

Understanding Tax Compliance Behavior of Pakistani Tax payers

By

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| Missing references of pg#13 | Reference is added on pg # 13 |
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| Diagram of measurement & structural model | Included in appendix (144 – 150) |
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| Last Paragraph of Abstract | Removed |
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| Repetition of Paragraph on pg # 80 | Removed |
| Source of Construct Tax Compliance Behavior | Added on page 91 |

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Abstract

No doubt, taxes are of vital importance for economic development of a country, so governments usually put efforts in increasing tax collections from individual taxpayers. But collection targets cannot not be achieved by just detecting taxpayers involve in tax evasion and imposing penalties on them. Although in Pakistan high claims have been made by different government, tax base is still is very small and narrow. With population of over 200 million, tax payers represents 1% of population. So this study tries to investigate psychological reasons of non compliance tax behavior by using extended theory of planned behavior variables along with three other psychological variables such as religiosity, fairness perception, tax knowledge. This study has utilized sample of 395 which represents direct tax payer population living in urban areas of Pakistan.

Results reveal that all selected variables have noteworthy effect on the dependent variable (tax compliance variable). Intention to comply plays a role of mediator in relationship between independent and dependent variables except in case of religiosity. This study will help policy makers to consider the results of this study while formulating tax policy.

Chapter 1

Introduction

1.1 Background:

People have to face huge problems when governments try to adjust to the economic, demographic and political issues. Governments of countries make efforts to sustain sufficient support for social welfare works in the situations of emerging mistrust of governmental institutions, severe pressures to collect taxes for making strong political constituencies and problem of fiscal deficits arising from growing population. So matter of prime importance is that how efficiently government collects taxes in cost effective manner so they can successfully achieve their policy goals. In order to prove itself a strong fiscal foundation, governments should put efforts to reduce tax evasion on behalf of their citizens.

Government of every country usually promise of providing facilities and utilities of common use in order to achieve their objective like public health, defense, law education, infrastructure against some portion of money paid by the public that is termed as “TAX”. In economic development of country tax play a very important role. Taxes also help government in making their country financial independent, funding in social welfare programs and improving infrastructure of country. Not only this Tax also helps in fair and just allocation of resources, lessens the dependence on foreign funds but also provides protection to home industry against the foreign industrialists by imposing heavy taxes on imports. According to Ibrahim et al (2015) money collected from tax strengthens the economic development and provide finances to be invested in infrastructure development and social programs.

There is a notable quote by Benjamin Franklin related to tax that is “nothing is certain except death and taxes”. Even today this quote is found to be apparently true. Amounts paid by

individual as taxes have been and always be a controversial issue for government. According to Castro and Rizo (2014), the issue of tax compliance is just about as old as the taxes themselves. Even in Biblical times Zacchaeus also face problem of collecting taxes for the Romans. Even today this situation is same as individuals pay taxes to their country government. All around the world Tax Compliance is an essential issue because of government irrevocable search for income to meet population needs (Musah and Abdul-Hanan, 2015; Ritsatos, 2014; Armah-Attoh and Awal, 2013; Gohou and Soumare, 2012). As the world makes progress, tax compliance becomes subjacent to tax avoidance, whereas tax evasion becomes primary objective of taxpayer. Jones and Rhoades-Catananch (2010) explained these terms in such words: in situation of tax avoidance, tax obligation is lessened by using legal means (i.e. taking benefit of tax provisions) while tax evasion involves use of ways (considered illegal in view of country's law) to lessen tax obligations. According to Rezac & Urofsky (2011) "Tax Evasion can be Illegal and includes duplicitous action by taxpayer to hide their true tax liability". Nor et al (2010) further stated that previous literature spotlighted the susceptibility of tax and associated issues with tax evasion. Considering innovational schemes of tax evasion and tax avoidance, the statute on compliance has become so broad that tax avoidance at this time may be observed as tax evasion tomorrow. Apart from this it is noticed that although people still give taxes as required by law but they do not conform to their obligations fully which results in increase in tax evasion, which hardly ever noticed if it is detected properly. Individuals usually put lot of efforts to pay little taxes as much as they can normally through using tactics for tax avoidance like redirecting, changing income and postponing. Sometimes they also make use of tax evasion like falsifying records, understating income and overstating deductions. So, if a state wants to represent itself as a consolidating and developing state usually depends on its ability to raise enough funds through

taxes so that it can finance security and welfare programs for their citizens (Armah-Attoh & Awal, 2013). Thus increase in public services in developing countries depends on effective collection of tax revenue from all economic agents (Gohou and Soumare, 2012).

Non-compliance with state taxation system is criticized by various stakeholders groups as it is often considered as unethical practice. But, this is where morality is considered as quality of civilized nations; however people who do not have tax compliance behavior give different reasons for their unethical behavior. Sometimes they are of opinion that they are not under a compulsion to pay so many taxes, particularly when they doesn't find out any advantage of it, or when there is a lack of just and equal system to gather taxes successfully (McGee, 1999).So Pirttila (1999) stated that in this situation government experiences financial crisis as they are incapable to collect sufficient funds to efficiently run their states, put into practice stable economic policies and cater the necessary services and products to its citizens. So this lead to shortage of funds that come up with a situation in which state is left with no option except of borrowing funds from other states or other financial institutions like IMF, that is additional burden on developing countries (in form of taxes).

It is essential for every government to achieve high economic growth rate because it is the most important national objective. It helps in achieving the extremely important socio-economic goals of country and helps in reducing poverty. Fiscal Policy which is mainly linked with tax collection, focuses on generating surplus and ensures that actual rate of growth of revenues should be higher as compared to government spending. Pakistan has approximately 200 million populations but it has been severely struggling with low tax collection. According to IMF (2016), with maximum tax collections of 11% of GDP in recent years, Pakistan is showing less effort for

tax collections, which are necessary to make investment in infrastructure of country & to provide essential services to public.

Although many changes have been introduced in taxation system OF Pakistan since 1990, but tax to GDP ratio saw no remarkable improvement. It is still around 11.2% (IMF, 2017). And if this ratio is compared with other countries then it seems to be very low. Despite fact that tax base has grown but it is still narrow. Numbers of tax filers in Pakistan are 1.261 million. It represents just one percent of population, and lower in relation to other developing countries. Pakistan tax system is divided into two major categories i.e. indirect taxes and direct taxes. The term direct taxes consist of wealth tax and income tax. It includes salaried income, income from capital gains, income from property, income from interest on financial securities, income from business, income from other sources, corporate tax also considered as direct tax. While indirect taxes include sales tax.

Table 1.1

Comparison of Pakistan Tax-to-GDP ratio with other countries

| Countries Name | Tax-to-GDP ratio |
|-----------------------|-------------------------|
| Australia | 27.8 |
| Canada | 31.7 |
| United Kingdom | 34.4 |
| United States | 26.0 |
| United Arab Emirates | 1.4 |
| Uzbekistan | 21.0 |
| Russia | 19.5 |
| Pakistan | 11.0 |
| India | 16.8 |

1.2 Problem Statement:

Most Recent United Nations report says that the weak personal income tax (PIT) compliance in Pakistan poses serious questions about the accountability and fairness of the system and this in the long run casts a shadow on the efforts to create conducive tax culture in society. According to the report released by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) the importance of closing the personal income tax loopholes exploited by the rich should not be overlooked. The report further says in Pakistan the Federal Board of Revenue discovered a few years ago that more than 1.5 million adult citizens, who had travelled abroad at least once a year over many years, had not been registered with the tax authorities.

About half a million who had multiple bank accounts also had not registered. Moreover, of the 341 members of the National Assembly, only 90 had filed tax returns in 2012 (The Express Tribune, 2018). The damage from such weak personal income tax compliance among the rich goes beyond forgone revenue or unfulfilled redistributive promise.

Although heavy claims have been made by governments in recent years but around 131,000 tax payers mysteriously disappeared from tax base. According to the FBR published list of Active Taxpayers for tax year 2017, there are 1.261 million tax filers but this figure was 1.391 million in year 2016, it clearly shows that 131,258 people and companies that were earlier in the tax base are no longer active taxpayers. They are those people who did not file their returns in fiscal year 2016-2017. This is quite disturbing figure, tax base which is already very narrow has been reduced in size further. 10% of reduction in tax base puts pressure on government to reform its policy as well as motivate researchers to determine behavioral reasons of tax non compliance. The tax base mostly consists of salaried individuals. Around 3.3 m riches pay no tax.

The most recent findings about tax collection lessened the expectations of reaching the target of annual tax collection and resulted in fiscal deficit. For the financial year 2017-18, The FBR was un-successful in collecting target revenue which was Rs3.935 trillion, falling short by 90 billion Rupees. Originally the parliament approved a revenue collection target of Rs4.103 trillion, but few months before end of fiscal year it was revised downwards to Rs3.935 trillion. Due to failure of meeting target revenue collection of Rs3.935 trillion, the budget deficit as expected surpassed 2.26 trillion. The budget deficit causes an increase in inflation, national debts, reduces economic growth and ultimately destabilizes governments.

So, this research work concentrates more on tax compliance behavior by taking into consideration, the numerous psychological and social factors.

1.3 Theoretical Contribution:

Jimenez (2013) stated that in all over the world including the U.S., many taxing authorities depend on voluntary tax compliance and continuously search for ways to increase tax revenues. But the problem is that most of these methods are expensive and labor intensive like penalties and audits for noncompliance. Previous researches on tax compliance mostly concentrated on the impact that factors (economic) have on individual intentions (related to tax compliance). However, economic models were not successful in predicting individual tax compliance. Psychology literature proposes that social factors may also play a pivotal role in individual decisions related to tax compliance. For many years, several states have solely strived to raise tax compliance level by exercising such policies for all taxpayers through which they will be imposed to heavy fines, penalties and sanctions if they are detected as tax evaders. But still these policies seem to be failed as government is failed in achieving their target tax collection amount. And at present, ruling authorities of many states, though approaching end of 20th century, now

realize that now a change in policies is required if they want to increase their country's tax collection. Therefore, formulating appropriate tax collection policies using knowledge about the factors (as a basis) which exert influence on individual tax compliance decisions will be of extraordinary advantage rather than just straightforwardly putting into practice laws & regulations (Batrancea et al., 2012). This research work will make an attempt to disclose the different factors, causes or determinants which mould taxpayers' behavior. Further in his research article Batrancea et al., (2012) stated that there is need that psychological factors (like envy, regret, anger, guilt, shame and sense of duty), social, demographic and moral factors should be included into standard economic models. The essential requirement of this inclusion lies in the notable inconsistency between theoretical models which highly anticipate real world compliance behavior and non-compliance (Andreoni et al., 1998: 855). A research conducted by Kirchler (2007) explains the determinants of tax compliance by splitting it into three categories. He pointed out that there are social psychological determinants including fairness perception, attitudes, different types of norms, as well as motivational features linking with tax compliance, political determinants like complications of law and tax system, or fiscal policy, and economic determinants such as rational decision making process and the effect of income, fines, tax rates, audits on tax behavior. So this, study in present year will not only use variables of extended theory of planned behavior, but will also utilize fairness perception, tax knowledge and religiosity as independent variables. Moreover it will also try to determine impact of all these variables on tax compliance behavior because in previous literature intention to comply with tax has been used as a dependent variable. This study investigates broad range of antecedents of tax compliance behavior.

This study utilizes extended theory of planned behavior. Previous studies have used simple version of theory of planned behavior. As a researcher said that “No matter how winsome your theory is, no matter how percipient you are. If it doesn’t in accord with real world, its erroneous” (Richard P. Feynman). There has been a lot of criticism on TPB. Validity and parsimony of the theory has been questioned. By its nature, the theory has been criticized because it entirely focuses on rational reasoning leaving the role of emotions beyond anticipated affective outcomes (Conner, Gaston, Sheeran, & Germain, 2013) and unconscious influences on behavior (Sheeran, Gollwitzer & Bargh, 2013).

Sniehotta et al. (2014) pointed towards increasing number of studies that extend the TPB either through addition of new variable or examining moderation effects. For instance, TPB was remodel by inclusion of additional variables like moral norms (Ajzen & Driver, 1992); social support (Courneya, & Jones, 2002), past behavior (Bamberg, Ajzen, & Schmidt, 2003); self-identity (Terry, Hogg, & White, 1999) personality traits (Conner & Abraham, 2001) anticipated regret (Richard, de Vries, & van der Plight, 1998) moral obligation (Beck & Ajzen, 1991).

Admitting these shortcomings, Ajzen (1991) recapitulate “...the theory of planned behavior, in general, is open to incorporation of additional variables if they can showed a significant portion of variance in intention or behavior after the theory’s current variables have been taken into consideration”.

So here in this study construct of extended theory of planned behavior (attitude towards behavior, subjective norms, perceived behavioral control and moral obligation) with other psychological factors, are used as independent variables.

1.4 Objectives of the Study

(1) To examine the role of variables of extended version of Theory of Planned Behavior on tax compliance behavior of individual.

(2) To analyze the impact of tax knowledge, fairness perception and religiosity on tax compliance behavior of individual.

The main objective of the study is to determine the relationships between attitude toward behavior, subjective norms, perceived behavioral control, moral obligation, fairness perception, tax knowledge, religiosity and tax compliance behavior in Pakistani context.

1.5 Research Questions:

Following are the research questions developed on the basis of problem statement:

RQ 1: What is the impact of extended version of Theory of Planned Behavior variables (attitude toward behavior, subjective norms, perceived behavioral control and moral obligation) on Tax compliance behavior?

RQ 2: What is the impact of fairness perception on Tax Compliance behavior?

RQ 3: What is the impact of tax knowledge on Tax Compliance behavior?

RQ 4: What is the impact of religiosity on Tax Compliance behavior?

RQ 5: Does Intentions to comply act as a mediator between variables of extended version of Theory of Planned Behavior, fairness perception, tax knowledge, religiosity and tax compliance behavior?

1.6 Significance of Study

For funding the public expenditures countries usually depend on tax revenues. So, the factors that have an effect on tax compliance of taxpayers are of major interest to policymakers in the government, academics, practitioners and public. Governments are making efforts to diminish tax evasion and escalate tax collection. So, this study will help the Government and Tax Policy makers in order to understand the factors behind the tax payer's intentions to indulge in tax compliance behavior and in developing most effective and less costly strategies for increasing taxpayer compliance. Recently in Pakistan senate it is proposed that the maximum tax rate for salaried class should be increased from 15% to 25% and for the business community from 15% to 29% so they can collect Rs.26 billion in FY19 (The Express Tribune, 2019). But this increase in tax rates will be of no use if citizen will avoid tax compliance behavior. So, I hope working on this topic to some extent will be helpful in reducing the problem related to low tax collection of government.

Chapter 2

Literature Review

This chapter will be divided into two sections. In first section review on the literature relevant to tax compliance behavior will be presented. While in second section review of theories selected in this research study will be presented. Despite of availability of large volume of literature review on tax compliance behavior this research study will be limited to the published study that will be most relevant to this study. The review will concentrate more on recent studies while making reference to past studies that are valuable contribution to the literature.

In first section, models used in tax compliance research will be explained that will be followed by the discussion on the studies grounded in Theory of Planned Behavior (TPB). Just because of the minimum application of TPB in tax compliance research, behavioral studies using TPB conducted in other behavioral domains will also be included.

2.1. Commonly Used Models in Tax Compliance Research

Over a period of time of forty years, historic tax compliance models (like Economic Deterrence Model) have been polished up and modified by numerous psychologists, economists and sociologists, each with the objective of trying to get the picture of complex behavior of individuals relating to tax reporting. During past several years, models and theories have been developed, research on topic of tax compliance generally depend on three theoretical models: Social Psychology Models, Economic Deterrence Models and Fiscal Psychology Models. Fiscal Psychology models include elements from both Social Psychology Models and Economic Deterrence Models. Now given below the models are described briefly in order to provide an understanding of several noneconomic and economic variables used in the current research model.

2.1.1. Economic Deterrence Models:

In Economic Deterrence Model, taxpayer is considered to be a rational person who will raise his or her expected utility of the tax evasion gamble (Alm, 2012). With this (Alm, 2012) added that the taxpayer will think about the advantages of non-compliance in contrast to the possibility of punishment and detection. Hence, if the taxpayer does not want to be arrested and subjected to penalty and punishment, then he or she will disclose all income he or she received.

So, Economic Deterrence Models' approach deals with understanding of tax compliance behavior depending on punishment and enforcement. This model proposes that with the rise in the level of enforcement activities, level of reported income will also increase as well as resulting punishment if non compliance is noticed (Allingham & Sandmo, 1972). This is because of that a taxpayer who is sure about the huge possibility of being detected for noncompliance will restrain him from not complying just because of the dread of being fined. This approach comes to the conclusion that just because of the economic consequences of being detected and punished taxpayers will comply with tax laws of their respective country (Alm, 2012).

In recent years, numerous theoretical extensions take place, regarding the Economic Deterrence Models, which include the continued dependence on expected utility theory (Alm, 2012). These extensions are discussed and analyzed by a numerous scholars (Cowell, 1990; Andreoni et al., 1998; Slemrod & Yitzhaki, 2002; Sandmo, 2005; Devos, 2007; Slemrod, 2007; and Torgler, 2007), and incorporates: individual choices: substitute penalty tax and tax withholding functions; difficulties and unpredictability regarding the relevant fiscal parameters; usage of paid preparers; include systematic audit selection rules in which the tax authority utilizes data from the tax returns in their audit strategy; reward for honesty and provision of government services (Alm, 2012). These extensions into the Economic Deterrence Models were done in order to add some

realism but it also make complex the comparative statics of the compliance choice (Alm, 2012, p. 62). However enforcement is still regarded as the key element that motivates compliance.

In spite of, extensions made in Economic Deterrence Models, depending on Allingham and Sandmo's (1972) deterrence theory model encounter many criticism. The main criticism was relevant to supposition that in social vacuum individuals makes taxpaying decisions and fails to observe the human traits or elements concerned with the decision-making process (Cullis & Lewis, 1997). Individuals draw in their identity from affinity to a group and thus the attributes of the group may affect their decision-making process (Cullis & Lewis, 1997).McKerchar (2001) pinpointed the various specific limitations in implementation of the Economic Deterrence Models, which involve, not appropriately communicating the problem of unsureness of the estimation of the taxable income by the auditor (or randomness) which need of quantification, and the assumption that all taxpayers respond uniformly to the same level of randomness. In spite of the introduction of the modified Economic Deterrence Models, the end results and limitations remains the identical. That is because, "they are theoretical in nature, occasionally conflicting, depending on basically unrealistic assumptions, and seems to without empirical validation" (McKerchar, 2001, p. 231).

With this, the influence of tax morale, which comprises of attitudes towards tax compliance behavior, moral, values, beliefs, maybe very important in decisions making related to tax reporting (Kirchler, 2007; Kornhauser, 2007; Torgler, 2007; and Cullis et al., 2012).

For that reason, it appears to be evident that the Economic Deterrence Models only give an explanation of a part of tax compliance issue. Noneconomic factors like tax morale give an explanation of other part of tax compliance issue.

The limitations pointed out by many researchers in Economic Deterrence Models persuade the researchers to include other elements relevant to compliance behavior, in order to understand the tax compliance behavior in a better way (Cowell, 1990; Wallschutzky, 1993; and Alm, 2012).

2.1.2. Social Psychology Models:

The emanation of Social Psychology Models was the outcome of criticisms from sociologists and psychologists emphasizing the economic models deficiencies in illustrating compliance behavior. The experts that criticize the Economic Deterrence Models argue that decisions taken by individuals (regarding to complying with tax laws) does not solely depend on maximizing economic utility comparatively psychological and sociological factors were also considered to play a key role in any tax reporting decisions. Social Psychology Models considered the impact of social interactions and motivations on individuals' decision-making process (McKerchar, 2003a). Well these models also make an effort to explore the process, by which individuals form their expectations, which in order influence individuals' decisions. Suppositions are made that, it may be possible to understand and predict about individual taxpayer compliance behavior just by understanding the individuals' behavior.

Several Social Psychology Models have been developed over the years; but only four of these models are regarded as to be relevant to tax compliance research: Attribution Theory; Decompositional Modelling; Compositional Modelling and Equity Theory (McKerchar, 2003a). Brief description of each of these four models is given below:

That individuals usually before taking their decision related to engaging in specific behavior, consider their belief regarding the behavior as well as end results if they engage in that behavior.

Compositional Modelling deals with methods that depends on individuals making a reasoned action, build on attitudes and personal beliefs. This is named as Theory of Reasoned Action

(TRA) and depends on the supposition that people usually make decisions to engage or not to engage in a specific behavior, after giving consideration to their belief regarding to the behavior and the end results from engaging or not engaging in the particular behavior.

In short, TRA put forward that behavior is a function of intention; and intention, in order is, a function of attitude towards the behavior and subjective norms.

As stated by TRA, a person will engaged in the particular behavior if the person's judgment of executing the behavior is in one's favor and the social pressure from referents influence the individual to carry out the target behavior. TPB is an extension of TRA, by including perceived behavioral control, which directly exert influence on behavior and indirectly influence behavior through intentions.

Decompositional Modelling deals with the methods which begin with the choice or decision and then works in reverse order to indicate the reasons, and the trade-offs which the individual may not always be made consciously in arriving at the decision (McKerchar, 2003a). Yet Decompositional Modelling has been commonly used in large-scale studies (especially in marketing research) but the collection of data can be time consuming for this method (McKerchar, 2003a). This method is also thought-out as less precise due to its sheer volume and breath; yet, new hybrid Decompositional Models are now accessible.

Attribution Theory is all about dealing with the processes by which attributions are attain from informational input (Kelley, 1972). Attribution Theory proposes that most individuals are unaware and strive in order to understand the basis of actions and events around them (Kaplan et al., 1988). These bases of actions and events are attributed to either situational or personal factors (Kelley, 1972). If an individual behaves in a manner identical to other in a specific role, then that behavior may be attributed to the situation or the role. Contrarily, if an individual behaves in a manner totally different from those that are behaving in a similar role, then the action must be

attributed to the person and therefore cannot be attributed to the situation or role (Kaplan et al., 1988). In brief, Attribution Theory can be defined as the study of how individuals understand or illustrate the actions or behavior of others by attributing its cause to either situational or personal factors (McKerchar, 2003a).

Equity Theory was developed from the Theory of Cognitive Dissonance which proposes that a person will strive to minimize the level of internal dissonance experienced by them when their cognitions are in conflict (Adams, 1965). Inputs and net results are regarded to be as the key components of an exchange relationship. Previous studies concentrated on the response to pay inequalities (Adams, 1963). Inequity was analyzed by the Adams (1963) regarding the discrepancies between a person's job inputs and job outputs, and the behavior that may arise from these discrepancies. Therefore, Equity Theory is concerned with perceptions of the social reaction of distributive injustice of unjust exchange within a social system. More recent studies applied Equity Theory to the distribution of a wide range of valuable net results (Messick & Cook, 1983).

Thibaut et al. (1974) extended his perspective of equitable social exchanges by including commitment and fairness. Equity Theory suggests that individuals are most likely to comply with laws if they believe that the system that is determining the laws is equitable (Thibaut et al., 1974). In a tax context, Equity Theory deals with fairness of exchange between the government and the taxpayer (Wallschutzky, 1984). In accordance with, Equity Theory, taxes paid by the taxpayer to the government are the inputs while services provided by the government are the outputs. In exchange relationship, if there are any perceived inequities, Equity Theory predicts that as the system is perceived as becoming more unjust, tax evasion could become more prevalent. And the reason is that tax evasion is an effort by taxpayers to bring back equity in the

system of trade conducted with the government (Spicer & Becker, 1980). Hence, in consistent with Equity Theory, perceived equity in the exchange relationship between taxpayers and government will increase compliance behavior.

