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Towards voluntary tax compliance: Understanding the impact of altruistic and egocentric orientation

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ABSTRACT

Tax is one of the main sources of revenue for a country. Therefore, a sustainable contribution of tax revenue is crucial for a nation to prosper. Yet, the conundrum as to why taxpayers comply voluntarily, while, others resent from paying taxes is still unresolved. Hitherto, the conventional economic deterrent approach has failed to clearly explain this gap. Hence, the social psychology approach is explored in examining the taxpayers' attitude. This study evaluates the taxpayers' altruistic and egocentric oriented attitudes. Herein, these attitudes were examined for their corresponding relationship with taxpayers' voluntary compliance. Survey questionnaires were distributed to the individual taxpayers of Malaysia using convenience sampling. Subsequently, 244 useable questionnaires were analyzed using *SPSS* and *Smart PLS 3*. The results revealed that the altruistic group was significantly happier and had a better attitude towards tax compliance. More importantly, altruistic orientation was significantly associated with taxpayers' compliance. These findings highlighted the importance of imparting altruistic prosocial value within the education system and the society at large, in nurturing voluntary tax compliance.

1. Introduction

The interest in altruism has garnered attention from various fields in recent decades. Despite the absence of a standard definition, reviews of the past literature revealed a similar concurrence in its meaning. For example, scholars accentuated that the provider has the inclination to think about the welfare of others, to act in ways that benefit others, and to altruistically help and focus on others (Guinot, Chiva and Mallen, 2016; Hatfield, Turner and Spiller, 2013; Carlo and Randall, 2002). However, Ricard (2017) reminded that altruism is considered genuine, only if, the contributor's central goal is for the

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happiness or wellbeing of the recipients. The term altruism and prosocial behavior are, sometimes, used interchangeably. Nonetheless, Bierhoff (2002) clarified prosocial behavior as any action that benefits others, regardless of the motive of the contributor. On the other hand, altruism is more focused and is a component of prosocial behavior. By nature, prosocial behavior is deemed altruistic, if the contributor is primarily motivated by unselfish concern, without expecting a reward. On the contrary, the individual is considered egocentric or selfish, if he or she has no regard for others and has concern only for oneself.

The studies about altruistic prosocial behavior are dominated by the psychology, health-related and social sciences fields. There are limited studies conducted within the domain of taxation. Since the tax is one of the main sources of revenue, taxpayers' happiness and voluntary compliances are crucial to ensure a sustained inflow of tax revenue for budgetary funding. Regrettably, the debate over taxpayers' non-compliances is on-going, despite attempts over the past four decades to resolve this issue (McKerchar and Evans, 2009; Alm, Cherry, Jones and McKee, 2010; Gangl, Hofmann and Kirchler, 2015). Similarly, the justifications for defiance amongst taxpayers are still unclear, albeit benefits received by societies. In Malaysia, it has been reported that out of the 14.9 million labor forces, only 15.24% or 2.27 million were registered as taxpayers and pays taxes. About 33.76% or 5.03 million were registered as taxpayers but do not pay taxes, while a startling 51.0% or 7.6 million has yet to register as taxpayers (Inland Revenue Board of Malaysia, 2018). While the justifications for these findings remained vague, it is indeed an alarming discovery and warrants urgent attention to curb further erosion of tax revenue. At this juncture, the tax authority can cultivate individual and corporate taxpayers' compliances, by integrating the behavioral aspect of taxpayers in its compliance strategy.

Literature about altruistic and egocentric oriented attitudes, their possible link with taxpayers' voluntary tax compliances are relatively limited. Additionally, taxpayers' happiness amongst the altruistic and egocentric group is still indeterminate in Malaysia. Therefore, this study is conducted with the following objectives: (a) to compare the levels of happiness between the altruistic and egocentric group; (b) to compare the behavioural intention towards voluntary tax compliance between the altruistic and egocentric group, and (c) to examine the association between the taxpayers' attitude and their intention to comply, voluntarily. The flow of this paper is organized as follows. It begins with the introductory section, consisting of the background of the study. Following this, the discussions of the relevant literature and underpinning theory are presented. Next, the research method is outlined, followed by the results of the study. The discussions of the results and conclusion is presented in the final section.

