Tax Compliance Behavior among Prospective Tax Payers of Bangladesh

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Abstract

Bangladesh is a country with limited natural resources. So our government doesn’t have the luxury to ignore the impact to tax revenue in the economy. For a long period of time, tax revenue has proved to be the primary source of revenue for the Government and anything the government is not getting because of the non-compliance behavior is affecting the development process of the country deeply. In this research, I’ve tried to look at the compliance behavior of undergraduate student of AIUB. A total of 239 students were interviewed on the basis of a Likert scale and the independent variables were divided into two distinctive categories, both positive and negative. Cronbach's alpha test, factor analysis and regression analysis were conducted to make the conclusion of this research statistically reliable. The model was found significant and two independent variables were identified which had a major influence on the compliance behavior of prospective tax payers in Bangladesh.

Introduction

The word “Tax” is derived from the French word “Taxe” and in different times many scholars have defined tax in various ways. According to Dalton,”A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of services rendered to the tax payer in return and not imposed as a penalty for any legal offence.” After comparing Dalton’s definition with definitions provided by other economists it is evident that all of them are indicating to the idea that the payment of tax to the government is compulsory but it should be done without expecting any direct return. And this is the point where feeling of obligation toward the country starts to fade and a turn toward evasion emerges in the brain of a regular tax payer. Tax non compliance existed in different civilization but it has spread all over the world like a plague in modern times. In every country, there are a handful of people with low ethical belief are unwilling to comply with country’s tax policy and tries to find various ways not only to evade tax but also to make it justified. When we consider the case of a small, overpopulated, developing country like Bangladesh, this non-collected tax revenue may not benefit anyone directly but affects the economic development of the country badly. Government of Bangladesh is heavily dependent on tax revenue as it is the primary source of their income. But the non-compliance tendency among tax payers of Bangladesh often forces the Government to borrow money with extreme regulation just to spend on ever increasing countries expenditure as available resources are not enough to allocate to the poor. There have been many researches on the compliance behavior of tax payers around the world and no unified factor was identified. In this research, I’ve taken few independent variables from those already completed and published papers and tried to test the impact of those variables on compliance behavior among prospective tax payers of the country. Because, I believe, to find a solution of a problem first we go to the root of the problem. This is the reason why I’ve selected undergraduate and postgraduate unemployed students as a sample to get a closer look at factors that affect their compliance behavior. I hope this research will help in the process of making the vaccine for tax evasion and make a small contribution toward the development of Bangladesh.

Literature Review

Tax is often seen as a voluntary contribution to the Government by the people capable of such contribution not to get any direct return but to help in the growth of the country’s economy. Now, it is obvious that everyone would be that enthusiastic to contribute a portion of their hard earned income to
a public figure which is not free of corruption and hence the emergence of a non compliance attitude among the tax payers. According to Brown and Mazur (2003), tax compliance is multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance. The issue of non compliance is often termed as tax evasion and it is inseparable bound up with the instruments of fiscal control that the government attempts to use in carrying out its economic policy (Cowell, 1990). Throughout the ages, tax non compliance has remained a concern for public authorities around the world and it has grown into an epidemic in recent times. Andreoni, Erard and Feinstein (1998) mentioned in their study that, ‘the problem of tax compliance is as old as tax itself.’” Kasipillai (1997) noted that deliberate non compliance is a perennial problem in many countries. It is a substantive problem that transcends cultural and political boundaries (Hasseldine and Li, 1999). There have been many studies conducted by different authors all around the world to understand the reasons behind the non compliance behaviour of tax payers. Although taxpayer non compliance is a continual and growing global problem (McKerchar and Evans 2009), many indications suggest that developing countries, many of them in Sub Saharan Africa, are the hardest hit (Cobham 2005; Fuest and Riedel 2009). Estimates from a variety of methods for other countries, such as Argentina (Herschel, 1978), the Philippines (Manasan, 1988), Jamaica (Alm, Bahl, and Murray, 1990, 1993), and Spain (de Juan, Lasheras, and Mayo, 1194), indicate that tax evasion is a pervasive and extensive phenomenon. According to Trivedi and Shehata (2005), economic theories suggest that taxpayers “play the audit lottery,” i.e. they make calculations of the economic consequences of different compliant alternative, such as whether or not to evade tax; the probability of detection and consequences thereof, and choose the alternative which maximizes their expected after tax return/profit (possibly after adjustment for the desired level of risk). The theories suggest that taxpayers are amoral utility maximizes hence, economic theories emphasize increased audits and penalties as a solution to compliance problems. Economic based studies suggest that taxpayers’ behaviour is influenced by economic motives such as profit maximization and probability of detection (Trivedi & Shehata, 2005), underreporting (Erard & Ho, 2002; Cobham, 2005), business income taxpayers operating in informal economy (Etchberry, 1992) among many factors. Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute (Fjeldstad and Semboja 2001). Opportunities for tax evasion or avoidance and source of income are likely to interact with tax rate (Kirchler et al., 2007). One thing that is common in all these research is that everyone has focused understanding the non compliance behaviour by studying individuals who has the capability of paying tax. But is that enough to understand this economic and often psychological problem? I believe to get a better look at a problem we should go to its root. With that view, I’ve tried to study prospective tax payers, students who are currently studying at the undergraduate level at the university and will get involved with profession life in near future, to find out whether the problem of non compliance is entirely economical or partly psychological in nature. I believe the outcome of this research will help the Government to motivate these young individuals to become an honest tax payer in future.