2.1.3. Fiscal Psychology Models

These models of tax compliance behavior are a blend of Social Psychology Models and Economic Deterrence. This is assumed by these models that financial factors and economic, in combination with psychological and social factors, exert influence on behavior. One of the prior studies similar to the Fiscal Psychology Models is Schmolders (1959) work on tax evasion, which present the concept of “tax mentality.” Tax mentality deals with the attitudes relevant to tax compliance or non-compliance, and can differ broadly between people from different countries (Schmolders, 1959). Specifically Schmolders (1959) states that individuals have varying views depending on their cultural differences of their obligation to contribute to the community via their taxes; and this bring about different tax mentalities. These tax mentalities are related with individual’s community-mindedness, and are formed by personal experiences.

Furthermore, Schmolders (1959) added that when taxpayers are encountered with the obligation to pay, they are most likely to withstand this pressure, moving towards tax evasion. Therefore, Schmolders (1959) was one of the first researchers to study the relationship between compliance behavior and people’s attitudes. As time goes by Schmolders Model has been backed by considerable empirical research, still referring by scholars to Schmolders’ (1959; 1970) work on tax morale (for example, Alm and Torgler, 2006).

One facet of the Fiscal Psychology Model is attention on taxpayers’ attitudes and impact of attitudes on compliance behavior (Schmolders, 1959; and Strümpel, 1969). Schmolders (1959) present the concept of tax mentality that is measures of attitudes regarding tax compliance, while

concept of tax mentality given by Strümpel's (1969) represents an individual's willingness to coordinate with the tax authority. Lewis's (1979) make an effort to develop measures of tax mentality leading towards the conclusion that tax mentality was depending on individual's self-interest (which is the assumption of the Economic Deterrence Theory). Later, research conducted by the Lewis (1982) makes effort to understand taxpayers' compliance behavior by evaluating taxpayers' perceptions and attitudes. Lewis (1982) argues that attitudes are linked with behavior, and that a positive attitude will give outcome of increased compliance.

These previous theoretical models deliver knowledge towards creating a more comprehensive theory of tax compliance, and put forward a distinct facet of tax compliance behavior. Different facet of compliance presented by the Fiscal Psychology Models was welcomed, various concerns were however raised (Cuccia, 1994). The major concern was link with the usage of self-reports to record compliance data, which is regarded to be unreliable. These concerns related to self-report continue to exist to this day. Concerns regarding to the models' inability to recognize the mechanisms through which relationships between several attitudinal and demographic variables and compliance operate, were also raised (Cuccia, 1994).

Later on, studies of Fiscal Psychology Models lead to move away from deterring noncompliance and alternatively efforts were made to concentrate more on encouraging voluntary compliance (Pope & McKerchar, 2011). Pope and McKerchar (2011) assign this shift to the increasing dependency placed on psychological theory and principles in an effort to understand tax compliance behavior. As time goes by, the concept of 'tax mentality', as use in Schmolders (1959) and Strümpel's (1969) Models, evolved and has progressively been replaced with "tax morale" (Kirchler, 2007; Kornhauser, 2007; and Torgler, 2007). Despite that, contemporary

studies define the term “tax morale” very broadly, and include attitudinal variables like sense of civic duty; feelings of guilt; moral values; and other similar attitudinal variables.

In brief, Fiscal Psychology Models which have their roots in Schmolders (1959) work, tend to consider tax enforcement as a behavioral problem, which can be communicated by cooperation between tax authorities and taxpayers (Pope & McKerchar, 2011). In spite of large volume of research studies conducted on tax compliance since the introduction of Allingham and Sandmo’s (1972) Model, there is still no common consent from scholars on an optimal tax compliance model (McKerchar, 2003a). The main problem in attaining this is as the data needed for such an exercise is not obtainable in most cases, and tax authorities are mostly unwilling to provide authentic compliance data to researchers. For that reason, the quest for an optimal model may still continue into the future, except that tax authorities are willing to collaborate with researchers.

2.1.4. Theory of Reasoned Action

Based on the large volume of literature, the TRA and the TPB appear to be the two most widely used social psychological models currently used to predict intention and behavior. The TRA proposes that intentions are the immediate precursors of behavior, and that intentions, in turn, are a function of attitudes toward the behavior and the sum of the normative beliefs weighted by motivation to comply. The TRA was developed to provide a better understanding of the relationships between attitudinal beliefs, normative beliefs, intentions and behaviors (Fishbein & Ajzen, 1975). Given that the elements or constructs of the TRA are identical to the TPB, the individual constructs of the current research model will be discussed in detail, under the TPB Model, in the later part of this chapter.

The TRA Model (a term used for the purposes of this study to describe a behavioral model based on the TRA) was developed and designed to predict and explain behavior in specific contexts, and provides a parsimonious explanation of behavior (Fishbein & Ajzen, 1975; and Ajzen & Fishbein, 1980).

In brief, the TRA Model is based on an individual's intention, or motivation, to engage in the target behavior. According to the TRA, behavioral intentions are arguably the best predictor of a person's behavior. The stronger the intention to undertake the target behavior, the greater the likelihood of engaging successfully in that behavior. Ajzen and Fishbein (1980, p. 181) added that "intentions are assumed to capture the motivational factors that influence a behavior; they are indications of how hard people are willing to try, of how much of an effort they are willing to exert in order to perform the behavior."

Behavioral intention, in turn, is a function of attitudes towards the behavior and subjective norms. Attitude towards the behavior reflects an individual's perception of the desirability of performing a target behavior, which in turn is a function of a cognitive belief structure that comprises of two sub-components: salient beliefs that performing the target behavior will lead to a specific outcome, and the evaluation of that outcome. Subjective norms refer to an individual's perception of what significant others think that the individual should or should not perform the behavior. This perception in turn is a function of a person's perceived expectation that one or more referents think the individual should perform (or should not perform) the target behavior, and the level of the individual's motivation to comply (Ajzen & Fishbein, 1980). Based on the TRA, if an individual believes that a positive outcome will result from performing a target behavior, and that important referents would encourage and approve of such a behavior, then positive intentions would likely result in terms of the target behavior.

Empirical evidence from prior studies demonstrates the applicability of the TRA in a variety of experimental and naturalistic settings, covering a wide range of behaviors (Beck & Ajzen, 1991). Further, a meta-analytic review of prior researches on the TRA concluded that the predictive utility of the TRA was strong across a range of behavioral conditions (Sheppard et al., 1988; Sheeran & Taylor, 1999; and Landridge et al., 2007). Intentions to perform the target behavior can be predicted from attitudes towards the behavior and from subjective norms, and the intentions in turn correlate well with observed actions.

The key hypotheses of the TRA are that behavioral decisions involve a reasoned process, in which the behavior is influenced by attitudes and norms. These factors influence behavior through their effect on intention. However, despite its wide use, the TRA's predictive ability is only optimal when the behavior of interest is under complete volitional control of the individual (Ajzen & Fishbein, 1980; and Ajzen, 1988).⁵⁷ Intentions and behaviors that are not completely under volitional control are not adequately served by the TRA. Further, the TRA asserts that external variables do not directly influence behavior, and that they are only related to behavioral intentions and behavior, through their impact on the behavioral and normative beliefs (Ajzen & Fishbein, 1980). However, subsequent studies have disputed this claim by demonstrating that some external variables are able to influence behavior directly (Ajzen, 2010).

Recognizing that some of the behaviors under study may not be under complete volitional control, Ajzen (1985; 1988) introduced perceived behavioral control (PBC), as an additional construct to predict both intention and behavior. PBC is defined as the belief of how easy or difficult performing the target behavior is likely to be (Ajzen, 1985; 1988). The PBC element was added to deal with factors that may serve as opportunities, obstacles or impediments towards achieving the desired outcome. Beliefs about the availability and opportunity to effectively

employ the required resources, and having the right skills to engage in the target behavior, will determine the level of perceived behavioral control. Whilst the TRA was considered adequate for predicting behaviors that were relatively straightforward (that is, under complete volitional control), the TRA Model was found to be inadequate when there were constraints on the proposed actions. This has led to some failures in predicting behavior, because in situations where resources or ability is lacking, no matter how strong the intention, it will not lead to the target behavior. Arguably, the PBC construct provides the necessary information about the potential constraints on action as perceived by an individual, and further explains why intentions do not always predict behavior (Armitage & Conner, 2001).

Comparative research undertaken by Madden et al. (1992) compared the precision in the prediction of intentions and target behavior of the TRA with the TPB, across ten behaviors. These behaviors were chosen to represent a range of volitional control over the proposed performance of the behaviors. The results demonstrate that the TRA was adequate when the behaviors are under volitional control. However, when the behaviors are not under full volitional control, the TPB was found to be superior to the TRA in the prediction of the target behavior. Further, Ajzen (1988, p. 127) acknowledged that the TRA “was developed explicitly to deal with purely volitional behaviors.” This means that the TRA is only suitable when predicting simple behaviors, where success of performing the target behavior requires only the formation of an intention.

2.1.5. THEORY OF PLANNED BEHAVIOUR

The Theory of Planned Behavior (TPB), which is an extension of the Theory of Reasoned Action (TRA), posits that attitudes, subjective norms and perceived behavioral controls are key elements in determining a person’s intentions to engage in a target behavior, and ultimately influences the

performance of the behavior (Fishbein & Ajzen, 1975; and Ajzen, 1991). TPB is one of the most widely used social psychological models applied in behavioral research to explain and predict behavior (Armitage & Conner, 2001). The TPB framework has been employed in numerous disciplines to understand antecedents to behavioral intentions and the resulting behavior. The majority of the studies have validated the TPB in wide-ranging behaviors such as: exercise (Ajzen & Driver, 1991); recycling (Taylor & Todd, 1995); alcohol misuse (Marcoux & Shope, 1997); weight loss (Sparks et al., 1995); and speeding (Conner et al., 2007). The application of the TPB in tax compliance behavior is still in its infancy, therefore, the literature reviewed will include behaviors in other domains (including meta-analyses), in addition to the few studies based on tax compliance behavior.

Beck and Ajzen (1991) applied TPB to determine the theory's ability to predict and explain dishonest actions by college students. The self-reports of behavior used in the questionnaire include: cheating on a test; shoplifting; and lying to get out of assignments. In the first step, the TRA was evaluated, and the results indicate that it performed well in explaining between 33 and 61 percent of the variance in intentions. Most of the predictive accuracy can be attributed to attitudes towards the behavior. The only exception here was with respect to the lying behavior, in which subjective norms make a significant contribution to the prediction of behavior. In the next step, the perceived behavioral control (PBC) construct was added to the research model, which resulted in a substantial and statistically significant improvement in predictions. The results demonstrated the TPB to be superior to the more limited TRA, indicating that intentions to perform dishonest behavior are also strongly influenced by beliefs about the potential obstacles and opportunities present.

In the second phase of the study, with the addition of perceived moral obligations, the TPB was moderately successful in predicting self-reports of actual behavior. The addition of perceived moral obligation improved the model but only in the case of lying, while the further addition of past behavior improved prediction of lying as well as shoplifting. Overall, cheating, shoplifting and lying intentions were found to be strongly related to attitudes, subjective norms and PBC. In turn, intentions and PBC were found to be good predictors of self-reported behaviors. The outcome provides significant support for the TPB in predicting dishonest behavior.

Conner et al. (2007) undertook two studies: one examining the power of the TPB to predict objectively assessed speeding offences (violation) across four different situations; and the other study, while taking a similar approach, employed a discrete measure of speeding behavior on the road. The results of the two studies support previous research on driving behavior based on the TPB. Attitudes, subjective norms, PBC, moral norms, anticipated regret and past behavior predicted 76 percent of the variance in intentions to speed. Attitudes, moral norms, anticipated regret and past behavior were consistent predictors of intentions across both studies. The role of attitudes in predicting speeding intention is consistent with a number of prior studies investigating speeding behavior (for example, Parker et al., 1992).

Buchan (2005) employed an extension of the TPB to examine the influence of personal, social and organizational factors on ethical intentions. The study investigated the effects of attitudes, subjective norms, PBC, moral sensitivity and the ethical climate of accounting professionals. The results of the survey reveal a significant direct relationship between attitudes and ethical intentions, but the effect of subjective norms on ethical intentions was inconclusive. Interestingly, the study found a significant relationship between attitudes and subjective norms, leading to a strong but indirect relationship between subjective norms and ethical intentions. The

relationship between PBC and intentions was not evaluated due to the measurement scale not achieving the required level of reliability. The outcome of this study therefore supports the applicability of the TRA (Fishbein & Ajzen, 1975), instead of the TPB (Ajzen, 1991), in predicting ethical intentions of public accounting professionals. Consistent with a number of studies, attitudes appear to have comparatively stronger explanatory power.

Mayhew et al. (2009) employed Structural Equation Modelling (SEM) in an attempt to empirically validate the TPB as a model for predicting student cheating. The study examined the effects of attitudes, subjective norms and PBC, together with moral reasoning, on college students' cheating behavior. Two samples were developed for the study, including a third sample which is the sum (total) of the two samples. The results for the total sample displayed a good model fit, and provided validation for the selection and application of the TPB for predicting student cheating. The addition of moral obligation and high school cheating constructs produced a stronger model fit, indicating the importance of including these additional constructs in the TPB.

In terms of individual constructs (for the total sample), high school cheating, subjective norms and moral obligations achieved statistically significant effects on intentions. Surprisingly, attitudes failed to achieve any significant link with intentions. PBC, on the other hand, did not display any significant effect on intentions, but was significant on its effect on cheating behavior. Intentions were also found to be significantly related to cheating behavior. One of the sub-groups displayed similar results, while the second sub-group displayed a significant relationship between attitudes and intentions, but failed to support the relationship between PBC and either intentions or behavior. Overall, the study demonstrated the viability of employing the TPB as a framework for understanding the psychological means that students use when deciding to cheat.

Relating this outcome to a tax context, the results suggest that the TPB can be a useful framework for understanding the psychological processes that taxpayers employ when making tax reporting decisions.

Armitage and Conner (1999) evaluated the predictive validity of the TPB, which was extended to include self-identity in the context of health-related food choice. A related area examined was the effect of certain biases associated with self-reports on the findings. In particular, the authors assessed the effects of questionnaire format (random versus structured) and social desirability bias. The evaluation of the TPB research model demonstrated that intention was the key in determining food choices (behavior). In turn, attitudes and subjective norms (and self-identity) were independently good predictors of intention. Further, contrary to predictions, the study failed to observe any significant effect of PBC on intention or behavior. The authors explained that this outcome may be due to the measures used, and argue that the PBC construct's influence may be significant if the indicators measuring PBC were divided into self-efficacy and perceived control over behavior. The findings also demonstrated that the effects of questionnaire format and social desirability have no impact on the results, suggesting that these factors may not be as much of a problem as previously assumed. The study concluded that the behavioral models based on the TPB are robust predictors of food choice intentions and behavior, which may also suggest that the TPB Models may also be robust predictors for other behaviors.

Armitage and Conner's (2001) meta-analytic review using a database of 185 independent studies revealed that TPB accounted for 27 percent and 39 percent of the variance in behavior and intention, respectively. PBC accounted for large amounts of variance in intention and behavior, independent of the TRA. In studies where the behavior was based on self-reported measures, intentions and PBC accounted for 31 percent of the variance in behavior (across 44 tests),

whereas intentions and PBC only accounted for 20 percent of the variance in behavior (across 19 tests). The authors attribute the differences between self-reported and objectively assessed behavior to a number of factors, including self-presentation biases. Subjective norms were found to be weak predictors of intention. The authors attribute this outcome to a combination of poor measurement and the way normative pressures were conceptualized. The authors further note that the results are consistent with past meta-analytic reviews, thus providing evidence that the TPB is a useful framework for predicting a wide range of behavioral intentions and behaviors.

In an attempt to illustrate that the TPB provides a useful conceptual framework for addressing the complexities of social behavior, Ajzen (1991) conducted a meta-analytic review of 16 studies testing the application of the TPB in a range of behaviors. These studies include measures of attitudes, subjective norms and PBC. The analysis displayed an average multiple correlation of .71 for attitudes, subjective norms and PBC, with intentions, and an average multiple correlation of .51 for prediction of behavior from intention and PBC. The analyses further revealed that regression coefficients for PBC were significant for all studies reviewed, clearly indicating that the PBC construct is a reliable and significant independent predictor of behavioral intentions across a wide range of behaviors. Further, despite some limitations, the author concluded that the theory “incorporates some of the central concepts in the social and behavioral sciences, and it defines these concepts in a way that permits prediction and understanding of particular behaviors in specified contexts” (Ajzen, 1991, p.206).

Another meta-analytic appraisal conducted by Godin and Kok (1996) provides evidence of PBC’s contribution towards predicting intentions and behavior. The review found that PBC contributed a mean additional 13 percent of variance to the prediction of intentions and 12 percent to the prediction of behavior, which indicate the predictive capability of the TPB.

However, as noted by the authors, one of the limitations of this study is that the review only considered health-related behaviors which are considered to be less complex than tax compliance behavior, or behaviors that are not under full volitional control. The outcome of this study would therefore have some limited application to tax compliance behavior.

Hausenblas et al. (1997) evaluated the efficacy of the TRA (Fishbein & Ajzen, 1975) and TPB (Ajzen, 1991) in explaining and predicting exercise behavior, using the statistical procedures of meta-analysis. The results provide strong general support for the validity of the TRA and TPB. The results further indicate that, based on the magnitude of correlations between PBC, intentions and behavior, TPB is found to be more useful than TRA in predicting and explaining exercise behavior.

A large number of studies have demonstrated the power of the TPB in predicting a wide range of behaviors (Armitage & Conner, 2001). Although the TPB has been widely applied across a range of behaviors, there have been very few applications in the tax compliance domain. This also suggests that whilst the TPB has been well validated in a range of behaviors, the theory has not been well validated in tax compliance research. However, there is no reason to assume that the same success of application in other behavioral domains will not apply to the tax domain, as demonstrated by the few studies applying the TPB to tax compliance behavior presented in the following paragraphs.

One of the earlier tax compliance studies, Hanno and Violette (1996), applied the TRA (the predecessor of the TPB) to explain tax compliance behavior of compliers and non-compliers. The results indicate that attitudes and norms were positively related to tax compliance intentions and behavior. In terms of behavioral beliefs that motivate attitudes, the results suggest that those who did not intend to comply with their tax obligations were less concerned with civic or moral

responsibilities. The outcome of this study illustrates the predictive power of the TRA in explaining tax compliance intentions and behavior.

Research conducted by Bobek and Hatfield (2003) found evidence consistent with the TPB's prediction of tax compliance behavior. The authors developed a model based on the TPB that includes: attitudes, subjective norms, PBC, and moral obligations. The developed model was tested with three specific tax compliance scenarios. Attitude and subjective norms were both positive and highly significant in all three scenarios. In contrast, PBC was found to be positive and highly significant for only the tip scenario, and marginally significant in the charitable contribution scenario.

The findings also highlighted the important role of moral obligations in tax compliance behavior. However, the study further revealed that high levels of moral obligation alone have no effect on eliminating cheating; it is when the opportunity to cheat is reduced that high levels of moral obligation reduce cheating. Overall, the authors conclude that the TPB is a suitable framework to consider variables that influence tax compliance behavior.

Efebera et al. (2004) developed and tested a predictive model of tax compliance behavior based on the TPB. The study investigated the compliance intentions of low-income individual taxpayers, by examining the effects of perceived tax equity (attitudes), normative expectations (subjective norms) and legal sanctions (PBC) on tax compliance intentions. Consistent with the TPB, their results indicate a significant positive relationship between compliance intentions and equity perceptions of the tax system, normative expectations and legal sanctions (or magnitude of penalties). The ability of the TPB to predict tax compliance intentions provides further support for the use of TPB in other tax compliance research.

Trivedi et al. (2005) examined the application (or suitability) of the TPB on tax compliance behavior. The key purpose of the study was to test the predictions of economic and psychological theories (underlying the TPB) on why taxpayers might comply or fail to comply. The key hypothesis tested the premise that tax compliance behavior is determined by three factors: tax compliance intentions, perceived behavioral control, and ethics. Tax compliance intentions, in turn, are determined by four factors: attitudes, subjective norms, perceived behavioral control, and ethics. Two measures of intentions were used: intention to comply (compliant behavior); and intention to overstate deductions (noncompliant behavior). Attitudes displayed significant relationship with compliant and noncompliant behavior, whereas subjective norms were significant for the compliant behavior but not for the noncompliant behavior. PBC, however, did not display any significant influence on either behavior. Nonetheless, overall, the results confirm the predictions of the TPB and highlight the important role of attitudes and intentions in tax compliance behavior, over and above pure economic considerations.

Drawing upon the TPB, Bobek et al. (2007) examined the underlying reasons why taxpayers overpay their taxes which would result in a tax refund. The study also employed the belief elicitation process recommended by Ajzen and Fishbein (1980) for identifying beliefs that taxpayers hold, with respect to lowering their withholding when faced with the possibility of a tax refund. Data collected from the online survey was analyzed using SEM. The results suggest that taxpayers overpay because of their attitudes (a desire to avoid underpayment or uncertainty) and subjective norms (perceptions of friends' likely advice) influence their withholding decisions. The results were consistent with prior research, indicating the predictive ability of the TPB in tax compliance studies. It was also reported that the attitudes measure was twice as influential as their subjective norms in predicting withholding decisions.

In a study conducted by Saad (2009; 2011), the TPB was used as the core theory to examine the effects of multiple dimensions of fairness, including tax knowledge and tax complexity, on individuals' behavioral intentions. The data was collected from a survey distributed to Malaysian and New Zealand taxpayers. The results from the SEM analysis with respect to the Malaysian taxpayers indicate that attitudes and subjective norms have significant effects on intentions (Saad, 2009). In contrast, the effect of PBC on intentions was inconclusive. The results for the New Zealand taxpayers displayed similar results and were reported in a separate publication (Saad, 2011). The findings from both groups of taxpayers demonstrated the applicability of the TPB in predicting and explaining tax compliance behavior.

Although the next study is not directly related to tax compliance behavior, the study is nonetheless associated with tax compliance, in that it involves tax filing behavior. TPB and the Technology Acceptance Model (TAM) were employed to investigate the determinants influencing on-line tax filing behavior (Lu et al., 2010). The results showed that attitude was the key factor affecting on-line tax filing behavior. Attitude was also found to be affected by perceived usefulness, perceived ease of use, tax equity, social norm, and moral norm. The results indicate that on-line tax filing intention is determined by attitudes, subjective norms, and PBC, although attitude was found to have the strongest influence on individuals' on-line tax filing decisions. The study therefore supports the use of the TPB (together with TAM) in examining on-line tax filing behavior.

In summary, there is overwhelming evidence which clearly demonstrates the applicability of the TPB in predicting a wide range of behavior. At the conceptual level, the TPB has been used in explaining a range of behaviors in a variety of contexts, without having to develop a separate set of assumptions about the applicability of these paradigms. Although the research evidence on the

applicability of the TPB in predicting tax compliance behavior is currently limited, it nonetheless provides sufficient support for the TPB's application in tax compliance research. Overall, the results of the empirical studies reviewed in this sub-section provide support for the use of the TPB in explaining the behavioral process of people engaged in tax reporting decisions.

2.2. Selected Behavioral Tax Compliance Literature Review

In this study assumptions of extended version of theory of planned behavior and equity theory will be used.

