

THE EFFECTS OF TAX AUDIT AND INVESTIGATION ACTIVITIES ON INDIVIDUAL TAX COMPLIANCE: EVIDENCE FROM MALAYSIA

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ABSTRACT

Tax non-compliance presents a major problem because it undermines the effectiveness of a country's macroeconomic policy. Tax non-compliance is not only affected by economic factors, but also by tax administration and individual psychological factors. Employing the Reintegrative Shaming Theory, a survey was conducted on individual taxpayers who had experienced either being audited or investigated by the Inland Revenue Board Malaysia (IRBM). Findings on the 172 respondents indicated that if taxpayers perceived their experience with tax enforcement to be reintegrative, they tended to be tax compliant in the long run. However, if taxpayers perceived tax enforcement to be stigmatized, no significant association between such an experience and future tax compliance was found. In addition, feelings of resentment either towards the tax authority or tax laws tended to have a mediating effect between the perception of a reintegrative enforcement experience and the tendency for tax compliance. These findings suggested that the IRBM should seriously consider an enforcement method that is of a reintegrative, rather than stigmatized nature, to effectively nurture compliance among individual taxpayers.

Keywords: *Tax compliance, individual taxpayers, tax audit and investigation, Reintegrative Shaming Theory.*

Introduction

Taxation is a compulsory method used by the government to transfer resources from individuals to the public sector (Kasipillai & Mustafa, 1993). Taxation reduces personal expenditure while it increases public expenditure (James & Nobes, 2000). Consequently, tax non-compliance is important to the government because it affects government expenditure, including projects on public utilities, and subsequently disrupts wealth distribution among the citizens (Fischer et al., 1992). Moreover, for those who comply with tax laws, tax non-compliance may create dissatisfaction against the tax authority because they will have to bear the burden of the country (Mohd Shukor, 1994). As such, tax non-compliance is a challenge to the integrity of a country's tax system.

Tax non-compliance may be attributed to tax evasion or tax avoidance. The issue of tax non-compliance has existed since the creation of the tax system. However, studies investigating this issue remain scarce, possibly because of the difficulties in obtaining data for such studies. Tax enforcement is important in increasing tax compliance levels. Therefore, the tax authority must choose the appropriate strategy to ensure the highest possible compliance among taxpayers. Prior studies found that enforcement using heavy punishment may result in future non-compliance (Brehm & Brehm, 1981; Murphy, 2004a; 2004b; 2004c).

Since the introduction of the Self Assessment System (SAS) in 2004 for individual taxpayers, the Malaysian tax authority introduced a tax audit and continued to focus more on tax investigation to increase compliance. Although the percentage of direct taxes contributing towards government revenue increased from 48% in 2004 to over 65% in 2006, the number of cases audited and investigated also increased from 5,451 in 2004 to 8,129 in 2006 (IRBM, 2005–2007). This condition gives rise to the following questions: What happens after taxpayers are audited or investigated? Will they become more compliant in the future? What would be the best strategy to increase compliant behavior? Answering these questions is important because an increase in tax compliant behavior would further increase tax contribution towards government revenue.

By employing the Reintegrative Shaming Theory (Braithwaite, 1989), the present study conducted a survey on 1,200 individual taxpayers who have experienced either being audited or investigated by the Inland Revenue Board Malaysia (IRBM). The Reintegrative Shaming Theory proposes that if taxpayers perceive their tax enforcement experience to be reintegrative in nature, they would become more tax compliant in the future (Braithwaite & Braithwaite, 2001). On the other hand, if taxpayers perceive their tax enforcement experience to be stigmatized in nature, they would become less tax compliant in the future (Braithwaite, 2001). The present study's findings concur with the Reintegrative Shaming Theory in which when taxpayers perceive their enforcement experience as reintegrative, the taxpayers have the tendency to be tax compliant in the long run. However, the findings do not support the theory when taxpayers perceive their enforcement experiences as stigmatized in nature, in which case no significant association exists between such experiences and future tax compliance. The findings also indicate that the feeling of resentment either towards the tax authority or in paying taxes tend to have a mediating effect between those who perceive their experience to be reintegrative and their tendency for tax compliance. The findings therefore suggest that the tax authority should seriously consider an enforcement strategy with a reintegrative, rather than a stigmatized nature, to effectively nurture compliance among individual taxpayers. The primary contribution of the current study lies in finding evidence on taxpayers' reaction towards tax compliance after being audited or investigated. The most difficult task in finding evidence on this issue lies in the collection of the correct sample data. The authors highly appreciate the IRBM's cooperation for granting the permission for the utilization of their records for the present study.

The present paper proceeds with Section 2, which discusses the relevant literature, conceptual framework, and hypotheses development. Section 3 discusses the current study's methodology. Section 4 presents and discusses the findings. Section 5 concludes this study.

Literature Review, Conceptual Framework, And Hypotheses Development

The implementation of audit and investigation activities by the IRBM in Malaysia became more serious after the introduction of the SAS for companies since 2001 and for individuals since 2004 (IRBM, 2012).

Individual SAS in Malaysia

The Malaysian tax authority introduced the SAS for individual taxpayers in 2004. However, to date, the implementation of SAS using e-filing is still not mandatory to all taxpayers (IRBM, 2012). Taxpayers who have already electronically filed their tax returns using e-filing will not receive any hardcopy of such tax returns following their first e-filing year using e-filing. In using e-filing, each taxpayer will be given a personal identity number to log into the system so as to fill in their forms. The system will take users through a step-by-step process of filling in the form. This process is better than the hardcopy format because the system will not proceed if the taxpayers miss any required step. Furthermore, the system will automatically calculate all relevant amounts. At the end of the process, taxpayers must affix their signature to confirm the results.