The Methodology and Model

Research Design

This research was completed using survey method. A structured questionnaire was used to gather quantitative information from selected random sample of university under graduate and post graduate students which was designed using a Likert scale of one to five (one being strongly disagree and five being strongly agree). All the questions were close ended. The sample size is 239 which was taken on the basis of convenience and include both male and female student currently studying at American International University Bangladesh for completing their B.B.A and M.B.A degree. Among the 239 student, 174 were male and 65 were female student.
The primary information of this research was collected through the questionnaire and then later used in the Statistical Package for Social Science (SPSS) software for drawing statistical conclusions. Cronbach’s Alpha, Linear Regression and Factor analysis are conducted with the primary data and their results are interpreted at the later part of this paper.

Secondary information was also used in this research which includes the published journals of different authors regarding tax compliance issues, newspaper articles and books.

**Objectives**

The primary objective of this research is to determine the attitude whether positive or negative among university undergraduate and postgraduate students toward tax compliance.

More specifically this research has aimed at:

1. Examining whether prospective tax payer have positive or negative attitude toward tax compliance in Bangladesh.
2. Finding out the impact of identified positive independent variable on tax compliance behaviour.
3. Determining the impact of identified negative variables on tax non compliance behaviour.

**Research Questions**

1. Is the model developed for this research statistically significant?
2. Do the identified positive independent factors have any significance toward tax compliance behaviour?
3. Do the identified negative independent factors have any significance toward tax non compliance behaviour?

**Hypothesis:**

H1: The model developed for this study is statistically significant.
H2: At least one of the positive independent factors has influence on compliance behaviour of the prospective tax payer.
H3: At least one of the negative independent factors has influence on non compliance behaviour of the prospective tax payer.
In this model the dependent variable is “I would pay tax in future” which indicates the compliance tendency of the chosen respondents toward tax policy of Bangladesh. As the income level of all of the chosen respondents was below the non assessable income limit during the time of this research, so the choice of the dependent variable was seen appropriate.

Independent variable of the study is divided into two groups each containing 6 sub variables. All of the 12 independent variable were chosen from publish research on the issue at different countries except Bangladesh and the sole purpose of this research was to see how these variable affect tax compliance behaviour the selected respondents.

Statistical Analysis

Cronbach’s Alpha Test

Cronbach’s Alpha is a statistical tool which is used to measure the reliability of a research conducted through the use of questionnaire. It was developed by Lee Cronbach in 1951 as an attempt to provide the measure of the internal consistency of a test or scale (Cronbach, L.,1951). A higher alpha is always expected by researchers as it increases the reliability of the research. As mentioned in table-1 below, the alpha value for this study is .697 or 69.70% which on the higher side and we can conclude that the questionnaire used in this research is reliable.
Factor Analysis

Factor analysis allows the identification of most significant variables from a list of independent variables. In this study, factor analysis was conducted twice one for the positive independent variables and again for the negative independent variables and in both cases two out to six variables became significant for the research.