Theory of Reasoned Action, Theory of Planned Behavior, Equity Theory and Compliance Behavior:

In past studies economic deterrence approach and the behavioral approach were suggested for reviewing the problem of compliance (James & Alley 2002). Economic deterrence approach studies compliance regarding to incentives and economic costs while behavioral approach inspect behavior utilizing approaches deduce from the areas of sociology and psychology. Efficiency in resource allocation is centre of attention of the economic deterrence approach while fairness is central point of focus of behavioral approach (James & Alley 2002). On the basis of this contradistinction behavioral approach seems to be pertinent in this study. Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB) are two prepotent theoretical frameworks used in explaining human behavior (Ajzen 1991).

An analysis of the two theories proposes that the TRA model presents behavioral intention as the primary determinant of the actual behavior. On the other hand, attitude towards behavior and subjective norms are determined by behavioral intention. TRA model, in other words, proposes that individuals made decisions according to their intention or will thus they have full volitional control over their behaviors. This postulation may hold accurate to some usual routine and

entirely volitional decisions, just as buying particular brands, abstain from smoking and doing regular exercises. Squabble that not all behaviors are under fully volitional control, Azjen (1985) presented the TPB that was an extended model of TRA model. Azjen (1985), in this TPB model put forward a new variable for measuring individual's behavior of how effortless or tough to execute the behavior, known as perceived behavioral control. Succinctly, TPB proposes that one's stimulation to execute a particular behavior is also affected by the individual's perception of how effortless or tough the behavior is to be executed, moreover with regard to behavior and subjective norms. In the frame of reference of tax compliance behavior, taxpayers' animus to comply (or not) do not merely be dependent on their will. Individuals may desire to comply, but eventually adjudicate not to when they come across trouble to execute such behavior as these impediments later on restrict their volitional control. Depend on past studies; various factors are disclosed notably affecting tax compliance behavior, along with likelihood of detection and ethics, tax knowledge, tax complexity (Richardson & Sawyer 2001).This manifests tax compliance behavior is not merely a paltry choice, but the outcome of judgements made by individuals (whether to comply or not) premised upon the existence or absenteeism of hurdles, opportunities and resources. That being said, tax compliance doubtlessly falls under incomplete volitional control. So, we argue that TPB model preferably is more suitable than TRA model in prognosticating tax compliance behavior. As a matter of fact, Bobek and Hatfield (2003) in their study use the TPB model with the addition of the moral obligation variable. Bobek and Hatfield (2003),Mustikasari (2007), Arniati (2009) and Imelda (2014) reveal that tax-payer compliance can be elucidate by utilizing the Theory of Planned Behavior (TPB) developed by Ajzen (1991).Geetha and Sekar (2012) and Kariyoto (2010) in their study explained the factors affecting consciousness of taxpayers by utilizing the Theory of Planned Behavior (TPB) given

by Ajzen (1991). The Theory of Planned Behavior model depicts that compliance behavior give noteworthy description that non-compliance behavior is affected by variables like subjective norms, perceived behavioral controls and attitudes. Damayanti et al., (2015) pinpointed that factors of theory of planned behavior is crucial for tax compliance in Indonesia and same results were presented by Smart (2013) in New Zealand.

Equity theory aids in explaining how individuals make fair judgments. Equity theory proposes that individuals regularly assess the worth of inputs and outputs they receive (Walster et al. 1978). Equity theory propounded that individuals are most likely to conform to rules, regulate by the system perceived to be equitable by them. To rectify perceived fairness in interchange relationships, individuals often balance their input to this relationship (Adams 1965). If individuals perceive that outputs do not appropriately line up with inputs they undergo discomfort. The discomfort could be linked to further with overpayment inequity or an underpayment inequity. Underpayment inequity takes place when an individual thinks that his inputs are beyond than the outputs he gains. This theory is generally used in organizational research to study the impact of compensation on employees' behavior. In an organization this happens when an individual think he is not recompense sufficiently for the work he does. In a tax compliance context, an underpayment inequity could be the outcome of an individual perception that fringe benefits obtain from government are not adequate given the amount of taxes paid. Contrarily, overpayment inequity is an individual's perception that the inputs are lesser than the outputs obtained. As perception of inequity can be the cause of discomfort, individuals look about to rectify the inequity (Walster et al. 1978). It is scarce for a perception of overpayment to continue for an extended period of time as individual briskly justify that they well deserve the additional output. To unravel underpayment inequity, individuals may take one of two basic

steps: (1) individuals may alter their inputs or outputs (2) alter their cognitions. Individuals may adjust their inputs in an organization by working to a smaller extent, despite that in tax compliance background a change to the input could induce individuals to pay less tax. As another option, individuals may try to alter the outputs by asking for raise in an organization or making a plea to politicians to give more social benefits.

In equity may also depend on how equal or unequal the tax law deals with them vis-à-vis others. That is individuals make comparison of their relative contributions to the tax system to the comparative contributions of others. To the degree they perceive that they have been treated dishonestly they may try to ameliorate it via noncompliance (Verboon & van Dijke 2007).By pondering on one's own tax burden with respect to one's income in comparison to that of a wealthy person who pays less give rise to a perception of distributive injustice (Verboon and van Dijke 2007).

If we viewed income tax system as a system of interchange relationships, equity theory would prognosticate if system is perceived as more inequitable than more tax evasion would take place. Spicer and Becker (1980) being consistent with this view, infer that tax evasion is an endeavor to reinstate equity in the system of trade that is carry out with the government.

2.3. Selected Variables of Study

2.3.1. Attitudes toward the behavior (Tax Compliance):

The TPB suggested that attitude towards the behavior depends on a person's elemental behavioral beliefs, and deals with the degree to which the person has a favorable or un-favorable assessment of the behavior of interest (Beck & Ajzen, 1991).Expectancy-Value Theory put forward a framework for understanding the relation between evaluative meaning of beliefs and attitudes (Eagly & Chaiken, 1993).Fishbein (1963) presented the Expectancy-Value Model,

which insists that a person's attitude, as interpreted in the abstract sense of estimation, is a function of that person's beliefs. Beliefs are described as the sum total of the expected values associated with the attitude object. And therefore, this model helps in understanding the relation between individual underlying behavioral beliefs and attitude an individual holds. Outcome expectancy is referred as the belief that carrying out a certain behavior will produce a certain outcome. Outcome value is basically the subjective value that is placed by an individual on that outcome. This indicated that an individual will be more motivated to execute a certain behavior especially, in a situation when an individual perceives that positive outcome will be result of that specific behavior and therefore individual hold it in high regard (Armitage & Christian, 2004). For that reason, it is evident that only those outcomes hold in high regard are likely to have influence on individual's attitudes.

Attitude towards behavior is a consequence of the product of an individual's pivotal beliefs which exhibit perceived outcomes or other aspects of the behavior (Conner & Sparks, 2005). Depending on the expectancy-value conceptualization, outcomes comprises of the multiplicative combination of the perceived possibility that performance of the behavior will produce specific outcome, and the assessment of that outcome.

Ajzen (2012) consider that the supposition that attitudes depends on information available in memory indicated the degree of reasonableness. Whereas Expectancy-Value Model contemplates beliefs to be somewhat accurate, the TPB Model also admits that beliefs can be biased by a number of motivational and cognitive processes, and may depend on irrational or selective information, be self-seeking or else or failed to reflect actuality (Ajzen, 2012). Nonetheless, a set of beliefs once formed is accessible and offers the cognitive foundation from which attitudes are assumed to follow automatically in a reasonable fashion.

Individuals are regarded to hold a considerable number of beliefs about a specific thing or behavior; though, only a little subset is probable to be noteworthy at any time (Fishbein, 1967a; 1967b; and Ajzen, 2012). Hence, in spite of holding a large number of beliefs, it is principally the salient beliefs that are thought-out to exert influence on attitudes. This causes to raise the issue of measuring salient beliefs. TPB lay down the usage of individually generated salient beliefs, which include querying respondents to illustrate the attitude object by using free-response format (Fishbein & Ajzen, 2010). It was discovered by Conner and Sparks (2005) that most of the research studies tends to utilizes modal salient beliefs depending on pilot work while following the methodology defined by Ajzen and Fishbein (1980). Studies investigating the impact of modal and individually generated beliefs indicated a strong correlation between attitudes and modal behavioral beliefs compared to a marginal significant correlation between attitudes and individually generated beliefs (Rutter & Bunce, 1989; and Agnew, 1998; cited in Conner & Sparks, 2005). Although, the application of individually generated beliefs is in accordance with TPB, the results propose that its usage does not seem to appear to lessen the measurement errors adequately in order to maximize predictability of the behavioral model. This was concluded by Conner and Sparks (2005) that the end result of the study demonstrated that the additional effort used for the additional data collection is needed when utilizing individually generated beliefs (against modal beliefs) is for that reason not justified.

With reference to current research, previous literature and relevant compliance theories were applied to develop beliefs underlying attitudes towards tax compliance, as a substitute of the suggested pre-testing specified by the TPB to bring forth salient beliefs. This was considered by the author that modal beliefs are not too distinct to beliefs recognized in the previous literature (also grounded in the theory). Moreover, numerous studied conducted on tax compliance

(depending on TPB) illustrated the advantageous usage of beliefs relying on previous theory and literature (Hanno & Violette, 1996; Trivedi et al., 2005; and Saad, 2009; 2011).

One more question usually rose, regarding to the merits of using measures of affective (or experiential) and instrumental (or cognitive) attitudes. It was proposed by Ajzen (2002b) that both attitude measures i.e., affective (for example, unenjoyable or enjoyable) and instrumental (for example, harmful or beneficial) must be included. Ajzen and Fishbein (1980, p.55) in their earlier work, maintain that direct measures may also be used for assessing attitudes by asking direct questions from the responders about their attitudes. On making distinction between affective and cognitive attitude Lewis (1982) argued that this is negligible, and maintain that the difference between these two types of attitudes is even more obscure than those between the tax avoidance and tax evasion. With this, Lewis (1982) added that the two terms stand in need of to be viewed only as descriptive items, and not viewed as hard and fast elements, though both terms have need of to be covered in in-depths assessments of tax attitudes. This point of view was most favored by Zanna and Remple (1988, quoted in Conner and Sparks, 2005), for assessing attitudes. Responders in their study, were given a chance to reveal their general estimation of a particular behavior rather of researcher's presupposition what the bases (i.e., affective or cognitive) of that attitude could be. The merit of using these two constructs as distinct or aggregate was observed by Ajzen (2001). It was concluded by Ajzen (2001, p.35) that individuals varies in their dependency on cognition versus affect as determinants of attitude, and that the both components also take on different level of significance for different attitude objects. Depending on the above discussion, the difference between the two measures was neglected and therefore this current study involves both cognitive and affective attitude measures in the research model.

Attitude towards the behavior is explained as an individual's guesstimate of executing the behavior (Beck and Ajzen, 1991). In other words, attitude towards behavior indicate feelings of approval or disapproval towards a specific behavior. In the background of this study, an attitude towards behavior pointed towards assessment of whether or not they will fulfill their tax obligation. This judgment is made based on the results of whether complying with tax laws would be advantageous for them. Previous literature has point out examples of tax attitudes as potentiality for financial benefits (Baldry, 1987) and perceived confidence in officials (Torgler, 2005). Previous studies conducted in foreign countries on relationship between compliance behavior and attitude towards compliance have established a positive link between attitude and compliance behavior. And this is in accordance with the premise under the Theory of Planned behavior model that a supportive attitude towards behavior will most likely affect behavior in a positive way.

Saad (2012) carry out study on Tax Non-Compliance Behavior and results show that sources of earnings, tax complexity, tax knowledge, fairness perceptions, attitude and perceived behavioral control somewhat play a part in taxpayer's non-compliance behavior. In his research Abdul Hamid (2014) presented the same result that ethical sensitivity, perceived behavioral control, attitude and ethical sensitivity have remarkable effect in New Zealand and Malaysia. Many other studies delineate a remarkable positive relationship between tax evasion behavior and attitude (Kirchler, et al., 2008). Alabede et al. (2011) ascertain that taxpayers' attitudes toward tax evasion are remarkably linked to their compliance. Bobek and Hatfield (2003) come up with this result that attitudes have an impact on tax compliance. While Loo, McKerchar and Hansford (2008, 2009) in their research study try to get the bottom of such a relationship in Malaysia through use of mix method approach, the outcomes were mixed. Hence taxpayers with

unfavorable attitudes toward tax evasion (poor attitudes) are not likely to become involved in tax evasion and become more involved in tax compliance. Contrary to, taxpayers with favorable attitudes regarding tax evasion (good attitudes) are most likely to become involved in tax evasion.

2.3.2. Subjective Norms:

Social psychology proposes that social interactions can have a remarkable effect on individual's behavior. Previous researches on this mainly focus on investigating that why individuals conform to the wishes of others. Conformity come about when an individual alter his or her behavior due to "the actual or visualize influence of other people" (Aronson et al. 2010 p. 246). The impact of "others" is often demonstrated in the social norms of the group. Non-formal or formal rules of a group that govern the values and behavior of the group is called social norms (Aronson et al. 2010; Cialdini & Trost 1998). Norms are existed in every social situation, even if their impact is not crucial to members of the group (Kallgren et al., 2000). Due to this reason, social norms in any type of situation have remarkable implications for behavior.

Social norms are hypothesized to have an impact on behavior in every kind of situation even including individuals decisions related to compliance (Kallgren et al. 2000). Davis et al. (2003) modeled the determinants of tax compliance behavior and put up the results that social norm together with enforcement and "others" behavior should influence compliance. Individuals who internalized a social norm of compliance were most likely to comply. With this he also noted that individuals that believe that others evade taxes are most likely to evade taxes (Alm, 1991).

Some studies by using archival data tested the theory in order to see the influence of social norms on compliance. Alm and Yunas (2009) by examining the geographic compliance trend examined the influence of social norms. The impact of social norms may be concentrated

geographically since individuals close-by to each other are more likely to wish for to be a part of the groups within their vicinity. They found that geographic location, in conjunction with individuals' previous experiences, was a worthy of attention predictor of compliance.

According to Wenzel (2004) subjective norms are social norms and this is because they relate the influence that society has on an individual's behavior. Subjective norms is defined as influence on decision-making of significant others (Ajzen, 1991). In other words, Subjective norms reflect individual motivation to follow the significant referent group in taking decision regarding tax obligations i.e. comply with it or not. Referent groups make reference to individuals to whom taxpayers normally refer or compare to, in which friends, colleagues and family members may included. Individuals or legion just as companions, colleagues, family members and friends might have an influence the decision-making of others depending on they perceive the behavior, whether they would ratify it or not, and to what degree persons are encouraged to be in accordance with to their point of view (Beck and Ajzen, 1991). Subjective norms describe what those near to an individual approve of. Subjective norms often deal with peer pressure. Since subjective norms are regarded as norms of those near to an individual, their impact on behavior maybe powerful than other norms. When an individual assess several courses of action, subjective norms may be considered as the first norm. Subjective norms may assist the individuals in determining whether compliance with tax law or evasion will cause approval or disapproval by his/her closest group members (hence, stronger or weaker social associations with those significant to them) (Aronson et al.2010).The degree of moral support for or against the particular behavior can affect one's intentions to become involved in the activity (Fishbein and Ajzen, 1975). Scholz et al. (1992) pinpoint that view of others is the principal factor that have an effect on change in respondents' commitment to conform to taxes.

Many researches on the effect of subjective norms on compliance behavior have presented mixed results.

Oktavianti,Ratnawanti,Riyadi&Panjaitan (2017) carry out research on motor vehicles taxpayers of Riau Islands Province by choosing variables of attitudes, subjective norm, service quality, perceived behavioral control and intention of taxpayer on compliance. Research conducted by Battiston and Gamba (2016) suggests that peer pressure and social pressure have noteworthy effect on tax compliance in Italy. Kirchler et al. (2008) assert that if taxpayers rely on this point that non-compliance is ubiquitous and accepted by their referent group, they are most likely to be non-compliant also. Many other studies have establish a relationship between tax evasion and perceived subjective norms (referent others) (Richardson 2006; Tsakumis et al., 2007).Studies conducted by Hanno & Violet (1996), Weigel & Hessing (1987), Bobek et al. (2007) indicated presence of positive relationship between subjective norms and tax compliance while other researchers like Kirchler, Niemirowski and Wearing (2006), were failed to establish a significant relationship between these variables.

Therefore, we argue that taxpayers who perceive that referent others accede to tax evasion are most likely to become involved in the behavior. Contrary to this, where referent others are against of tax evasion behavior rarely become involved in tax evasion.

2.3.3. Perceived Behavioral Control:

One of the determinants affecting the intention to act in certain ways is perceived behavioral control. Perceived behavioral control (PBC) is an expansion of the TRA, and is third determinant of the TPB (Fishbein & Ajzen, 1975). PBC was added to the TPB to describe behaviors that are not under full volitional control. Perceived behavioral control and self-efficacy were considered conceptually equivalent by most researches, whereas many other researchers have spotlighted the

subtle distinction between the two (Sheeran et al., 2001). Therefore, critics have asserted that conception of perceived behavioral control and self-efficacy should be explained with clarity (Giles et al., 2004). The reason behind this is that assumptions cannot be made that an individual's perception of the degree to which the target behavior may be compromised by external factors will certainly reflect their judgment as to how effortless that behavior would be to execute (Terry & O'Leary, 1995). For instance, an individual may think about few obstacles to carry out the target behavior, and for that reason consider the behavior to be under the individual's control. At the same moment, a person may also believe that the target behavior is troublesome to perform (Manstead & Van Eeklen, 1998; and Armitage & Conner, 1999a). Both construct deals with individual's evaluation of their potential of executing the behavior, while other construct depends on the perceived trust in executing the behavior. Yet Ajzen's (1991) own illustration of the relation between behavior and PBC concentrate on PBC including both a reflection of skills and ability and a proxy measure of actual control (Manstead & van Eekelen, 1998). The inference is that PBC may be divided into two control processes. The first is perceived controllability over behavior (cf. Rotter's, 1966, locus of control) and second is related to Bandura's (1982) self-efficacy beliefs. As a matter of fact, Bandura (1992) has claim "that self-efficacy and locus of control keep up minor or no relationship to each other" (p. 124).

Self-efficacy is measured in terms of an individual trust in their abilities in executing the behavior while in contrast; PBC is measured in terms of perceived hurdles or easiness of executing that particular behavior (Garcia & Mann, 2003). In conformity with most studies, current research model is therefore based on PBC measures and not on self-efficacy measures.

Behavioral intention is lead by beliefs about the existence of factors which hinder or smooth the way for performance of the behavior. PBC is worth considered to have an effect on behavior

both directly and via behavioral intentions. Perceived Behavioral Control (PBC) is outcomes of control belief. Control belief lead to the perception that taxpayers have or do not have capacity to carry out the behavior. The TPB presume that the control element will anticipate behavioral intention, and in conditions where the amount of basic control an individual have over the behavior can be accurately predicted, it will also speculate behavior directly. The direct track between behavior and PBC speculate about actual control an individual has over on executing the target behavior (Madden et al., 1992). If an individual perceive that they have confined control over the behavior of interest, then their intention may be low for performing that behavior, even if subjective norms and attitude towards behavior are in one's favor. Ajzen (1991) therefore suggested that PBC may be less helpful in predicting intentions, if normative influences and attitude are strong. With this Ajzen (1991) further stated, that the magnitude of the relation exist between the behavioral intention and PBC is based upon the nature of the situation and the type of the behavior. In general, individuals are more likely to make an effort to indulge in the behavior, if individuals believe that the target is attainable.

PBC deals with taxpayer's belief about the existence or non-existence of factors which make easy or put a brake on non-compliance. The higher control concerning taxpayers, non-compliance may reduce (Novianti 2017). With reference to control such a behavior, there are two major aspects, namely (1) how well control a person's behavior is, and (2) how well a person has confidence in the ability to do a behavior (Francis et al. 2004).

For instance, if a person has a higher degree of control above the behavior of the individual intention to accomplish, the behavior will be even greater. Furthermore, the ability factors play a central role. For that reason, the greater the ability of resources he has to perform a specific behavior, the greater one's intention to show the desired behavior. Each control variable is

weighted by its perceived power which make possible or hinder performance of the behavior of interest. The TPB evaluate these beliefs by multiplying the frequency or probability of occurrence of the factors by the subjective perception of the potential of the factor to enable or impede the performance of the behavior (Conner & Sparks, 2005). Many studies have presented proofs that this additional element has the added power to anticipate behavior and behavioral intention (Armitage & Conner, 2001). Anyhow, worries have been uplifted related to the conceptualizations of the control variables. Research conducted by Mustikasari (2007) has empirically shown the relationship between intentions to behave obediently and perceived behavioral control. If perceived control over behavior is greater, the higher will be one's intention to perform submissive behavior.

Perceived behavioral control is defined as a high degree of control a person perceived he or she might have to take part in performing a specific behavior (Bobek and Hatfield, 2003). Particularly, control beliefs, the basic determinants of perceived behavioral control, make reference to an individual's beliefs relating to the existence or non-existence of opportunities and resources, in addition, hurdles and impediments to execute the specific behavior in question.

Previous tax researches has point out income visibility (namely opportunity) as a principal factor in non compliance (e.g., Robben et al. 1990; Antonides and Robben 1995; Carnes and Englebrecht 1995). Probability of detection, considered as impediment to non-compliance is also related with compliance (Fischer et al. 1992). Individual's belief concerning the available opportunities and resources along with obstruction and hurdles to become involved in the behavior is the basal determinant for perceived behavioral control.

Azjen (1991) state clearly that a behavior that is not difficult to do is high in perceived behavioral control while one that is tough to do is low in perceived behavioral control. Higher

perceived behavioral control usually results in greater intentions to execute the behavior (Ajzen, 1991). Englebrecht (1995) in his study find that perception of being detect have a greater impact on individual's compliance preferences. Bobek and Hatfield (2003) spotlighted that perceived behavioral control involves control an individual believes that he or she might have to execute a particular behavior (for example counterfeiting the records, understating revenues and overstating deductions). Earlier researches on tax point out opportunity as a significant determinant in tax evasion and non-compliance (Carnes and Englebrecht, 1995; Antonides and Robben, 1995). Ajzen (1991) suggested that a person with a high perceived behavioral control will be most likely to carry out the behavior relatively with an individual with a lower perceived behavioral control. In a tax compliance behavioral research, when a taxpayer thinks that he/she can complete and file the tax return forms without any mistake, that taxpayer assume to have high perceived behavioral control and is most likely to conform to his/her tax obligations. In addition, if a taxpayer thinks that he/she can evade paying taxes without being capture by a tax audit than that individual seems to have a high perceived behavioral control over noncompliance and, hence, is most likely to evade paying tax. We assert that individuals with low perceived behavioral control are rarely involved in tax evasion as compared to individuals with high perceived behavioral control.

A number of meta-analytical reviews of TPB illustrated the remarkable contribution done by PBC construct regarding the prediction of behavior and behavioral intention (see Ajzen, 1991; and Armitage & Conner, 2001). Review given by Armitage and Conner's (2001) which was including 185 studies, presented results that TPB accounted for 39 percent of the variance in behavioral intention and 27 percent of the variance in subsequent behavior. Moreover, the review

also found out that PBC remarkably added to the prediction of behavior and intention, even after controlling the effects of components of TRA which are attitude and subjective norms.

