

## A REVIEW ARTICLE ON THE FACTORS THAT INFLUENCE DIRECT TAX COMPLIANCE BEHAVIOUR

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### ABSTRACT

*Taxation plays an important role in promotion of sustainable and equitable economic growth. The primary source of funding for the government is taxes. The GDP of the nation is boosted as a result. Many countries still struggle to produce enough money to support their own economic expansion. Tax non-compliance poses a significant problem for tax administration and effect the government revenue. In India, there is need of development of tax decision-making methodologies that should be concentrated on several behavioural elements that affect compliance. In this study, we recognize various variables of tax compliance examined by numerous researchers for determining the tax compliance. After study the various research papers, its concluded that most of research on tax compliance have primarily been conducted in developed countries and developing countries are particularly vulnerable to tax noncompliance. To keep up with the complexity of tax compliance challenges, India lacks the knowledge and resources. Even earlier studies on tax compliance focused mostly on few factors, including attitudes, tax complexity, social norms, perceived behavioural control, and demographic traits. Without a question, the best method for measuring behaviour is the Theory of Planned Behaviour (TPB), which contends that attitudes, social norms, Perceived behavioural control. Furthermore, tax complexity, tax knowledge, justice and trust also affect tax compliance behaviour. However, negligible research has been conducted on the aspect of justice and trust in India.*

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**Keywords:** Direct Tax, GDP, Economic Growth, TPB, Demographic Traits.

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### Introduction

Taxation plays an important role in promotion of sustainable and equitable growth of economy. The majority of the money that the government receives comes from taxes. It aids in boosting the nation's GDP. It has a knock-on effect on the economy of the nation, raising living standards and promoting job growth, among other things. Because direct tax is one of the most significant sources of income for the government, the tax structure in a fast-rising economy like India demands special consideration. Generally speaking, all tax authorities are required to achieve the highest level of tax compliance. According to Jain & Jain (2020), the effectiveness of any tax policy strongly depends on effective tax administration, which calls for lowering collection arrears, keeping appeals pending, reducing tax evasion, and raising taxpayer compliance. Many countries still struggle to produce enough money to support their own economic expansion. Singh (2019) came to the conclusion that India still has a high rate of noncompliance with tax laws despite notable increases in both overall tax collections and the tax-to-GDP ratio for direct taxes. Therefore, it was first necessary to research the elements that influence direct taxpayers' compliance.

For obtaining the high degree of compliance, authorities need to take careful decisions. Fairness and equality in the tax system are essential. It is consistently challenging for developing countries to achieve an acceptable degree of tax payer compliance. The problem of direct tax disobedience is as old

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as taxation itself. The noncompliance of its taxpayers continues to be a problem for tax authorities in developing nations like India. Due to constant changes, income tax has become incredibly onerous, ineffective, and confusing. It consequently results in direct taxpayer disobedience. Second, an effort will be made to research direct taxpayers' tax compliance practises. A thorough evaluation of the literature has been done and is discussed below in order to gain a thorough understanding of the factors that influence tax compliance behaviour and identify a research gap.

### Review of Literature

- **Attitude**

According to Ajzen's (1991) Theory of Planned Behaviour, an individual's attitude is correlated with their own subjective views about their own behaviour. An "attitude object," such as a person, an action, or an event, can also be perceived as having a positive or negative attitude. There are two types of attitudes towards tax compliance behaviour among taxpayers: positive and negative. Tax compliance is the outcome of favourable perceptions, whereas tax non-compliance is the effect of unfavourable perceptions.

- **Social Norms**

Social norms are people's opinions about other people's ideas that direct someone's attention towards finishing a particular activity. A person will experience social pressure to behave if they think the referent has given them permission to do so, and vice versa (Ajzen, 2005). In other words, even if a person did not want to participate in the activity, they would do so under the right circumstances or under strong societal pressure. Subjective norms are, to put it simply, a person's assessment of the activities of the doer.

- **Tax Knowledge**

Tax knowledge is crucial element in a voluntary compliance tax system (Kasippilai, 2000), especially when determining an appropriate tax liability (Palil, 2005; Saad et al., 2003). Tax knowledge was found to be the most influential element in determining taxpayers' compliance behaviour under the self-assessment system (Loo, 2006; Loo et al., 2008; 2009). Due to a lack of tax knowledge, taxpayers either intentionally or unintentionally lead to noncompliance activity. The more knowledge a taxpayer has, the better he or she will be able to determine their behaviour and follow tax requirements. The taxpayer will be unable to resolve his or her response correctly if he or she is unfamiliar with tax legislation and methods. Several other research (for example, Kasipillai & Jabbar, 2003; Kirchler et al., 2006) have demonstrated that having a good understanding of taxes leads to higher compliance rates. Harris (1989), who stated that taxpayers' compliance behaviour is unaffected by their tax knowledge. The previous studies were carried out in Malaysia or Australia; however, this study was carried out in India.