With the implementation of SAS, the formal function of the tax authority in assessing tax returns is reduced because whatever information the taxpayers furnish in their returns will be accepted as is. The focus of the tax authority has then been shifted towards improving compliance by implementing tax audit and investigation programs on a larger scale.

To better understand how to increase compliance following their audit and investigation activities, the IRBM needs to be familiar with the common factors influencing tax non-compliance. Only then will the IRBM be able to obtain benefits from their tax enforcements.

Factors Influencing Tax Non-Compliance

Previous studies suggest that three main factors influence tax non-compliance, namely, economic, administrative and enforcement, and psychological factors (Jackson & Milliron, 1986; Richardson, 2006; Segaran, 2001). Economic factors refer to penalties, fines, and the probability

of being audited. Administrative and enforcement factors refer to tax administration efficiency and a comprehensive tax structure. Psychological factors refer to attitudes and behavior that affect taxpayers' ethics.

Richardson (2006), based on data from 45 countries, found that complexity in the tax system is the most important factor influencing tax evasion behavior apart from education, income sources, fairness, and ethics. Allingham and Sandmo (1972) found that individuals pay taxes to avoid being caught and having to pay fines. Audit activities and charging fine to taxpayers are therefore assumed to increase compliance, supporting the issue on economic factors.

However, apart from enforcement, other factors can influence tax compliance. These other factors include the role of the government, social norms, and ethics (Andreoni et al., 1998). Generally, the probability of being audited is based on endogenous factors, that is, the taxpayers' information triggers such an event. This probability also depends on the tax agency's strategy (Reinganum & Wilde, 1985). For example, the level of audit activities was found to have a positive influence toward the level of tax compliance (Dubin et al., 1989). Slemrod et al. (2001) found that the taxpayers' knowledge of the possibility of being audited increased the reported income of the middle income group, but decreased the reported income of the higher income group. The reason for such action might be attributed to the fact that the higher income group expected the tax authority to be unable to detect all unreported income and would finally base their audit on initially reported income only (Slemrod et al., 2001). Therefore, findings from prior studies suggest that audit activities should work together with audit details and enhancement.

Erard (1993) found that tax non-compliance is more pronounced among taxpayers hiring tax agents compared to those who do not. Tax agents generally assist taxpayers in more complex tax cases. However, tax agents also increase tax non-compliance (Erard, 1993). Prior studies also found that individuals working on their own tend to have the opportunity not to report their income compared to those subjected to tax retention (Webley et al., 1991; Semboja, 2001). Therefore, cases involving tax agents and own employment should be scrutinized further when the tax authority implements audit activities.

Previous studies also found that social norms, perception of fairness, and ethical values generally affect taxpayer behavior toward tax compliance. For example, Wenzel (2005) found that social norms, that is, the knowledge that other humans also react towards a certain event, play an important role in tax non-compliance among Australian taxpayers. Alm et al. (1992) and Jackson and Milliron (1986) found social norms, believed values, and ethics to be important factors in understanding non-compliance behavior, apart from opportunity and penalty. Blanthorne and Kaplan (2008) found that ethical beliefs influence the relationship between opportunities and less reported income by taxpayers. Tyler (1990) found that perception on treatment of the public by the authority, that is, whether treatment is fair, also influences compliance.

In summary, psychological factors play an important role in influencing tax non-compliance among individual taxpayers. Therefore, the tax authority must seriously consider these factors in their tax enforcement activities, especially in Malaysia's current tax audit and investigation activities.

Tax Enforcements

Andreoni et al. (1998) suggested that tax enforcement is an area where the effects of preventing non-compliance and other compliance approaches are still not fully known. Hence, more investigations have to be conducted. The authority implements two commonly known methods to increase tax compliance, punishment and persuasion, whereby the punishment approach is the norm.

The classic theory of crime utility suggests that a rational human will do something that will increase his expected utility (Kagan & Scholz, 1984). Therefore, law enforcers will choose to prevent non-compliance by ensuring that profit from such behavior is lower than if found by the authorities to be tax non-compliant.

Prior studies generally found that the punishment method could increase tax compliance (Braithwaite, 1989; Vasquez & Rider, 2005; Williams, 2001). However, excessive punishment or penalty could also result in additional tax non-compliance (Ayres & Braithwaite, 1992; Brehm & Brehm, 1981; Cummings et al., 2009; Murphy, 2008; Tyler et al., 2007). Furthermore,

over-punishment could induce feelings of resentment in taxpayers toward the tax authority, which could eventually result in more non-compliance in the long run (Ayres & Braithwaite, 1992; Kagan & Scholz, 1984; Murphy, 2008; Tyler et al., 2007).

An alternative to punishment is the persuasion method. The persuasion concept suggests that a human is not a rational actor, but rather, a social actor. As a social actor, humans are placed in a position where they obey because they believe and respect the law and for long-term benefits (Braithwaite, 1989; Murphy, 2004a; 2004b). Tyler (2001) found that humans will become more obedient if they are treated fairly, especially when their opinions are heard. Prior studies generally found that if the tax authority is perceived to be fair and is believed to respect taxpayers, tax compliance will become higher (Dijke & Verboon, 2010; Murphy & Tyler, 2008; Stalans & Lind, 1997; Worsham, 1996).

Therefore, in summary, psychological factors must always be considered in tax enforcement activities, irrespective of whether the enforcement method employed is punishment or persuasion.