2.3.4. Moral Obligation:

In the beginning, moral value component that was measured as “perceived moral obligation” (to behave in a particular way) together with social norms and attitude was included by Fishbein (1967) in order to predict intentions. Later on, this component was relinquished from the model because it was presumably only a proxy measure of intention (Ajzen and Fishbein 1970). Anyhow, the behavior examined in the 1970 study did not revealed to take in choices with “moral implications”; thus the question remained open. Previous researches demonstrated the usefulness of making distinction between personal preferences (attitude-type measures) and moral obligations in certain cases. Triandis (1967) did valuable work differentiating two factors “friendship” and “respect”, which link with the difference between attitude and moral obligation. Moreover, Schwartz (1973) found out that a measure of moral obligation helps in making predictions about behavior specifically for participants with a high attribution to responsibility. Beck and Ajzen (1991) included moral obligation to their model that is now reviewed as extended version of the theory of planned behavior. They pinpoint moral obligation to be dominant not only in predicting intentions but also in strengthening the predictive power of the model.

Moral obligation is a responsibility that a person believes he or she may have because of their thoughtfulness about right and wrong (Ajzen, 1991). Moreover perceived moral obligation (personal internal state construct) deals with the degree to which a person experience a feeling of responsibility to behave (or not) morally (or immorally) when they encounter an ethical situation (Beck and Ajzen, 1991; Leonard et al.,2004).In addition to this moral obligation could be view

as an evaluation where religious values are germane. Early researches on the semantic differential (Osgood, Suci, and Tannenbaum 1957) and a study conducted on Vietnam war policy (Komorita and Bass 1967) both stated that evaluation could be broken down into several components, one of which was “morally evaluative” and another was attitude (see Gorsuch 1986a). This would put forward the idea that religious/moral values are particular type of evaluation “experienced as feelings of moral obligation to behave in a certain way” (Schwartz and Fleishman 1982:81).

Additionally, a large number of studies have found that a moral value component add together with attitudes and social norms in the Fishbein model itself (Vallerand et al. 1992; Brinberg 1979; Zuckerman and Reis 1978; Davidson et al. 1976; Pomazal and Jaccard 1976; Schwartz and Tessler 1972). The actual question appears to be not if, but when a measure of perceived moral obligation will be useful. Gorsuch and Ortberg (1983), from a situational perspective, give suggestion that a value is fitted in a “moral situation,” which includes: (1) moral pressure, (2) resistance from deliberate change (moral rules cannot be “made up”), (3) importance, and (4) volition. They stated that moral obligation can be add together with attitude somewhat in the situation spotted by that criterion.

A measure of perceived moral obligation should enable prediction in situations that meet up these criteria and give assistance where there is a distinctly possible clash between what is perceived as the more personally preferred substitute (or alternative) vs. the more moral alternative. These perspectives give rise to an increasing awareness that there is a necessity of integrated theoretical model related to moral behavior (Kurtines 1986). Sample of this is the model developed by Gorsuch (1986b) that is the BAV model (beliefs, affect, and values). It

includes individual differences along with situational factors in projecting moral behavior by evaluating the interaction of one's underlying beliefs with moral obligation and affect.

However, past studies have signify the importance of moral obligation and some models have given due consideration to them, little research has been done in the reasoned action/planned behavior tradition to change this view by making effort to make alterations to behavior and intention.

So, therefore significance shown by past studies it is suggested that along with attitudes, subjective norms and perceptions of behavioral control together with person's moral obligations as a predictor of behaviors has remarkably ameliorate prediction of intentions (Bamberg and Moser, 2007; Beck and Ajzen, 1991; Leonard et al., 2004).

One distinguishing characteristic of the tax compliance topic is that there is a moral responsibility deeply felt by some but maybe not by others. When studying the negative behavior (driving violations) Parker et al. (1995), noted the significance of an individual's personal beliefs about right and wrong as individual distinguishable from an individual's belief about what others want him to do. The incorporation of these beliefs and the subject's expected regret result in an increase of approximate 10 percent in variance explained. In view of the fact that tax cheating is also a negative behavior, it is expected that moral obligation is important above and beyond its effect on individual an individual's attitudes.

Jackson and Milliron (1986), in their review of compliance research (report on several tax studies) they stated that ethics in general increased compliance. Yet they also noted the problem of defining ethical taxpayer behavior. In addition they also quoted a 1980 Westatstudy, which describe that moral concerns about tax compliance seems to be relatively weak and that taxpayer were in general ambivalent about either tax cheating was morally wrong.

In his study Reckers et al. (1994) add the question: ‘Is tax evasion wrong in any amount?’ They stated that it not only aid in predicting about tax evasion but it also exert influence on the effect of other variables on the model. Respectively the other two variables in their study, withholding position and tax rates, be of value when subjects were not morally be against to cheating. Reckers et al. (1994, 827) insisted ethical values do not “intrude [on] or twist rational deliberations”; comparatively they may replace the consideration of any other determinant of behavioral choice. If a behavior is viewed to be immoral, then it will not become involved, whatsoever the extrinsic benefits accessible. Kaplan et al. (1997) found out that a person’s level; of moral development importantly correlated with compliance and also affect the effectiveness of various educational communications to boost compliance.

These views give the idea that moral obligation should not only influence compliance intentions, but also might collaborate with the impact of other variables. Moderating role for moral obligation was suggested by Reckers et al. (1994). Respectively, taxpayers (with low levels of moral obligation) to be compliant will be most affected by some other influences.

McGee (2012) makes use of Martin Crowe’s research and studied tax evasion alongside three dimensions: individuals’ relationship with the tax paying community, individual’s relationship with the nation state and individual’s relationship with God. They reported that taxpayer’s in general believe they have a moral obligation to pay out their taxes imposed on them by the government because every person is liable for their fair share. Intriguing fact is, these suppositions are often endorsed by religious organizations (McGee, 2006).Bobek and Hatfield (2003) and Riahi-Belkaoui (2004) research also supported this point that perceptions of moral obligations have an impact on tax compliance. McGee (1999) find out that tax payers in Armenia normally be of the same opinion that they are not (morally) obliged to pay taxes. So we assert

that there are low chances of individuals having higher sense of moral obligation to be involved in tax evasion. Reckers et al. (1994) admit this that tax evasion is straightforwardly one of the many decisions that individual's make throughout their life that invoke moral beliefs and non-fulfillment in considering the possible outcomes moral beliefs would results in confounding results. In addition with this, moral obligation prognosticates about tax evasion and asserted that if behavior is view as immoral then it will not involve in tax evasion.

2.3.5. Fairness perception:

When it is enquired that what they thought about the tax system, citizens commonly communicate about fairness issues (e.g., Braithwaite, 2003c; Rawlings, 2003; Taylor, 2003). Fairness and justness are other factors that individuals usually communicate about. Thus one of the vital characteristics of tax system is fairness. Perceived fairness is essential factor for a successful tax system and taxpayers' compliance decision is directly influenced by public fairness perception. According to Lymer & Oats (2009) fairness refers to condition in which a taxpayer is taxed according to their proficiency. In general, fairness is remarkably distinguished by vertical and horizontal fairness. Barjoiyai (1987) defined Horizontal fairness as individuals having the same income level that is taxed at the same rate. Contrarily, vertical fairness deals with the individuals having different income levels. Total receivable income is basically the base of the amount that has to be paid as tax. Individuals with higher income have to pay higher proportion of amount as taxes. For that reason compliance level of taxpayers is seemed to be influenced by fairness of tax system (Hartner et al. 2008; Richardson, 2005; Kim 2002). Previously mentioned authors researches come to an end that taxpayers obediently comply with tax system of their country if that is perceived to be fair. Jimenez and Iyer (2016) stated essential factors for compliance intentions in U.S. are trust in government, social factors and fairness.

Peggy (2013) conducted research in U.S. and give results that fairness, trust and personal factors affect tax compliance. In their research McGee, Nickerson, Pleshko and Broihahn (2012) emphasis was on tax evasion along with three dimensions: conditions for avoidance, tax system and fairness. Gilligan & Richardson (2005) stated that unfairness only enfeeble the state tax system as taxpayers feels reluctant to pay taxes. Similarly other researchers like Murphy (2009); Verboon and van Dijke (2007) give the same results that society's positive perception regarding country taxation system is very essential as it will increase voluntary compliance behavior of taxpayers. Therefore, due to this significant relationship between tax compliance behavior and fairness if any contrariety is done by taxpayers in their tax reporting then it will be the only result of perceived unfairness of taxation system. McGowan (2000) conducted a survey on taxpayers to assess their perception of fairness about the current income tax system, and the possibilities that they would favor an alternative system. He presented the results that responders are more in favor of Value Added Tax system if they are of the opinion that current income tax system is unfair. Moreover, responders rank the fairness above the other benefits received from the government. Hogan, Maroney & Rupert (2013) stated that when large numbers of opportunities are provided by policymakers to taxpayers in order to raise the voice against any disapproval or frustration against tax system then their perception of fairness improves. Roberts & Hite (1994) in their research uses fairness aspects like ongoing tax rate, exchange with government, wealth tax and individuals prime concerns regarding measuring perception of fairness. And results show the existence of five aspects of fairness in tax system. In another study conducted by Christensen et al. (1994) pinpoint five factors of fairness which are personal payment, special provision, exchange with government and overall fairness. Despite the fact that, tax fairness is the factor in attaining compliance, the Government for instance, give great importance to this criterion. Many authors like Natrah (2012); Natrah (2009) and Anna & Perumal (2008) conducted researches in

Malaysia on perception of fairness. But the research conducted by Anna & Perumal by using dimensions previously used by Gebing (1988), but their study was limited to perception on fairness but did not measure its impact on tax compliance behavior. Natrah (2009) and Natrah (2012) extended the research on this topic by adding variables of complexity and tax knowledge and measuring its impact on fairness. A result of Natrah (2009) study does not provide any evidence about impact of fairness on tax compliance behavior. Saad (2012) carry out a cross-cultural study between Malaysian and New Zealand rate payers enquire into the impact of perceptions of tax fairness and variables of theory of planned behavior on tax compliance behavior. And results shows that although Malaysian taxpayers have more positive perception related to fairness of taxation system but New Zealand taxpayers are more compliant in executing their tax liabilities. Other studies also found out that fairness and justness of tax system effect the compliance levels (Tan 1998).Tax compliance is determined by the perceived fairness (Kirchler, 2007).Contrarily, inequity or unjustness is given as reason or explanation for tax non-compliance (Falkinger, 1988).Perceived justness of taxation system is found out to co-vary with compliance. Hogan, Maroney & Rupert (2013) stated that when large numbers of opportunities are by policymakers to taxpayers in order to raise the voice against any disapproval or frustration against tax system then their perception of fairness improves.

2.3.6. Tax Knowledge:

In order to collect revenue from tax sector of the state, role of taxpayer awareness and compliance cannot be neglected. So now, the question arises that why the government should pay attention to taxpayer awareness and compliance issues? The explanation is that cognizance and consciousness of the citizens to amenably pay out the taxes are still quite low. And this is because of the non-optimal tax cognizance gain by the general public. So this give rise to need that attention should be paid on giving the understanding of tax to general public so that their

awareness related to benefits of paying taxes should be developed. In order to improve taxpayer's compliance it can be done by communicating knowledge and understanding of taxation among taxpayers as it will increase taxpayer's willingness to pay taxes and this is influenced by the attitude of the taxpayers. Tax knowledge is an essential component in a voluntary compliance tax system (Kasipillai, 2000), especially in deciding an accurate tax liability (Palil, 2005). Savitri (2015) stated that tax compliance is affected by tax knowledge and tax socialization in Malaysia. Other studies conducted in Malaysia (Loo, 2006; Loo et al., 2008; 2009) also recommended tax knowledge to be the most dominant factor to determine taxpayers' compliance behavior under the self-assessment system. Various other studies also stress on this point that possessing tax knowledge will result in higher compliance rates. Contrarily, absence of tax knowledge may result in non-compliance behavior among taxpayers, either intentionally or unintentionally. This is postulated by McKerchar (1995) who conducted research in Australia while considering small business taxpayers. She put forward the suggestion that small business taxpayers are not even conscious of their lack of tax knowledge and this may bring about unintentional non-compliance behavior. Such evidence was also noted among taxpayers in Malaysia who unintentionally done blunders in their tax return forms (Loo et al., 2008). A mixed method design was used in this study by conducting quasi-experiment, mail survey and case study concurrently between November 2005 and July 2005.

The above mentioned studies which show a positive relationship between compliance behavior and tax knowledge, anyhow are not in accordance with study by Harris (1989), who assert that tax knowledge has no direct effect on taxpayers' compliance behavior. A probable explanation for such inconsistent outcomes is the difference in tax jurisdictions. Abovementioned studies were either conducted in Malaysia or Australia, whilst this study was carried out in US. Another possible reason might be that the different measures were used in the studies.

Furthermore, Harris (1989) claims that tax knowledge had an indirect significant effect on compliance behavior through fairness perceptions. Well in that study, Harris (1989) divided tax knowledge into technical knowledge and fiscal awareness, and examined the influence of each type of knowledge on fairness perceptions. The research findings exhibits that the types of tax knowledge influence fairness perceptions and so compliance behavior.

Furthermore, the impact of tax knowledge on fairness perceptions was documented by Schisler (1995) who conducted study comparing taxpayers and tax preparers. Tax preparers were basically tax practitioners selected from certified public accountant (CPA) firms in the US while taxpayers were chosen amongst MBA students with minimum five years working experience. Depending on the analysis, the results indicated that taxpayers have significantly lower fairness perceptions as compared to tax preparers. The end result may be due to the lack of tax knowledge among taxpayers as compared to tax preparers.

Later, Fallan (1999) confirmed that research findings considerably changed attitudes towards the fairness of the tax system. Well in that study, the author measured tax knowledge by using an additive index of 12 questions regarding tax liabilities and tax allowances.

In accordance with the research Fallan (1999) and Schisler (1995), many other studies also confirmed that an increase in tax knowledge reinforces taxpayers' perceptions about the fairness of the income tax system (see Christensen et al., 2000; Eriksen & Fallan, 1996; Maroney et al., 2002). Yet, Loo et al. (2008), who carry out a study in Malaysia, discloses conflicting results to the general contention, where they indicated that increases in taxpayers' knowledge would have negative influence on their perceptions on exchange fairness. In this context, taxpayers with good knowledge of tax deeply felt that they are not gaining their fair share of benefits funded by tax revenue. Though, benefits have been provided by way of public facilities like subsidized health system and free education, basic fact

that the particular data on the source of expenditure are not publicly accessible may have created this negative perception on the fairness of the income tax system in Malaysia.

In New Zealand, conflicting results with prior studies on the relation between fairness perceptions and tax knowledge were noted by Tan and Chin-Fatt (2000). The study in which tertiary students were selected, who were enrolled in an introductory taxation course discloses no significant impact of increased tax knowledge on fairness perceptions. Researcher believed that the use of university students as an alternate for actual taxpayers might to certain extent illustrate such contradictory findings.

In order to extend the studies on variables of fairness perceptions and tax knowledge researchers have examined means to improve tax knowledge among taxpayers, and thus their fairness perceptions. Such as, in their experimental study on tax students, White et al. (1990) recommended that a formal class in taxation would increase their knowledge about appreciation of fiscal policy goals and law, hence increasing perceived fairness. Well, this was also supported by the research work of Wartick (1994), who claimed that revelation of information in the time of tax law change will enhance taxpayers' knowledge, and eventually alleviate their perceptions that the tax system is unfair.

Besides from the influence of tax knowledge and fairness perceptions, a review of prior studies also provides the whole picture of taxpayers' level of knowledge in several countries. However it is not suitable to make comparison of the research findings (due to different times, different tax jurisdictions, nature of the study and different measures used), the information would be helpful for the researcher to have a general insight of taxpayers' knowledge of taxation as a whole. Loo and Ho (2005) conducted study in Malaysian environment and suggested that majority of taxpayers have relatively low knowledge of taxation, regardless of their tax filing experiences. However, this finding was not supported by Kamaluddin and Madi (2005) and Madi et al. (2010) who assert that Malaysian

taxpayers are usually tax literate. One likely explanation for the conflicting results may be the different items used to measure tax knowledge between studies.

Ahmad et al. (2006), in relation to this finding, conducted research study in Malaysia who noted that taxpayers acquiring tax education have undoubtedly better tax knowledge as compared to those without such formal education. In that study, postgraduate students were selected by Ahmad et al. (2006), who were also taxpayers to form the control and experimental group. The difference between these two groups was that the control group did not receive any formal education about taxation in their study, while the experimental group takes taxation course. The findings of this study were consistent and thus provide support to Fallan (1999) who also carried out a similar experimental study overseas.

Coetzee and Oberholzer (2009), rather concentrating more on taxpayers, studied the tax practitioners in South Africa to evaluate their perceptions on the trainees' tax knowledge. The end results show that about 85% of tax practitioners believed that trainees usually have general knowledge plus working knowledge of individual income tax. It is not a strange thing that they possess good knowledge about taxes as the trainees are the tax professionals of future who will be assisting less experienced taxpayers. It is anticipated about such trainees to possess such a high level of knowledge, as recommended by educators and tax practitioners (Tan & Veal, 2005).

Saad (2014) conduct an investigation on taxpayer's point of view mostly freelancer individuals on their level of tax understanding, perceived complications of the income tax system and undisclosed causes of non-compliance behavior. Variables like understanding and knowledge of taxation regulation is considered important for taxpayers so that they can keep up with Procedures and General Provisions of Taxation including the delivery of Annual Tax Returns, payments and place of payments, the details of Annual Tax Returns, penalties, moreover the deadlines of payment and reporting (Nugroho and Zulaikha ; 2012).Taxpayers seem to have

incompetent knowledge on the technical facet of the income tax system causes non-compliance. Widayati and Nurlis (2010) give contrasting results that taxpayer compliance could be affected by understanding and knowledge of taxation variables. Though these outcomes are varying with that of other researcher's results as they found positive results in their researches because taxpayers who formerly comprehend the taxation be of the view that it is more advantageous to pay taxes rather than attaining tax penalties. Many other studies that are conducted in Malaysia (Loo et al., 2008; 2009) propose that tax knowledge is the dominant factor in influencing taxpayer's compliance behavior subject to self-assessment system. This is also factual accepted by many other studies (Kirchler et al., 2006), which reported that acquiring tax knowledge will result in higher compliance rates.(Alfiah, 2014;Larasati, 2013) stated from the facet of understanding and knowledge of tax regulations sources of knowledge, taxpayers prerogatives and responsibilities in addition taxpayer rights have an impact on taxpayer compliance. Many other authors like Sjursen et al. (2014), Machogu and Amayi (2013), Margareth (2012), Kariyoto (2010), Marziana (2010) and Laksono and Ardiyanto (2007) be of the same opinion that variables like understanding and knowledge of taxation have an influence on compliance of taxpayers while carrying out their taxation obligations.

Santoso (2008) and Krause (2000) insist that understanding or knowledge of taxpayer regarding to tax regulations can also affect the observance (of the law/rule) of the taxpayer itself. Krause's (2000) point of view is in line with OECD (2001) which discloses that the knowledge of taxpayer will adjudge the level of taxpayer compliance. This understanding does not only come up with knowledge but also enable the taxpayers to understand the rights, sanctions and obligations plus the tax of private entrepreneurship (Akintoye and Tashie, 2013).

2.3.7. Religiosity:

The main source of revenue for governments in both developed and developing countries is taxation as it is helpful for government in providing facilities of basic infrastructure and social amenities to public. This can only be actualized if all taxpayers voluntarily conform to with the tax laws and the wish to uplift one's society is the uttermost crave of every patriotic citizen, in which tax payment is a proof of such a crave. The payment of a tax is a civic responsibility and a forced obligation by government on her assets to capacitate her financing or running utilities and fulfilling other social responsibilities. But the revenue collected by the government from such taxes for its outlays based on many other factors, on the readiness of the taxpayers to voluntarily act in accordance with tax laws. The lack of success in following the provisions of the tax hinted that the taxpayer may be getting engaged in noncompliance. Tax non-compliance happens through misstating income or misstating allowable subtractions from taxable income or tax due, through failure in filing tax return (Serkan, Tamer, Yüzba& Mohdali, 2016).

Because of increasing cases of tax non-compliance, specially tax evasion and its effect on the potentiality of the government to raise public revenue, the key questions that comes up is why do some individuals pay their taxes and remnants evade taxes?

As tax compliance has been a point at issue in many developing countries therefore most of the earlier researches on tax compliance have concentrated on economic factors such as penalties and tax audits in order to discourage tax evasion. However, researchers criticized this approach as they believe in the need of examining the non-economic factors so that one may fully understand the taxpayers' compliance behavior.

Religiosity has been one of such non-economic factors which have been paid little attention by most researchers on tax compliance. Religiosity has not been generally accepted in tax

compliance research as one possible element that might give an explanation of the puzzle of tax compliance till several researchers such as (Torgler, 2003; Welch, Xu, Bjarnason, Petee, O'Donnell, & Magro, 2005; Stack & Kposowa, 2006) emphasized its importance. It may be solely considered as a trust in God or other spiritual beliefs in determining the extent to which people meet their legal tax obligations within any developed or developing country. This may be linked to the argument made by Margolis (1997) that these religious faiths can visibly lay out moral constraints to differentiate and pick out between good and bad behavior in any religion.

Religion has an impact on behavior and tax compliance is a behavioral issue. The religious values commonly held by most individuals are normally suppose to adequately impede negative attitudes and promote positive attitude in an individual's daily life and for this reason religiosity is expected to positively inspire taxpayers to willingly comply with taxes. Alternatively stated, religiosity might present a probable explanation for examining the strong positive compliance attitudes of most taxpayers apparent in the extant literature.

According to the definition given by the Oxford Dictionary (2012) religion can be recognize as a system of belief and worship or human identification of a superhuman controlling power. Johnson, Jang, Larson and De Li (2001) describe religiosity or religious commitment as the extent to which an individual is devoted to the religion he or she avow audits teachings, such that individual attitudes and behavior reflect this devotion. Hence, religiosity may be just seen as the attribute of being religious. In the opinion of Pargament, Magyar-Russell and Murray-Swank (2005), the term "religion" is very complicated to explain, for the reason that the roots of religion are innumerable, the weight of their impact on individual lives so diverse, and the forms of rational elucidation so limitless, that uniformity of product is not possible. But it is interesting to bear in mind that religion in the form of particular religious beliefs and practices helps out in

defining an individual's personality and motivation that exceed the fundamental desires to earn rewards or abstain from self-punishment (Allport, 1961).

Raihana Mohdali Jeff Pope (2014) explained this variable as religious principles retained by most of the individuals and are generally supposed to adequately fend off negative attitudes and uplift positive attitudes in an individual's daily life, and thus, religiosity is assumed to positively encourage taxpayers to comply with taxes of one's own choice. As taxpayers strong positive compliance attitudes is ostensible in overall previous literature so specifically, religiosity can provide a possible explanation for this.

