects on compliance. This intricacy in understanding tax compliance has sustained an interest among diverse researchers, spanning disciplines such as accounting, economics, political science, public administration, and psychology. Numerous scholars, including Bello and Danjuma (2014), Dularif and Rustiarini (2022), Horodnic (2018), Kirchler et al. (2010), Ritsatos (2014) and Young et al. (2016) have reviewed findings of past studies and the underlying theories. Complementary contributions come from authors like Al-Ttaffi and Abdul-Jabbar (2015), Bornman and Ramutumbu (2019), De Clercq and Aprea (2023), Kamleitner et al. (2012), Prichard et al. (2019), and Smith and Kinsey (1987), who develop conceptual frameworks for tax compliance (or evasion) and its determinants, enriching our comprehension of this intricate subject.

However, the aforementioned review and conceptual papers primarily concentrate on either empirical findings (Dularif & Rustiarini, 2022; Horodnic, 2018; Ritsatos, 2014; Young et al., 2016) *or* the theoretical frameworks that underpin them (Bello & Danjuma, 2014). Notably, many of these papers are siloed within specific disciplines, such as economics, psychology, and accounting. For example, Kirchler et al. (2010) delve into economic determinants, while Kamleitner et al. (2012) focus on psychological aspects of tax compliance. Thus, there might be a lack of comprehensive integration that considers insights from multiple disciplines. Even when they consider multiple disciplines, no clear indication is made as to how these multi-disciplined factors interplay. This paper aims to bridge the gap by synthesizing findings and theories from various disciplines to provide a holistic understanding of tax compliance behavior. In addition, while extant literature hints at different types of tax compliance (voluntary, forced, hybrid) and its determinants, but there is a gap in providing a comprehensive and clearly defined typology that encompasses all relevant dimensions. This paper contributes to narrow this gap by presenting a well-defined taxonomy of tax compliance and its determinants, considering not only legal distinctions but also behavioral and motivational aspects.

The objectives of this paper are twofold. Firstly, it reviews empirical evidence on the plausible factors that may influence tax compliance behavior and commonly used theories in explaining those findings. In doing so, this paper also alludes to different types of tax compliance. Secondly, it proposes a theoretical matrix developed based on the review. The key feature of the proposed theoretical matrix is that it clearly distinguishes different types of tax compliance and factors associated with tax compliance behavior. It then maps the underlying theories onto these classifications of tax compliance and its determinants.

The significance of this paper lies in its potential to refine our comprehension of tax compliance behavior. By reconceptualizing taxpayer behavior along a continuum, rather than a rigid binary construct, the proposed approach acknowledges the inherent complexities and motivations that drive individuals' decisions regarding tax compliance. Furthermore, the introduction of a theoretical matrix offers a structured foundation for future research endeavors, facilitating the identification of gaps in the current body of knowledge and informing the development of targeted interventions to enhance tax compliance.

The remainder of this paper proceeds as follows. It will first discuss the types of tax compliance and non-compliance. Subsequently, it will elucidate the underlying theories and empirical evidence on determinants of tax compliance behavior breaking them down into economic and psychological elements at the institutional, social, and individual levels. Next, the proposed theoretical matrix will be presented and described. Finally, the limitations of this paper and suggestions for future research will be presented.

2. Types of Tax Compliance and Non-compliance

The concept of intention to comply with tax laws can be conceptualized as a spectrum, which spans from individuals' dedication to fulfilling societal and governmental goals on one end, to the enforcement of legal obligations on the other end. However, the focus of extant literature has been exclusively on the tax compliance side (Gangl et al., 2015; McBarnet, 2001; Goldsmith & Posner, 2002; James & Alley, 2002; Kirchler et al., 2008). Similarly, other past studies examine and discuss tax compliance and non-compliance in exclusivity (e.g., Arezzo et al., 2023; Al-Ttaffi & Abdul-Jabbar, 2015; Kasipillai & Abdul-Jabbar, 2006). However, tax compliance arguably exists along a nuanced continuum rather than adhering to a binary notion of mere compliance and non-compliance. That is, taxpayer behavior may embody a blend of complying and non-complying actions (Note 1). For example, a taxpayer may fully declare his principal and part-time income and yet overreport his tax deductions. Another taxpayer may report his total income and taxable expenditures honestly but fail to file his tax return within the stipulated time and pay the taxable amount at the due date.

The above complexity is depicted in Figure 1. For illustration, Taxpayer A might exhibit an 80% alignment with compliance and 20% inclination towards non-compliance, while Taxpayer B could demonstrate a 30% propensity for compliance and 70% disposition for non-compliance. This continuous interplay between tax compliance and non-compliance is, in essence, boundless. In reality, it may be extremely difficult to quantify the extent to which a taxpayer is tax compliant (or non-compliant). However, we can think of Taxpayer A (B) as one with a greater (lesser) extent of compliance.

Note: *McBarnet (2001), Goldsmith and Posner (2002), James and Alley (2002), Kirchler et al. (2008), and Gangl et al. (2015)

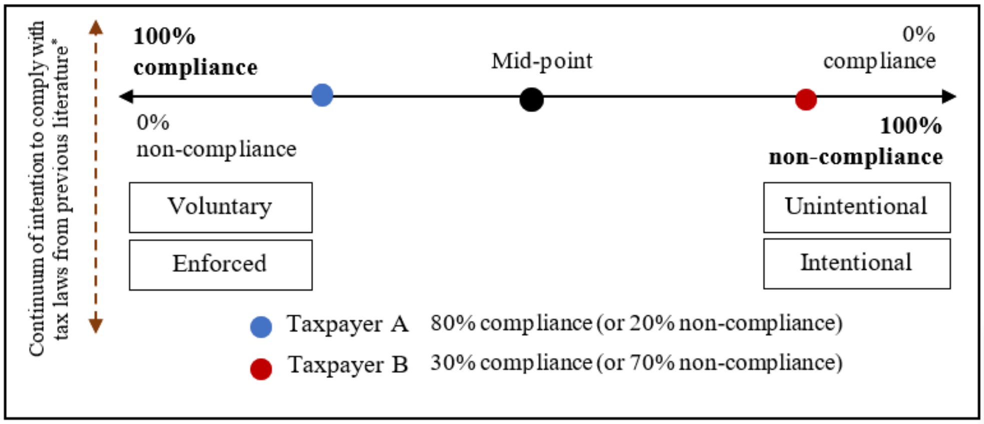


Figure 1. Tax compliance and non-compliance continuum

Further complicating matters, tax compliance can be classified into distinct categories that enrich our understanding of its dynamics. Enforced tax compliance pertains to the mandatory adherence driven by regulatory frameworks and governmental oversight. It constitutes the bedrock of the taxation system, shaping the foundation upon which revenue collection relies. On the other hand, voluntary tax compliance involves a willing and proactive commitment to fulfill tax obligations beyond the constraints of legal mandates, often motivated by ethical considerations and the desire to contribute to the greater societal good. In the above illustration in Figure 1, Taxpayer A may comply 10% mandatorily and 70% voluntarily, while Taxpayer B may demonstrate a voluntary compliance of 20% and an enforced compliance of 10%.

Similarly, non-compliance materializes in two distinct manners: intentional and unintentional. Intentional non-compliance encompasses deliberate actions aimed at evading or reducing tax liabilities through means that exploit loopholes or manipulate information. In contrast, unintentional non-compliance stems from inadvertent errors, misinterpretations, or intricacies within tax regulations, leading to underpayment or misreporting despite a genuine desire to comply. In the depicted scenario in Figure 1, Taxpayer A might not comply entirely unintentionally, whereas Taxpayer B might intentionally evade 50% of their tax obligations and unintentionally neglect 20% of them.

The above classifications of tax compliance and non-compliance will be discussed in greater detail in the subsequent sections.

2.1 Enforced Versus Voluntary Compliance: Slippery Slope Framework

As alluded to in the preceding section, the tax authorities are often concerned about tax compliance to maximise tax collection. However, it is important to note that tax compliance can be created in different settings, as proposed by the slippery slope framework by Kirchler (2007). According to this framework, the environment of tax compliance is a function of the power of tax authorities and trust in authorities (Kirchler et al., 2008).

