

A COMPARISON OF PSYCHOLOGICAL FACTORS FOR TAX COMPLIANCE: SELF EMPLOYED VERSUS SALARIED PEOPLE

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ABSTRACT

Tax compliance is defined as degree to which a taxpayer complies (or fails to comply) with the tax rules of his country. For example: by declaring income, filing a return, and paying the tax due in a timely manner. In tax compliance research, there has been a significant shift in research paradigms, from an emphasis on enforcement to approaches that stress cooperation. The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behavior. The present research paper concludes social and psychological conditions, including attitudes and moral beliefs about tax evasion's propriety, as antecedents of tax compliance. Besides attitudes, personal norms are important determinants of tax compliance. Behavioral intentions are determined also by subjective norms. The present paper offers a "slippery slope framework" as a way of integrating of various social and psychological aspects into a unified framework. We conclude with recommendations that can improve compliance, based on this unifying framework. Primary data has been collected from the 100 people working in Delhi and NCR selected by convenience sampling. A self- structured questionnaire using 5 Point Likert Scale has been administered to the sample group to investigate the psychological factors under study. The Statistical Tests used are Standard Deviation and t-test etc. Data has been analyzed with the help of Statistical Package of Social Science.

Key Words: *salaried, self- employed tax, social, psychological, attitudes, beliefs*

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INTRODUCTION

In our country at present people are paying 32 types of taxes in the form of direct and indirect taxes, out of which Income tax is the most complicated direct tax but the present system of tax is very complex. To overcome the complexities of present system, an institute proposed single banking transaction taxes. According to the proposed system i.e. single banking transaction taxes, only certain deduction will be made on bank transactions say, 2 percent by abolishing all direct and indirect taxes and the deducted amount will be distributed among central government, state government, local authorities and bank in the proportion of 0.7 percent, 0.6 percent, 0.35 percent and 0.35 percent respectively.

Tax compliance has evolved into a major research topic in economic psychology. The issue has been approached from various viewpoints shedding light on different aspects of taxpayers' behavior. Attitudes were measured, prevailing social norms and lay theories explored, which people have in mind when fulfill their annual tax declarations (Kirchler, 2007).

REVIEW OF LITERATURE:

Many studies on tax evasion found significant, but weak relationships between attitudes and self-reported tax evasion (Trivedi, Shehata, and Mestelman, 2004). A model of tax evasion behavior developed by Weigel, Hessing and Elffers (1987) considers social and psychological conditions, including attitudes and moral beliefs about tax evasion's propriety, as antecedents of tax compliance. Data collected from fined tax evaders and honest tax payers showed that attitudes explain in part self-reported tax evasion, but are insignificant predictors of actual behavior. However, the correlations between self-reported tax non-compliance and attitudes are significant but fairly weak. These findings suggest a rather complicated relationship between tax evasion and attitudes; nevertheless we can be confident in our general prediction that if tax attitudes become worse, tax evasion will increase (Lewis, 1982).

The attitudes are important for both the power and the trust dimension. On the one hand, favorable attitudes will contribute to trust in authorities and consequently will enhance voluntary

tax compliance. On the other hand, attitudes towards the authorities will be relevant for the interpretation of the use of power as benevolent or malicious. Tax attitudes in general also depend on the perceived use of the money collected and therefore are connected to knowledge (Kirchler et al, 2008).

On the individual level, norms define internalized standards on how to behave. Individual norms are related to moral reasoning, authoritarianism and Machiavellianism, egoism, norm dependency and values. There is considerable overlap between individual norms, values and tax ethics: the more developed the moral reasoning or tax ethics, the more likely is voluntary compliance (Trivedi et al., 2003).

On the social level, norms are usually defined as prevalence or acceptance of tax evasion among a reference group (Wenzel, 2005). Social norms are related to the behavior of reference groups, for example friends, acquaintances or vocational group. If taxpayers believe that non-compliance is widespread and approved behavior in their reference group, they are likely to be non-compliant as well. The relationship between social norms and tax compliance is complex.

As summarized by Alm(2012),many studies demonstrate that the willingness to pay taxes increases with a greater awareness of tax laws and an improving clarity about the rules. It has also been shown that social norms are strong regulative of behavior, that citizens generally have a pronounced sense of justice, and that they respond accordingly to the violation of the principles of justice. Further, the motivations for cooperation or evasion vary among taxpayers: a large part of the population acknowledges the necessity and the advantages of taxes, but this sense of community responsibility is clearly not shared by all.

Different strategies are needed to address this “full house” of behaviors (Alm 2012). The “black sheep” cannot be efficiently dealt with only using the sweet “carrot” of incentives, but rather need to be confronted with the “stick” of enforcement, insuring that the readiness of the many to cooperate is not taken advantage of by the selfishness of the few. For others, the stick of enforcement may not be necessary, and indeed may crowd out an intrinsic motivation to pay

taxes. In general, if the norms held by taxpayers favor tax compliance, voluntary tax compliance will result. Thus, norms encompass both power and trust.