Extensive research on the role of religiosity has undertaken by Torgler (2003) and the findings at the beginning disclose that tax morale based positively on religiosity using the WVS data for 1990 in Canada. He also make reply to the recommendations made by Riahi-Belkaoui (2004) to investigate religiosity in order to completely understand problem of tax compliance by covering more than 30 countries and confirmed the same findings (Torgler, 2006). His research then investigated the determinants of tax morale in numerous countries and found a strong influence of religiosity on tax morale in Germany (Feld&Torgler, 2007), European countries excluding Spain (Torgler & Schneider, 2007), the USA and Turkey (Torgler, Demir, Macintyre and Schaffner, 2008) and the USA (Torgler, 2012). Results of study conducted by Stack and Kposowa (2006) further strengthen the conclusion that individuals with no religious affiliation were more likely to consider tax fraud as acceptable. Richardson (2008) in his study taken sample size of 47 countries confirmed a negative relationship between tax evasion and people with high levels of religiosity. Research findings generally pointed positive relationships between tax compliance and religiosity or negative relationships between tax evasion and religiosity, the outcome of researches conducted by McKerchar, Bloomquist and Pope (2012)

and Welch et al. (2005) are noteworthy exceptions. Within a community, the perception of tax evasion was found to have a similar effect on the members of the community irrespective of their levels of religiosity (Welch et al., 2005). This is maybe because, as Christianity strongly put emphasis to (McGee, 2012) or even in Islam (Jalili, 2012), tax evasion depending on the manner a country is govern and whether the government partly or strictly follow the religion's law, perceived as unethical or ethical.

Islamic work ethics was describe by Martinez, (2001) as the thought that you accomplish your duty to God by working hard, and observing how you use up your earned income as a way to seek deliverance from your Lord. This indicates the works as productive utilization of time, doing something for the welfare of the world or the hereafter'. Because of this, religion can be seen as a principal tool to develop the behavior, character and attitude of the people. In order to understand the relationship between voluntary tax compliance and enforced tax compliance and religiosity for self-employed taxpayers Serkan, Tamer, Yüzba, and Mohdali (2016) carry out a study in Turkey where Islam was the dominant religion. By using ordinary least squares regression methods and factor analysis they found out that there is a positive influence of general religiosity on both enforced tax compliance and voluntary tax compliance. Furthermore, they also highlighted that only intrapersonal religiosity appears to be an important contributor only to voluntary tax compliance thus interpersonal religiosity has no remarkable effect on both enforced tax compliance and voluntary tax compliance in Turkey.

Yet indecisive, the overall literature manifest that religiosity may play an important role in assisting government to achieve their target in promoting voluntary tax compliance.

2.3.8. Intention to comply:

The objective of the TPB Model is to predict and understand a person's behavior (Ajzen & Fishbein, 1980). The influence of attitude, social pressure and PBC on behavior is mediated

through behavioral intention. An individual's behavior is determined by the individual's intention (behavioral intention) to perform a given behavior. The intention to perform the behavior is an immediate antecedent of actual behavior, and represents a person's motivation or decision to exert the necessary effort to perform the behavior (Ajzen, 2002a). The TPB suggests that intentions capture the motivational factors that influence a given behavior (Beck & Ajzen, 1991). Intentions therefore measure how hard people are willing to try, and how much of an effort they would exert to perform the behavior (Ajzen, 1991), or the self-instructions individuals give themselves to act (Triandis, 1977). Therefore, the stronger a person's intention to engage in a particular behavior, or to achieve their behavioral goals, the more successful they will be in performing that particular behavior or achieving the behavioral goal.

The TPB posits that a person's intention is determined by three conceptually independent determinants: a person's attitude towards the behavior of interest; subjective norms; and PBC. This relationship can be stated algebraically as presented in the equation below:

$$B = BI = w_1A + w_2SN + w_3PBC$$

Where B stands for behavior, BI stands for behavioral intention, A stands for attitude towards behavior, SN stands for subjective norms and PBC stands for perceived behavioral control while w_1 , w_2 , w_3 stands for relative weights of attitudes, subjective norms and PBC.

The above equation illustrates that behavior is a function of an individual's intention to engage in the behavior of interest, which in turn is a function of: the individual's evaluation of performing the behavior and its outcome; their perception of how referents would want them to behave and the motivation to conform to referents' expectations; and the perceived control the individual has over the behavior. Further, the TPB identifies three key factors that can influence the magnitude of the relationship between intention and behavior: the degree to which intention and behavior

correspond in their levels of generality or specificity; the stability of the intention; and the degree of volitional control available to the individual in undertaking the intended behavior (Fishbein & Ajzen, 1975; Ajzen & Fishbein, 1980; and Ajzen, 2010). Tests of the TPB Model have confirmed the predictive validity of intentions. A number of meta-analytic reviews in various other areas of social behavior have provided support to this relationship (Armitage & Conner, 2001).

2.3.9. Tax Compliance Behavior:

Tax compliance behavior is defined as a condition in which taxpayers fulfill all its tax obligations and execute the taxation rights (Rahayu 2010). As stated by the Decree of Minister of Finance “taxpayer compliance” is identified at the time when tax returns are submitted for all taxes in the last two years, having no tax arrears for all types of taxes unless taxpayers are legally permitted to repay or delay tax payments. According to Braithwaite (2009), tax compliance referred to effectuate of tax liabilities prescribe by the state law voluntarily and thoroughly, or the level to which a taxpayer conform to or unsuccessful to follow the tax rules of their state. Although, the point of view of taxpayers and administrative officials are that tax compliance means complying to the tax laws which are contrasting from one state to another (Chepkurui et al 2014). In this research work, tax compliance is suppose to occur when tax returns are filed by the taxpayers at right time and that tax returns precisely reported tax obligations in conformance with tax codes applied at the moment, return is filed. This definition was given by Roth et al. (1989), and it is selected as it is a better definition as compared to that given by Jackson and Milliron (1986) (Richardson & Sawyer, 2001). According to Doerrenberg (2015) in Germany, Tax compliance is very much rely on the usage of tax revenues by the government. There are many things that can cause the problem of tax compliance but the most important thing is

availability of less data on tax compliance (Marziana, 2010). The low rate of taxpayer compliance will result in a huge difference between the amount of payable tax and amount of paid tax and no doubt this difference will cause a huge loss to the state revenue. As Taxpayer compliance plays an important role in earning revenue for government thus it is requisite to improve it and additionally create amenable culture. Therefore in order to improve tax compliance the government has organize and carry out slogans, appeals, warning letters, posters and tax bills.

At this time, the execution of tax compliance simply reflects the formal compliance of paying and reporting the tax on time, while compliance anticipated by the government is the material compliance which is properly, clearly, and correctly filling of Annual Tax Return. Formal compliance comprises of taxpayers compliance and material compliance and implement the legislation.

Review of previous researches discloses that the term 'compliance' and 'noncompliance' were generally used to explain tax reporting behaviors. Non-compliance, in tax context, deals with the unintentional or intentional failure of taxpayers to comply in every respect with their tax obligations (Webley et al., 1991; McKerchar, 2003a; and Kirchler, 2007). This demonstrated that noncompliance is basically used as a neutral term to point out both unintentional and intentional noncompliant behavior, though they are both discrete behaviors. Intentional noncompliance takes place when an individual who is thoroughly aware of his or her obligations under the tax laws, intentionally decide on, not to comply with their obligations. Contrary to this, unintentional noncompliance takes place when an individual unknowingly does not comply with the tax laws, which is an outcome of a non-deliberate decision (McKerchar, 2003a).

As there are numerous definitions regarding to compliance behavior, prior studies have also presented different measures of noncompliance behavior. Yankelovich et al. (1984), for instance,

develop the 15-item tax non-compliance scale which contains various possible means of taxpayers to overstate deductions and under-report incomes in calculating their tax liabilities. After this, this scale was adopted by Richardson (2005b) in his research study on the cross cultural study between Australia and Hong Kong, where the results of this study indicated that Australian taxpayers are basically more compliant than the Hong Kong taxpayers. Belkaoui (2004), measures the level of tax compliance, on thirty countries, by using the index that varies significantly from 0 to 6, where higher scores indicate higher compliance. In the findings of this study, New Zealand was ranked the second most compliant after Singapore and this was followed by Australia, UK and Hong Kong. After the U.S., Malaysia was ranked eighth, whilst Italy was regarded to be the least compliant.

Above-mentioned studies provide helpful information on the level of compliance behavior across countries. Anyhow, studies conducted on compliance behavior would be less important without examining the potential factors responsible to bring about such a behavior. This is manifested by prior researches where various attempts have been made by the researchers to reveal the phenomenon of noncompliance behavior among taxpayers.

The desire to understand why taxpayers do or do not comply motivate the researchers to conduct further research in this area, cutting across different disciplines like psychology, economics, public administration, political science and accounting (Kasipillai & Jabbar, 2003). Such an understanding is crucial in order to achieve greater levels of tax compliance and bridge the tax gap efficiently (Department of the Treasury, 2007). Jackson and Milliron (1986), gave review of 43 tax compliance studies (undertaken from 1974 to 1985), pick out fourteen key variables of compliance behavior, which take in: gender; age; occupation; income source; education; peer influence; income level; fairness; complexity; sanctions; tax rates; tax authority contact and probability of detection. With reference to the identified variables, the authors suggests that further research on the influence of

fairness, complexity, tax rates, ethics and probability of detection on compliance behavior is required in the future. Afterwards, following Jackson and Milliron's (1986) suggestions these variables have received greater attention since 1985 (Richardson & Sawyer, 2001). Richardson and Sawyer (2001), in order to extend the work of Jackson and Milliron (1986), continued with the review of prior studies beginning from 1986 to 1997 where they focus attention on that while studies on the relation between compliance behavior and fairness perceptions have been growing but these studies were failed to provide conclusive results. They indicate that while some studies prove a positive relationship between compliance behavior and fairness perceptions, others find no proof of such effects.

According to Randolph (2015), two things regarding to importance of tax compliance that make taxpayers not to be obedient are: First, because of the incorrectness in payment or record. Second, the resulting inconsistencies in the amount of tax paid by the taxpayers due to the limited knowledge and understanding of tax regulations. Third, the minimum awareness of taxpayers about the meaning of paying taxes to the state.

Chapter 3

Methodology

The previous chapter of literature review explained the relevant theories and chosen variables in detail. Now this chapter will focus on the general details of the research approach and methodology used for this study. So, this chapter would review the research design, sampling technique & size, data collection method, survey instruments of variables and the data analysis methods.

3.1 Conceptual Framework

Conceptual framework is usually defined as a documented creation which is expressed in either descriptive or graphical way. It explicitly depicts the variables which are of interest to the researchers. It creates the model or the phenomenon, which the researcher is investigating; it depicts all the possible linkages and relationships.

The framework for this study comprises of tax compliance behavior as dependant variable and Attitude towards behavior, subjective norms, perceived behavioral control, moral obligation, religiosity, fairness perception, tax knowledge as independent variables. This link between dependent and independent is established through a mediating variable which is intention to comply. On the basis of this, research framework is established, which shows the constructs and relationship between the proposed variables.

3.2 Theoretical framework

According to (Miles, 1994) the theoretical framework shows the relationships that exist among different constructs or variables of the research study The terms Conceptual and

Theoretical framework are quite often used interchangeably. The research model of the study is given below.

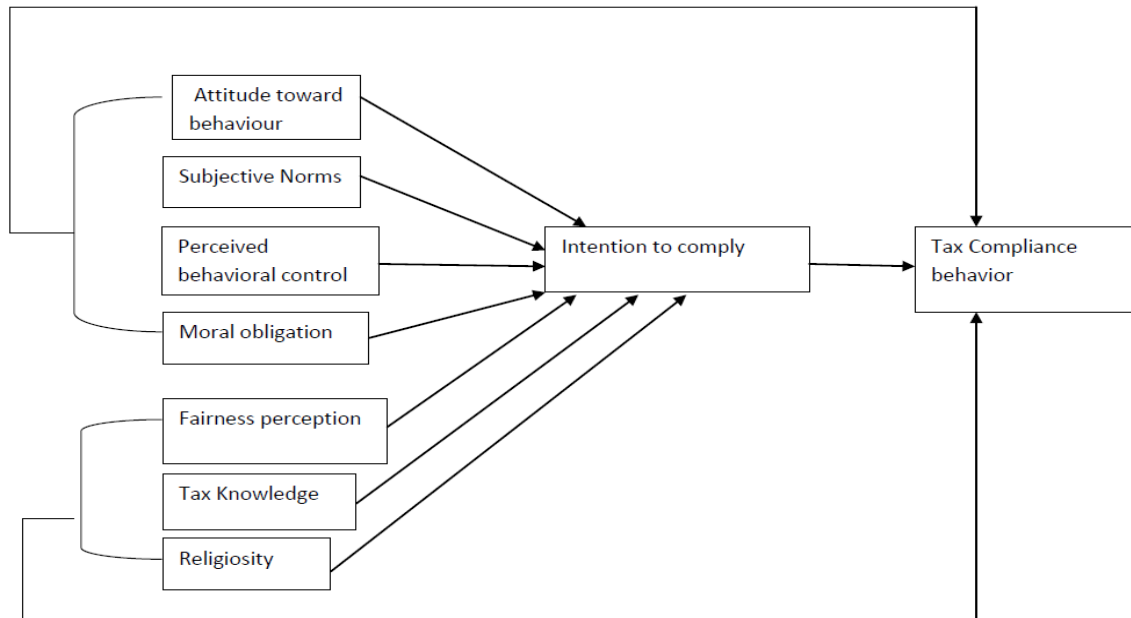


Figure 3.2: Diagrammatical representation of relationship between variables of the study

3.3 Hypothesis Development

Hypothesis is defined as a testable statement about a relationship between two or more variables. Hypothesis development is a critical stage in research process as the hypotheses can be rejected or accepted after analysis.

Following hypothesis have been developed for this study based on theoretical and literature support:

3.3.1. Relationship between Attitude toward behavior and Tax compliance behavior:

Attitude towards behavior is one important element of the TPB. In the context of tax compliance studies, attitudes towards behavior are normally refer to attitudes toward compliance with tax obligations. The importance of attitudes in determining tax compliance is evident in a review of three approaches to taxpayers' decision-making, whether or not to comply, by Cullis and Lewis (1997). In their study, the authors conclude that the values, attitudes, perceptions and morals of the taxpayers are of paramount importance. They particularly state that tax compliance will be relatively high when attitudes towards compliance are favorable. This is consistent with Hanno and Violette (1996) who empirically establish the positive link between attitude toward tax compliance and compliance behavior. Adopting the TRA the authors conducted an experimental design among 73 College students who have experience in filing tax returns.

In Canada, Trivedi et al. (2005) use the TPB model to investigate the suitability of the model in explaining tax compliance behavior. Utilizing both survey and experimental design among University students, they found attitude has a significant impact to taxpayers' decision-making. In that study, the authors investigate the role of attitude in both compliance and non-compliance behavior decisions and results suggest that attitude is important in both situations. In Malaysia, Kasipillai and Jabbar (2003) claim that, in relation to income reporting behavior, attitude towards compliance was statistically significant. A more recent study, adopting mixed method designs of survey, experiment and case study generally found that taxpayers with favorable attitudes would be more compliant (Loo et al., 2008; 2009). While Hamid (2014) conducted research in Malaysia and New Zealand by using mix methods found that attitude towards behavior is the most important variable followed by ethical sensitivity, culture and perceived behavioral control has mixed findings while subjective norms has no significant effect on tax compliance behavior to

tax law in both countries. Hence, here we say that attitude towards behavior will have the positive relationship with tax compliance behavior.

H1: Attitude toward behavior has significant positive impact on tax compliance behavior.

3.3.2 Relationship between Subjective Norms and Tax compliance behavior:

Subjective norms are the perception of how most people important to an individual believe he/she should act (Fishbein & Ajzen 1975). Subjective norms explain what those close to an individual approve of. Subjective norms are often referred to as peer pressure. Subjective norms may be the first norms considered when an individual evaluates various courses of action. Subjective norms may help individuals determine whether compliance with tax law or evasion will lead to approval or disapproval by his/her closest group members (hence, stronger or weaker social relationships with those important to them) (Aronson et al. 2010). Therefore, it is hypothesized that subjective norms have an influence on tax compliance decisions. Bobek (1997), Elffers et al. (1987), and Hanno and Violette (1996), documented a positive relationship between subjective norms and compliance behavior. Such a relationship was also documented in Canada by Trivedi et al. (2005) in the case of compliance behavior. Saad (2009) research findings stated that attitude and subjective norms affect significantly the tax compliance behavior while fairness has no significant effect on tax compliance.

Smart (2013) in his research in New Zealand found out that with attitude towards behavior, other factors such as subjective norms and perceived behavioral control are important factors as well. Battiston and Gamba, (2016) in his exploratory study found out that social pressure and peer pressure has an effect on the tax compliance by bakeries in Italy. Therefore, it is hypothesized that subjective norms have an influence on tax compliance decisions.

H2: Subjective norms have significant positive impact on Tax compliance behavior.

3.3.3 Relationship between Perceived Behavioral Control and Tax compliance behavior:

Perceived Behavioral Control (PBC) is outcomes of control belief. Control belief lead to the perception taxpayers have or do not have capacity to carry out the behavior.

The TPB posits that an individual's behavior can be predicted by the individual's appraisal of his or her ability, and the perceived ease (or difficulty) in performing (or refraining from or avoiding) the target behavior (Ajzen, 1991). Control is achieved by having the relevant skills, opportunities, resources and the absence of any obstacles in performing the desired behavior (Madden et al., 1992). PBC was operationalised by three variables: presence (or absence) of opportunity; visibility of the income (third party reporting); and financial distress (cash flow problems). Those with the structural opportunity have more control over their income, and therefore will have a higher level of control over their tax reporting behavior (Warneryd & Walerud, 1982; Robben et al., 1990; and Slemrod, 2007). Income subject to third party reporting or income visibility can exert a significant influence on compliance (Kagan, 1989; and Carnes & Englebrecht, 1995). A highly visible income stream would impede or represent an obstacle to any noncompliant intentions. Warneryd and Walerud (1982) suggest that financially distressed individuals are more likely to engage in tax evasion than those experiencing less or no economic strain. The lack of funds to pay taxes would inhibit or present an obstacle to any compliance intentions taxpayers may have. Studies have also demonstrated that financial constraints have a direct and strong influence on the compliance behavior of self-employed taxpayers (Loo et al., 2008).

A lower degree of perceived control due to lack of opportunity, income visibility and income subject to third party reporting may impede a person from undertaking noncompliant behavior. Therefore, the greater the person's beliefs about the presence of factors that may impede

noncompliant behavior, the greater will be the likelihood of them complying with the tax laws. This prediction is stated formally in the following hypothesis:

H3: Perceived behavioral control has significant positive impact on Tax compliance behavior.

3.3.4 Relationship between Moral Obligation and Tax compliance behavior:

Moral obligation is a responsibility that a person believes he or she may have because of their thoughtfulness about right and wrong (Ajzen, 1991). Schwartz (1973) found out that a measure of moral obligation helps in making predictions about behavior specifically for participants with a high attribution to responsibility.

Beck and Ajzen (1991) included moral obligation to their model that is now reviewed as extended version of the theory of planned behavior. They pinpoint moral obligation to be dominant not only in predicting intentions but also in strengthening the predictive power of the model. Past studies have signify the importance of moral obligation and some models have given due consideration to them, little research has been done in the reasoned action/planned behavior tradition in order to make alterations to behavior and intention.

So, therefore significance shown by past studies it is suggested that along with attitudes, subjective norms and perceptions of behavioral control together with person's moral obligations as a predictor of behaviors has remarkably ameliorate prediction of intentions (Bamberg and Moser, 2007; Beck and Ajzen, 1991; Leonard et al., 2004).

One distinguishing characteristic of the tax compliance topic is that there is a moral responsibility deeply felt by some but maybe not by others. Jackson and Milliron (1986), in their review of compliance research (report on several tax studies) they stated that ethics in general increased compliance. Yet they also noted the problem of defining ethical taxpayer behavior. In

addition they also quoted a 1980 Westatstudy, which describe that moral concerns about tax compliance seems to be relatively weak and that taxpayer were in general ambivalent about either tax cheating was morally wrong.

Kaplan et al. (1997) found out that a person's level; of moral development importantly correlated with compliance and also affect the effectiveness of various educational communications to boost compliance. These views give the idea that moral obligation should not only influence compliance intentions, but also might collaborate with the impact of other variables. Moderating role for moral obligation was suggested by Reckers et al. (1994). Respectively, taxpayers (with low levels of moral obligation) to be compliant will be most affected by some other influences.

McGee (2012) makes use of Martin Crowe's research and studied tax evasion alongside three dimensions: individuals' relationship with the rate paying community, individual's relationship with the nation state and individual's relationship with God. They reported that taxpayer's in general believe they have a moral obligation to pay out their taxes imposed on them by the government because every person is liable for their fair share. Intriguing fact is, these suppositions are often endorsed by religious organizations (McGee, 2006).Bobek and Hatfield (2003) and Riahi-Belkaoui (2004) research also supported this point that perceptions of moral obligations have an impact on tax compliance. McGee (1999) find out that tax payers in Armenia normally be of the same opinion that they are not (morally) obliged to pay taxes. So we assert that there are low chances of individuals having higher sense of moral obligation to be involved in tax evasion. So therefore it is hypothesized that:

H4: Moral obligation has significant positive impact on Tax compliance behavior.

3.3.5 Relationship between Fairness perception and Tax compliance behavior:

When it is enquired that what they thought about the tax system, citizens commonly communicate about fairness issues (e.g., Braithwaite, 2003c; Rawlings, 2003; Taylor, 2003). According to Lymer & Oats (2009) fairness refers to condition in which a taxpayer is taxed according to their proficiency. Individuals with higher income have to pay higher proportion of amount as taxes. For that reason compliance level of taxpayers is seemed to be influenced by fairness of tax system (Hartner et al. 2008; Richardson, 2005; Kim 2002). Jimenez and Iyer (2016) stated essential factors for compliance intentions in U.S. are trust in government, social factors and fairness. Peggy (2013) conducted research in U.S. and give results that fairness, trust and personal factors affect tax compliance. In their research McGee, Nickerson, Pleshko and Broihahn (2012) emphasis was on tax evasion along with three dimensions: conditions for avoidance, tax system and fairness. Similarly other researchers like Murphy (2009); Verboon and van Dijke (2007) give the same results that society's positive perception regarding country taxation system is very essential as it will increase voluntary compliance behavior of taxpayers. Therefore, due to this significant relationship between tax compliance behavior and fairness if any contrariety is done by taxpayers in their tax reporting then it will be the only result of perceived unfairness of taxation system. Therefore it is hypothesized:

H5: Fairness perception has significant positive impact on tax compliance behavior.

3.3.6. Relationship between Tax Knowledge and Tax compliance behavior:

The influence of tax knowledge on compliance behavior has been described in various researches. The level of education received by taxpayers is an important factor that contributes to the understanding about taxation especially regarding the laws and regulations of taxation (Eriksen and Fallan, 1996). Previous studies have evidenced that tax knowledge has a very close

relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply (Singh and Bhupalan, 2001). Savitri (2015) in his research conducted in Malaysia by taking variables of Tax socialization, Tax knowledge, service quality and Expediency of tax presents the results that tax socialization, knowledge and service quality affects the awareness while the tax socialization and knowledge affect the tax compliance. While some other previous studies (Loo, 2006; Loo et al., 2008; 2009) also suggest tax knowledge to be the most influential factor to determine taxpayers' compliance behavior. This is empirically established by several other studies (for example, Kasipillai et al., 2003; Kirchler et al., 2006), which document that possessing tax knowledge will lead to higher compliance rates. So this is hypothesized that:

H6: Tax knowledge has significant positive impact on tax compliance behavior.

3.3.7. Relationship between Religiosity and Tax compliance behavior:

Religion and economy are believed to interact in two directions. The first direction is the extent to which religiosity responds to economic development. Barro and McCleary (2003a, p. 34) found that religiosity measurements, such as religious attendance and religious beliefs, decline when per capita Gross Domestic Product (GDP) increases. However, when specific economic developments such as education, urbanization and life expectancy are held constant, religiosity is virtually unrelated to per capita GDP. The second direction is the extent to which religiosity influences economic performance. Barro and McCleary (2003b, p. 779) suggested that religion serves to encourage certain behaviors; for example, honesty and work ethics that enhance productivity indicate that economic growth responds positively to religious beliefs.