In essence, tax compliance can be achieved using authoritarian power, a trust relationship, or somewhere in between. Authoritarian power is created when the tax authority is very powerful. This "cops and robbers" atmosphere is where the authorities act as “cops”, attempting to catch as many irresponsible taxpayers (robbers) as possible. Taxpayers on the other side try to evade the authorities' prying eyes and avoid taxes whenever they can. This scenario can create an antagonistic environment, where taxpayers are more likely to obey tax regulations when they perceive a high level of power of the tax authorities (Hofmann et al., 2017). Therefore, the term used to describe this form of compliance is enforced compliance, where an individual pays taxes because they fear the fines and penalties enforced by the government.

On the other hand, trust in authority encourages a "service and customer" mentality in the environment. In this scenario, the authorities are viewed as a community component that serves the public as a service unit. They are helpful, transparent, and always apply honest practices when performing their duties. This environment is called a “synergistic atmosphere,” where taxpayers and authorities work together with a high level of trust and voluntary compliance. This form of compliance refers to voluntary compliance. Voluntary compliance is when an individual performs their primary duties without the intervention of the tax authority, while enforced compliance involves the tax authority collecting the income tax from citizens forcibly.

Interestingly, the tax compliance environment may evolve depending on how the power of authority and trust in authority interact with each other. The interplay between trust and taxing authority can lead to both voluntary and enforced tax compliance, as shown by the slippery slope (Kirchler et al., 2008), indicated in Figure 2 below. As both impact each other, the connection between trust and power must be balanced. When there is too much trust in the tax authorities, the tax authorities might act indiscriminately. Meanwhile, if the taxes authority wields too much power, people are more likely to commit fraud.

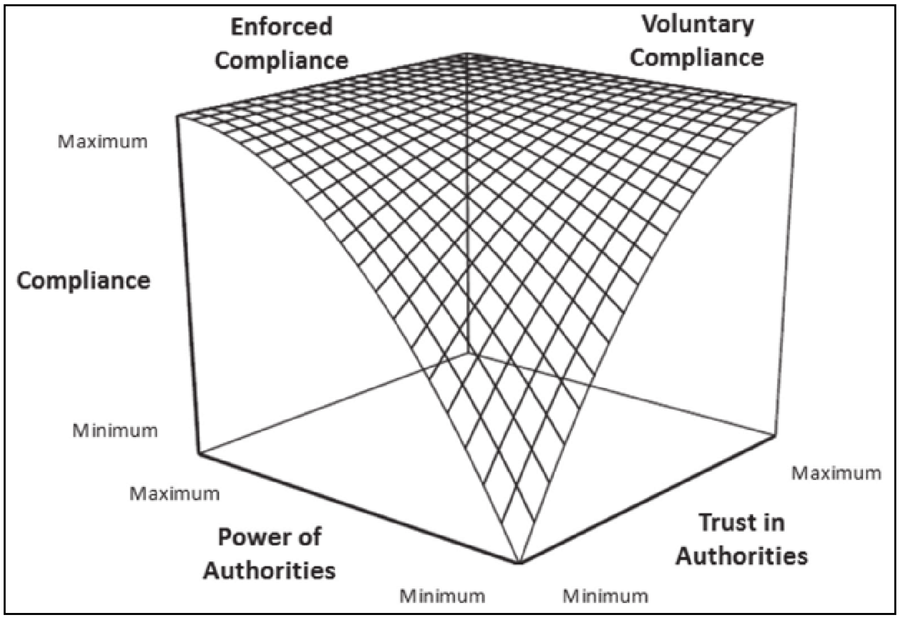


Figure 2. Slippery slope framework (reproduced from Kirchler et al. (2008))

The framework for the slippery slope has been supported by a number of empirical tests (Faizal et al., 2019; Faizal et al., 2017). For example, experimental research by Mardhiah et al. (2019), Kogler et al. (2013) and Wahl et al. (2010), found that trust in authority and power of authority boost the tax payments, which supports the assumptions of the slippery slope framework. Furthermore, these experiments have documented that power gives rise to enforced compliance but reduces voluntary compliance. Conversely, trust encourages more voluntary compliance but reduces enforced compliance. Furthermore, the study found that a combination of high trust and high power resulted in the most voluntary compliance, whereas low trust led to the lowest voluntary compliance, regardless of power. In some other experiments in the study, high trust culminated in the most voluntary compliance, regardless of power, but a combination of low trust and strong power resulted in the least voluntary compliance.

Another empirical investigation by Kogler et al. (2013), examined the major assumptions of the slippery slope framework in four European countries: Austria, Hungary, Romania, and Russia. Their results supported the slippery slope framework's main assumptions, indicating that high trust and power environments lead to greater levels of tax compliance and the lowest levels of tax evasion. The study also found that strong trust is associated with greater voluntary tax compliance, while high power is associated with more enforced tax compliance. The study also demonstrated that low levels of trust and power result in the minimum intention to comply and the maximum intention to evade taxes.

In their comprehensive study, Hasan et al. (2023) conducted 28 semi-structured interviews with a diverse group of participants, including Pakistani taxpayers, tax experts, and personnel from tax authorities. Their research highlights a pivotal insight into the failure of tax reform initiatives—the primary reason lies in their inability to establish trust among taxpayers and enhance the capabilities of tax agencies. This discovery underscores the critical role of trust in the tax system, revealing it as a decisive factor in amplifying tax compliance, aligning with the principles of the slippery slope framework.

Consistently, Prichard et al. (2019) demonstrate the importance of trust in their World Bank working paper. The working paper introduces a conceptual framework for enhancing tax reform and compliance by integrating investments by tax authorities in enforcement, facilitation, and trust. Emphasizing the need for a balanced approach, the framework aims to not only strengthen enforced compliance but also stimulate quasi-voluntary compliance, cultivate sustainable political backing for reform, and create favorable conditions for robust fiscal contracts. The paper underscores the challenge of determining the optimal combination of enforcement, facilitation, and trust measures to achieve revenue and broader development objectives. It advocates for a context-specific approach, utilizing locally grounded binding constraints analysis and a nuanced understanding of political dynamics and trust drivers. By proposing a strategic allocation of resources based on the peculiarities of each context, the framework provides policymakers with a tool to enhance tax compliance effectively, with trust emerging as a pivotal element in the process.

In their exhaustive analysis, Dularif and Rustiarini (2022) emphasize that two key factors stand out as paramount in boosting tax compliance: tax service and trust in government. The authors meticulously reviewed a total of 160 empirical studies and 119 non-empirical studies spanning the period from 1946 to 2017. Their focus centered on five determinants of tax compliance behavior: tax services, trust in government, personal norm, social norm, and religiosity. The findings revealed that personal norm, social norm, and religiosity do indeed play a role in fostering tax compliance, but their impact falls somewhat short of initial expectations. While these factors contribute positively, the research underscores that tax service and trust in government emerge as the most critical influencers in driving enhanced tax compliance.

2.2 Further Categorizations of Tax Compliance

The slippery slope concept enhances our understanding of taxpaying behavior by disentangling enforced and voluntary compliance, emphasizing the crucial role of authorities' power and the trust placed in them. However, it remains silent on the intricate interplay between these two factors. In light of this silence, Gangl et al. (2015) conceptualized the dynamics of power and trust by distinguishing between coercive and legitimate power and between reason-based and implicit trust, depicted in Figure 3.

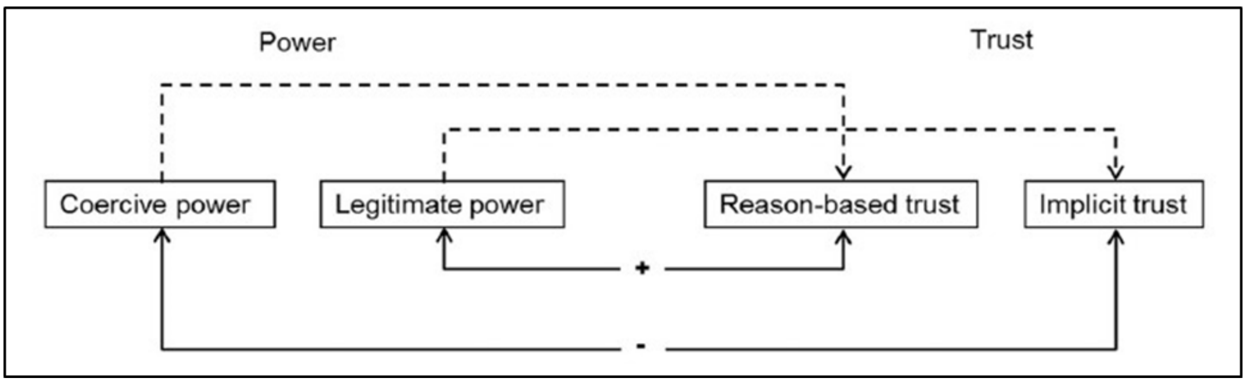


Figure 3. Dynamics between qualities of power and qualities of trust (reproduced from Gangl et al. (2015))

Coercive power, as defined by Gangl et al. (2015), involves the use of force or punishment, while legitimate power is grounded in accepted norms and regulations. Similarly, reason-based trust relies on rational assessment, whereas implicit trust is more automatic and intuitive. This conceptualization recognizes the complexity of the relationship between power and trust, acknowledging multiple dimensions. Coercive and legitimate power may impact taxpayers differently, and trust can be based on either rational considerations or more automatic processes.