Conceptual Framework and Hypotheses Development

The present study utilizes the Reintegrative Shaming Theory proposed by Braithwaite (1989). According to this theory, enforcements can either be perceived by taxpayers as reintegrative or stigmatized in nature (Braithwaite, 1989). A reintegrative type of enforcement aims to make things better. As such, wrongdoers will regret their actions and are expected to become more tax-compliant in the future (Braithwaite & Braithwaite, 2001). On the other hand, a stigmatizing type of enforcement aims to punish without mercy. As such, wrongdoers will feel humiliated and are expected to become non-compliant in the future (Braithwaite, 1989).

Previous studies found that humans will generally become more compliant if they are treated fairly. This good perception is increased if their suggestions are heard and considered by the relevant authorities (Tyler, 2001; Tyler, 1990; Lind & Tyler, 1988). Braithwaite (2002a, 2002b) suggested that the extent to which a community reacts toward a certain tax system depends upon their relationship with the tax authority and their perceptions on the tax

administration. The tax authority must take action upon tax non-compliance while also invoking positive, motivational feelings in the taxpayers. Such actions will create goodwill between the taxpayers and the authority. Consequently, taxpayers will become more tax compliant in the future. Prior studies found that tax enforcement that is perceived as fair and reintegrative make taxpayers more compliant in the future (Murphy, 2008; Worsham, 1996). Therefore, the first hypothesis is stated as follows:

H1: The perception of reintegrative enforcement is positively associated with tax compliance.

The opposite of a reintegrative type of tax enforcement is the stigmatized tax enforcement. However, the effect of this form of enforcement depends upon the country's tax development. The effect is stigmatized in a country such as the United States, where everybody is expected to pay taxes (Tsakumis et al., 2007). Otherwise, taxpayers will face serious legal consequences. On the other hand, the effect will not be stigmatized if tax non-compliance is common in the country (Kim, 2003). Prior studies found that stigmatized enforcement could end up with either a positive or negative effect or could even have no effect on taxpayers' behavior (Kim, 2003; Herman, 2004; Tsakumis et al., 2007; Murphy, 2008; Braithwaite, 1989). Nonetheless, based on the reintegrative shaming theory, a stigmatized type of tax enforcement could make taxpayers feel humiliated and might make them less tax compliant (Semboja, 2001). Hence, the hypothesis is stated as follows:

H2: The perception of stigmatized enforcement is negatively associated with tax compliance.

A wrong enforcement strategy could create an unproductive effect, which may eventually make the public feel resentment towards the tax authority (Ayres & Braithwaite, 1992; Tyler et al., 2007). Furthermore, tax authority behavior that is too harsh against the public, to the extent that the public is disrespected, could cause the public to disregard the tax authority and tax laws (Kagan & Scholz, 1984; Sheffrin & Triest, 1992). On the other hand, if the public feels that the enforcement undertaken by the tax authority is fair and just, they will respect the tax authority and tax laws (Wenzel, 2002). The feelings of resentment towards the tax authority are differentiated from feelings of resentment towards tax payment following Murphy (2008).

Hence the third and fourth hypotheses are respectively stated as follows:

H3a: The perception of reintegrative enforcement is negatively associated with a feeling of resentment towards the tax authority.

H3b: The perception of reintegrative enforcement is negatively associated with a feeling of resentment towards tax payment.

H4a: The perception of stigmatized enforcement is positively associated with a feeling of resentment towards the tax authority.

H4b: The perception of stigmatized enforcement is positively associated with a feeling of resentment towards tax payment.

Consequently, if the public feels resentment towards the tax authority and/or tax payment, they will react by becoming less tax compliant. Prior studies found that emotion plays a role in the association between the perception of justice and subsequent taxpayer behavior (Chebat & Slusarczyk, 2005; Gordijn et al., 2006). Murphy and Harris (2007) found that the emotion of tax wrongdoers becomes a mediator in the effect of the feeling of being stigmatized and their subsequent compliant behavior. Feeling resentment towards either the tax authority or tax payment could cause tax non-compliance or reduce tax compliance. Hence, hypotheses 5a and 5b are stated as follows:

H5a: Resentment towards the tax authority is negatively associated with tax compliance.

H5b: Resentment towards tax payment is negatively associated with tax compliance.

The main issue in the present study is the investigation of taxpayers' perception towards tax compliance after being audited or investigated. In the present study, further investigations on whether taxpayers' emotions, that is, feeling of resentment either towards the tax authority or tax payment could affect taxpayers' perception towards tax compliance after being audited or investigated. As discussed above, feeling resentment towards the tax authority or tax payment could affect taxpayers' compliant behavior

after being audited or investigated, particularly in the case of a stigmatized tax enforcement, which could reduce tax compliance (Murphy & Harris, 2007). Similarly, it is expected that a certain reaction may arise in cases where tax enforcement is reintegrative in nature because emotion has been found to affect subsequent human behavior (Chebat & Slusarczyk, 2005; Gordijn et al., 2006; Kuhl & Fuhrmann, 1998; Massey, 2002). The sixth and seventh hypotheses are therefore stated as follows:

H6a: Resentment towards the tax authority mediates the association between perception of reintegrative enforcement and tax compliance.

H6b: Resentment towards tax payment mediates the association between perception of reintegrative enforcement and tax compliance.

H7a: Resentment towards the tax authority mediates the association between perception of stigmatized enforcement and tax compliance.

H7b: Resentment towards tax payment mediates the association between perception of stigmatized enforcement and tax compliance.