Lehrer (2004, p. 721) proposed religion as one of the determinants of economic and demographic behavior by emphasizing the effects associated with religious affiliation and how the positive

outcomes of being a religious individual are related to well-being and health. This is expected from the self-enforcement moral rules based on each individual's belief in their religion as being a benefit not only to themselves but also to society at large.

The effect of religiosity on individual behavior has been investigated by several researchers. Based on the results in those studies, religiosity is expected to influence certain behaviors, such as cheating behavior (for example: Rettinger and Jordan, 2005; Bloodgood, Turnley and Mudrack, 2008), criminal behavior (for example: Ellis and Peterson, 1996; Baier and Wright, 2001) and ethical behavior (for example: Keller, Smith and Smith, 2007). Greeley (1963, p. 21) described the religion and behavior relationship based on three different models. The Weberian model suggests that religion influences a society through the values held by each individual; the influence occurs through a religious network not only between religious individuals themselves, but also between non-religious individuals and religious individuals (Adamczyk and Palmer, 2008, p. 733).

Religion has an impact on behavior and tax compliance is a behavioral issue. The religious values commonly held by most individuals are normally suppose to adequately impede negative attitudes and promote positive attitude in an individual's daily life and for this reason religiosity is expected to positively inspire taxpayers to willingly comply with taxes. Alternatively stated, religiosity might present a probable explanation for examining the strong positive compliance attitudes of most taxpayers apparent in the extant literature.

Benk et al., (2016) in his research conducted in Turkey states that General religiosity affects significantly the enforced and voluntary tax compliance. Similarly Raihana and Pope, (2014) presents the positive effect of religiosity on voluntary tax compliance. So, this is hypothesized that:

H7: Religiosity has significant positive impact on tax compliance behavior.

3.3.8. Intention to Comply as a Mediator:

Theory of planned behavior is an important theory which presents within the scope of the social psychology and tries to explain human behaviors. This theory was developed by Ajzen (1991) and it is just the improved form of the Theory of Reason Action suggested by Ajzen and Fishbein (1970) in order to explain conscious behaviors. According to this theory, behaviors of the individuals within the society are under the influence of definite factors, originate from certain reasons and emerge in a planned way (Erten, 2002). Nevertheless, the ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior. As for the factors determining the purpose towards the behavior, they are attitude towards behavior, subjective norms and perceived behavioral control (Erten, 2002).

TPB proposes a direct relationship between intention and behavior. This relationship is critical to any significant change in policy. Intention is an essential component of tax compliance as it is only through the willing participation of taxpayers that revenue is collected. Thus predicting taxpayer intention to comply is as important as predicting the actual compliance behavior. Determining if behavior is motivated by unwillingness to comply (as opposed to external factors preventing compliance) will shape the treatment to improve performance of the behavior. The tax authority would design interventions that pre-emptively address the cause of the non-compliance rather than administer solutions *post hoc* which may encourage further non-compliance. So, in this study intention to comply is acting as a mediator between selected variables of this study and tax compliance behavior and therefore, it is hypothesized:

H8a: Intentions to comply act as a mediator between Attitude toward behavior and tax.

H8b: Intentions to comply act as a mediator between Subjective norms and tax compliance behavior.

H8c: Intentions to comply act as a mediator between Perceived behavioral control and tax compliance behavior.

H8d: Intentions to comply act as a mediator between Moral obligation and tax compliance behavior.

H8e: Intentions to comply act as a mediator between Fairness perception and tax compliance behavior.

H8f: Intentions to comply act as a mediator between Tax knowledge and tax compliance behavior.

H8g: Intentions to comply act as a mediator between Religiosity and tax compliance behavior.

3.4 Research Design

Research Design is an organized and methodical plan which helps the process of data collection to achieve the pre-planned research objectives. It attempts to explain the procedure, instruments for data collection, measurement of associated variables and statistical analysis for answering the research questions. (Patrick, 2017).

According to Burns & Bush (2006) Research Design is defined as an appropriate plan of advance decisions regarding the methods and systematic procedures for the collection and analysis of the data/ information, in order to establish the relationships highlighted earlier.

Research design for this study has the following characteristics:

- **Deductive Approach:** This thesis has deductive approach since collected data will be used for generalization of results and to test theory. In this study, the theory under investigation is extended theory of planned behavior.

- **Quantitative Research:** Quantitative research is regarded as a structured way of collecting and analyzing data which have been obtained from different sources. It involves the use of statistical, computational, and mathematical measures to get results (Saunders, Lewis and Thornhill, 2015; p. 165).

3.5 Population

A population is a community of items from which sample is selected to measure the variables of interest (Mugo, n.d.). In our case population consists of adult citizen of Pakistan, who are presumed to direct pay taxes to government.

3.6 Unit of Analysis

The unit of analysis is the prime commodity which is aimed to be analyzed in the study (Trochim, 2006). In this research, the unit of analysis was proposed to be “citizen of Pakistan who are presumed to pay direct taxes to government and living in urban area”.

3.7 Sample Size

The target population consisted of taxpayers in Pakistan (Mostly from Multan city). The sample size for this research study was decided depending on the fact there should be at least 7- 10 cases for each item in the instrument being used. (Garson, 2008; Everitt, 1975, Nunnally, 1978). So in our study there are 61 items therefore sample size of 427 was used. As Green (1991), states that when the sample size is small it results in more risk to generalize regression results beyond the sample. With this, Cohen et al. (2003) states that that sample size is tremendously important while conducting multiple regression analysis. And the reason behind this is that without an adequate large sample size, a research study may not have enough statistical power to reveal significant effect. Hence, this study needs minimum 427 cases, given the 8 predictors. Therefore, the sample size of 427 seems to be adequate.

3.8 Data Collection

The collection of data for this research study was carried out by using quantitative approach that was administered by survey research design. It consists solely of closed ended structured questions by using likert scale in which respondents was offered five pre-coded responses with the undecided point being neither agree nor disagree. So, this method was used to allow the responders to express their opinion about a particular statement that how much they agree or disagree with it without consuming too much time of responders, the responders could provide the authentic data that would help to meet up with the specific needs of the study. The survey research method of distribution was also quicker and faster to administer and respondents were most likely to respond about the sensitive issue under study.

3.9 Research Instrument

The survey questionnaire was broken down into ten sections, which focused on: (a) demographics, (b) attitudes toward the behavior (compliance), (c) subjective norms, (d) perceived behavioral control, (e) moral obligation, (f) fairness perception, (g) tax knowledge, (h) religiosity (i) intention to comply (j) Compliance behavior

Section A, demographic factors, gathered data such as age, gender, marital status, level of education, job level, family size and annual income.

Section B, concentrate on the variable of fairness perception adapted from the Saad (2014) which was measured with six statements, using five point likert scale ranging from strongly disagree – strongly agree for every statement. A sample item for this was “I think the government spends too much tax revenue on unnecessary welfare assistance”. All items in the scale were averaged to form a composite score for fairness perception.

Section C, concentrate on the tax knowledge adapted from the Saad (2014) which was measured with seven statements, using five point likert scale ranging from strongly disagree – strongly agree for every statement. A sample item for this was “To my knowledge, individuals are subject to a single flat rate of income tax under the current tax system”. All items in the scale were averaged to form a composite score for tax knowledge.

Section D, focuses on subjective norms adapted from the Bobek and Hatfield (2003) and Beck and Ajzen (1991) which was measured with four statements, using five point likert scale ranging from strongly disagree – strongly agree for every statement. A sample item for this was “My family and peers would think that I should not overstate the business expenses”. All items in the scale were averaged to form a composite score for subjective norms.

Section E, was for Intention to comply adapted from Beck and Ajzen (1991) with four statements, by using five point likert scale ranging from strongly disagree – strongly agree for every statement. A sample item for this was “I would only claim a deduction for the actual amount spent for business purposes”. All items in the scale were averaged to form a composite score for intentions to comply.

Section F was for Perceived behavioral control adapted from Beck and Ajzen (1991), with five statements, using five point likert scale ranging from strongly disagree – strongly agree for every statement. A sample item for this was “With my tax knowledge, skills and resources, it would be very easy for me to overstate the business expenses successfully”. All items in the scale were averaged to form a composite score for perceived behavioral control.

Section G concentrate on the variable of attitudes towards behavior adapted from Bobek and Hatfield (2003) and Beck and Ajzen (1991), which was measured with five statements, using five point likert scale. A sample item for this was “I would be upset if I overstated the business

expenses”. All items in the scale were averaged to form a composite score for attitudes towards behavior.

Section H, was for religiosity adapted from Worthington et al (2003), which was measured with ten statements using five point likert scale. A sample item for this was “My religious beliefs lie behind my whole approach to life”. All items in the scale were averaged to form a composite score for religiosity.

Section I, was for moral obligation adapted from Bobek and Hatfield (2003), which was measured with four statements using five point likert scale. A sample item for this was “It would be morally wrong for me to cheat on taxes”.

And in the last, scenario related to tax compliance behavior, adapted from Saad (2014) comprises of seventeen statements was added in the questionnaire. And for each statement five point likert scale was used ranging from strongly-disagree-strongly agree.

3.10 Data Collection Procedures

As the target population was adult citizen of Pakistan who are presumed to pay direct taxes to government. So according to the nature of the study, questionnaire was distributed to the individuals who were jobholders and were also having other sources of income (like giving shops or houses on rents, shares in family business and earn profit from them, giving tuitions to the students as part time job) with this self-employed persons were also included in the study. Sampling technique used in this study was convenience based sampling and therefore those individuals were targeted who were accessible. The reason behind choosing this sampling technique is that this technique is comparatively inexpensive, easy and quick to carry out (Neuman, 2006).Moreover target population is large in size, and data were conveniently

available. Any kind of incentives was not offered to any responders so their participation was totally voluntary.

As 427 was sample size so 450 questionnaires were distributed. Out of which 435 were returned back and from them 8 questionnaires were rejected because they were not completely filled out by the respondents.

3.11 Data Analysis &Processing:

For processing and analysis of the data, SPSS, SPSS MACRO and AMOS were used. Collected data was first entered in SPSS by giving correct code to each variable chosen for the research.

This software was used for preparation of data sheet. Exploratory Factor Analysis (EFA),

Reliability analyses were carried out through SPSS. Whereas Confirmatory Factor Analysis

(CFA) was carried out though AMOS. Process Macro was used to test hypotheses

Chapter 4

Analysis

Data Processing and Data Analyses:

After receiving the questionnaires from the respondents, data was first entered into the data sheet and then labeled according to the nature of each factor. The collected information was then coded with the scale characterized in the questionnaire by utilizing SPSS to get the desired results. While after the descriptive statistics, SPSS was used to check multi-collinearity, later it was also used to measure the reliability, validity and Exploratory factor analysis (EFA) of adopted instrument whereas for Confirmatory factor analysis (CFA) AMOS has been used, Process Macro is used for hypotheses testing.

Furthermore, below given points will be discussed in this chapter:

- Data Collection & Missing Values
- Descriptive Statistics
- Evaluation of normality
- Evaluation for Multi-Collinearity
- Evaluation of reliability
- Evaluation of validity
- Exploratory factor analysis
- Common factor analysis
- Divergent validity & composite Reliability
- Hypotheses Testing

4.1 Identification of Missing Data and Data Entry

Data accuracy is an important part of research, it is highly crucial to identify and rectify errors in data which exists in the form of missing values (Hair, 1998). The data collection started with circulation of 450 questionnaires. Out of which 435 were returned back and from these 435, 40 questionnaires were rejected because they were not completely filled out by the respondents. Therefore, 40 questionnaires were excluded from data analysis and 395 were entered in SPSS for final data analysis process. Then outliers were checked through SPSS and fortunately, no highly influential outliers were found in the data. Thus the existing data for analysis is exclusive of missing elements and errors.

4.2 Sample Demographics

The Sample Demographics was done with the help of Frequency distribution. Frequency distribution provides a summary of the distribution of the demographic variables which includes age, gender, marital status, education, income level, and family and employment status.

Table 4.1
Descriptive Statistics table

| Characteristics of Respondents | Frequency | Percentage (%) |
|---------------------------------------|------------------|-----------------------|
| Age | | |
| 20-30 years | 98 | 24.8 |
| 30-40 years | 104 | 26.3 |
| 40-50 years | 83 | 21.0 |
| 50-60 | 86 | 21.8 |
| Above 70 | 24 | 6.1 |
| Gender | | |
| Male | 209 | 52 |
| Female | 185 | 48 |

| | | |
|-----------------------|-----|------|
| Education | | |
| College degree | 395 | 100 |
| No College degree | 0 | 0 |
| Marital Status | | |
| Single | 83 | 21 |
| Married | 290 | 73.4 |
| Divorced | 22 | 5.6 |
| Income | | |
| 10,000-50000 | 123 | 31.3 |
| 50,000-100,000 | 150 | 38 |
| Above 100,000 | 120 | 31.7 |
| Employment | | |
| Part Time | 32 | 8 |
| Full Time | 264 | 67 |
| Retired | 24 | 6 |
| Self Employed | 75 | 19 |
| Family | | |
| Joint | 343 | 87 |
| Nucleus | 52 | 13 |

Descriptive statistics table shows that most of our respondents were from 30-40 years age bracket, whereas we had only 6% respondents who were above 70 years old. There were 52% male and 48% female respondents.

All of our respondents had college degree. No respondent was without college degree, as sample was extracted from urban area.

31.3% had income which between 10,000 and 50, 000 whereas 38% had income between 50000 and 100,000 and 31.7 % had income above 100,000.

67% were full time employees, 8% were part time employees, 19% were self employed and only 6 % retired.87% belonged to joint family system and 13 % were from nucleus families.

4.3 Measurement of Normality:

Before conducting analysis, finding the normality of data is of vital. Data normality is basically evaluated by skewness. According to George & Mallery (2010) anomalies are represented by an increase in kurtosis or skewness values. Skewness and Kurtosis inform about the facts that whether they are normal or not. The cut off value of kurtosis and skewness are from 2 to -2. If the data shows the value of kurtosis and skewness falling in the range of +2 to -2 then data is said to be normal. The limit beyond this is the rejection region and therefore in order to make data normal these values must be exempted. The value of mean of attitude towards behavior variable is 4.0878, subjective norms is 3.9931, perceived behavioral control is 3.9667, moral obligation is 4.0080, fairness perception is 3.8130, tax knowledge is 4.2056, religiosity is 3.9517, intention to comply is 3.8222 and tax compliance behavior is 4.3650. As all the values are around 4 that shows that respondents agree to majority of questions.

Table 4.2

**Normality
Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation | Skewness | | Kurtosis | |
|--------------------|-----------|-----------|-----------|-----------|----------------|-----------|------------|-----------|------------|
| | Statistic | Statistic | Statistic | Statistic | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| Fair | 180 | 1.33 | 4.33 | 3.8130 | .84409 | .706 | .181 | -.512 | .360 |
| Tax_Kno | 180 | 2.14 | 4.57 | 4.2056 | .61401 | -.117 | .181 | -.231 | .360 |
| Norms | 180 | 2.00 | 4.50 | 3.9931 | .68658 | -.474 | .181 | -.533 | .360 |
| Intent | 180 | 1.33 | 5.00 | 3.8222 | .74777 | -1.276 | .181 | 1.633 | .360 |
| per_be | 180 | 1.60 | 4.00 | 3.9667 | .51633 | -.684 | .181 | .269 | .360 |
| att_beh | 180 | 1.60 | 4.60 | 4.0878 | .58669 | -1.248 | .181 | 1.802 | .360 |
| Moral | 180 | 2.30 | 4.80 | 4.0080 | .71669 | -.317 | .181 | -.452 | .360 |
| Relig | 180 | 2.40 | 4.90 | 3.9517 | .68963 | -.839 | .181 | -.273 | .360 |
| tax_beha | 180 | 2.12 | 4.12 | 4.3650 | .53649 | -.340 | .181 | -.461 | .360 |
| Valid N (listwise) | 180 | | | | | | | | |

4.4 Measurement of Multi-collinearity:

Multi-collinearity could be checked through variance inflation factor (VIF) and tolerance esteem (T). The VIF and Tolerance values of attitude towards behavior, subjective norms, perceived behavioral control, moral obligation, fairness perception, tax knowledge, religiosity and intention to comply are given below that shows that there is no multi-collinearity as the values of VIF is less than 10 and Tolerance value is more than 0.1.

Table 4.3
Multi-Colinearity

| Model | Collinearity Statistics | |
|------------------------|-------------------------|-------|
| | Tolerance | VIF |
| (Constant) | | |
| ATTB | .815 | 1.227 |
| SN | .490 | 2.041 |
| PCB | .486 | 1.183 |
| MO | .698 | 1.748 |
| FP | .552 | 1.810 |
| TK | .362 | 2.766 |
| RLG | .803 | 1.246 |
| INTTOCMP | .768 | 1.308 |
| Dependent Variable TCB | | |

4.5 Reliability of Scales:

For examining the extent of consistency in the responses given by respondents for the selected variables reliability of scale can be checked and can be calculated through “Cronbach Coefficient Alpha”. Accepted value for Cronbach Coefficient Alpha is 0.70 or more than this.

The value of variables of extended version of theory of planned behavior are Attitude towards behavior is 0.712, subjective norms is 0.722, perceived behavioral control is 0.700, moral obligation is 0.823, fairness perception is 0.742, tax knowledge is 0.708, religiosity is 0.817,

intention to comply is 0.776 and tax compliance behavior is 0.838. As the values of all the variables are greater than 0.70 so this shows that data is reliable and valid for further process.

Table 4.4
Reliabilities

| Scale | Cronbach's alpha |
|----------|------------------|
| ATTB | .712 |
| SN | .722 |
| PBC | .700 |
| MO | .823 |
| FP | .742 |
| TK | .708 |
| RLG | .817 |
| INTTOCMP | .776 |
| TCB | .838 |

4.6 KMO and Bartlett's Test of Sphercity:

It has been proposed that in order to calculate the validity of the sample KMO and Bartlett's Test of Sphercity must be used. Because by this, case to variable proportion can be checked in order to lead the investigation. KMO and Bartlett's tests play an essential role in corporate management as it is the solely true measure to accept if sample are appropriate or not i.e. whether the sample symbolizes the whole population investigated. p-value of Bartlett's Test of Sphercity is a lesser amount of 0.05 and the value of KMO is between 0 and 1, and above 0.6 is approved all over the world.

Table 4.5
KMO and Bartlett's Test

| | | |
|---|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy | | 0.877 |
| Bartlett's Test of Sphercity | Approx. Chi-square | 4419.947 |
| Sig. | | .0000 |

4.7. Exploratory Factor Analysis:

This examines the potential factor structure of the data of measured variables without assigning a predetermined structure to the result. This basically sets up the connection between the construct and items in the light of the relationships that determine whether elements are loaded into the same latent variable or into the other latent variables. Byrne (2013) stated that the value of the correlation fundamentally counted in this way, uploaded high to the same latent variable where it belongs while correlation of different predictors must be low. This was used in this research work as questionnaire was adapted. Threshold value of various measures in EFA was given by Gie Young and Sean Pearce (2013).

In order to perform the EFA, SPSS was used. And for computing the component loadings, component factor loadings were observed. All factor loadings were high that shows the item used in the variables were appropriate and gave us the required results.

Table 4.6 Exploratory Factor Analysis Factor Loading

| Item No. | ATTB | SN | PBC | MO | FP | TK | RLG | INTTOCMP | TCB |
|-----------------|-------------|-----------|------------|-----------|-----------|-----------|------------|-----------------|------------|
| ATTB1 | .723 | | | | | | | | |
| ATTB2 | .708 | | | | | | | | |
| ATTB3 | .759 | | | | | | | | |
| ATTB4 | .624 | | | | | | | | |
| ATTB5 | .862 | | | | | | | | |
| SN1 | | .856 | | | | | | | |
| SN2 | | .854 | | | | | | | |
| SN3 | | .798 | | | | | | | |
| SN4 | | .866 | | | | | | | |
| PBC1 | | | .863 | | | | | | |
| PBC2 | | | .692 | | | | | | |
| PBC3 | | | .746 | | | | | | |
| PBC4 | | | .811 | | | | | | |
| PBC5 | | | .802 | | | | | | |
| MO1 | | | | .832 | | | | | |
| MO2 | | | | .715 | | | | | |
| MO3 | | | | .640 | | | | | |
| MO4 | | | | .894 | | | | | |
| FP1 | | | | | .876 | | | | |
| FP2 | | | | | .800 | | | | |
| FP3 | | | | | .824 | | | | |
| FP4 | | | | | .767 | | | | |
| FP5 | | | | | .869 | | | | |
| FP6 | | | | | .847 | | | | |
| TK1 | | | | | | .827 | | | |

| | | | |
|-----------|------|------|------|
| TK2 | .895 | | |
| TK3 | .836 | | |
| TK4 | .806 | | |
| TK5 | .791 | | |
| TK6 | .913 | | |
| TK7 | .823 | | |
| RLG1 | .853 | | |
| RLG2 | .862 | | |
| RLG3 | .897 | | |
| RLG4 | .526 | | |
| RLG5 | .696 | | |
| RLG6 | .617 | | |
| RLG7 | .703 | | |
| RLG8 | .773 | | |
| RLG9 | .770 | | |
| RLG10 | .714 | | |
| INTTOCMP1 | | .861 | |
| INTTOCMP2 | | .817 | |
| INTTOCMP3 | | .920 | |
| TCB1 | | | .701 |
| TCB2 | | | .771 |
| TCB3 | | | .761 |
| TCB4 | | | .617 |
| TCB5 | | | .745 |
| TCB6 | | | .778 |
| TCB7 | | | .771 |
| TCB8 | | | .768 |
| TCB9 | | | .802 |
| TCB10 | | | .743 |
| TCB11 | | | .812 |
| TCB1 | | | .791 |
| TCB13 | | | .727 |
| TCB14 | | | .866 |
| TCB15 | | | .711 |
| TCB16 | | | .615 |
| TCB17 | | | .715 |

Table 4.7
Factor analysis of Attitude towards Behavior

| Initial Items (5-Items) | | Final Items (5-Items) | |
|--------------------------------------|---|--------------------------------------|---|
| Attitude towards Behavior | Items | Attitude towards Behavior | Items |
| | ATTB1, ATTB2, ATTB3, ATTB4, ATTB5 | | ATTB1, ATTB2, ATTB3, ATTB4, ATTB5 |

Attitude towards behavior was comprised of 5 items and after running EFA the items remains 5 because the items were properly loaded.

Table 4.8
Factor analysis of Subjective Norms

| Initial Items (4-Items) | | Final Items (4-Items) | |
|------------------------------------|-------------------------------|----------------------------------|-------------------------------|
| Subjective Norms | Items | Subjective Norms | Items |
| | SN1, SN2, SN3, SN4, SN5 | | SN1, SN2, SN3, SN4, SN5 |

Subjective norms was comprised of 5 items and after running EFA the items remains 5 because the items were properly loaded.

Table 4.9
Factor analysis of Perceived Behavioral Control

| Initial Items (5-Items) | | Final Items (5-Items) | |
|---|------------------------------------|---|------------------------------------|
| Perceived Behavioral Control | Items | Perceived Behavioral Control | Items |
| | PBC1, PBC2, PBC3, PBC4, PBC5 | | PBC1, PBC2, PBC3, PBC4, PBC5 |

Perceived behavioral control was comprised of 5 items and after running EFA the items remains 5 because the items were properly loaded.