In Figure 3, legitimate power is expected to be positively linked to reason-based trust, while coercive power exhibits a negative relation with implicit trust. Legitimate power, when exercised transparently, fairly, and consistently, promotes taxpayer trust based on reason (Gangl et al., 2015). This trust, in turn, fosters a positive relationship between taxpayers and authorities, potentially leading to increased voluntary compliance. Conversely, the negative relationship between coercive power and implicit trust suggests that relying solely on punitive measures can undermine individuals' natural inclination to trust authorities (Gangl et al., 2015). This situation may strain the relationship between taxpayers and authorities, potentially resulting in heightened resistance or non-compliance.

Accordingly, the slippery slope framework is augmented to encompass three basic motives to comply: forced compliance, voluntary compliance, and committed compliance (Gangl et al., 2015). Taxpayers who are obliged (enforced) to comply pay taxes solely because of audits and penalties for non-compliance. Voluntary motivated taxpayers obey the law and pay their taxes because it is the most convenient alternative. Committed motivation is an inherent motive in which taxpayers sense a moral obligation and duty to be truthful. Simply put, taxpayers, who hold an enforced, voluntary, or committed motivation to comply, pay taxes because they have to, want to, or are committed to doing so, respectively. Tax compliance has also been discussed from both a legal and moral standpoint. Both types of compliance correspond with the original slippery slope framework, where legal compliance is seen as a set of limits that must be followed, while moral compliance is described as a set of principles to guide (Goldsmith & Posner, 2002).

Next, McBarnet (2001) proposes that tax compliance should be viewed as three different techniques. Firstly, committed compliance refers to taxpayers' disposition to pay taxes without criticism. Secondly, capitulative compliance refers to taxpayers' unwillingness to pay taxes. Lastly, creative compliance refers to taxpayers' engagement to reduce taxes through the use of opportunities to reevaluate income and deduct expenses within the tax brackets. To apply McBarnet's (2001) compliance characterizations approach, which suggests that caution should be shown in the use of penalties and the emphasis should be on assisting citizens to meet their tax obligations, where, one extreme would represent committed compliance or voluntary compliance, while the other extreme would depict capitulative compliance or compliance as a result of successful audits and penalties.

Aligned with the extended slippery slope framework, Kastlunger et al. (2013) conducted empirical research using paper and online survey of 389 self-employed Italian taxpayers and entrepreneurs, to evaluate if powerful authorities and trusting people impact the level of tax compliance. According to the findings, legitimate power is favorably related to trust. However, they also discovered that both trust and coercive power are connected to legitimate authority in a favorable way. The study finds that enforced compliance has a positive impact on tax evasion, implying that the higher the compliance is enforced, the more taxpayers attempt to avoid paying tax. It also discovers unfavorable connections between voluntary and enforced compliance, and trust and coercive power.

Abdul Rashid et al. (2021) explored the connection between various social powers (coercive, reward, legitimate foundation, and persuasive) and motivations for voluntary tax compliance (voluntary cooperation and committed cooperation) in Malaysia. They used survey data from 388 professional taxpayers and applied structural equation modeling (SEM). The study reveals that trust played a mediating role, with reason-based trust mediating the link between coercive power and committed cooperation partially. Implicit trust is found to partially mediate the relationship between persuasive power and voluntary cooperation. Both reason-based and implicit trust also partially mediate the connection between reward power and voluntary cooperation and committed cooperation. However, for legitimate foundation power, only implicit trust appears to partially mediate the link with committed cooperation, although the mediation is inconsistent.

The above study was extended to drill down on the differential impact of various forms of power on the cognitive and affective attitudes (resistance, capitulation, and commitment) of individual taxpayers in Malaysia (Abdul Rashid et al., 2022). Their key findings include: (1) both cognitive resistance and affective resistance attitudes were positively influenced by coercive power; (2) cognitive capitulation and affective capitulation attitudes were positively influenced by persuasive power and reward power; and (3) cognitive and affective commitment attitudes were negatively influenced by coercive power and positively influenced by legitimate foundation and reward power. The findings suggest that tax administrators' power has an impact on both cognitive and affective attitudes of taxpayers. Additionally, the study documents that harsh power through enforcement has a greater influence on cognitive defiance attitude than on negative emotion. Furthermore, soft power, specifically persuasive and reward power, has a greater effect on taxpayers' deference emotions than on cognitive deference. In conclusion, the study provides insights into the nuanced relationships between tax administrators' power and taxpayer attitudes, supporting the idea that a targeted approach in compliance strategies, depending on taxpayers' attitudes, could maximize compliance while minimizing resource use, consistent with the slippery slope framework.

2.3 Intentional versus Unintentional Non-compliance

Non-compliance of tax law has been outlined in the context of tax legislation as the unintentional or intentional inability of taxpayers to fulfil their tax duties. Unintentional tax non-compliance occurs when a taxpayer unknowingly or inadvertently fails to meet tax requirements due to errors, misunderstandings, or oversight. This action might involve unintentional mistakes in reporting income, miscalculating deductions, or misinterpreting tax laws, without any deliberate intention to evade taxes. Intentional tax non-compliance, on the other hand, refers to the deliberate and purposeful act of failing to fulfill tax obligations, such as not reporting income accurately, claiming false deductions, or engaging in fraudulent schemes to evade taxes, knowing it's against the law. Intentional tax non-compliance can be further divided into two categories: tax avoidance and tax evasion.

Tax avoidance refers to the legal utilization of tax laws and regulations to minimize one's tax liability. It involves strategic planning and arranging financial affairs in ways that take advantage of available deductions, credits, and loopholes to reduce the amount of taxes owed. Tax evasion, on the other hand, is the illegal act of deliberately misrepresenting or concealing information to avoid paying the full amount of taxes owed. It involves intentionally underreporting income, inflating expenses, or using fraudulent means to evade taxes, which is punishable by law and can lead to fines or even imprisonment. In advancing our knowledge of intentional tax non-compliance, much effort has been invested in disentangling between tax avoidance and tax evasion. For example, Kirchler and Wahl (2010) differentiate tax avoidance and tax evasion when developing their tax compliance inventory.

To engage in intentional tax non-compliance, the tax system must be understood to some extent. According to Grewal (2017), while there may not be a one-to-one relation, it may be reasonable to assume that the better the understanding of the tax system, the better one's ability to "hoodwink" the system. If this is the case, there is a potential connection between knowing how the tax system works and having an inclination to avoid paying taxes when given the chance (Finmart, 2021). In contrast, unintentional tax non-compliance is arguably a direct result of a person's lack of knowledge on income tax regulations (Saad, 2014). Particularly in the early years of self-assessment system implementation, unintentional non-compliance may be due to factors such as unfamiliarity with the new system or limited knowledge of tax issues where such information was not required and must be learned in some way (Mohamad Dzulkifli & Md Daud, 2021). Subsequently, unintentional non-compliance should naturally increase with tax complexity, as more complex tax rules are more difficult to grasp. This notion is supported by empirical evidence. For example, Borrego et al. (2016) find that perceived tax complexity is significantly linked to tax professionals' unintentional non-compliance behaviour in Portugal. Accordingly, understanding income tax regulations is a double-edged sword in terms of compliance, suggesting that while knowledge of income tax laws may promote evasion, it may also reduce unintentional non-compliance (Finmart, 2021).

In comparison to unintentional tax non-compliance, purposeful non-compliance is likely to be more difficult to manage. While the causes of inadvertent non-compliance are obvious, such as a lack of awareness and knowledge of tax laws or the tax system, the causes of intentional non-compliance are more complex (Mohamad Dzulkifli & Md Daud, 2021). Therefore, more work has been devoted to understanding deliberate non-compliance.

