

Looking at tax
knowledge
psychology essay



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Chapter 2 provides a further explanation regarding on the research study and there are five sections, namely review of literature, review of relevant theoretical models, proposed conceptual framework, hypotheses development and conclusion. Firstly, review of the literature outlines the past literatures and their methodologies as well as findings that are relevant to the constructs are reviewed. Following by the review of relevant theoretical models, researchers have to review the past literature to determine the most appropriate theoretical model for this research study. As a result, the relationships between several independent variables and dependent variable are constructed in the proposed conceptual framework. Then, proposed hypotheses will be formulated and lastly conclusion will outline the summary of all sections discussed in chapter 2.

2. 1 Review of Literature

2. 1. 1 Tax Knowledge

As the official assessment system (OAS) is being replaced by SAS from the year 2004, the responsibility has shifted from IRB to individual taxpayers. The individual taxpayers have to file their return on time, to precisely report all relevant information as required by tax law, to calculate tax liability as well as to pay any outstanding taxes before the due date. In order to fulfill these required responsibilities, tax knowledge plays an important factor in shaping tax behavior. The meaning of tax knowledge is being defined as the taxpayers' ability to report their taxable income correctly, to claim relief and rebates provided and to compute their tax liability.

According to Kasipillai (2000), tax knowledge is a crucial factor in a voluntary compliance tax system, especially in determining an accurate tax liability.

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There is a tendency that taxpayers do not comply to the tax law, intentionally or unintentionally, with the absence of tax knowledge.

McKerchar commented that those small business taxpayers do not even aware of the deficit of their tax knowledge, and thus leading to unintentional non-compliance to tax law. There is also another researcher found that tax knowledge has positive influence on the tax compliance behavior. From their study, they found that taxpayers that possess tax knowledge will be more cautious in filling tax returns to ensure the accuracy and to avoid being penalized for unintentional errors.

Another researcher, Palil (2005) assumed that knowledge on tax law is fairly important in order to file the tax return, which is the Form B in Malaysia especially in SAS. To carry on his research study, Palil has collected data from 153 part time students who are studying in Universiti Kebangsaan Malaysia (UKM). From the results generated, he found that there is a significant relationship between the tax knowledge and the tax compliance behavior of the individual taxpayers.

In addition, Eriksen and Fallan (1996) had carried out a research and the result shows the existence of relationship between tax knowledge and tax compliance behavior. Both the researchers carried their research study as a quasi experiment which comprises of pre-testing and post-testing in two groups of students, which are the control group and the experimental group. The students within the control group are those who are going to choose marketing as their elective subjects while the students in the experimental group is taking tax law as their elective. From the results generated, Eriksen and Fallan (1996) proves that, as the level of tax knowledge ascend, the rate

of evading tax falls and thus the level of compliance become higher. Park and Hyun (2003) also supported the assumption made by Eriksen and Fallan (1996). They recommended that degree of tax compliance behavior will increase if the individual taxpayers understand the basic concept of taxation.

Loo et al. (2009) found that lack of tax knowledge did caused individual taxpayers to engage in numerous errors during the process of tax filing. These errors resulted in unintentional non-compliance behavior. To test the hypothesis made by the researchers, they send 6000 copies of questionnaires randomly and they managed to receive 800 responses. Based on their analysis, the three researchers found that lacking of tax knowledge does significantly affect the tax compliance behavior of the individual taxpayers. The taxpayers would have better reporting compliance if they would have higher level of tax knowledge. In contrast, some individual taxpayers might have been exercising better tax planning in terms of tax avoidance if they have higher degree of tax knowledge.

However, there are some researchers have produced a counter result in their research. They found that tax knowledge was negatively correlated with compliance behavior. In other words, they proved that there is a negative relationship between tax knowledge and tax compliance behavior.

2. 1. 2 Attitudes

An individual's attitude towards tax system may predict his or her tax compliance behaviour. Theoretically, Ajzen (1991), Fishbein, and Ajzen (1975) and Oskamp (1991) have indicated that attitude is a partial indicator of behaviour. Attitude represents the positive and negative evaluations that

an individual holds of objects. It is assumed that attitudes encourage individuals to act according to them. Thus, a taxpayer with positive attitudes towards tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Ajzen (1991) stipulates that attitudes towards compliance reflect feelings of favour and disfavour towards compliance behaviour.