Table 4.10
Factor analysis of Moral Obligation

| Initial Items (4-items) | | Final Items (4-Items) | |
|------------------------------------|-------------------------------|----------------------------------|------------------------------|
| Moral Obligation | Items | Moral Obligation | Items |
| | MO1, MO2, MO3, MO4 | | MO1, MO2 MO3, MO4 |

Moral obligation was comprised of 4 items and after running EFA the items remains 4 because the items were properly loaded.

Table 4.11
Factor analysis of Fairness Perception

| Initial Items (6-items) | | Final Items (6-Items) | |
|------------------------------------|---|----------------------------------|---|
| Fairness Perception | Items | Fairness Perception | Items |
| | FP1, FP2, FP3, FP4, FP5, FP6 | | FP1, FP2, FP3, FP4, FP5, FP6 |

Fairness perception was comprised of 6 items and after running EFA the items remains 6 because the items were properly loaded.

Table 4.12
Factor analysis of Tax Knowledge

| Initial Items (7-items) | | Final Items (7-items) | | |
|------------------------------------|---|----------------------------------|---|--|
| Tax Knowledge | Items | Tax Knowledge | Items | |
| | TK1, TK2, TK3, TK4, TK5, TK6, TK7 | | TK1, TK2, TK3, TK4, TK5, TK6, TK7 | |

Tax knowledge was comprised of 7 items and after running EFA the items remains 7 because the items were properly loaded.

Table 4.13
Factor analysis of Religiosity

| Initial Items (10-items) | | Final Items (10-items) | | |
|-------------------------------------|--|-----------------------------------|--|--|
| Religiosity | Items | Religiosity | Items | |
| | RLG1, RLG2, RLG3, RLG4, RLG5, RLG6, RLG7, RLG8, RLG9, RLG10 | | RLG1, RLG2, RLG3, RLG4, RLG5, RLG6, RLG7, RLG8, RLG9, RLG10 | |

Religiosity was comprised of 10 items and after running EFA the items remains 10 because the items were properly loaded.

Table 4.14
Factor analysis of Intention to Comply

| Initial Items (3-items) | | Final Items (3-items) | |
|------------------------------------|------------------------------------|----------------------------------|------------------------------------|
| Intention To Comply | Items | Intention To Comply | Items |
| | INTTOCMP1, INTTOCMP2, INTTOCMP3 | | INTTOCMP1, INTTOCMP2, INTTOCMP3 |

Intention to comply was comprised of 3 items and after running EFA the items remains 3 because the items were properly loaded.

Table 4.15
Factor analysis of Tax Compliance Behavior

| Initial Items (17-items) | | Final Items (17-items) | |
|-------------------------------------|--------------------------|------------------------------------|--------------------------|
| Tax Compliance Behavior | Items | Tax Compliance Behavior | Items |
| | TCB1, TCB2 , TCB3, | | TCB1, TCB2, TCB3, |
| | TCB4, TCB5, TCB6, | | TCB4, TCB5, TCB6, |
| | TCB7, TCB8, TCB9, | | TCB7, TCB8, TCB9, |
| | TCB10, TCB11, TCB12 | | TCB10, TCB11, TCB12, |
| | TCB13, TCB14, TCB15, | | TCB13, TCB14, TCB15, |
| | TCB16 & TCB17 | | TCB16 & TCB17 |

Tax compliance behavior was comprised of 17 items and after running EFA the items remains 17 because the items were properly loaded.

4.8 Confirmatory Factor Analysis:

This is a confirmation method that is theoretically focused. As an outcome, plan of examination is controlled by the theoretical relationship between unobserved and observed variables. According to Hair et al., (2010) investigator, technically desire to reduce the variance between the perceived matrix and estimated value.

The dimensions formulated and the loadings observed from the exploratory factor analysis were taken to AMOS for doing to confirmatory factor analysis. In the analysis, all the items of respective variables were observed separately for analyzing the model fit of the conceptual framework of the study.

Table 4.16

CFA for Attitude towards Behavior

| Question Items | Standardized Loading |
|-----------------------|-----------------------------|
| ATTB1 | .611 |
| ATTB2 | .517 |
| ATTB3 | .635 |
| ATTB4 | .634 |
| ATTB5 | .592 |

Model Fit Indices of Attitude towards Behavior

| | CMIN/DF | RMSEA | CFI | GFI |
|----------------------------------|----------------|--------------|-------------|-------------|
| Attitude towards Behavior | 2.54 | .05 | .957 | .977 |

CFA of attitude towards behavior gives a good model fit with a maximum loading of .635 and minimum standardized loading of .517 and having the properties of uni-dimensionality with the values of CMIN/DF = 2.54, RMSEA = .05, CFI = .957 and GFI = .977. No item of attitude towards behavior is removed here due to sufficient standardized loading.

Table 4.17

CFA for Subjective Norms

| Question Items | Standardized Loading |
|-----------------------|-----------------------------|
| SN1 | .772 |
| SN2 | .845 |
| SN3 | .667 |
| SN4 | .727 |

Model Fit Indices of Subjective Norms

| | CMIN/DF | RMSEA | CFI | GFI |
|-------------------------|----------------|--------------|-------------|-------------|
| Subjective Norms | 2.43 | .03 | .873 | .771 |

CFA of subjective norms gives a good model fit with a maximum loading of .845 and minimum standardized loading of .667 and having the properties of uni-dimensionality with the values of CMIN/DF = 2.43, RMSEA = .03, CFI = .873 and GFI = .717. No item of subjective norms is removed here due to sufficient standardized loading.

Table 4.18

CFA for Perceived Behavioral Control

| Question Items | Standardized Loading |
|-----------------------|-----------------------------|
| PBC1 | .792 |
| PBC2 | .867 |
| PBC3 | .599 |
| PBC4 | .697 |
| PBC5 | .865 |

Model Fit Indices for Perceived Behavioral Control

| | CMIN/DF | RMSEA | CFI | GFI |
|-------------------------------------|----------------|--------------|-------------|-------------|
| Perceived Behavioral Control | 2.037 | .05 | .873 | .853 |

CFA of perceived behavioral control gives a good model fit with a maximum loading of .867 and minimum standardized loading of .599 and having the properties of uni-dimensionality with the

values of CMIN/DF = 2.037, RMSEA = .05, CFI = .873 and GFI = .853. No item of subjective norms is removed here due to sufficient standardized loading.

Table 4.19
CFA for Moral Obligation

| Question Items | Standardized Loading |
|----------------|----------------------|
| MO1 | .767 |
| MO2 | .898 |
| MO3 | .832 |
| MO4 | .721 |

Model Fit Indices for Moral Obligation

| | CMIN/DF | RMSEA | CFI | GFI |
|-----------------------------|--------------|------------|-------------|-------------|
| Moral Obligation | 4.042 | .02 | .745 | .823 |

CFA of moral obligation gives a good model fit with a maximum loading of .898 and minimum standardized loading of .721 and having the properties of uni-dimensionality with the values of CMIN/DF = 4.042, RMSEA = .02, CFI = .745 and GFI = .823. No item of moral obligation is removed here due to sufficient standardized loading.

Table 4.20
CFA for Fairness Perception

| Question Items | Standardized Loading |
|----------------|----------------------|
| FP1 | .544 |
| FP2 | .832 |
| FP3 | .766 |
| FP4 | .881 |

| | |
|------------|-------------|
| FP5 | .785 |
| FP6 | .759 |

Model Fit Indices for Fairness Perception

| | CMIN/DF | RMSEA | CFI | GFI |
|----------------------------|----------------|--------------|-------------|-------------|
| Fairness Perception | 5.028 | .067 | .032 | .822 |

CFA of fairness perception gives a good model fit with a maximum loading of .898 and minimum standardized loading of .721 and having the properties of uni-dimensionality with the values of CMIN/DF =5.028, RMSEA = .067, CFI = .032 and GFI = .822. No item of fairness perception is removed here due to sufficient standardized loading.

Table 4.21

CFA for Tax Knowledge

| Question Items | Standardized Loading |
|-----------------------|-----------------------------|
| TK1 | .765 |
| TK2 | .810 |
| TK3 | .856 |
| TK4 | .780 |
| TK5 | .580 |
| TK6 | .687 |
| TK7 | .786 |

Model Fit Indices for Tax Knowledge

| | CMIN/DF | RMSEA | CFI | GFI |
|----------------------|----------------|--------------|-------------|-------------|
| Tax Knowledge | 2.648 | .01 | .888 | .899 |

CFA of tax knowledge gives a good model fit with a maximum loading of .856 and minimum standardized loading of .580 and having the properties of uni-dimensionality with the values of CMIN/DF =2.648, RMSEA = .01, CFI = .888 and GFI = .899. No item of tax knowledge is removed here due to sufficient standardized loading.

Table 4.22

CFA for Religiosity

| Question Items | Standardized Loading |
|-----------------------|-----------------------------|
| RLG1 | .617 |
| RLG2 | .535 |
| RLG3 | .848 |
| RLG4 | .853 |
| RLG5 | .850 |
| RLG6 | .752 |
| RLG7 | .869 |
| RLG8 | .785 |
| RLG9 | .884 |
| RLG10 | .776 |

Model Fit Indices for Religiosity

| | CMIN/DF | RMSEA | CFI | GFI |
|--------------------|----------------|--------------|-------------|-------------|
| Religiosity | 3.54 | .034 | .833 | .725 |

CFA of religiosity gives a good model fit with a maximum loading of .884 and minimum standardized loading of .535 and having the properties of uni-dimensionality with the values of CMIN/DF =3.54, RMSEA = .034, CFI = .833 and GFI = .725. No item of religiosity is removed here due to sufficient standardized loading.

Table 4.23

CFA for Intention to Comply

| Question Items | Standardized Loading |
|-----------------------|-----------------------------|
| INTTOCMP1 | .869 |
| INTTOCMP2 | .684 |
| INTTOCMP3 | .798 |

Model Fit Indices for Intention to Comply

| | CMIN/DF | RMSEA | CFI | GFI |
|------------------|----------------|--------------|-------------|-------------|
| Intention | 2.54 | .065 | .957 | .977 |

CFA of intention to comply gives a good model fit with a maximum loading of .869 and minimum standardized loading of .684 and having the properties of uni-dimensionality with the values of CMIN/DF =2.54, RMSEA = .065, CFI = .957 and GFI = .977. No item of intention to comply is removed here due to sufficient standardized loading.

Table 4.24

CFA for Tax Compliance Behavior

| Question Items | Standardized Loading |
|-----------------------|-----------------------------|
| TCB1 | .717 |
| TCB2 | .872 |
| TCB3 | .675 |

| | |
|--------------|-------------|
| TCB4 | .627 |
| TCB5 | .827 |
| TCB6 | .889 |
| TCB7 | .760 |
| TCB8 | .836 |
| TCB9 | .634 |
| TCB10 | .711 |
| TCB11 | .617 |
| TCB12 | .891 |
| TCB13 | .790 |
| TCB14 | .680 |
| TCB15 | .716 |
| TCB16 | .787 |
| TCB17 | .709 |

Model Fit Indices for Tax Compliance Behavior

| | CMIN/DF | RMSEA | CFI | GFI |
|--------------------------------|----------------|--------------|-------------|-------------|
| Tax Compliance Behavior | 5.44 | .001 | .987 | .717 |

CFA of tax compliance behavior gives a good model fit with a maximum loading of .891 and minimum standardized loading of .617 and having the properties of uni-dimensionality with the values of CMIN/DF =5.44, RMSEA = .001, CFI = .987 and GFI = .717. No item of tax compliance behavior is removed here due to sufficient standardized loading.

4.9 Discriminant Validity:

Discriminant validity that is also referred as divergent validity actually tests the constructs (that are believed to be unrelated constructs) in fact, do not have any connection /relationship or

unrelated. Discriminant validity is demonstrated by evidence that measures of constructs that theoretically should not be highly related to each other are, in fact, not found to be highly correlated to each other. In other words, discriminant validity shows that two measures that are not supposed to be related are in fact, unrelated. Divergent validity is basically calculated by referring to the mutual change between pairs rather than the average variance explained (AVE) average of the two models. As stated by Fornell and Larcker (1981) that validity means, that the average variance value should be greater than the square of correlation while composite reliability should be higher than 0.7. The average variance values and composite reliability of attitude towards behavior, subjective norms, perceived behavioral control, moral obligation, fairness perception, tax knowledge, religiosity, intention to comply and tax compliance behavior are given below:

Table 4.25

Composite Reliability Discriminant Validity, and Squared Correlation among variables

| Construct | CR | AVE | ATTB | SN | PBC | MO | FP | TK | RLG | INTTOCMP | TCB |
|------------------|-----------|------------|-------------|-----------|------------|-----------|-----------|-----------|------------|-----------------|------------|
| ATTB | 0.83 | 0.50 | 1.00 | | | | | | | | |
| SN | 0.78 | 0.47 | 0.04 | 1.00 | | | | | | | |
| PBC | 0.87 | 0.59 | 0.01 | 0.01 | 1.00 | | | | | | |
| MO | 0.78 | 0.63 | 0.09 | 0.09 | 0.04 | 1.00 | | | | | |
| FP | 0.81 | 0.62 | 0.05 | 0.21 | 0.11 | 0.04 | 1.00 | | | | |
| TK | 0.77 | 0.63 | 0.17 | 0.42 | 0.06 | 0.05 | 0.13 | 1.00 | | | |
| RLG | 0.72 | 0.57 | 0.03 | 0.14 | 0.00 | 0.06 | 0.05 | 0.4020 | 1.00 | | |
| INTTOCMP | 0.88 | 0.58 | 0.04 | 0.18 | 0.14 | 0.01 | 0.0190 | 0.1149 | 0.01 | 1.00 | |

| | | | | | | | | | | | |
|------------|------|------|------|------|------|------|--------|--------|------|--------|------|
| TCB | 0.73 | 0.65 | 0.10 | 0.42 | 0.07 | 0.07 | 0.4303 | 0.4290 | 0.08 | 0.2266 | 1.00 |
|------------|------|------|------|------|------|------|--------|--------|------|--------|------|

4.10 Hypotheses Testing:

4.10.1. Direct effect

The given below table shows direct relationships among the exogenous and endogenous variables. Results represented that such as independent variables (attitude towards behavior, subjective norms, perceived behavioral control, moral obligation, fairness perception, tax knowledge and religiosity) as well as mediator (intention to comply) has significant impact on tax compliance behavior. All variables association is significant with the ρ less than 0.05. Attitude towards behavior has a significant impact on tax compliance behavior at ($\rho < .05$, $\beta = .2239$). Subjective norms has a significant relation with tax compliance behavior at ($\rho < .05$, $\beta = .4807$). And similarly, the other variables also show significant impact on tax compliance behavior that is exhibited by their β Values in the given below table

Table 4.26

| Hypothesis Path | β Value | S.E. | t-Value | p-value | Results |
|--|---------------|--------------|----------------|--------------|------------------|
| H1 Attitude towards Behavior→Tax Compliance Behavior | .2239 | .0588 | 3.8103 | .0002 | Supported |
| H2 Subjective Norms→Tax Compliance Behavior | .4807 | .0462 | 10.4110 | .0000 | Supported |
| H3 Perceived Behavioral Control→Tax Compliance Behavior | .2670 | .0753 | 3.5480 | .0005 | Supported |
| H4 Moral Obligation →Tax Compliance Behavior | .5919 | .0656 | 9.3211 | .0000 | Supported |
| H5 Fairness Perception→Tax Compliance Behavior | .4168 | .0360 | 11.5870 | .0000 | Supported |
| H6 Tax Knowledge →Tax Compliance Behavior | .5723 | .0495 | 11.5657 | .0000 | Supported |
| H7 Religiosity →Tax Compliance Behavior | .2161 | .0560 | 3.8572 | .0002 | Supported |
| H8 Intention to comply→Tax Compliance Behavior | .341 | .047 | 7.209 | .000 | Supported |

Beta value shows the direction or magnitude of relationship (whether positive or negative) between dependent and independent variables. According to the table the first relationship is between attitude towards behavior and tax compliance behavior. The beta value shows the positive relationship between attitude towards behavior and tax compliance behavior T Value is greater than 2(>2), it means there is a positive and significant relationship between attitude towards behavior and tax compliance behavior.

Similarly, the beta values of other variables also shows the positive and significant relationship between subjective norms, perceived behavioral control, moral obligation, fairness perception, tax knowledge, religiosity, intention to comply and tax compliance behavior because T Value is greater than 2(>2).

4.9.2. Indirect effect

Indirect relationship means the association among the exogenous and endogenous variables via or throughout mediator. In the given below table the values of the analysis shows that the result are significant via or without mediator and also results exhibits there is a partial mediation among variables. Furthermore, the table 4.27 shows that the path like, exogenous variable (attitude towards behavior, subjective norms, perceived behavioral control, moral obligation, fairness perception, tax knowledge and religiosity) and endogenous variable tax compliance behavior have a significant via intention to comply as a mediator.

As shown in Table ($\rho <.05$, $\beta = .1108$) it shows that there is a significant relationship among attitude towards behavior and tax compliance behavior via intention to comply. Likewise ($\rho <.05$, $\beta = .0866$) so it means subjective norms effect on tax compliance behavior through intention to comply is significant and also the association among perceived behavioral control and tax compliance behavior is also supported with the value of ($\rho <.05$, $\beta = .5227$).

Table 4.27 results exhibits that the same significant relationship exists between fairness perception and tax compliance behavior as well as between tax knowledge and tax compliance behavior via intention to comply. But there is not a significant relationship between religiosity and tax compliance behavior via intention to comply.

Table 4.27

| Predictor | Mediator | Outcome | β Value | S.E. | LLCI | ULCI | Hypothesis | Results |
|------------------|-----------------|----------------|---------------------------------|--------------|---------------|--------------|-------------------|---------------------|
| ATTB | INTTOCMP | TCB | .1108 | .0371 | .0392 | .1836 | H8a | Supported |
| S.N. | INTTOCMP | TCB | .0866 | .0309 | .0281 | .1494 | H8b | Supported |
| PBC | INTTOCMP | TCB | .5227 | .1414 | .1186 | .4097 | H8c | Supported |
| MO | INTTOCMP | TCB | .0986 | .0739 | .0189 | .8069 | H8d | Supported |
| FP | INTTOCMP | TCB | .0345 | .0179 | .0021 | .0732 | H8e | Supported |
| TK | INTTOCMP | TCB | .0848 | .0278 | .0366 | .1460 | H8f | Supported |
| RLG | INTTOCMP | TCB | .0268 | .0297 | -.0234 | .0951 | H8g | Un-supported |

Chapter 5

Conclusion, Research Implications and Future Research

5.1. Overview

This last section will discuss the gathered end results from this research process. The main motive behind carrying this research process was to examine the impact of attitude towards behavior, subjective norms, perceived behavioral control, moral obligation, fairness perception, tax knowledge, religiosity on tax compliance behavior with intention to comply playing the role the of mediator between them in Pakistani context. This study is of prime importance as this discusses the extent of influence of these selected variables on the compliance decisions of individual taxpayers.

As the main focus of this study was on understanding the psychological factors that plays a significant role in compliance decisions of individual taxpayers. As in Pakistani context, conducting research on this topic was of prime importance as this research will somehow help policymakers in devising such strategies that results in increase in voluntary tax compliance by individual taxpayers.

So, this section will comprehensively conclude the results of this research process and provide the bases to conduct further research on this topic and set standards for different researchers interested in focusing on same phenomena or focusing on some sort of slightly different phenomena.

5.2. Conclusion:

From the overall discussion this is highlighted that to increase voluntary tax compliance behavior of individual taxpayers is an issue of huge importance for government, and just by auditing and penalties governments cannot achieve their aim of increased voluntary compliance in individual taxpayers. Thus, they need to pay attention on other factors as well that directly or indirectly somehow influence compliance decisions of individual taxpayers. In this research process this effort has been done in order to highlight those psychological factors that in previous literature were found to somehow exert influence on compliance decisions of individual taxpayers.

The research found a significant support for our H1 hypothesis that there is a significant positive relationship between attitude towards behavior and tax compliance behavior. This finding is consistent with the results of (Alleyne, 2017; Saad, 2014b; Saad, 2012; Alabede et al., 2011; Kirchler, et al., 2008; Bobek and Hatfield, 2003; Beck and Ajzen, 1991; Ajzen and Fishbein, 1980). So therefore, government and tax officials must put efforts in changing attitudes of individuals from tax evasion towards voluntary tax compliance either by conducting seminars on voluntary tax compliance or by running advertisements related to importance of paying taxes and the benefits the economy can gain through this and the ways of tax filing must also be advertised so that individual doesn't feel any difficulty in filing tax returns.

The research results also support the H2 hypothesis that there is a significant positive relationship between subjective norms and tax compliance behavior. This finding is consistent with the results of Oktavianti et al., 2017; Abdul Hamid, 2014; Jimenez,P,D., 2013; Kirchler et al. 2008; Tsakumis et al., 2007; Richardson, 2006; Cullis and Lewis, 1997; Beck and Ajzen, 1991). So, this means, that if individual taxpayers find widespread acceptability of tax evasion in

society they will also avoid to pay taxes to government. Thus they are more influenced by their significant others in taking their decisions.

Perceived behavioral control was also found significantly influencing tax compliance behavior. Hence, our H3 hypothesis was also supported by research results. This finding is consistent with the results of (Alleyne, 2017;Oktavianti et al., 2017; Damayanti et al., 2015; Salman & Sarjono, 2013; Smart 2012; Bobek and Hatfield, 2003; Carnes and Englebrecht, 1995; Antonides and Robben, 1995; Ajzen, 1991; Beck and Ajzen, 1991).As this variable deals with obstacles and opportunities of engaging in particular behavior so, if the individual taxpayers will be more sure about being detected or audited by tax officials then they will be more engaged in voluntary tax compliance.

Research results also support the H4 hypothesis. This finding is consistent with the results of (Alleyne, 2017; McGee 2012; Bamberg and Moser, 2007; McGee 2006; Leonard et al., 2004; Riahi-Belkaoui, 2004; Bobek and Hatfield, 2003; Beck and Ajzen,1991). This indicates that when individuals consider that it is their ethical duty to comply with tax laws then he will surely voluntarily comply with the tax laws. And this can be achieved by enforcement of ethical programs at college, universities or offices. So, that people can be aware of their moral duties related to their country.

Results also supports H5 hypothesis that fairness perception significantly influence tax compliance behavior. This finding is consistent with the results of (Jimenez & Iyer, 2016; Palil & Fazil, 2015; Natrah, 2012; Murphy, 2009; Hartner et al., 2008; Verboon and Van Dijke, 2007; Richardson, 2005; Kim 2002; Gerbing, 1988). So, this means that when individual taxpayer perceived tax system to be fairer then he will surely voluntary complies with the tax system.

Results also supports H6 hypothesis that there is a significant positive relationship between tax knowledge and tax compliance behavior. This finding is consistent with the results of (Savitri, 2015; Saad, 2014a; Machogu and Amayi, 2013; Margareth, 2012; Widayati and Nurlis, 2010; Loo et al., 2009; Loo, 2006; Kirchler et al., 2006; Kasipillai et al., 2003). This means that when individual taxpayers have more knowledge about filing tax procedures then this will significantly influence their compliance level.