3. Determinants of Tax Compliance Behavior: Theories and Evidence

Tax compliance is a multifaceted phenomenon that can be analyzed from the perspectives of both tax authorities and taxpayers. Tax authorities focus on actionable measures within their control, while understanding taxpayers' perspectives helps authorities revise policies for more effective tax reform.

From the lens of tax authorities, Prichard et al. (2019) proposed a conceptual framework for tax compliance, considering enforcement, facilitation, and trust as key components. This framework aligns with Kirchler's (2007) slippery slope framework, discussed earlier. Facilitation can be thought of as a combination between enforcement and trust. According to Prichard et al. (2019), trust is driven by fairness, equity, reciprocity, and accountability. These factors assess the fairness and competence of tax systems, equitable distribution of burdens, translation of tax revenues into reciprocal services, and governmental accountability. The framework does not capture every possible dimension of trust but focuses on elements that naturally map onto potential areas of tax reform.

Examining tax compliance from taxpayers' perspectives involves categorizing determinants into various groups. For example, prevalent categories mentioned in extant literature are individual, social, economic, and institutional factors (Kasper, 2016; Loo et al., 2010; Sikayu et al., 2020). Other researchers, like Memari et al. (2022), categorize tax compliance factors into legal, cultural, managerial, regulatory, economic, and technological dimensions. For the purpose of this paper, the determinants of tax compliance from the individual taxpayer's perspective, as examined in existing literature, are broadly grouped into economic and behavioral/psychological factors (Kasper, 2016) (Note 2). These categories, along with associated theories and empirical findings, are discussed in the following sub-sections.

3.1 Economic Factors

3.1.1 Economic Deterrence Model

The economic perspective of tax compliance is predominantly explained by the economic deterrence model. According to this model, financially rational taxpayers will dodge taxes only when the financial gain outweighs the expected penalty of getting caught. In other words, this model claims that people make decisions only to maximise their economic benefit. The seminal economic deterrence model, presented by Allingham and Sandmo (1972), is based on the expected utility function of tax evaders. This model takes a variety of factors into account. Firstly, every taxpayer has a certain level of risk aversion; the lower the risk aversion (the greater the risk tolerance), the more probable it is that the taxpayer will cheat the system and avoid paying their fair share of taxes. Secondly, to evaluate the likelihood of discovery and the severity of the penalties imposed upon detection, the taxpayer must understand the taxation system. However, uncertainty in these aspects can lead to caution and less willingness to evade taxes, as suggested by Jackson and Milliron (1986) and Beck and Jung (1989).

Since the standard model of income tax evasion (Allingham & Sandmo, 1972; Srinivasan, 1973) was published, much research has tested its four parameters (level of actual income, tax rate, audit probability, penalty rate) for empirical validity. For example, many previous studies provide evidence that tax audits play an important role in increasing tax compliance and reducing tax evasion (e.g., Advani et al., 2023; Alm et al., 2020; Bevacqua, 2020; Dubin, 2004; Kasper & Alm, 2022; Shanmugam, 2003). Audit rates and the thoroughness of the audits can encourage taxpayers to be more prudent in filing their tax returns by reporting all income and claiming the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited may be tempted to report less than their actual income and claim false deductions (Palil et al., 2013).

Alm et al. (2020) explore individual taxpayer compliance dynamics, differentiating between forward-looking, myopic, and naive behavior. Their experimental study in Colombia reveals increased compliance with higher enforcement, particularly audit rates. Their novel findings suggest that post-audit fine hikes deter underreporting and advocate "nudging" myopic individuals towards reporting a consistent income proportion. Another study by Advani et al. (2023) further highlights the benefit of actually performing the audits on top of the value of audits purely as a threat (e.g., Bergolo et al., 2023). The researchers compared ex-ante matched audited and non-audited taxpayers and followed these two groups for thirteen years beginning 2008/2009. The audited taxpayers were selected in a random audit program run by the UK tax authority. The study provides robust results of dynamic effects of random tax audits. That is, taxpayers who were audited (even without knowing that the audit was random), report significantly higher levels of tax for five to eight years after audit. This study also found that the aggregate additional revenue after audit is at least 1.5 times the underpayment found at audit. Using a fairly similar approach, Mazzolini et al. (2022) also document a positive and lasting effect of audits on subsequent reported income in Italy. Together, these findings suggest more resources should be invested in tax audits to enhance tax compliance.

While numerous studies support the positive impact of audit likelihood and the threat of punishment on tax compliance, there are noteworthy findings that provide additional insights into this matter. For instance, Mohdali et al. (2014) shed light on the nuanced effects of the threat of audit and punishment on compliant versus non-compliant taxpayers. Their study reveals that the impact of the threat of audit and sanctions differs between compliant and non-compliant taxpayers. Specifically, they observe that the threat of audit and punishment not only fails to have a significant effect on compliant taxpayers, such as salaried employees, but also tends to elicit intentions of decreased compliance from this group. Mohdali et al. (2014) interpret these results as indicative of a rebellious attitude toward authority, considering that the taxpayers in question were already compliant.

Additionally, widely researched economic determinant of tax compliance is compliance costs (Lee et al., 2023; Musimenta, 2020; Williams, 2020). Tax compliance costs are the expenses made by taxpayers or third parties like corporations to satisfy the requirements imposed on them to comply with a specific tax structure. These costs are composed of both internal and external costs (Hansford & Hasseldine, 2012). Internal expenses are incurred because of the internal staff’s time to keep and prepare material for expertise, fill out tax forms, and deal with tax authorities on inquiries, objections, and appeals (Loh et al., 1997). In contrast, external expenses are incurred when the business pays for third-party duties such as lawyers, accountants, and others (Loh et al., 1997). For smaller companies (such as small and medium-sized firms), compliance costs arise because they do not have enough expertise to address their tax compliance concerns. Hence, they perceive their tax obligations as a growing burden that requires additional expenditure.

Musimenta et al. (2019) documented that non-compliance costs and tax compliance are positively and significantly associated. Eichfelder and Schorn (2012) suggested three reasons why compliance costs might be regarded as a significant economic burden. Firstly, they diminish private business funds and, at the same time, do not increase the government's financial budget. As a result, it will be considered as an economic waste. Secondly, the cost of tax compliance falls as a business grows while increasing when the business becomes more worldwide. Small and medium-sized businesses' competitiveness and access to foreign markets may be harmed because of these consequences. Finally, the cost of tax compliance appears to be proportional to the amount of compliance. So, it may be a reason why some businesses want to evade tax.

Lee et al. (2023) focus on the economic determinants of tax compliance, particularly in the context of the Foreign Account Tax Compliance Act (FATCA) in the US. Federal tax compliance costs in the US are estimated to exceed $431 billion annually, with potential impacts on taxpayer behavior and economic efficiency (Laffer et al., 2011). Lee et al. (2023) collected responses from 197 US taxpayers and found that high tax compliance costs may lead individuals to renounce their US citizenship to avoid FATCA reporting requirements, even when their actual tax burden is low. The study also reveals that perceived fairness of compliance and fear of sanctions partially explain the impact of tax burden on citizenship renunciation. Additionally, factors like ethics, the probability of detection, and income levels influence the decision to renounce citizenship.

3.1.2 Prospect Theory

Prospect theory was proposed by Kahneman and Tversky (1979) as an alternative to expected utility theory and hence extends Allingham and Sandmo's (1972) foundational economic deterrent model for analyzing tax compliance behaviour. This theory explains how individuals choose between options that have risk and uncertainty. It suggests that people don't always make decisions based on rational calculations of expected utility. Instead, they evaluate potential gains and losses relative to a reference point and are more sensitive to perceived losses than equivalent gains. Its key assumption is that the expected utility rise for potential gains has a lower absolute value than the expected utility reduction for potential losses. In the context of tax decisions, this theory suggests that a taxpayer's decision might be influenced not only by the objective financial consequences but also by the way the choices are framed in terms of gains or losses. Taxpayers might be more sensitive to the fear of incurring penalties or legal troubles (losses) than the potential financial benefits of non-compliance (gains).

Prospect theory also posits that an individual's behavior may be explained by the independent decisions they make, which lead to a reasonable assumption that the chance of a gain or a loss is 50/50 rather than the actual possibility being provided. In this case, people tend to believe that there is a higher chance of a gain (Chen, 2022). Next, according to this theory, making decisions requires selecting possibilities, some of which may be based on biased judgments. While decisions entail more essentially internal choices between values, judgements of this type involve assessments of the outside environment (Mcdermott, 2022). Consequently, the principle of decision-making requires a bargain between values.