Table – 1 Reliability Statistics

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
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<tbody>
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<td>.637</td>
<td>.697</td>
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Table – 2 Total Variance Explained

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Squared Loadings</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>% of Variance</td>
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<td>% of Variance</td>
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<td></td>
<td>Total</td>
<td>Cumulative</td>
<td>Total</td>
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<tr>
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<td>1.643</td>
<td>27.386</td>
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<td>15.093</td>
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<tr>
<td>4</td>
<td>.824</td>
<td>13.733</td>
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<td>5</td>
<td>.749</td>
<td>12.486</td>
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<tr>
<td>6</td>
<td>.590</td>
<td>9.836</td>
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</table>

Table – 3 Total Variance Explained

<table>
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<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Squared Loadings</th>
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<td></td>
<td>% of Variance</td>
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<tr>
<td></td>
<td>Total</td>
<td>Cumulative</td>
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Regression Analysis

Multiple linear regressions were conducted for both positive and negative variables. Tables 4 and 5 contain the result of regression analysis for positive variable set which contained 6 independent variables. The significance value of .047 (less than .05) indicates that this part of the model is significant. Table – 5 contains the significance value of each of the 6 variable and after a quick analysis it is observed that only one variable (I can calculate my own income tax with a significance value of .001) was found to be statistically significant.
The significance value of .004 as found in table 6 indicates that the regression analysis done with 6 negative variables have made the entire model statistically significant for this research. It is also identified from table 7 that an income below non assessable limit (significance value is .002) and wastage and corruption of government (significance value is .033) had p value less than .05 which made them significant.
Findings

This study was conducted using a structured questionnaire and its reliability is the most important thing to arrive at statistical conclusion. Cronbach’s alpha test is most often used by researchers to prove the reliability of the questions and the results of table – 1 indicates that the questionnaire used in this study is 63.7% which makes the findings reliable. In this research two sets if independent variables both positive and negative were used with an assumption that they might have some impact on the compliance attitude of a prospective tax payer. Factor analysis was performed to see which factors have the most influence on the compliance behavior of the respondents. Table – 2 indicates that the ability to calculate their own income tax and the idea that revenue helps in the economic development of the country are two most significant positive independent variables as they explain 48.851% variance of the dependent variable. From table – 3 it is also evident that having income below the non-assessable limit and the belief that tax revenue is not public services are the two most significant independent negative variables among six. Together, they explain 50.391% variance of the dependent variable. As a result we can conclude that, both null hypothesis 1 and 2 are rejected and the alternate hypotheses are accepted. Again, regression analysis was conducted to prove that the model used in this research was statistically significant. In the process of regression analysis, the model was divided in to two parts and one regression analysis was conducted for dependent and independent positive variables. The p value of 0.047 (less than 0.05) in table – 4 prove that this part of the model is significant. Another test was ran for the dependent and independent negative variables and the result for table – 6 (p value = 0.04) indicates that the model is statistically significant. So, the null is rejected and alternate is accepted for hypothesis – 1. Finally the coefficient values from the two regression analysis presented in table – 5 and 7 shows that ability to calculate their income tax, low level of income and high wastage and corruption of government are the factors that has significant influence on prospective tax payers compliance and non compliance behavior.

Conclusion

Most often young people are perceived by everyone that they are self centered. This generalized view often misleads policy makers as they often ignore the majority population of the country while introducing and implementing the policy. In this research, I’ve tried to include the views of young mind regarding taxation policies of Bangladesh and took further initiative to explore their compliance behavior relating to tax payment. Now the results indicated that there are mixed feelings about tax compliance among the university students but I did not have enough time to explore the gender effect of that behavior. One thing that I understood from the findings is that the ability to calculate their own tax is motivating enough for them to be encouraged to pay tax once they become capable enough. In this regard, the taxation course of American International University Bangladesh is playing a huge role, in what extent that I’ll discuss in a future paper. Now, if we look at the non compliance attitude, then we’ll find that high level of wastage and corruption in Government is playing one of the most significant roles. It made me look at tax non compliance behavior in a very different way and finally what I have understood and would like to conclude in the research is that tax compliance behavior whether positive or negative is not always driven by economic consequences, but also by psychological factors. I hope one day our Government will realize what our young minds are expecting from them and would change their approach to certain things for the sake of developing the country.

References