Methodology

Sample and Data Collection

The present study collected data based on survey questionnaires (see Appendix A) sent to taxpayers who have been through either a tax audit or investigation by the IRBM. A total of 600 questionnaires were sent to each group of taxpayers. The list of taxpayers' names and addresses was made available by IRBM and was only approved for purely research purposes. This permission from the IRBM was granted because the primary author of the present paper is a tax enforcement officer working for the tax authority during the study period.

Sample data were collected from taxpayers residing within Klang Valley, that is, in the vicinity of Kuala Lumpur City. Taxpayers in the Klang Valley represent multiple categories common among most types of taxpayers in Malaysia (Kulanthayan et al., 2004). Furthermore, data from the IRBM

show that the majority of collected penalties are paid by Klang Valley taxpayers. The taxpayer sample was derived from cases that were either audited or investigated throughout the years 2004 to 2008 given that the SAS for individual taxpayers in Malaysia started in 2004.

Survey questionnaires were sent to respondents by post and email in September 2009. The respondents were initially given two weeks to respond. A letter of reminder was then sent out after the designated two-week period. Three months were provided for all the respondents to respond to the questionnaires. All responses received after the maximum three-month period was disregarded to avoid a non-response bias. The issue of non-response bias in the data was resolved based on the test of normality on the overall data collected. We received a total of 197 (16.4% of total 1,200 questionnaires) responses. However, only 172 (14.3% of total 1,200) questionnaires were usable, the rest were excluded because of missing or incomplete data.

Measurement of Variables

The primary focus in the present study is to investigate the association between respondents' perception on tax enforcement and their tax compliance behavior, with the respondents' emotions (measured separately as extent of resentment towards tax authority or tax payment) as mediating variables. Therefore, five main variables (constructs) are examined and measured based on the following perceptions of:

1. Tax compliance or TCOMP (Dependent variable).
2. Tax enforcement that is reintegrative in nature or RINTGRT (Independent variable).
3. Tax enforcement that is stigmatized in nature or STIGMA (Independent variable).
4. Extent of resentment towards tax authority (government) or RSENTGOV (Mediating variable).
5. Extent of resentment towards tax payment (tax law) or RSENTLAW (Mediating variable)

Questions asked in the survey questionnaire pertaining to each construct (variable) are listed in Table 1. The questions for each construct were adapted to the Malaysian context from prior studies, as listed in Table 1.

Table 1: Operational Definition of Variables

PANEL A: Questions measuring variable TCOMP (Perception On Tax Compliance) – 5 Items	
Note: Questions based on definitions and examples from Roth et al. (1989), Kasipillai and Shanmugam (1996), OECD (2009), Malaysia Income Tax Act 1967	
1.	I lodge my tax returns as soon as possible, even when I am not eligible for a refund.
2.	We can modify information on our tax returns because chances of being caught are very low.
3.	We can underreport some information on income in arrears (such as bonus) because chances of being caught are very low.
4.	Scenario 1: Mr. S, a self employed businessman, is considering to exclude a cash sale of RM 10,000 from his business income in his 2008 tax return. According to the Income Tax Act, cash receipts of RM 10,000 should be included as business income. However, Mr. S is almost certain that the tax authority will not audit him and therefore will never know that the amount is not reported. Question: To what extent do you agree with Mr. S's action for not reporting the cash sale of RM 10,000 as part of his business income?
5.	Scenario 2: Mr. T, a self employed businessman, incurred RM 20,000 for the repair of his personal car. In preparing his 2008 tax return, Mr. T is thinking about claiming this expense as if the car was used in his business. According to the Income Tax Act, such claim is not allowable. Mr. T is almost certain that he will not be audited and the tax authority will not be able to detect the deduction. Question: To what extent do you agree with Mr. T's action to claim the RM 20,000 expenses as his business deduction?

PANEL B: Questions measuring variable RINTGRT (Perception On Reintegrative Tax Enforcement) – 7 Items

Note: Questions based on definitions and examples from Murphy (2008), Murphy and Harris (2007), Lind and Tyler (1988), Tyler (1990), Tyler and Huo (2001), Wenzel (2002; 2005), Semboja (2001), ATO (1997)

1. IRBM generally respects the taxpayers' rights.
2. IRBM is concerned about protecting the rights and interests of taxpayers.
3. IRBM cares about taxpayers' problems when making decisions.
4. IRBM tries to be fair to taxpayers when making decisions.
5. IRBM treated me kindly and with respect as a taxpayer.
6. As a tax authority, IRBM works together with me to settle my tax problems.
7. Services provided by IRBM fit their slogan, "Friendly, Helpful and Satisfactory".

PANEL C: Questions measuring variable STIGMA (Perception On Stigmatized Tax Enforcement) – 4 Items

Note: Questions based on definitions and examples from Murphy (2008), Murphy and Harris (2007), Lind and Tyler (1988), Tyler (1990), Tyler and Huo (2001), Wenzel (2002; 2005), Semboja (2001), ATO (1997)

1. When dealing with IRBM, I feel like I'm treated like a guilty person.
2. I feel like IRBM officers were already making negative judgments about me.
3. My experience dealing with IRBM has been very embarrassing.
4. I feel as though I was treated like a criminal by IRBM officers.