3.2 Behavioural Factors

The economic approach, as discussed in the preceding section, operates under the assumption that taxpayers are inherently unethical (Spicer, 1986) and consistently seek to maximize their expected utility by weighing the advantages of tax evasion. This assumption, however, faces opposition based on the argument that a majority of taxpayers are, in fact, honest. For instance, Pyle (1991) contended that only a small percentage of individuals exhibit unethical behavior. Consequently, to curb tax evasion, tax authorities ought to adopt a less coercive enforcement method, encouraging voluntary compliance by taking into account social and psychological variables that influence taxpayers.

In pursuit of voluntary compliance, tax authorities must consider factors highlighted in the World Bank working paper by Prichard et al. (2019), which suggests that fostering trust in the tax system can reduce 'quasi voluntary' tax evasion. While economic deterrence models follow deductive reasoning, fiscal psychology models employ an inductive approach to examine the psychological and societal factors shaping taxpayers' behavior. Ajzen and Fishbein (1980) laid the groundwork for this rationale, asserting that attitudes and beliefs serve as reliable predictors of future behavior due to their impartial nature.

Contrastingly, Lewis' (1982) tax evasion model proposes the construction of a profile for high-risk taxpayers prone to tax evasion, analyzing factors such as age, sex, socio-economic status, education, and occupation. Therefore, exploring taxpayer attitudes and beliefs may uncover the reasons behind attempts to avoid taxes, facilitating the implementation of strategies to modify these attitudes and beliefs. These issues can be categorized within the expansive realm of behavioral economics, a methodology that essentially integrates techniques and insights from various social sciences, with a primary emphasis on psychology, to enrich the examination of decision-making, both at the individual and collective levels (Alm et al., 2010).

These behavioural factors can be further categorized into institutional, societal, and individual levels (Note 3). It is important to note that these levels do not imply a direct examination of tax compliance behavior; rather, they represent factors at each level that have the potential to influence an individual taxpayer's compliance behavior.

3.2.1 Institutional Levels

Extant studies on the institutional-level explanation of tax compliance are mainly grounded in fiscal psychology theory. This theory highlights the loss of motivation of the taxpayer to pay taxes as there is no real gain of the benefits of tax payments (Hasseldine & Bebbington, 1991). According to the fiscal psychology theory, how the taxpayer views the government plays a significant role (Damayanti et al., 2015). This theory highlights the significance of effective government policies created to increase taxpayer and government cooperation (Lewis, 1982). This assertion is supported by the findings of many studies including Britannica (2023), Kogler et al. (2013) and Turner (2005). Particularly, the level of tax compliance is found to be significantly influenced by taxpayer confidence in the government, especially the tax system.

Key institutional-level factors established in prior literature to explain voluntary tax compliance behavior are tax complexity (Musimenta, 2020), tax rewards (Lisi, 2022) and tax authority compliance strategy and tax law enforcement (Abu Hassan et al., 2021; Hasseldine et al., 2007; Sánchez, 2022). Studies on institutional-level factors occur at either a single-country (Kiow et al., 2017; Helhel & Ahmed, 2014) or cross-country level (Das, 2020; Palil & Mustapha, 2011; Bobek et al., 2007). While cross-country studies allow comparisons, single-country studies lack that luxury. Single-country studies often use variations in self-reported taxpayers' perceptions (e.g., Abu Hassan et al., 2021; Bandara & Weerasooriya, 2021; Damayanti et al., 2015; Mohd Fatzel, 2015; Natrah, 2012; Supriyanti & Hidayati, 2019) or experimental design (e.g., Bergolo et al., 2023; Hasseldine et al., 2007) to examine institutional factors and their impact on tax behavior.

Tax complexity develops as the tax legislation becomes more complicated. It is believed to become one of the primary reasons of tax evasion (Hassan et al., 2021). The computable difficulty, forms complexity, compliance complexity, rule complexity, procedural complexity and low readability are all the examples of tax complexity (Saw & Sawyer, 2010). Consistently, Long and Swingen (1987) listed six reasons of tax complexity which are ambiguity, computations, modifications, details, forms, and record-keeping.

In a similar vein, Borrego et al. (2016) surveyed Portuguese tax professionals to identify main areas of tax complexity from their perspective. They identify fourteen areas of tax complexity, which are classified into three indices using the principal component analyses: an index of legislative tax complexity and two indices of administrative tax complexity. They further test and find a significant relation between tax professionals' perceptions of tax complexity, measured through the indices, and some of their tax non-compliant behaviours, in particular the unintentional ones. Also, Chau and Leung (2009) and Richardson (2006) concluded that tax complexity is among the significant factor of tax non-compliance in their study. According to them, the tax complexity adds to a rise in tax non-compliance. The same outcomes were found by Dass (2019) who discovered that when the tax law was seen as less complicated, taxpayers were more inclined to comply.

In Malaysia, Mustafa (1996) investigated taxpayers' perceptions of the implemented self-assessment system and found that the tax system in Malaysia had tax complexity, notably regarding record-keeping, too much information in the tax legislation, and ambiguity. Moreover, based on Ahmad et al. (2019), the complexity of tax regulations, the difficulty of keeping correct records, taxpayer carelessness, and the failure in collecting the information required to comply can all lead to unintended non-compliance.

Another fiscal psychological factor that can influence voluntary tax compliance is the perceived fairness of government spending. Previous research by Sritharan and Salawati (2019) and Hartner et al. (2008) effectively demonstrated that a favourable perception resulted in excellent compliance behaviors. If such a view is present, voluntary compliance rises (Richardson, 2005). In another research, Robert and Hite (1994) discovered that taxpayers declined to cooperate when they believed there was injustice in the current tax structure. In addition, several other studies provide empirical support that fairness had a strong relationship with tax compliance (Alasfour, 2019; Saad, 2014; Sritharan & Salawati, 2019). Thus, an individual's tax morale can be influenced by the perceived justice and efficacy of government expenditure, as well as the perceived amount of corruption in government (Horodnic, 2018).

To strengthen the point, it has been shown by Vythelingum et al. (2017), Alasfour et al. (2016), and Torgler (2012), that tax morale is determined by the level of trust taxpayers have in the government. Greater trust results in greater tax compliance. Additionally, Sipos (2015) and Barone and Mocetti (2011), have found that tax morale is more significant and positively correlated when the government provides transparency in government expenditures and operates efficiently. On the other hand, if taxpayers believe that the government is overspending on frivolous items, they are more likely to feel misled and try to evade taxes. Hence, a positive (negative) correlation between tax morale (tax evasion) and effective government expenditure is anticipated. Also, Kirchler et al. (2008) and McKerchar and Evans (2009) claimed that the level of trust between taxpayers and the government is a critical factor in determining how tax rates affect evasion. If trust is low, a high tax rate may be regarded as unjust treatment of taxpayers. If trust is strong, the same tax rate may be seen as a gift to society. Furthermore, with regard to perceived tax fairness, Alasfour et al. (2016) show that increased tax compliance is linked to enhancements in various other aspects, such as reduced corruption, better perceptions of government spending, and better perceptions of fairness and equity in the taxation system. Therefore, it can be proven that individuals who have a high level of faith in the government, where the government provides good governance and transparency, fights corruption, upholds the rule of law, and provides quality public goods, are more likely to comply with paying tax than those who have little trust in the government (Ibrahim et al., 2015; Sritharan & Salawati, 2019).

Furthermore, previous studies have shown that tax authority strategies aimed at improving compliance among taxpayers can significantly impact tax compliance behavior. Hasseldine et al. (2007) use controlled field experiment to investigate the effect of written communication on actual tax reporting behaviour in the UK. Particularly, taxpayers who received both normative appeals and sanction letters reported higher income after receiving those documents from the tax authority.

In a study conducted by Abu Hassan et al. (2021) using the survey method, the researchers investigated how individual taxpayers perceive the compliance strategies employed by tax authorities in Malaysia, including deterrence and accommodative approaches. Their findings revealed that elements such as the threat of punishment, the treatment provided by the tax authority, and availability of special voluntary disclosure programs have a substantial positive effect on tax compliance. However, it is worth noting that tax education programs organized by the tax authority were identified as an insignificant explanatory variable for tax compliance. Other studies conducted in Malaysia find significant results on the role of special voluntary disclosure programs and tax authority including Abd Hamid et al. (2022). The implications of these findings suggest that a combination of both deterrence and accommodative approaches may be effective in fostering tax compliance in the context of Malaysia. In addition, more generic institutional factors such as political stability and rule of law have also been documented to significantly influence tax compliance behaviour in Malaysia (Abu Bakar et al., 2021). Evidence on the influence of political-related factors on tax compliance is also available from studies conducted in other countries such as the US (Hunt et al., 2019).