- **Tax Complexity**

For a long time, tax system complexity has been highlighted as one of the predictors of tax compliance within tax systems (Chan et al, 2000; Chau & Leung, 2009; Fischer, 1992). Alabede (2012) considers complexity to be one of the main constructs used to assess tax systems/structures and their impact on compliance. However, the majority of research on tax complexity focuses on compliance costs rather than tax compliance (Cline & Neubig, 1999; Forest & Sheffrin, 2002; Guyton et al, 2003; Slemrod & Sorum, 1985).

Mustafa (1996), who researched taxpayers' impressions of the self-assessment system that was to be implemented, found that Malaysia had tax complexity, particularly in terms of recordkeeping, too much information in the tax law, and ambiguity. Such complication was also prevalent in Australia, where taxpayers were forced to hire tax agents to handle their tax issues (McKerchar, 2001; 2003). Long and Swingen (1987) listed six probable reasons of complexity: ambiguity, calculations, modifications, details, forms, and record-keeping, and their findings were partly compatible with these. McKerchar (2005), who conducted a poll of tax agents in Australia, found that tax agents were dissatisfied with the increasing complexity of the tax legislation. She went on to say that the tax agents wanted a tax legislation that was lot simpler, with fewer regulation stuff. Kirchler et al 2006 discovered that when the tax code was seen as less complicated, taxpayers were more inclined to comply. In India also most of direct taxpayers hire accountants and tax agents to handle their tax related issues and sometimes due to tax complexity, they try to avoid file tax returns. As a result, it was necessary to explore if tax complexity has an impact on tax compliance in India.

• **Justice**

Justice has three dimensions: procedural justice, distributive justice and retributive justice. The term "procedural justice" refers to how one is treated by a decision-maker and how fair they appear to be in their decision-making processes. The theory of procedural justice tries to explain why people occasionally defy authority or contest rules and laws. People are more likely to accept authority's judgements and adhere to its rules if they feel that authority has treated them fairly. The concept of distributive justice refers to the idea that everyone pays their fair share of taxes, neither too much nor too little. A feeling of distributive injustice may result from contrasting one's own tax burden with that of those who pay less (Verboon & Van Dijke, 2007). Tax evaders should be punished appropriately as part of retributive justice. This might also relate to whether the methods utilized in tax evasion investigations are legitimate. Fair treatment of taxpayers will ultimately increase their confidence and trust in the tax authority. According to Stinglhambe et al. (2016), justice has an impact on public perception of an institution. According to the authors, the relationship between trust and justice will be mediated by perceived organisational support.

• **Tax Compliance Intention and Tax Compliance Behaviour**

Ajzen (1991) defined intention as an individual's subjective probability of performing a behaviour is defined as intention. TPB is a development of the preceding Theory of Reasoned Action (TRA), which includes behavioural goals as important motivators for forecasting actual human behaviour and argues that people have volitional control over their actions (Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1975).

Tax compliance refers to how well a taxpayer follows their country's tax laws, such as declaring income, filing a tax return, and paying the tax owed on time. The degree to which a taxpayer complies with tax rules and regulations is known as tax compliance. Kiryanto (2000) defines taxpayer compliance as entering and reporting required information on time, filling in the proper amount of tax owing, and paying taxes on time, all without the need for inspection. Formal compliance and material compliance are the two types of compliance. Formal compliance refers to when taxpayers formally satisfy their tax responsibilities in conformity with the provisions of tax laws. Taxpayers must comply with all material requirements of the tax code in order to be considered in material compliance. However, as overall tax revenues have decreased, the direct tax share of India's tax receipts has declined. 5.78 crore people filed income tax returns in the fiscal year 2020-21. Only 1.46 crore persons paid tax on their income in the country, despite the fact that 4.32 crore people revealed annual income up to Rs 5 lakh. This clearly demonstrates that tax compliance in India is extremely poor.

**Tabular form of Previous studies relating to Literature Reviews**

The table summarises and presents results from a few earlier research that were conducted on these parameters. A thorough assessment of these linked research was undertaken in order to ascertain whether the study constructs could be examined in the current investigation, in addition to identifying any potential gaps in the body of literature.

An expanded model of taxpayer compliance: Empirical evidence from the United States and Hong Kong	157	U.S. and Hong Kong	Chan, C. W., Troutman, C. S., & O'Bryan, D. (2000)	$\chi^2$ tests	1. Education 2. National difference 3. Attitude 4. Income level 5 Age 6 Gendera	According to the findings, 1. Income level is found to be unrelated to compliance among both countries. 2. There is no direct link between age, gender and compliance. 3. Age has a direct, positive effect on income and a direct, positive (negative) effect on education in the U.S. (Hong Kong). Education has a direct, negative impact on compliance in both countries.
A self-interest analysis of justice and tax compliance: How distributive justice moderates the effect of outcome	744	Netherlands	Verboon, P., & Van Dijke, M. (2007)	Cronbach's Alpha	1. Distributive justice	Distributive justice ensures their long-term results, positive present outcomes indicate favourable future consequences, whereas negative present outcomes mean unfavourable future outcomes