Surprisingly, my research study didn't find any significant influence of religiosity on tax compliance behavior. That is consistent with results of (Mohdali, 2014). And justification for this can be that individual (having less knowledge of religious values) thinks that they pay "zakat" and help the needy one so that is enough for them as they are giving lump sum amount from their source of income and fulfilling their obligations imposed on them by Islam so they don't need to pay taxes to government.

Furthermore, the research result supports H8a, H8b, H8c, H8d, H8e and H8f that when there is increase in attitude towards behavior, subjective norms, perceived behavioral control, moral obligation, fairness perception and tax knowledge then there is increase in intention of an individual to voluntary comply with tax laws of the country. But my research study doesn't support H8g hypothesis.

5.3. Academic Implications:

The importance of conducting research on topic of tax compliance behavior is already highlighted in this research work and the need of getting in depth knowledge of psychological factors influencing tax compliance behavior is highlighted too. Therefore, this research work attempts to put a small contribution in the already available literature on tax compliance behavior by using a different research model that didn't use before, and this research presents the TPB

model with other selected variables as well as mediator that are found significant in predicting compliance level of individuals. Thus motivating the researchers to conduct research on this phenomenon and highlight the significant effect of other variables rather than attitude towards behavior, subjective norms, perceived behavioral control, moral obligation, fairness perception, tax knowledge and religiosity on tax compliance behavior by using other research analysis techniques and help tax practitioners in considering psychological factors that influence tax compliance behavior so they can help government in increasing voluntary tax compliance.

5.4. Managerial Implications:

As taxes play a very important role in economic development of country so, governments usually put efforts in increasing tax collections from individual taxpayers. But they cannot not achieve their objective just by detecting taxpayers involve in tax evasion and imposing penalties on them. They require such a strategy that can increase voluntary tax compliance of taxpayers except of auditing and imposing penalties. And this can only achieved by devising strategies based on psychological highlighted in literature on tax compliance. And some of the variables are highlighted in this research work. Like attitude towards behavior, subjective norms, perceived behavioral control, moral obligation, fairness perception, tax knowledge and religiosity. Tax policy makers and government by conveying fair perception of country's tax system can convince the citizens that it is their moral duty to pay taxes to the government and can play their part in economic development of the country. And for this government can conduct seminars, awareness campaigns, advertisement or any other media tool at college, universities and offices so that they can increase the knowledge of people on procedures of filing tax returns and the projects or on facilities on which these revenues will be invested. Any by this they can convince people that why they have to pay taxes and how?

5.5. Limitations and Recommendations:

Despite of all the efforts, this research is also not free from limitation that can provide base for conducting further research on this topic that are given below:

- The first one is, that this study mostly targets the taxpayers that belong to Multan. So, that data can be collected from other cities of Pakistan. Additionally cross-country analysis can also be done that can help in increasing tax compliance.
- The second one is, that sample size can be increased and non-response bias can be removed as was observed in this study. Further the participation from females and citizens of above 70 years was less in this study. Their participation can be increased in the future.
- Interviews can also conduct from tax practitioners and tax officials. And their views can be included in the study so that they can shed light on tax system, improvements to be made and selected variable.
- As data was collected from those who were accessible. But in future by purposively choosing taxpayers research data can be collected. As well as other methods of observing and analyzing data can also be used in order to increase the reliability of the data.
- The inclusion of other variables like tax complexity, perceived trust on government, procedural justice, perception of tax offences, perception of tax authority, justice rules of the compliance and penalty regimes, other dimensions of fairness, subjective norms and intrapersonal or interpersonal religiosity can be used in presenting clear picture of factors affecting tax compliance behavior.

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Appendix:

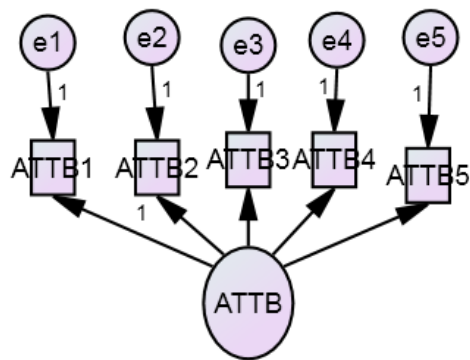


Figure 1 : Confirmatory factor analysis of Attitude towards behavior

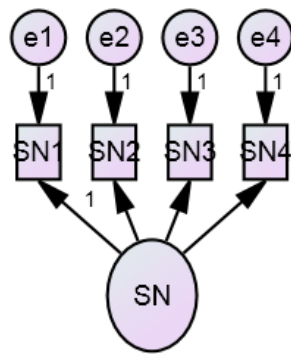


Figure 2: Confirmatory factor analysis of Subjective Norms

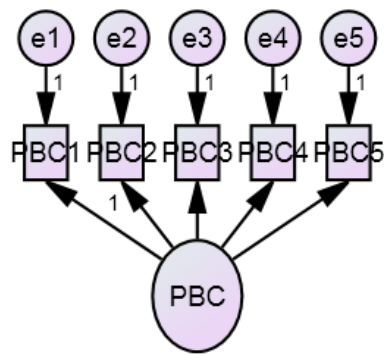


Figure 3: Confirmatory factor analysis of Perceived behavioral control

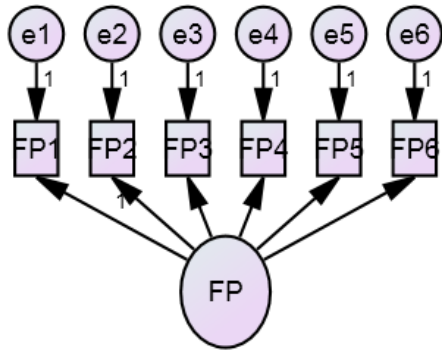


Figure 5: Confirmatory factor analysis of Fairness perception

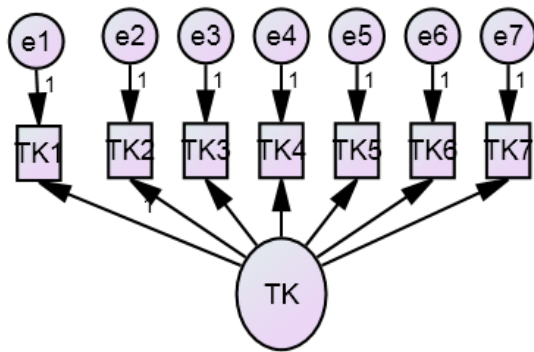


Figure 6 : Confirmatory Factor Analysis of Tax Knowledge

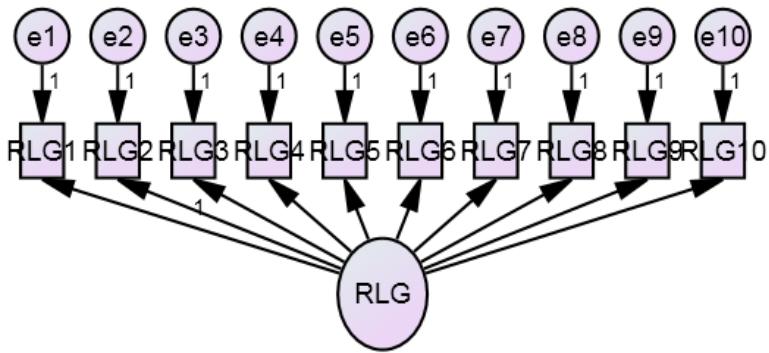


Figure 7: Confirmatory factor analysis of Religiosity

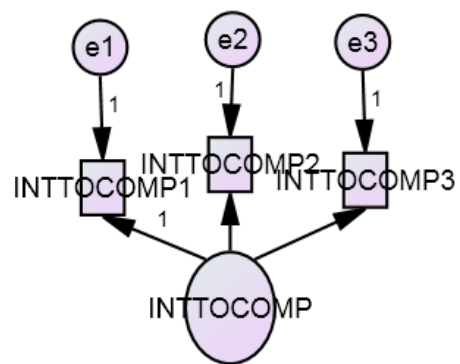
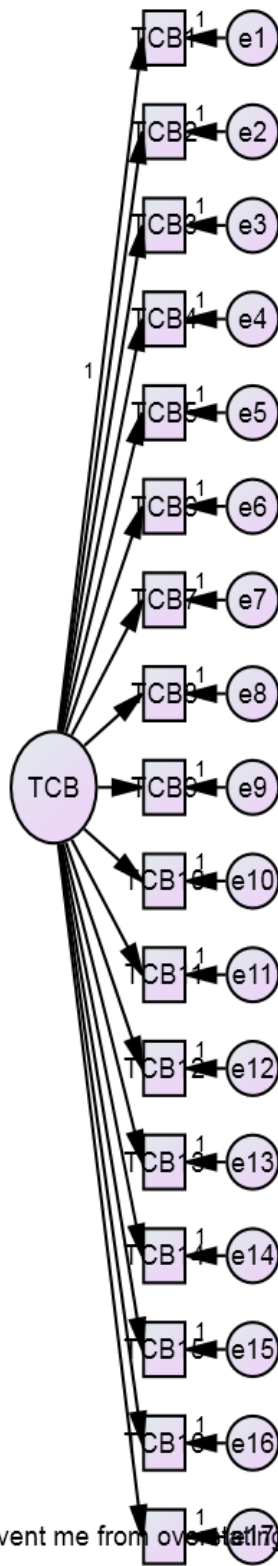


Figure 8: Confirmatory factor analysis of Intention to Comply



There are no barriers that would prevent me from overhauling the business expenses by Rs. 100,000

Figure 9: Confirmatory factor analysis of Tax Compliance Behavior

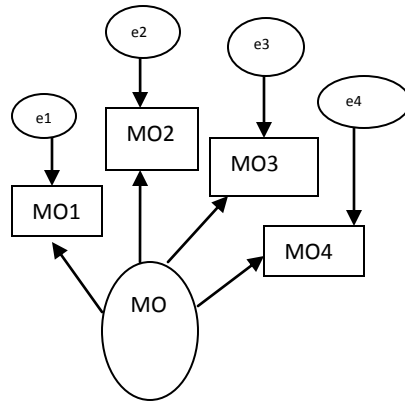
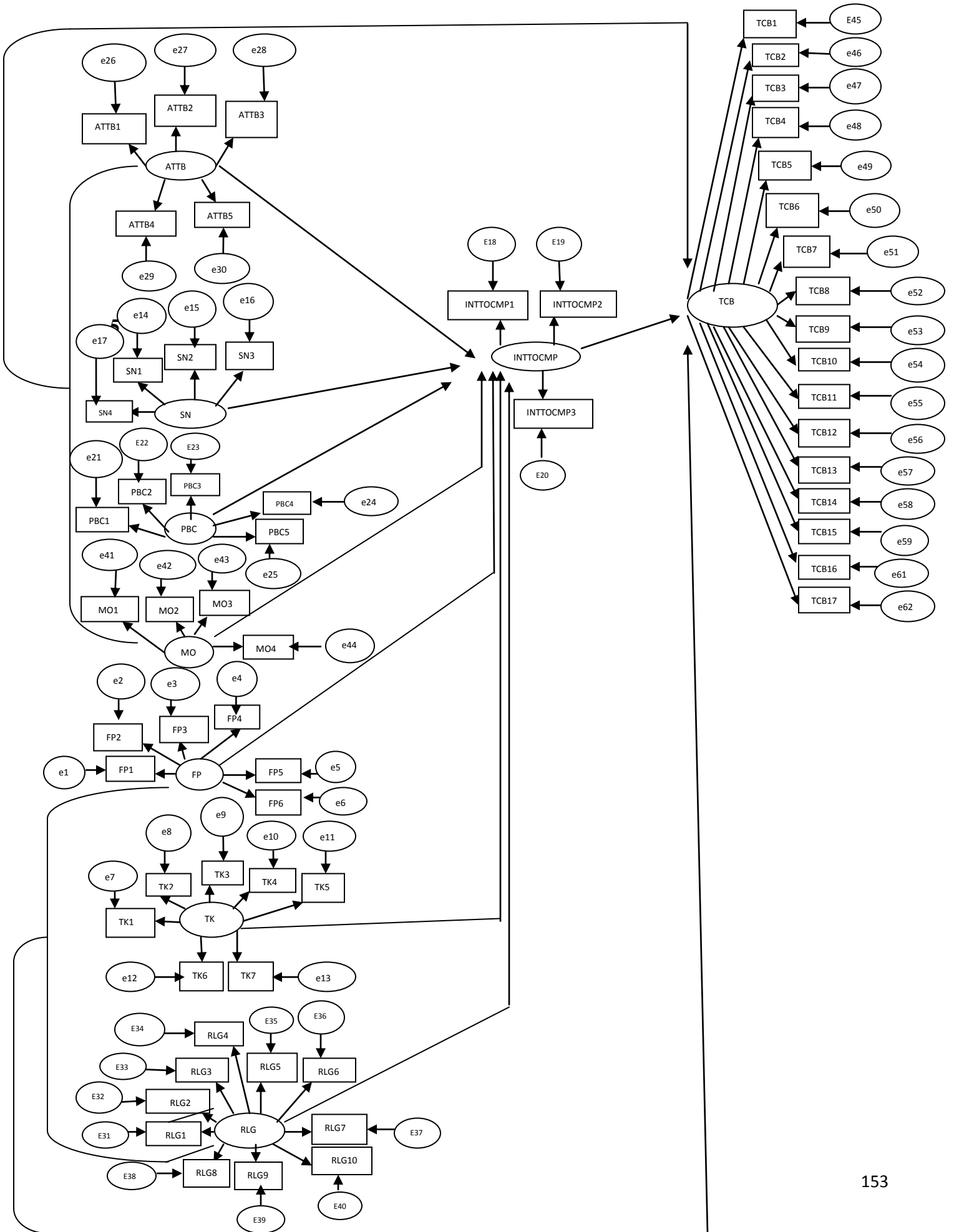


Figure 10: Confirmatory factor analysis of Moral Obligation



Survey Questionnaire

Dear Respondents

National University of Modern Languages (NUML) Multan carries a number of studies for academic purpose. The present study is one of the researches, which is required for the partial fulfillment for the degree of MSBA. You are requested to fill the questionnaire. Options are given for every item and you have to write the category that best represents your view point. Please rate each statement that how much true it is for you. You are requested to represent what you feel correctly because your true response will help us in the better understanding of the issue under study. Information which you will provide will be kept strictly confidential. We assure you that no personal gain will be obtained from this questionnaire and it will be used for only academic purposes. Thank you for your Cooperation.

Demographic data

Gender: Female Male

Age: -----

Marital Status:

Married Unmarried Divorced Widowed

Education:

College degree No college degree

Employment:

Part time Retired Not employed Full time self employed

Family Size:

Joint Nucleus

Monthly Household Income:

From 50,000 to 100000 above 100,000

Please make sure to answer each question and circle the correct response based on how you feel about the statement.

| Strongly disagree | Disagree | Undecided | Agree | Strongly agree |
|-------------------|----------|-----------|-------|----------------|
| 1 | 2 | 3 | 4 | 5 |

| Sr# | Statement | Strongly disagree | disagree | undecided | Agree | Strongly agree |
|------------|---|--------------------------|-----------------|------------------|--------------|-----------------------|
| 1. | I believe the government utilizes a reasonable amount of tax revenue to achieve social goals, such as the provision of benefits for low income families | 1 | 2 | 3 | 4 | 5 |
| 2. | I believe everyone pays their fair share of income tax under the current income tax system | 1 | 2 | 3 | 4 | 5 |
| 3. | I think the government spends too much tax revenue on unnecessary welfare assistance | 1 | 2 | 3 | 4 | 5 |
| 4. | I receive fair value from the government in return for my income tax paid (e.g. benefits) | 1 | 2 | 3 | 4 | 5 |
| 5. | It is fair that low-income earners receive more benefits from the government compared to high-income earners | 1 | 2 | 3 | 4 | 5 |
| 6. | The income taxes that I have to pay are high considering the benefits I receive from the government | 1 | 2 | 3 | 4 | 5 |
| 7. | The income tax system is a legitimate way for the government to collect revenue to manage an economy. | 1 | 2 | 3 | 4 | 5 |
| 8. | To my knowledge, individuals are subject to a single flat rate of income tax under the current tax system | 1 | 2 | 3 | 4 | 5 |
| 9. | As far as I am aware, non-compliant taxpayers can be imprisoned, if found guilty of evading tax. | 1 | 2 | 3 | 4 | 5 |
| 10. | Similar to other criminal offences, I believe that individuals can also be prosecuted for not complying with the Income Tax Act. | 1 | 2 | 3 | 4 | 5 |
| 11. | I believe that I do not have to abide by the deadline for the submission of tax return form (s) (in case of having other income such as rental and business income), as the deadline is only a guideline and does not result in penalties | 1 | 2 | 3 | 4 | 5 |
| 12. | The rules related to individual income tax are clear. | 1 | 2 | 3 | 4 | 5 |
| 13. | I think the term used in tax publications (eg. IRD guide books) and in tax return forms are difficult for people like me to understand. | 1 | 2 | 3 | 4 | 5 |
| 14. | My family and peers would think that I should not overstate the business expenses | 1 | 2 | 3 | 4 | 5 |
| 15. | My family and peers would think that I should only claim the actual business expenses | 1 | 2 | 3 | 4 | 5 |
| 16. | My family and peers would not approve of my decision to overstate the business expenses | 1 | 2 | 3 | 4 | 5 |
| 17. | My family and peers would not overstate the business expenses if faced with a similar situation | 1 | 2 | 3 | 4 | 5 |
| 18. | I would not attempt to overstate the business expenses | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|-----|---|---|---|---|---|---|
| 19. | I would only claim a deduction for the actual amount spent for business purposes. | 1 | 2 | 3 | 4 | 5 |
| 20. | Even If I had the opportunity, I would not cheat on taxes, would not include the amount paid for my family trip. | 1 | 2 | 3 | 4 | 5 |
| 21. | With my tax knowledge, skills and resources, it would be very easy for me to overstate the business expenses successfully | 1 | 2 | 3 | 4 | 5 |
| 22. | Due to my limited tax knowledge, skills and resources, it is hard for me to overstate the business expenses successfully | 1 | 2 | 3 | 4 | 5 |
| 23. | I would successfully overstate the business expenses in my tax return form if I wanted to. | 1 | 2 | 3 | 4 | 5 |
| 24. | With my tax knowledge, skills and resources, I would have no difficulty in overstating the business expenses by \$2,500 successfully. | 1 | 2 | 3 | 4 | 5 |
| 25. | There are no barriers that would prevent me from overstating the business expenses successfully. | 1 | 2 | 3 | 4 | 5 |
| 26. | I would be upset if I overstated the business expenses | 1 | 2 | 3 | 4 | 5 |
| 27. | I would feel guilty if I overstated the business expenses | 1 | 2 | 3 | 4 | 5 |
| 28. | I would not feel pleased if I overstated the business expenses | 1 | 2 | 3 | 4 | 5 |
| 29. | The likelihood of being audited by the Inland Revenue Department is low. | 1 | 2 | 3 | 4 | 5 |
| 30. | It would not be financially beneficial for me to overstate the business expenses | 1 | 2 | 3 | 4 | 5 |
| 31. | My religious beliefs lie behind my whole approach to life. | 1 | 2 | 3 | 4 | 5 |
| 32. | I spend time trying to grow in understanding of my faith | 1 | 2 | 3 | 4 | 5 |
| 33. | It is important to me to spend periods of time in private religious thought and reflection | 1 | 2 | 3 | 4 | 5 |
| 34. | Religious beliefs influence all my dealings in life | 1 | 2 | 3 | 4 | 5 |
| 35. | Religion is especially important to me because it answers many questions about the meaning of life | 1 | 2 | 3 | 4 | 5 |
| 36. | I often read books and magazines about my faith. | 1 | 2 | 3 | 4 | 5 |
| 37. | I enjoy working in the activities of my religious organization. | 1 | 2 | 3 | 4 | 5 |
| 38. | I enjoy spending time with others of my religious affiliation | 1 | 2 | 3 | 4 | 5 |
| 39. | I keep well informed about my local religious group and have some influence in its decisions. | 1 | 2 | 3 | 4 | 5 |
| 40. | I make financial contributions to my religious organization. | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|-----|---|---|---|---|---|---|
| 41. | I think it would be morally wrong if I don't comply with tax laws | 1 | 2 | 3 | 4 | 5 |
| 42. | I would feel guilty if I cheated on taxes | 1 | 2 | 3 | 4 | 5 |
| 43. | Cheating on taxes goes against on my principles | 1 | 2 | 3 | 4 | 5 |
| 44. | It would be morally wrong for me to cheat on taxes | 1 | 2 | 3 | 4 | 5 |

Scenario:

David is a sole proprietor of a business with taxable income of Rs 750,000 a year, after deducting business expenses of Rs 150,000. Before submitting his tax return form, he found out that these business expenses include an amount of Rs 100,000 spent for his family holiday. He knows that if he does claim Rs 100,000 as business expense, he will pay less tax than he legally should. He could really use the tax dollars saved and he is confident that Inland Revenue Department would not detect that the Rs 100,000 is actually his personal expense. If there is a tax audit, he can argue that the trip is solely for business purposes. What would you do if you faced a similar situation in the future?

| | | Strongly disagree | disagree | undecided | Agree | Strongly agree |
|-----|---|--------------------------|-----------------|------------------|--------------|-----------------------|
| 45. | I would claim the full deduction of Rs.150, 000, including the amount paid for my family trip | 1 | 2 | 3 | 4 | 5 |
| 46. | I would NOT attempt to overstate the business expenses by Rs.100, 000. | 1 | 2 | 3 | 4 | 5 |
| 47. | My family and peers would think that I should overstate the business expenses by Rs.100, 000. | 1 | 2 | 3 | 4 | 5 |
| 48. | I would only claim a deduction for the actual amount spent for business purposes. | 1 | 2 | 3 | 4 | 5 |
| 49. | I would be upset if I overstated the business expenses by Rs 100,000. | 1 | 2 | 3 | 4 | 5 |
| 50. | I would feel guilty if I overstated the business expenses by Rs 100,000. | 1 | 2 | 3 | 4 | 5 |
| 51. | The likelihood of being audited by the Inland Revenue Department is low. | 1 | 2 | 3 | 4 | 5 |
| 52. | My family and peers would think that I should only claim the actual business expenses | 1 | 2 | 3 | 4 | 5 |
| 53. | It would be financially beneficial for me to overstate the business expenses by Rs 100,000. | 1 | 2 | 3 | 4 | 5 |
| 54. | My family and peers would approve of my decision to overstate the business expenses by Rs.100, 000. | 1 | 2 | 3 | 4 | 5 |
| 55. | I would feel pleased if I overstated the business expenses by Rs. 100,000. | 1 | 2 | 3 | 4 | 5 |
| 56. | My family and peers would NOT overstate the business expenses if faced with a similar situation. | 1 | 2 | 3 | 4 | 5 |
| 57. | With my tax knowledge, skills and resources, it would be very easy for me to overstate the business | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|------------|---|---|---|---|---|---|
| | expenses by Rs 100,000 successfully | | | | | |
| 58. | Due to my limited tax knowledge, skills and resources, it is hard for me to overstate the business expenses by Rs. 100,000 | 1 | 2 | 3 | 4 | 5 |
| 59. | I would successfully overstate the business expenses in my tax return form if I wanted to | 1 | 2 | 3 | 4 | 5 |
| 60. | With my tax knowledge, skills and resources, I would have NO difficulty in overstating the business expenses by Rs. 100,000. | 1 | 2 | 3 | 4 | 5 |
| 61. | There are no barriers that would prevent me from overstating the business expenses by Rs. 100,000. | 1 | 2 | 3 | 4 | 5 |