

What Affects Tax Compliance Behaviour: A Survey Study

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Abstract. This paper investigates what determines taxpayers' tax compliance behaviour. According to the existing tax compliance studies, the factors that affect tax compliance behaviour fall into three categories. They are, (1) the tax law system - complexity, ambiguity, and fairness of tax law; (2) the enforcement of the law – penalty and probability of auditing; and (3) nature of government expenditures. This paper provides survey evidence collected from business and economics students in Canada, who have knowledge on personal income tax and who are (potential) taxpayers. It finds that the tax law system is the most important factor that affects individuals' tax compliance behaviour. Justification of using tax revenue by the government may also be important, but enforcement, audit and penalty by tax agency do not play a significant role in affecting people's tax reporting behaviour. The study also finds that participants are affected differently dependent upon their gender and filing experience.

Keywords: Tax Compliance, Survey, Tax Law.

1. Introduction

While many existing studies examine the determinants of tax preparers' non-compliance, this paper provides survey evidence concerning factors that affect tax reporting behaviour for business and economics students in Canada, who have general knowledge of personal income tax, and who are (potential) taxpayers. In this study, the factors that affect tax compliance are organized into three categories. They are, complexity, ambiguity, and fairness of tax law; penalty sanction and probability of audit; nature of government expenditures. The inclusion of these factors is motivated by their salience in current tax policy debates, their likely impact on taxpayers' reporting behaviour, and prior research findings that link these factors to taxpayer compliance/non-compliance (e.g., Dubin *et al.* (1990) for audit rates, Carnes and Englebrecht (1995) for income visibility, Christensen and Hite (1997) for ambiguous income/deduction, McGee *et al.* (2006) for government expenditures).

In addition, this study examines whether people with different personal information, e.g., gender and experience of filing tax return and being audited by tax agency are affected by the factors in a different way.

2. Research Design

A survey is designed to address the tax compliance/non-compliance issues. The participants are 174 students who are enrolled in undergraduate or MBA tax courses at a large university in Canada. The survey includes 15 questions (see appendix A for the questions) asking the participants to indicate whether their tax compliance will be changed based on 7-score scale (i.e., from 1- strongly disagree to 7 – strongly agree). The first five questions focus on complexity, ambiguity, and fairness of tax law. Question 6 to 10 focus on penalty sanction and probability of being audited. The final five questions are relevant to justifiability of government expenditures. The survey questions are distributed in five undergraduate tax classes and one MBA tax class. The survey is administered by the instructor (author).

3. Survey Results

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Table I presents the background information of the participants, including gender, experience of filing tax return and being audited. It shows that 59% of participants are male students; 64% of participants have filed tax return before, and about a quarter of the participants were audited by CRA before.

Table I: Sample

Numbers of participants	174
Male students (%)	59%
Experience of filing tax return (%)	64%
Experience of being audited by tax agency	26%

Table II shows the mean values for all the 15 questions. High value indicates high relevance. It shows that the top three factors that affect the students' tax compliance are questions 14 (mean value = 5.14) - A significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends, 2 (mean value = 5.09) - Tax system is unfair, and 5 (mean value = 4.8) - Certain income (e.g., cash income) is difficult to trace. The three factors that affect the students' tax compliance the least are question 13 (mean value = 3.59) - A large portion of the money collected is spent on projects that do not benefit me, 9 (mean value = 3.82) - Other taxpayers cheated and were not caught, and 6 (mean value = 3.87) - Tax receipts are easily falsified.

Table II: Mean Values

Questions	Mean
Tax rates are too high	4.38
Tax system is unfair	5.09
Tax system is too complicated and frequently changed	4.26
Some income or deductions are ambiguously defined	4.45
Certain income (e.g., cash income) is difficult to trace	4.8
Tax receipts are easily falsified	3.87
The probability of getting caught is low	4.08
I cheated before and was not caught	3.91
Other taxpayers cheated and were not caught	3.82
The penalty, when getting caught, is at a low level	4.12
A large portion of the money collected is not used efficiently by the government	4.39
A large portion of the money collected is spent on projects that I morally disapprove of	4.41
A large portion of the money collected is spent on projects that do not benefit me	3.59
A significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends	5.14
A significant portion of money collected is used for government administration (rather than education, health, etc.)	4.11

A further study also reveals that the mean value for the first five questions (relevant to complexity, ambiguity, and fairness of tax law) is 4.6. The mean value for question 6 to 10 (related to penalty sanction and probability of being audited) is 3.96. The mean value for the last five questions (relevant to justifiability of government expenditures) is 4.33. In other words, the participants feel that the tax law is much important in affecting their tax compliance behaviour.