On the other hand, Bobek (1997) argued from the perspective of the theory of functional attitude that the motive of the attitude will determine whether it will be positive and negative. The taxpayer, whose motive of attitude towards tax system is to express his belief in the system, is expected to judge the fairness of the system objectively and the taxpayer whose attitude is motivated with what benefit to derive from the system may label tax system fair if he is benefiting from the system.

A research study by Loo, McKerchar, and Hansford (2007) emphasized that attitudes towards the tax system positively influenced compliance behaviour. The subjects were recruited in Malaysia via convenience sampling through invitations to the faculty staff of University of Technology MARA, Malacca campus and main campus in Shah Alam, as well as to local communities. A total of 74 subjects from both rural and urban localities voluntarily participated in the research study. The research study found that individual taxpayers in Malaysia were willing to comply and that taxpayers' attitudes were the determinants of their compliance behaviour.

On the other hand, a research study by Niemirowski, Baldwin, and Wearing (2003) stated that attitudes did not form any strongly relationship with compliance behaviour. Survey questions were developed to assess

behaviour, beliefs, attitudes and values issues for non-business individual taxpayers. Beliefs and attitudes were considered from the perspective of how taxpayers perceived their tax relationship and tax related environment.

Thus, another research study carried out by Alabede, Ariffin, and Idris (2011) has generated a result and the result shows significant positive relationship between attitudes towards tax compliance behaviour. The target population of the research study was the individuals whose incomes are taxable under the provisions of Personal Income Tax Act in Nigeria. Samples were selected from the target population by using multi cluster random sampling technique. A total of 550 questionnaires were administered to these individuals and 332 of usable questionnaires were retrieved. The result has shown there is a positive relationship between attitude and tax compliance behaviour. In contrast, attitudes can be determined as a factor that affecting tax compliance behaviour.

2. 1. 3 Social Norms

Social norms are a vital tool in understanding the behaviour of individual in a society. It refers to the unwritten rules of conduct that act as a guideline to indicate the preferred behaviors and the accompanying sanctions for not obeying the behaviors in a given society. It also refers to the socially shared beliefs of the way the people of a group should behave. The strong needs of an individual to be a part of a social group and be accepted by others from the same group leading social norms are especially significant and essential in the society.

Normally the majority of the people from a society believe the norms held by the group even some norms are considered as irritating, hurtful, morally wrong and so forth. A norm may be rejected in case some individuals have already accepted a competing norm from an existing group. However, the rejection of a norm does not affect the influence of social norm to drive compliance since most people are more prone to comply with most group norms .

Sigala, Burgoyne, and Webley (1999) found that social norms are a significant influence in determining tax compliance of individual taxpayers. Social norms can be explained by two types of norms, which are subjective norms and injunctive norms. Subjective norms refer to a person's perception of the expectation of referents such as family, friends and co-workers towards an individual behaviour. Rest (1986) found that referent social norms may affect individual tax compliance decisions. On the other hand, injunctive norms reflect the general societal expectation of what should be done according to the moral rules of a group. It is also believed that it was considerably correlated to the compliance behaviour.

According to Wenzel (2005) social norms had a significant relationship between tax compliance behavior. The researcher carries out a longitudinal survey of Australian citizens. A sample of 7754 self-completion questionnaires was distributed to the Australian citizens drawn from the Australian electoral roll. The researcher found that strong social norms in support of tax honesty seemed to persuade taxpayers to be more compliant in their tax returns. Besides, Alm, McClelland, and Schulze (1999) carry out an experimental study show that social normal do impact on taxpaying

behavior. His study shows that participants who learned that the majority rejected a more severe enforcement will reduce the level of compliance.

Wenzel (2004) found that taxpayers with high levels of identification, the effect of social norms on compliance behavior was significant. The research is carried out in Australia and the self-completion questionnaires were sent to a sample of 7754 Australian citizens drawn from the Australian electoral roll. The result showed is consistent with finding carry out by Baron and Kenny (1986). According to Baron and Kenny, there is a positive effect between social norms with high level of identification and compliance behavior.

2. 1. 4 Tax Compliance Behavior

Tax compliance has become a major issue in SAS since its inception in Malaysia in 2004. A lot of researches have been carried out to investigate tax compliance behavior and also there are many different definitions for tax compliance behavior. In short, tax compliance is a complex term to define.