3.2.2 Societal Levels

According to Kondelaji et al. (2016), tax compliance research commonly employs three social psychology models: the compositional model, attribution theory, and equity theory. The compositional model posits that an individual's behavior is shaped by attitudes and personal beliefs. The Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB), integral to compositional modeling, suggest that taxpayers assess their beliefs and norms before engaging in tax evasion, influenced by the approval of their referent groups. Thus, individual and societal attitudes play a crucial role in determining tax compliance.

Additionally, theories based on attribution theory shed light on how people interpret unusual behavior (McKerchar et al., 2013). People often make decisions based on their perceptions of events and behaviors (Kaplan et al., 1988). If society deems tax evasion unacceptable, individuals engaging in it may be labeled as socially irresponsible, leading to a loss of credibility (Arrington & Reckers, 1985). According to attribution theory, tax evasion may be seen as ethical if it is perceived as a common practice. Individuals caught evading taxes may cite situational reasons, claiming that everyone engages in such behavior.

Equity theory, the third model, involves individuals comparing their tax conditions to those in their reference group (King & Sheffrin, 2002). Compliance is likely if taxpayers believe the tax system adheres to fair standards. Conversely, perceived inequality in tax-paying situations can result in increased taxpayer non-compliance (Sritharan & Salawati, 2019; Smart, 2012).

In addition to these three models, social influence and social exchange theories provide insight into social-level factors affecting tax compliance (Al-Ttaffi & Abdul-Jabbar, 2015). Social influence theory posits that individual behavior is influenced by others in the environment, with outcomes playing a crucial role in shaping attitudes (Bandura, 1977). This theory is aligned with the subjective norm component of theories of reasoned action and planned behavior. In contrast, social exchange theory suggests that human relationships involve a subjective cost-benefit analysis, with individuals seeking to maximize benefits and minimize costs (Alm et al., 2010).

Previous studies have explored social factors influencing tax compliance, such as social norms (Lamantia & Pezzino, 2021) official and unofficial information available to taxpayers (Garcia et al., 2020) and communication with peers (Huang & Xiao, 2021). The results are thus far mixed.

Social norms are viewed as the impact of a specific social group's values on an individual's behavior within that group. Individuals are inclined to align their actions with the majority, especially those they can identify with. Studies, such as that by Bobek et al. (2007), Bobek and Hatfield (2003) and Nguyen et al. (2020), support the idea that social norms significantly influence taxpaying behavior. Nguyen et al. (2020) introduced the concept of subjective norms encompasses injunctive, subjective, personal, and descriptive norms, and found that each of them contributes to shaping behavior in distinct ways. Furthermore, Sritharan et al. (2020), OECD (2010) and Oladipupo and Obazee (2016) highlight the impact of social norms on individual choices, emphasizing the influence of social groupings on decision-making. Peers or neighbors within close proximity exert greater influence, discouraging tax evasion if the community is perceived as more compliant (Cabinet Office, 2012). Contrastingly, a meta-analysis of 14 studies published from 1989 to 2017 by Sutrisno and Dularif (2020) suggests that social norms are not effective to combat tax evasion.

Alm et al. (2019) utilized laboratory experiments to investigate how appeals to social norms influence individuals' decisions regarding compliance. They examined two primary categories of social norms: "descriptive norms," representing behavior that is typical or frequently observed, and "injunctive norms," which pertain to conduct deemed morally acceptable or unacceptable. Specifically, within injunctive norms, the researchers introduced messages framed in terms of approval and disapproval. The findings suggest that normative appeals generally lead to a modest and positive impact on tax compliance, although not always reaching statistical significance. Both approval- and disapproval-framed injunctive norm messages resulted in an approximately 2% increase in reported taxes.

In a pioneering study by Abu Bakar et al. (2023) conducted in East Malaysia, the impact of social media on tax compliance was examined. Surveying 592 individuals, including both salaried and self-employed taxpayers, the study found no statistically significant influence of social media on tax compliance. However, a significant and adverse relation between social media usage and tax morale was identified. Importantly, the study revealed a positive connection between tax morale and tax compliance. Using a bootstrapping technique, Abu Bakar et al. (2023) demonstrated that tax morale mediates the relationship between social media and tax compliance, providing deeper insights into the underlying mechanisms at play.

3.2.3 Individual Levels

It is important to note that this paper specifically focuses on the compliance behavior of individual taxpayers. Therefore, tax compliance or noncompliance of corporate taxpayers is beyond the scope of our research and not addressed in this paper.

(1) Theory of Reasoned Action and Theory of Planned Behaviour

The predominant theories employed to comprehend the interplay of social and individual factors influencing tax compliance behavior are the Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB). Within the realm of individual-level determinants, TPB takes precedence, emphasizing key factors like attitude towards tax compliance, social norms (discussed under societal-level factors earlier), and perceived behavioral control.

TRA was introduced by Ajzen and Fishbein (1975, 1980). According to this theory, behavior is influenced by behavioral intention, which is in turn determined by attitude towards the behavior and subjective norm. As discussed earlier, subjective norm is the belief in others' expectations and the obligation to obey them. The theory suggests that individuals with a favorable attitude and the belief that others endorse the behavior are more likely to have greater motivation and execute the action.

While many studies support the links between attitudes, subjective norms, behavioral intention, and behavior, some research highlights a flaw in the theory (Sheppard et al., 1988). Specifically, behavioral intention does not consistently translate into actual behavior, and the theory struggles to explain behaviors with limited volitional control.

In response to these limitations, Ajzen (1991) proposed the TPB. This theory maintains the assumptions of TRA but introduces the concept of perceived behavioral control (as presented in Figure 4 below). According to TPB, three factors—behavioral belief (attitude toward behavior), normative belief (subjective norms), and perceived behavioral control—motivate individuals to perform their intention when the opportunity arises.

TPB emphasizes the inextricable link between intention and behavior. It asserts that intention is the direct cause of behavior, with attitude, reasoning, or motive being integral components. This theory contends that the most crucial element in shaping actual conduct is intention, as intention and behavior are interconnected (Ajzen, 1991). Consequently, anticipating behavior is best achieved by relying on behavioral intentions.

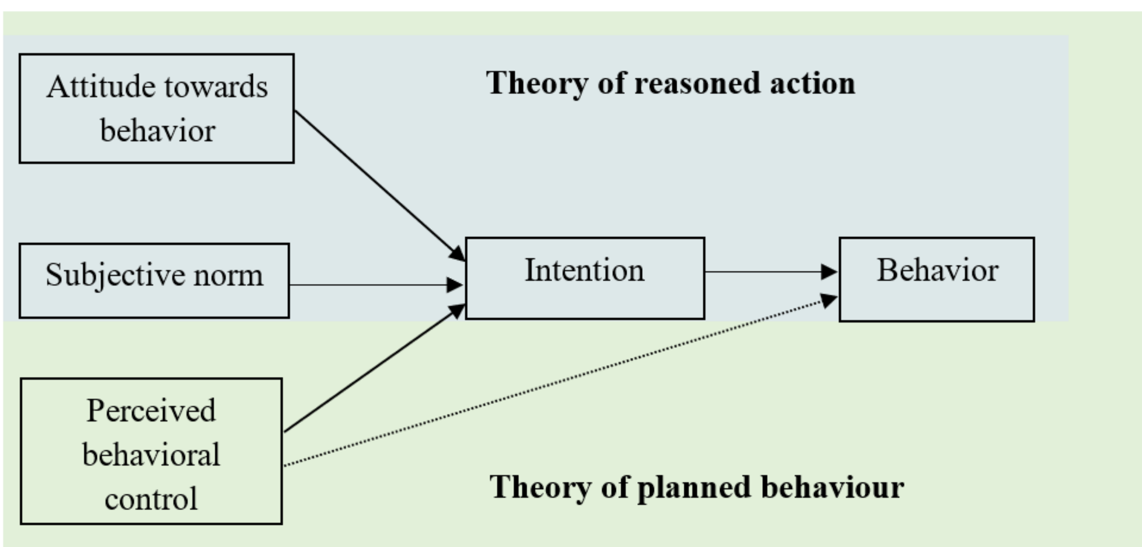


Figure 4. Theory of Reasoned Action and Theory of Planned Behavior

Empirically, numerous research has been conducted to test these two theories in the context of tax compliance setting. Firstly, extant literature documents a consistent connection between attitudes and tax compliance behavior. Studies, such as those by Chan et al. (2000), Orviska and Hudson (2002) and Trivedi et al. (2005), emphasize that favorable attitudes are associated with voluntary tax compliance, while unfavorable attitudes are linked to tax evasion. The relationship between attitude and behavior is depicted as a result of perception, where an individual's perception of tax laws influences their attitude and subsequently shapes their compliance behavior. For instance, Hong Kong taxpayers exhibit lower compliance levels due to a less favorable view of the tax system (Chan et al., 2000). The significance of attitude is highlighted by research operationalizing it through belief assessment and significance assessment (Putra & Osman, 2019).