Furthermore, the study divides the participants into subgroups, i.e., undergraduate students vs. MBA students; participants having experience of filing before vs. participants without this experience, and male participants vs. female participants.

Table III presents the average values of all 15 questions for the subgroup respectively. Columns two and three show the mean values for undergraduate students and MBA students respectively. It shows that the results are quite similar.

Columns 4 and 5 report the average values of all 15 questions for participants having experience of filing before and participants without this experience respectively. It shows that the average values for experiencing participants are lower than those without experience for all questions except question 14. It suggests that previous filing experience makes the taxpayers more conservative toward tax non-compliance.

Table III: Mean Values for Subgroup Participants

Questions	Mean (undergraduate)	Mean (MBA students)	Mean (filed before)	Mean (never filed)	Mean (male students)	Mean (female students)
tax rates are too high	4.41	4.23	4.15	4.78	4.68	3.94
tax system is unfair	5.14	4.81	4.99	5.27	5.20	4.93
tax system is too complicated and frequently changed	4.22	4.46	4.21	4.35	4.31	4.18
some income or deductions are ambiguously defined	4.42	4.62	4.40	4.54	4.61	4.21
certain income (e.g., cash income) is difficult to trace	4.89	4.31	4.79	4.83	5.10	4.38
tax receipts are easily falsified	3.95	3.42	3.83	3.94	4.05	3.61
the probability of getting caught is low	4.07	4.12	3.95	4.30	4.25	3.83
I cheated before and was not caught	3.91	3.96	3.80	4.11	4.17	3.54
other taxpayers cheated and were not caught	3.84	3.69	3.77	3.90	4.06	3.46
the penalty, when getting caught, is at a low level	4.09	4.27	3.95	4.43	4.43	3.68
a large portion of the money collected is not used efficiently by the government	4.37	4.46	4.32	4.49	4.46	4.28
a large portion of the money collected is spent on projects that I morally disapprove of	4.45	4.15	4.28	4.63	4.39	4.44
a large portion of the money collected is spent on projects that do not benefit me	3.52	3.96	3.4	3.92	3.76	3.34
a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends	5.21	4.73	5.16	5.10	5.25	4.97
a significant portion of money collected is used for government administration (rather than education, health, etc.)	4.07	4.35	3.96	4.38	4.19	3.99

Columns 6 and 7 in Table III show the average values of all 15 questions for male and female participants respectively. It shows that the average values for male participants are generally higher than female participants for all questions except question 12. It suggests that male participants are more easily affected their tax compliance behaviour. In particular, the male participants have high values on the questions focus on complexity, ambiguity, and fairness of tax law (2.3 scores higher), and questions related

to penalty sanction and probability of being audited (2.8 scores higher). The results are similar for the questions relevant to justifiability of government expenditures.

4. Conclusion, Limitation and Discussion

The purpose of this study is to investigate what determines people's tax compliance behaviour. Using a survey study of business and economics students, who have general knowledge of personal income tax, and who are (potential) taxpayers, it shows that the tax law system is the most important factor that affects the participants' tax compliance behaviour. Justification of using tax revenue by the government is the second important factor, and enforcement and penalty by tax agency play a third significant role in affecting people's tax reporting behaviour. The study also finds that participants are affected differently dependent upon their gender and filing experience.

This study has the same limitations that are present in most survey research, e.g., misunderstanding of questions, variables measures by self-report, etc.

In addition, non-compliance may mean general intentions of not reporting or intentions on under-reporting. Christensen and Hite (1997) find that responses are somewhat different to general intentions and dollar amount reporting decisions. Further studies are needed to examine more details of compliance/noncompliance behaviour.

Since the question of interest in this study is to explore the determinants of tax compliance, this study focuses on one group of people, i.e., the students enrolled in the undergraduate and MBA tax courses. They are (potential) taxpayers, and according to previous studies, are more likely to cheat on tax. Hence the findings in this study may be biased and should be treated with caution.

In addition, some participants in this survey study are lack of experience of filing tax return. Sitkin and Pablo (1992) argue that individuals' decisions will lack stability if they are not familiar with a given problem. Accordingly, the results of this study may not be applicable to the taxpayers with a long time period and more experience of filing tax return.

In recent years, more and more peoples from other countries come to and settle down in Canada. According to Canada Statistics in 2006, more than 10% of people living in Canada were born in other countries. If these immigrants' tax compliance will be affected in a different way due to their different cultural, political, legal, and institutional backgrounds, and immigrant' tax compliance behaviour might be an interesting question and needs further insight studies.

5. Acknowledgement

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6. Reference

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