favorability						
A critical review of Fischer tax compliance model: A research synthesis.		Hong Kong	Chau, K. K. G., & Leung, P. (2009)		1. Demographic variable 2. Non-Compliance Opportunities 3. Attitude and perceptions 4. Tax system 5. Cultural variable	This study proposes a partial refinement of this model by including another important environmental factor: culture as well as the interaction effect of noncompliance opportunity and tax system/structure on tax compliance. Culture is seen as a significant contextual aspect that influences a taxpayer's compliance.
Tax knowledge, tax complexity and tax compliance: Taxpayers' view.	30	New Zealand	Saad, N. (2014)		1. Tax Knowledge 2. Tax complexity	This study concluded that tax system was also thought to be fundamentally complicated. The technical aspects of the income tax system looked to be beyond the taxpayers' knowledge. The massive amount of documentation they had to fill in order to meet their tax obligations exacerbated the problem. Participants generally agreed that attitudes, perceived behavioural control, complexity, and fairness judgments had contributed to taxpayers' compliance behaviour non-compliance.
Determinants of tax-compliance behaviour explored by slippery slope framework and theory of planned behaviour: Evidence from small business owner	340	Pakistan	Malik, M. S., & Younus, S. (2019)	Correlation	1. Perceived Behaviour Control 2. Attitude 3. Subjective Norms 4. Power of authorities 5. Trust 6. Tax Knowledge 7. Fairness Perceptions	It was concluded from study that tax compliance intention represents a partial mediation between perceived justice, tax knowledge, and faith in tax authorities, as well as tax compliance. Tax compliance intention, on the other hand, illustrates a complete mediation between subjective norms, perceived behavioural control, attitude, and authority, as well as tax compliance behaviour. Power of authorities have the ability to generate intentions but not to determine compliant behaviour.
Individual taxpayers' attitude and compliance behaviour in Nigeria: The moderating role of financial condition and risk preference.	332	Malaysia	Alabede, J. O., Ariffin, Z. Z., & Idris, K. M. (2011)	Factor analysis	1. Attitude 2. Financial Condition 3. Risk preference	The finding of study showed that attitude toward tax evasion and tax compliance behaviour have a considerable positive link. It also showed that taxpayers' risk preferences greatly affected the association between tax evasion attitudes and compliance behaviour. Furthermore, other findings of this study implied that financial circumstances have little bearing on the relationship

						between attitudes about tax evasion and compliance behaviour.
Do Fairness Perceptions Matter in Tax Compliance? The Effect of Procedural x Distributive Justice Interaction on Intention to Pay Taxes	761	Ethiopia	Gobena, L. B. (2021)		1. Procedural justice 2. Distributive justice	The study demonstrated that taxpayers' willingness to comply with tax responsibilities is influenced by their sense of distributive justice and emotional attachment to the tax authorities. The interplay of the two justice components—procedural and distributive also boosted the desire to pay taxes voluntarily. Out of demographic control factors, female respondents indicated a higher intention to voluntarily pay taxes than male respondents, whereas older respondents reported a lower desire to voluntarily pay taxes than younger respondents.
An investigation of why taxpayers prefer refunds: A theory of planned behavior approach	140	Parisi and Hollenbeck	Bobek, D. D., Hatfield, R. C., & Wentzel, K. (2007)	t-test	1. Attitude 2. Subjective Norms 3. Perceived Behavioral control	The findings indicating that respondents preferred receiving a tax refund check over making smaller intermediate payments. Furthermore, research suggests that taxpayers' payment situations influence their level of compliance from a policy standpoint.
The effects of taxpayer knowledge and taxation socialization on taxpayer compliance: The role of taxpayer awareness in developing Indonesian economy	95	Indonesia	Oktaviani, R., Kurnia, H., Sunarto, S., & Udin, U. (2020)7	Regression	1. Taxpayer knowledge 2. Taxation socialization	The result of this study shows that increased taxpayer awareness will be aided by increased taxpayer knowledge. Similarly, intensive tax socialisation can raise taxpayer awareness of the importance of paying taxes. The degree to which taxpayers are aware of their obligations has a substantial impact on their compliance. The findings of this study, taxpayers who are aware of and understand the purpose of taxation will be more compliant with taxation regulations and general provisions.

## Conclusion

From the previous studies I concluded that

- Negligible research has been conducted in developing countries and that too with limited dimension mainly perceptions, tax complexities, social norms, tax knowledge and demographics variables.
- In order to enhance the scope of tax compliance, we should consider the trust dimension with attitude, social norms, tax knowledge and tax complexity also.
- Trust will be determined with three dimension including procedural justice, distributive justice, and redistributive justice.

So, we need to study tax compliance behaviour with these factors in developing countries also. In India, there is an urgent need for thorough research on tax compliance behaviour with these dimensions along with trust.

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