PANEL D: Questions measuring variable RSENTGOV (Perception On Feelings Of Resentment Towards Tax Authority) – 5 Items

Note: Questions based on definitions and examples from Murphy (2008), Murphy and Tyler (2008), Murphy and Harris (2007), Mikula et al. (1998), Weiss et al. (1999), and Ahmed and Braithwaite (2005)

1. My experience dealing with IRBM has left me feeling resentment towards them.
2. My experience dealing with IRBM has left me feeling bitter towards them.
3. My experience dealing with IRBM has left me feeling resentment towards the government.
4. My experience dealing with IRBM has left me feeling bitter towards the government.
5. I want to get even with IRBM for taking actions against me.

PANEL E: Questions measuring variable RSENTLAW (Perception On Feelings Of Resentment Towards Paying Taxes) – 2 Items

Note: Questions based on definitions and examples from Murphy (2008), Murphy and Tyler (2008), Murphy and Harris (2007), Mikula et al. (1998), Weiss et al. (1999), and Ahmed and Braithwaite (2005)

1. My experience dealing with IRBM has left me feeling bitter towards paying taxes.
2. My experience dealing with IRBM has affected my tax paying behavior negatively.

The variables RINTGRT and STIGMA have the tendency to exist in one continuum. However, the questions were separated for the two constructs for two reasons. First, the concept of the reintegrative shaming theory suggested the existence of two distinct experiences that were reintegrative and stigmatized (Braithwaite, 1989). Murphy (2008) and Murphy and Harris (2007) differentiated the two constructs and prepared different sets of questions in their studies. Similarly, the two constructs were separated to capture two distinct experiences rather than only one general experience. Second, the two constructs were also separated because very limited information was available on Malaysian taxpayers' audit and investigation experience.

The questions for variables RSENTGOV and RSENTLAW were also separated following Murphy (2008) because the present study investigated the real reason why Malaysian taxpayers might not comply after undergoing a tax audit and investigation. Was their non-compliance attributable to their extent of resentment towards the entity authorizing the law or only the law itself? Finding evidence on the separate constructs would provide a clearer picture to the tax authority on the right action to take to increase taxpayers' compliant behavior (Murphy, 2008).

A pilot study was conducted prior to the distribution of the final questionnaires to ensure that the questions were clearly understood. Respondents were asked to answer based on a five-point Likert scale, where five (5) represents "Strongly Agree" and one (1) represents "Strongly Disagree". Each construct has been tested for internal consistency using factor analysis. All constructs had a Cronbach's alpha above 0.7 (Sekaran, 1992; Nunnally, 1967), as shown in Table 2.

Table 2: Factor Analysis of Variables (N = 172)

Variables	No. of items	Cronbach Alpha
TCOMP	5	0.936
RINTGRT	7	0.896
STIGMA	4	0.804
RSENTGOV	5	0.825
RSENTLAW	2	0.765

Data Analysis

Path analysis was primarily used to test the hypotheses of the present study. Detail on findings and discussion of findings are presented in the next section.

Findings And Discussion

Descriptive Statistics

Before conducting the Path analysis, the descriptive characteristics of the data is inspected. Table 3 presents the descriptive analysis of all the variables in this study. In Table 3, the data suggested that the Malaysian

taxpayers in this sample who have undergone tax audit and investigation still show a tendency towards tax compliant (TCOMP at the mean of 3.54 with 5.00 as the maximum response). The data in Table 3 also suggested that these taxpayers showed a higher tendency for perception of a reintegrative type of enforcement (RINTGRT at the mean of 3.53) as compared to the perception of a stigmatize type of enforcement (STIGMA at the mean of only 2.48). Table 3 also showed that the respondents' perception on the extent of resentment towards both the tax authority (at the mean of 2.70) and tax payment (at the mean of 2.68) were still uncertain even though they have gone through tax audit and investigation activities.

Table 3: Descriptive Statistics of Variables (N = 172)

Variables	No. of items	Minimum	Maximum	Mean	Standard Deviation
TCOMP	5	1.00	5.00	3.54	0.910
RINTGRT	7	1.71	5.00	3.53	0.707
STIGMA	4	1.00	4.00	2.48	0.711
RSENTGOV	5	1.00	4.60	2.70	0.756
RSENTLAW	2	1.00	5.00	2.68	0.900

Independent variables were also tested for multicollinearity based on Spearman correlations, as shown in Table 4. Table 4 shows that the highest correlation existed between the variables RINTGRT (perception on a reintegrative type of enforcement) and RSENTGOV (perception on extent of resentment towards the tax authority) at 58.8%, which was lower than 60% and was not considered a problem for multicollinearity (Hair et al., 2007) in behavioral studies research (Pallant, 2001; Tabachnick & Fidell, 2007). The test based on Variance Inflation Factor (not reported) was cleared from multicollinearity when all the values were below 2 (Pallant, 2001).

Table 4: Spearman Correlations among Variables (172 responses)

Variables	TCOMP	RINTGRT	STIGMA	RSENTGOV
RINTGRT	0.454***			
STIGMA	-0.241***	-0.546***		
RSENTGOV	-0.458***	-0.588***	0.458***	
RSENTLAW	-0.358***	-0.348***	0.233***	0.516***

*, **, *** represent significance at 10%, 5% and 1% level, respectively.

To better understand the characteristics of the respondents of the present study, their profiles are shown in Table 5.