The wider definition of tax compliance is usually cast in terms of the degree to which individual taxpayers comply with the tax law. However, Allingham and Sandmo (1972) defined tax compliance as an issue of reporting an actual income' and also stated that situation would influence tax compliance behavior of individual taxpayers whereby taxpayers have to make a decision under uncertainty. This means taxpayers who under report the income either will enjoy tax savings or have to pay tax at a penalty rate on the undeclared amount of income which is higher than they would have to pay for the fully declared income in the correct time.

On the other hand, Bergman (1998) suggests that tax compliance behavior is ' IRB and taxpayers have different interpretation for tax compliance behavior, they do not necessarily share the same interpretation'. IRB assumes tax compliance is what taxpayers legally owed by taxpayers while taxpayers interpreted it as the willingness to comply with tax system.

Notwithstanding there are many definitions for tax compliance behavior, however, in this research study, the researchers used the definition which is defined by several tax authorities like IRS, ATO, and IRB as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in every year, report and pay the right amount of taxes on time.

The past study has shown that the tax knowledge, attitudes, and social norms will affect the tax compliance behavior of individual taxpayers.

2. 2 Review of Relevant Theoretical Models

2. 2. 1 Theory of Planned Behavior

Theory of Planned Behavior (TPB) is fundamentally an extension of the Theory of Reasoned Action (TRA) that contains the measures of control belief and perceived behavioral control. It underlines that human behaviors are governed not only by personal attitudes, but also governed by social pressures and a sense of control. According to TPB, behavior is determined by the intention of individuals that reflects the personal attitudes of individuals, which is the extent to which they perceive this act as desirable or favourable.

Attitudes have been the most widely examined component of TPB and continue to gain attention from social and cognitive psychologists. TPB <https://assignbuster.com/looking-at-tax-knowledge-psychology-essay/>

explained that attitudes possess two components, which are the beliefs about consequences of behavior and the corresponding positive or negative judgment work together to predict behavior. Attitudes have been recognized as an essential intention element to behavioral intention, as described by the well-established TPB. The TPB is an intention-based theory, which identifies beliefs to influence attitudes, which in turn forms intention, hence behavior. By applying the principle of compatibility, the relevant attitudes are those toward performance of the behavior, assessed at a similar level of specificity to that used in the assessment of behavior.

According to the TPB, the extent to which individuals feel they can engage in these behaviors, named perceived behavioral control also affects their intentions and behaviors. Perceived behavioral control depends on the degree to which individuals intellectualize themselves as sufficiently knowledgeable, skilful, disciplined, and able to perform some act, entitled internal control. An individual's non-volitional behavior depends on perceived behavioural control, which in turn is determined by the resources, skills, and obstacles. This contention, in other words, suggests that tax knowledge may influence perceived behavioural control of taxpayers, which in turn affects their decision whether to comply or not.

2. 2. 1. 1 Theory of Planned Behavior in Other Research Areas

TPB has been used in other research areas such as in e-commerce, driving violations, information systems security policy, predict older adults' dairy product consumption, physical activity, and smoking.

2. 2. 2 Social Norms Theory

Social norms theory is a fundamental form in understanding human behavior. It suggests that the perceptions of the actions of the social group members can affect an individual's behavior. Perkins and Berkowitz (1986) stipulate that social norms theory can be used as a tool to decrease a person undesired behavior by changing the misperception of social norms. Social norms can be explained by social norms theory in which human behavior is influenced by the norms accepted by the members of the group in the society. According to Alm et al. (1999), individual behavior is influenced by the rules and standards which are established and accepted within a society, therefore the behavior of individual will act accordingly to the norms recognized in the society. In consequences, social influences are important to be understood by individual since it helpful for them in making ethical decision making.

2. 3 Conceptual Framework

Figure 2. 1 Conceptual Framework

Tax Knowledge

-General

-Technical

-Legal

Tax Compliance Behavior

Attitudes

-Affective

-Instrumental H1

H2

H3

Social Norms

-Injunctive Norms

-Subjective Norms

Source: Developed for research.

2. 4 Hypotheses Development

H1: There is a positive relationship between tax knowledge and tax compliance behavior.

H2: There is a positive relationship between attitudes and tax compliance behavior.

H3: There is a positive relationship between social norms and tax compliance behavior.

2. 5 Conclusion

In chapter 2, relevant theory has been explained in the research study through reviewing of past literatures. Moreover, it also highlighted identified theoretical model, final conceptual framework and final hypotheses which are going to be tested. The research study will be further discovered in next chapter which illustrate the methodologies used in the research study.