Furthermore, Farida et al. (2020) found a positive and significant relationship between attitude, subjective norm, perceived behavioral control, and tax compliance behavior in Indonesia. Attitude, in this context, is described as the expression of favorable or negative feelings associated with one's views on tax compliance. The concept of a "vertical contract" between the government and citizens, as discussed by Kiow et al. (2017) also plays a crucial role. Improving this vertical contract, wherein taxpayers receive fair returns in public goods and services for their taxes, is shown to enhance tax morale and foster favorable attitudes towards tax compliance. In summary, the literature underscores the significance of cultivating positive attitudes towards tax compliance as a key determinant influencing taxpayer behavior, aligning with the principles of TPB.

Secondly, prior literature provides sufficient evidence of the influential role of social norms in shaping tax compliance behavior as discussed earlier under social-level factors. Studies like Guerra and Harrington (2018) and Saad (2009) highlight the crucial role of subjective norms in determining individuals' intent to comply with tax laws. The influence of referent groups, or significant others, is particularly emphasized, suggesting that people are more likely to engage in tax-related behaviors based on the perceived expectations of those important to them. Other studies, such as those by Azman and Bidin (2015), Bidin and Shamsudin (2014) and Saad and Haniffa (2014), further support the idea that social norms predict the intention to engage in specific behaviors, indicating a major impact on tax compliance behavior.

However, the literature presents mixed findings regarding the correlation between subjective norms and tax evasion. While some studies suggest that subjective norms are crucial in minimizing tax evasion (Alleyne & Harris, 2017; Richardson, 2008), others propose the opposite (Wenzel, 2004). Overall, subjective norms are considered desirable and favorable when social circumstances facilitate individuals in faithfully fulfilling their commitments. The varied findings suggest that the relationship between subjective norms and tax compliance behavior is complex and influenced by contextual factors.

Finally, past literature has also shown that the final determinant proposed by TPB, perceived behavioral control, has an important role in influencing tax compliance behavior. Hagger and Chatzisarantis (2005) define perceived behavioral control as the impact of personal capacities and perceived restrictions on desired behavior or intentions. Perceived behavioral control signifies the perceived difficulty an individual faces in performing a particular behavior and can directly impact behavior, especially when legal consequences are involved (Armitage & Conner, 2001). Ajzen (2006) suggests that the presence of perceived behavioral control can aid behavior by influencing the perceived power of factors affecting performance. Ajzen's (1991) conceptualization of perceived behavioral control is particularly relevant in predicting behavior not entirely under an individual's volitional control.

Research reveals that perceived behavioral control consists of two subcomponents: perceived controllability and self-efficacy. Perceived controllability relates to the extent to which an individual perceives control over the desired behavior (Ajzen, 2002). Self-efficacy, on the other hand, refers to an individual's confidence and skill in carrying out the behavior, often assessed by their perceived competence in engaging in the target behavior. In the context of tax compliance, if individuals perceive a high degree of control over complying with tax obligations, it is likely to positively influence their compliance behavior. This involves assessing both their perceived ability to control the behavior (perceived controllability) and their self-confidence and competence in executing the behavior (self-efficacy).

Empirically, researchers employ several proxies to measure perceived behavioral control. Widely used proxies are taxpayer’s financial condition, tax knowledge, and audit possibility by tax authority. According to Bloomquist (2003), financial constraints cause taxpayers stress and may lead to non-compliance. The pressure to cheat the system is mounted if the expenses of the taxpayer’s household exceed his/her income. Accordingly, many studies find evidence that financial pressure significantly influences individual taxpayers’ compliance morale and behaviour (Ibrahim et al., 2015; Slemrod, 2019; Sritharan & Salawati, 2019; Stack & Kposowa, 2006). Inversely, some studies suggest that an individual's financial situation has no impact on tax compliance, such as Wärneryd and Walerud (1982), asserting that people of all financial backgrounds comply with the tax system equally. According to Spicer and Lundstedt

(1976), self-employed individuals have more opportunities to evade taxes than salaried workers. Self-employed people have additional options for tax evasion, which may grow as the number of distinct sources of income increases. As a result, earnings and its sources may interact.

The second proxy of perceived behavioural control is tax knowledge. Tax knowledge refers to the ability to understand specific tax issues and is not necessarily correlated with an individual's level of education. As proposed by Bornman and Ramutumbu (2019), tax knowledge can be divided into general, procedural, and legal tax knowledge. General tax knowledge relates to a need to have a fiscal awareness; procedural tax knowledge refers to understanding tax compliance procedures; and legal tax knowledge pertains to a need to understand regulations. General tax knowledge, also widely referred to as tax awareness, has been argued to shape taxpayer attitudes towards taxation (Eriksen & Fallan, 1996; Lewis, 1982) rather than to influence perceived behavioural control. Arguably, taxpayers with greater tax awareness potentially have more positive attitude towards taxation and hence are more inclined to comply with tax rules.

From the lens of perceived behavioural control, taxpayers who are well versed in tax compliance procedures and regulations (such as income taxability, expenditures deductibility, and reliefs and refunds), are potentially more capable of completing their tax files and have better 'self-efficacy' (Eriksen & Fallan, 1996). Consistent with this argument, procedural and legal tax knowledge have been established as a significant factor that influences taxpayers' compliance (Al-Ttaffi et al., 2020; Doshi & Arunasalam, 2018; Maqsudi et al., 2021; Singh, 2003; Yahya et al., 2021) particularly in a self-assessment system (SAS) setting (Eriksen & Fallan, 1996). Inversely, a greater depth of tax knowledge may permit certain taxpayers to practice better tax planning with regard to tax avoidance (Bornman & Ramutumbu, 2019) leading to a negative relation between tax knowledge and tax compliance. Empirical evidence for this latter notion can be found in Newman et al. (2018) and Yeo et al. (2019).

The aforementioned empirical findings regarding tax knowledge present a nuanced picture, echoing the theoretical foundation of the 'double-edged sword' alluded to earlier. On one side of this conceptual blade, heightened tax knowledge is associated with potential benefits, as they can diminish compliance costs, thereby reducing the likelihood of both intentional and unintentional non-compliance (Nzioki & Peter, 2014). Conversely, on the other side, being conversant of tax knowledge may create opportunities for strategic tax evasion (Finmart, 2021).

The third proxy of perceived behavioural control, possibility of being audited by tax authority, has been discussed in the economic factors section earlier. In short, if taxpayers believe that the odd of being audited and caught is high, he/she may be strongly incentivized to comply with tax laws and regulations, and vice versa. As discussed earlier, numerous empirical studies have consistently supported this latter notion (Advani et al., 2023; Alm et al., 2020; Bevacqua, 2020; Dubin, 2004; Kasper & Alm, 2022; Shanmugam, 2003).

(2) Other Individual Factors

Beyond the fundamental components proposed by TRA and TPB, prior examinations of individual factors impacting tax compliance have predominantly focused on demographic variables, encompassing gender, age, ethnicity, educational level, occupational status, income level, and cultural and religious background. Collectively, these individual factors contribute to a comprehensive understanding of the nuanced dynamics that shape an individual's inclination towards tax compliance.