Table 5: Respondents' Profile

Profile Type	Category	No. of respondents	Percentage (%)
Enforcement	Audit	103	59.9
	Investigation	69	40.1
Gender	Male	123	72.8
	Female	46	27.2
Age	35 years & Below	54	32.1
	36 – 45 years	39	23.2
	46 – 55 years	47	28.0
	Above 55 years	28	16.7
Marital Status	Married	123	73.2
	Single & Others	45	26.8
Education	Diploma certificate & below	88	52.1
	Bachelor degree & above	81	47.9
Employer	Government	15	9.0
	Private	44	26.3
	Own business	108	64.7
Monthly Salary	RM5,000 & Below	4	2.4
	RM5,001-RM15,000	55	32.5
	RM15,001-RM25,000	38	22.5
	RM25,001-RM35,000	56	33.1
	Above RM35,000	16	9.5

Table 5 shows that out of the 172 responses, 103 (approximately 60%) responses came from taxpayers who had been audited, whereas 69 (approximately 40%) responses were from taxpayers who went through a tax investigation. Comparing the answers of these two groups, only three out of the 26 questions (in the survey questionnaire) showed significant differences in their means. These three questions were removed from the

final analysis. All respondents were then placed into one group for further analysis.

In terms of gender, Table 5 shows that approximately 73% (123) of the respondents were male, and 27% (46) were female. In terms of age, 32% (54) of the respondents were less than 35 years old, whereas 68% (114) were more than 35 years old. Moreover, 73% (123) of the respondents were married, and 27% (45) unmarried. Approximately 48% (81) of the respondents had at least a Bachelor's degree, and 52% (88) had a diploma certificate or lower. Approximately 35% (59) of the respondents were earning less than RM 15,000 per month, whereas 65% (110) were earning a larger income. Generally, these descriptive statistics showed that the respondents' profile characteristics were as expected, that is, more mature and higher paid respondents were more likely to go through audit and investigation activities. Consistent with prior studies, taxpayers having their own businesses were also more likely to be audited and investigated by the tax authority compared to taxpayers who had an employer (Semboja, 2001; Webley et al., 1991).

As mentioned above, the sample was not divided into audited and investigated sub-groups during further analysis because of the lack of significant differences in the answers of these groups. The results from the Spearman correlation in Table 4, as well as the multiple regression excluding RSENTGOV and RSENTLAW (not reported), and the findings from Table 6 Model B (coefficient 0.372 at p-value < 1%) and Table 7 Model B, showed that a direct positive and significant association existed between RINTGRT and TCOMP (coefficient 0.458 at p-value < 1%), supporting H1. H1 proposed that the perception of reintegrative enforcement was positively associated with tax compliance. This finding was consistent with that of Murphy (2008) and fitted the Reintegrative Shaming Theory proposed by Braithwaite (1989). The findings suggested that if taxpayers felt that they were respected and treated well by the tax authority, they would tend to feel obliged to pay their taxes.

However, in the case of STIGMA and TCOMP, only the Spearman correlation in Table 4 showed a negative significant association. In all the other analyses, where other variables were included and therefore became control variables, the findings showed no significant associations. Hence,

H2 was not supported. These findings however were inconsistent with prior studies (Kagan & Scholz, 1984; Murphy, 2008; Tyler et al., 2007). These findings suggested that if taxpayers felt that they were not treated well and were not respected by the tax authority, their reaction was unclear in terms of tax compliance. These findings might be attributed to the Malaysian culture. Based on Hofstede's (1980; 1983) findings, Asians, including Malaysians, are generally known to have a larger power distance situation compared to Westerners. Power distance in this case refers to the perception of power held by the authority on the common people (Hofstede, 1980; 1983). A larger power distance suggests that Malaysians generally feel that the authority has more power over them; hence, they do not resist as much against the authority for whatever action is taken against them.

Table 6 Models A and B presents the output from the multiple regression analysis to find evidence for the path analysis with RSENTGOV as the mediating variable. Table 6 Model A presents the direct effect of RINTGRT on RSENTGOV, which was negative and significant at less than the 1% level (coefficient of -0.644 at p-value < 0.01). The findings supported H3a, which proposed that the perception of reintegrative enforcement tended to reduce the extent of resentment towards the tax authority. This finding was consistent with the suggestion of Wenzel (2002).

Table 6 Model A also presented the direct effect of STIGMA on RSENTGOV, which was positive and slightly significant at the less than 10% level (coefficient of 0.133 at p-value < 0.10). This finding slightly supported H4a, which proposed that the perception of stigmatized enforcement tended to increase the extent of resentment towards the tax authority. Table 6 Model B presented the direct effect of RSENTGOV on TCOMP, which was negative and significant at the less than 1% level (coefficient -0.290 at p-value < 1%). The findings supported H5a, which stated that the proposed taxpayers' feeling of resentment towards the tax authority tended to result in tax non-compliance. This finding was consistent with that of Murphy (2008).

Table 6: Multiple Regression with RSENTGOV (Perception On Feelings Of Resentment Towards Tax Authority) as the Mediating Variable (n = 172)

Variables	Exp Sign	Model A	Exp Sign	Model B
Intercept		N/A		N/A
RINTGRT	-	-0.644***	+	0.372***
STIGMA	+	0.133*	-	0.072
RSENTGOV			-	-0.290***
Adj. R ²		53.4%		31.7%
F-statistic		98.912***		27.468***

*, **, *** represent significance at 10%, 5% and 1% level, respectively.