SCOPE OF THE STUDY:

The present study has been conducted to study the role of psychological factors in tax compliance. This paper provides an overview of psychological factors for tax compliance that previous researchers have used to examine individual tax compliance. The factors reviewed in this paper are not considered to be exhaustive as there are many other factors that can be analyzed. Nevertheless they are selected out of the most frequently used ones by researchers.

OBJECTIVES OF THE STUDY:

The main objective of the study is to compare the psychological factors in tax compliance with reference to Self employed and salaried people in Delhi and NCR.

In this broader framework, the following are the specific objectives of the study:

- (i) To examine the impact of social conditions on tax compliance
- (ii) To analyze the role of attitudes and personal beliefs on tax compliance behavior
- (iii) To suggest psychological challenges for tax compliance behavior.
- (iv) To compare salaried and self employed people with respect to psychological factors in tax compliance behavior

RESEARCH HYPOTHESES :

- (i) There is no relationship between social conditions and tax compliance
- (ii) There is no significant relationship between personal beliefs and tax compliance behavior.

- (iii) There is not any significant difference between the self- employed and salaried people with respect to psychological factors in tax compliance behavior.

RESEARCH METHODOLOGY :

Sample Design

The universe for the purpose of this study comprises of all the persons in Delhi & NCR. For the present study, convenience sampling is used for sample selection of 100 people from Delhi and NCR area.

Data Collection

The present study includes both primary and secondary data. Primary data has been collected from the 100 people selected by convenience sampling with the help of pre-structured questionnaire using 5 point Likert Scale and secondary data has been extracted from articles published in various journals, magazines, newspapers and websites.

Data Analysis

To find out the patterns of relationship that exist among data-groups, tools which are used for this purpose are Standard Deviation, T-test etc. Data has been analyzed with the help of Statistical Package of Social Science (SPSS, version 17).

RESULTS AND FINDINGS:

Using the t- test the different factors are compared between self employed and public sector and finally the preference of one sector over the other is adjudged.

Sector	N	Mean	Standard Deviation	T-test
Self Employed	50	2.36	1.06	

Working in Private Sector	50	4.96	0.27	
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Comparison on the basis of Social Interactions
Table 1.

Sector	N	Mean	Standard Deviation	T-test
Self Employed	50	3.34	0.658	2.33
Working in Private Sector	50	3.69	0.853	

Comparison on the basis of Economic status
Table 2

Sector	N	Mean	Standard Deviation	T-test
Self Employed	50	2.96	1.11	1.58
Working in Private Sector	50	3.27	0.866	

Comparison on the basis of Personal norms
Table 3

Sector	N	Mean	Standard Deviation	T-test
Self Employed	50	2.14	1.39	8.77
Working in Private Sector	50	4.02	0.671	

Comparison on the basis of Perceived Fairness
Table 4

Sector	N	Mean	Standard Deviation	T-test
Self Employed	50	2.06	1.33	10.5
Salaried	50	4	0	

Comparison on the basis of National Norms

Table 5

In all the tables the value of t is significant, thus at every parameter null hypothesis is accepted. This indicates that there is a significant difference between the Self Employed and Salaried with respect to all the parameters as social interactions, economic status, personal norms, perceived fairness and national norms.

In table 2, there is very less difference between the mean of the two. Though there may be some instability in the income of self employed as compared to salaried people still it is not going to have any difference in tax compliance behavior.

As per the Table 5, in case of national norms, there is a significant difference between the self-employed and salaried people. The salaried people seem to be much bothered about the national norms regarding tax compliance.

CONCLUSION:

The trend is shifting from reformulating the specific, complex rules that often lead to ambiguity, to establishing general principles as guidelines for tax behavior. The study of tax compliance is related to avoided tax as a measure of reporting compliance because several of the potential determinants of voluntary compliance (e.g., marginal tax rates, filing thresholds, marital status and allowable child exemptions) also have a direct role in the calculation of tax from gross income, making it difficult to separate their impact on compliance. The findings of the present

study suggest that taxpayers' attitudes and other psychological variables under study are important in explaining taxpayer compliance behavior.

A related research also recognizes that individuals react to negative stimuli such as controls and sanctions, but that they also have what might be termed a “social norm” of behavior that affects their decisions (Elster 1989). This perspective places social interactions at the center of attempts to explain behavior. The work of Braithwaite (2009) also shows that taxpayers differ strongly in terms of their motivation to comply with tax law. For the most part, Braithwaite (2009) attributes a positive basic attitude to the majority of taxpayers: many feel morally committed to contribute to society.

While comparing the self employed and salaried people, it is important to mention here that salaried people have their taxes directly deducted from their salary by their employer and thus hardly have an opportunity to cheat, the self-employed are required to pay on their own various taxes like the individual income tax, the value-added tax, social insurance contributions, and the like. The fact has been proved in this research by the variable of national norms.

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