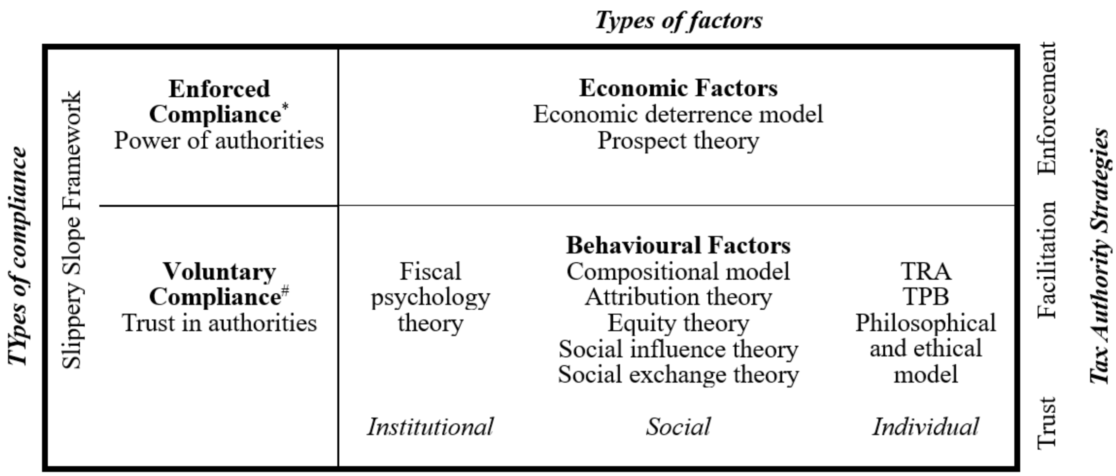
The results for the demographic factors have thus far been inconclusive. However, for gender, extensive studies suggest a tendency for men to exhibit greater resistance to tax compliance compared to women (Alm & Malézieux, 2021; Bruner et al., 2017; D'attoma et al., 2020; Richardson, 2006). As noted by Jackson and Milliron (1986), gender plays a pivotal role in shaping taxpayers' compliance behavior. The nexus between gender and tax compliance is particularly pronounced in Europe and North America (Hofmann et al., 2017). D'attoma et al. (2020) report that, on average, women disclose 73% of their income, while men disclose approximately 48% of their income. This disparity is attributed to the generally conservative nature of women, shaping their attitudes, values, and beliefs in accordance with socially accepted norms. Consequently, their predisposition towards ethical behavior enhances their commitment to rightful acts (D'attoma et al., 2020). The conservative orientation of women contributes to a lower likelihood of opposition to taxation, as they perceive the consequences of tax evasion, such as punishment, with greater seriousness than men (Ching, 2013). Additionally, research indicates that women are more responsive to moral appeals than threats of punishment when both strategies are employed to foster tax compliance (Hite, 1997).

A new area explored at the individual level is unique features of local contexts that might profoundly influence individual's ethical values and hence tax compliance. Studies examining Chinese and Muslim backgrounds are examples of this category. Taking the Chinese context as an illustration, Young et al. (2016) comprehensively reviewed extant literature on tax compliance issue in China. The crux of their findings suggests that Chinese philosophies, such as Confucianism and Legalism, exert a substantial influence on both societal and individual ethical values. Consequently, efforts to enhance tax compliance in China should emphasize the significance of taxes as contributions to the public funding of family and community welfare.

For the Muslim contexts, prior studies centered on religiosity and its role in enhancing tax compliance. Hwang and Nagac (2021), Agbetunde et al. (2022), Al-Ttaffi and Abdul-Jabbar (2015), Al-Ttaffi et al. (2021), and Mohdali et al. (2017) employed survey data to examine the link between religiosity and tax compliance. Using data collected from respondents in Malaysia and Turkey, the authors ran single regression analysis and found that religiosity is significantly related to higher voluntary tax compliance in both Malaysia and Turkey. Sutrisno and Dularif (2020) also found similar results on the significant role of religiosity in enhancing tax compliance using a meta-analysis method. This latter group of research sheds further light on taxpayer behaviour by documenting significant influence of peculiarities of certain setting on tax compliance tendency.

4. The Proposed Theoretical Matrix

The foregoing reviews of the theories underlying the factors linked to tax compliance behavior combined with the types of tax compliance are encapsulated in a theoretical matrix represented in Figure 5 below.



Note: *Posner (2000) and McBarnet (2001) use the terms, 'legal' and 'committed' compliance, respectively.
#Posner (2000) and McBarnet (2001) regard this compliance as 'moral' and 'capitulating' compliance, respectively.

Figure 5. Determinants of enforced and voluntary tax compliance behavior and the underlying theories

Figure 5 illustrates that the economic perspective plays a pivotal role in explaining enforced tax compliance. Essentially, when tax authorities enforce compliance through sanctions, it is perceived to be effective if taxpayers view it as a costly endeavor. In this scenario, taxpayers don't willingly comply; instead, they strive to avoid the perceived greater costs associated with being apprehended by tax authorities, costs that outweigh the actual tax payment. Conversely, the institutional perspective sheds light on voluntary tax compliance. Here, taxpayers may lose motivation to fulfill their tax obligations when there is no tangible advantage to making tax payments, as articulated by Hasseldine and Bebbington (1991). This perspective underscores the importance of well-crafted government policies aimed at fostering cooperation between taxpayers and the government, as emphasized by Lewis (1982).

Additionally, societal- and individual-level factors contribute to a comprehensive understanding of taxpayers' attitudes and beliefs regarding compliance decisions (Smart, 2012). Within this multifaceted landscape, taxpayers navigate a complex web of motivations and circumstances, resulting in a continuous spectrum of compliance behaviors, echoing the intricate interplay between individual intent, societal expectations, and legal frameworks. Appreciating this complexity is essential for tax authorities as they navigate a continuum of trust, facilitation, and enforcement strategies for tax reform, as proposed by Prichard et al. (2019). Understanding these dynamics enables more informed decision-making in shaping effective tax policies.

5. Conclusion, Limitations, and Future Research

In conclusion, this paper contributes to the evolving discourse on tax compliance by advocating for a nuanced perspective that considers the diverse spectrum of taxpayer behavior. By proposing a theoretical matrix, it lays the groundwork for a more organized and comprehensive exploration of the intricate interplay between different types of compliance and factors at varying levels that influence tax (un)compliance decisions.

This paper discusses prevalent theories used in tax compliance research and the empirical findings thus far in relation to those theories. These theoretical and empirical insights may have useful practical policy implications for tax authorities, offering guidance on designing effective tax policies and enforcement strategies. For example, finding an optimal mixture of enforcement trust may be subject to contextual situation that is a function of multiple factors including the current attitude of taxpayers toward taxation, and intention to comply with tax laws.

While this paper stresses the importance for future research on tax (un)compliance to make it clear upfront on which type of (un)compliance is being studied, it also acknowledges the challenge of unobservability in (un)compliance types. Unfortunately, this paper does not discuss innovative methods or approaches to address this challenge. Hence, future research may explore and propose novel methodologies or tools that can help researchers better understand and categorize unobservable tax (un)compliance types.

Acknowledgements

The research is financed by the Universiti Teknologi MARA, Malaysia under the Supervision Incentive Grant 2021 [600-RMC/GIP 5/3 (136/2021)]. The authors would like to express gratitude to the Universiti Teknologi MARA, particularly the Faculty of Accountancy, for supporting this research project.

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Notes

Note 1. Kasipillai and Abdul-Jabbar (2006) list the following forms of non-compliance:

(1) failure to submit a tax return within the stipulated period or non-submission;

(2) understatement of income;

(3) overstatement of deductions; and

(4) failure to pay assessed taxes by the due date.

Note 2. Consistently, Hessing et al. (1988) evaluate ten theoretical models, dividing them into two main categories that are those including features of tax policy and administration and those focusing exclusively on the perceptions, attitudes and beliefs of individuals.

Note 3. These levels correspond with Schnellenbach's (2010) concept of vertical and horizontal reciprocities, which refer to two different dimensions of reciprocal behavior related to tax compliance. Vertical reciprocity pertains to the reciprocal interactions between taxpayers and the government. In this context, taxpayers may respond to the behavior of the government, specifically in terms of its policies, enforcement, or other actions related to taxation. For example, if taxpayers perceive the government as uncooperative, unfair, or excessively demanding, they may retaliate by reducing their level of tax compliance. In contrast, horizontal reciprocity is observed among individual taxpayers in a society. It involves reciprocating behaviors among taxpayers. For example, if some individuals in a community are observed to be non-contributing or selfish in their tax obligations, reciprocally minded taxpayers might mimic this behavior in response.

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