Note:

Model A : RSENTGOV = Intercept + RINTGRT + STIGMA + ε

Model B : TCOMP = Intercept + RINTGRT + STIGMA + RSENTGOV + ε

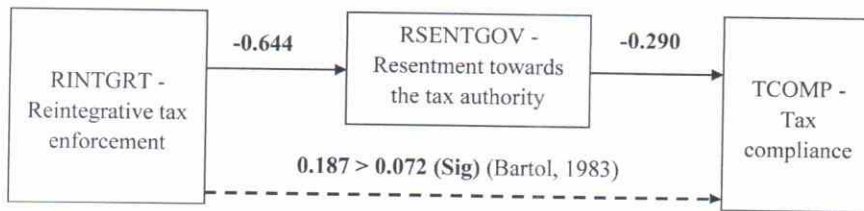


Diagram 1: Path Analysis from RINTGRT to TCOMP mediated by RSENTGOV (PATH 1 based on results from Table 6)

Note:

PATH 1 = Coefficient [RINTGRT to RSENTGOV in Model A] x Coefficient [RSENTGOV to TCOMP in Model B] = -0.644 x -0.290 = 0.187

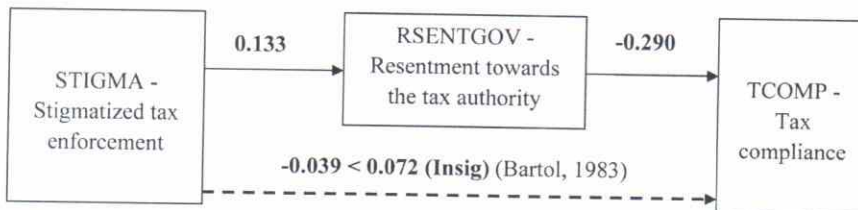


Diagram 2: Path Analysis from STIGMA to TCOMP mediated by RSENTGOV (PATH 2 based on results from Table 6)

Note:

PATH 2 = Coefficient [STIGMA to RSENTGOV in Model A] x Coefficient [RSENTGOV to TCOMP in Model B] = 0.133 x -0.290 = -0.039

Diagram 1 provides the results of the Path analysis (PATH 1) from RINTGRT to TCOMP, with RSENTGOV as the mediating variable. PATH 1 in Diagram 1 showed the indirect effect result with the value of 0.187 (-0.644×-0.290) . Given that 0.187 was larger than (the smallest) coefficient 0.072 from Table 6 Model B, Bartol's (1983) criteria suggested that this finding provided evidence of a significant indirect effect between RINTGRT and TCOMP, with RSENTGOV as the mediating variable. Hence, this finding supported H6a, which proposed that the resentment towards the tax authority mediated the association between the perception of reintegrative enforcement and tax compliance. However, this finding was inconsistent with that of Murphy (2008). The inconsistency might be attributed to the fact that this sample comprised of respondents having higher perceptions of reintegrative enforcement compared to Murphy's (2008) data. In the case of this sample as shown in Table 3, the respondents perceived a higher level of reintegrative enforcement (at the mean of 3.53) in comparison to the stigmatize enforcement (at the mean of only 2.48). Whereas in the case of Murphy (2008), her data showed a higher level for perception of stigmatize enforcement compared to the perception of reintegrative enforcement.

Diagram 2 provides the results of the Path analysis (PATH 2) from STIGMA to TCOMP, with RSENTGOV as the mediating variable. PATH 2 in Diagram 2 showed the indirect effect result with the value of -0.039 (0.133×-0.290) . Given that -0.039 was smaller than (the smallest) coefficient 0.072 from Table 6 Model B, Bartol's (1983) criteria suggested that this finding provided evidence of an insignificant indirect effect between STIGMA and TCOMP, with RSENTGOV as the mediating variable. Therefore, the finding did not support H7a, which proposed that resentment towards the tax authority mediated the association between the perception of stigmatized enforcement and tax compliance. This finding was inconsistent with that of Murphy (2008).

Table 7 Models A and B presents the output from the multiple regression analysis to find evidence for the path analysis with RSENTLAW as the mediating variable. Table 7 Model A presents the direct effect of RINTGRT on RSENTLAW, which was negative and significant at a level of less than 1% (coefficient of -0.396 at p -value < 0.01). This finding supported H3b, which proposed that the perception of reintegrative enforcement tended to reduce resentment towards tax payment. This finding was consistent with the suggestion of Wenzel (2002).

Table 7 Model A also presented the direct effect of STIGMA on RSENTLAW, which was insignificant (coefficient of 0.083). This finding did not support H4b, which proposed that the perception of stigmatized enforcement tended to increase resentment towards tax payment. Nonetheless, the Spearman correlation in Table 4 shows a significant positive association between STIGMA and RSENTLAW, as proposed in H4b. Therefore, findings suggest that a perception of stigmatized enforcement weakly affected resentment towards tax payment among Malaysian individual taxpayers. This finding was consistent with that of Tyler et al. (2007) and with the power distance concept of Asians, as proposed by Hofstede (1980; 1983).

Table 7 Model B presents the direct effect of RSENTLAW on TCOMP, which was negative and significant at a level of less than 1% (coefficient -0.254 at p-value < 1%). This finding supported H5b, which proposed that the taxpayers' feeling of resentment towards the tax payment tended to result in tax non-compliance. This finding was consistent with that of Murphy (2008).

Table 7: Multiple Regression with RSENTLAW (Perception On Feelings Of Resentment Towards Paying Taxes) as the Mediating Variable (n = 172)

Variables	Exp Sign	Model A	Exp Sign	Model B
Intercept		N/A		N/A
RINTGRT	-	-0.396***	+	0.458***
STIGMA	+	0.083	-	0.054
RSENTLAW			-	-0.254***
Adj. R ²		19.5%		33.0%
F-statistic		21.76***		29.07***

*, **, *** represent significance at 10%, 5% and 1% level, respectively.

Note:

Model A : RSENTLAW = Intercept + RINTGRT + STIGMA + ε

Model B : TCOMP = Intercept + RINTGRT + STIGMA + RSENTLAW + ε

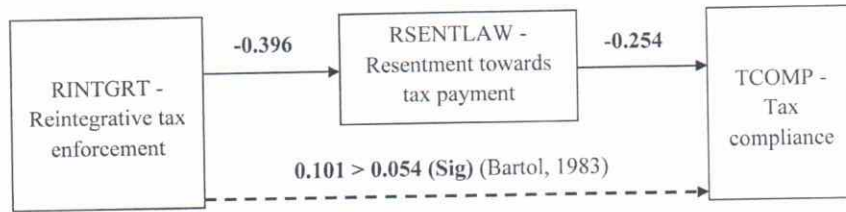


Diagram 3: Path Analysis from RINTGRT to TCOMP mediated by RSENTLAW (PATH 3 based on results from Table 7)

Note:

PATH 3 = Coefficient [RINTGRT to RSENTLAW in Model A] x Coefficient [RSENTLAW to TCOMP in Model B] = $-0.396 \times -0.254 = 0.101$

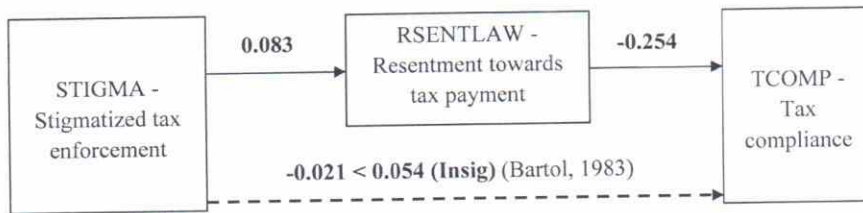


Diagram 4: Path Analysis from STIGMA to TCOMP mediated by RSENTLAW (PATH 4 based on results from Table 7)

Note:

PATH 4 = Coefficient [STIGMA to RSENTLAW in Model A] x Coefficient [RSENTLAW to TCOMP in Model B] = $0.083 \times -0.254 = -0.021$

Diagram 3 provides the results of the path analysis (PATH 3) from RINTGRT to TCOMP, with RSENTLAW as the mediating variable. PATH 3 in Diagram 3 showed the indirect effect result with the value of 0.101 (-0.396×-0.254). Given that 0.101 was larger than (the smallest) coefficient 0.054 from Table 7 Model B, Bartol's (1983) criteria suggested that this finding provided evidence of a significant indirect effect between RINTGRT and TCOMP, with RSENTLAW as the mediating variable. Hence, this finding supported H6b, which proposed that the resentment towards tax payment mediated the association between the perception of reintegrative enforcement and tax compliance. This finding was consistent with that of Murphy (2008).

Diagram 4 provides the results of the path analysis (PATH 4) from STIGMA to TCOMP, with RSENTLAW as the mediating variable. PATH 4 in Diagram 4 showed the indirect effect results with the value of -0.021 (0.083 x -0.254). Given that -0.021 was smaller than (the smallest) coefficient 0.054 from Table 7 Model B, Bartol's (1983) criteria suggested that this finding provided evidence of an insignificant indirect effect between STIGMA and TCOMP, with RSENTLAW as the mediating variable. This finding did not support H7b, which proposed that the resentment towards tax payment mediated the association between perception of stigmatized enforcement and tax compliance. This finding was inconsistent with that of Murphy (2008). This inconsistency might be attributed to the sample of this study which comprised of respondents having a higher perception of reintegrative enforcement compared to Murphy's (2008) data.

In this study, empirical evidence was provided on the mediating effect of the mediating variables, RSENTGOV and RSENTLAW, both on the associations between RINTGRT and TCOMP and between STIGMA and TCOMP, respectively. However, generalization from these findings is cautioned especially on the significant evidence from the mediating variables since these findings provided only partial mediation and not full mediation effect. Other methodologies for data collection and analysis, such as using experiments and simulations, provide evidence for a full mediating effect (Alm et al., 1992; Dijke & Verboon, 2010).

Conclusion

The findings of this present study showed that the taxpayers' feelings of resentment would not necessarily influence taxpayers' behavior towards tax compliance if it was under the case of reintegrative enforcement activities. That is, taxpayers who perceived tax enforcement activities to be reintegrative tended to become tax compliant although they felt the resentment either towards the tax authority or tax laws. However, Malaysian taxpayers who perceived tax enforcement activities to be stigmatized did not show any tendency to become either tax compliant or otherwise when they felt the resentment towards the tax authority or tax laws.

It is strongly believed that the IRBM should seriously consider the findings of the present study in regard to the type of tax enforcement to be implemented on the Malaysian taxpayers. A reintegrative type of enforcement should be undertaken to ensure increased tax compliance among taxpayers. A reintegrative type of enforcement will require more persuasion, rather than punishment, which should be undertaken by the IRBM in its audit and investigation activities. Furthermore, to increase compliance in the new SAS, persuasion requires the IRBM to better educate taxpayers about their responsibility towards paying taxes so that less punishment activities are undertaken, such that tax non-compliance could be eventually lessened.

The survey questionnaire method was used to collect and analyze data in the present study. It is believed that other methods of analysis should also be undertaken to investigate the same issues further, including studies based on experiments or simulation on specially selected taxpayers (Alm et al., 1992; Dijke & Verboon, 2010). An experiment or simulation might provide more control towards the responses received from the respondents. This condition might overcome the weaknesses stemming from the survey questionnaire method.

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