2. Literature Review

2.1 Self-assessment system

The implementation of the self-assessment system (SAS) in Malaysia is approaching a two-decade journey, in the year 2020. The initial phase of SAS began in 2001 with corporate taxpayers leading the way, followed by the proprietorship businesses, partners and co-operatives in 2003. The salaried group was ultimately included in the SAS loop in 2004. Consequently, Kasippilai (2005) accentuated that the responsibilities of taxpayers under the new system, should not be taken lightly because they are: (1) required by the current tax law to ascertain their own chargeable income, assess their tax liability and submit their tax forms to the Inland Revenue Board within stipulated time, (2) responsible for the settlement of any unpaid tax upon the filing of their tax returns, and (3) to ensure a proper record-keeping of the all supporting documents for the following six years.

SAS was introduced with the main objective of modernizing and coordinating the tax administration system (IRBM, 2001, 90). The reformation was necessary to minimize administrative costs contributed by the large volume of assessments and unnecessary paperwork, and to facilitate and speed up revenue collection so that officers can be deployed in monitoring and enforcement efforts (Saad, Mansor and

Ibrahim, 2003; Hanefah 2007). Even though the reformation process was met with criticisms during its initial implementation, Lai and Choong (2009) assured that such reform was necessary to encourage voluntary tax compliances. By doing so, taxpayers are compelled to learn and comprehend the tax rules and regulations, so that a new generation of responsible taxpayers are introduced.

While previous studies did suggest, that, a good understanding of the tax system is associated with the individuals' positive attitude towards tax (Ahmad, Mohd Hanefah and Mohd-Noor 2007; Loo, Mckerchar and Hansford, 2009; Palil 2010), taxpayers' on-going conformity is disputable. Loo (2006) cautioned on the ripple effect of SAS, where taxpayers' ethics may be put to test because their tax returns are no longer subjected to a detailed review by the Inland Revenue Board. Presently, several global scholars have concurred that taxpayers' attitude is indeed complex because attitudes are influenced by various factors, such as, the opportunity to evade tax (Kamleither, Korunka and Kirchler 2012), tax aversion (Hammar, Jagers and Nordblom, 2008), awareness and education (Devos 2009), culture (Chan, Troutman and O'Bryan 2000) and even the personality traits of individuals (Antonides and Robben, 1995).

2.2 Tax Compliance

Survey research in tax compliance is important because it provides a better understanding of taxpayers' compliance orientation, attitude towards tax and taxpayers' acceptance of a current system. These are important for policymakers to strategize and implement successful reforms, which will benefit the nation. Tax compliance can be described as having fulfilled the four responsibilities of a taxpayer: namely, having registered as taxpayers, timely filing of tax return, precise reporting and timely payment of tax (OECD, 2004). Similarly, Roth, Scholz, and Witte (1989) describe tax compliance as the taxpayers' conformity with timely submission of a tax return and accurate reporting of tax liability.

The taxpayers' compliances can be categorized into various forms. However, the most common forms are voluntary, enforced, avoidance and evasion (Kirchler, Hoelzl and Wahl 2008; Alm, Cherry, Jones and McKee, 2010). They are categorized based on the taxpayers' reaction towards their statutory obligations. According to Kirchler and Wahl (2010), voluntarily compliant taxpayers are genuinely committed to giving full cooperation, while taxpayers whose compliance are enforced to obey the tax authority for fear being punished. Tax non-compliance can be legal or illegal. Kirchler and Wahl (2010) describe tax avoidance as an intentional reduction of tax, using legal means such as taking advantage of loopholes in the tax law, while, tax evasion is illegal because taxpayers deliberately break the law in order to omit or reduce income.

The tax compliance studies have been dominated by the 'economic' and 'psychology' perspectives. McKerchar and Evans (2009), further classified the 'psychology' perspective under 'social psychology' and 'fiscal psychology'. The economic concept posits that taxpayers conform and pay taxes out of fear of being caught and penalized. This concept was introduced in the tax compliance field by Allingham and Sandmo (1972). Allingham and Sandmo (1972) claimed that tax compliance can be attained provided that enforcement is in place. On the other hand, the 'social psychology' is derived from the understanding that taxpayers' compliances are shaped by their attitudes and beliefs, perceptions of the tax system and taxpayers' characteristics (McKerchar and Evans, 2009). The 'fiscal psychology' moves a step further by providing a holistic approach through the integration of economic deterrence with social psychology (McKerchar and Evans, 2009).

The economic deterrence concept (Allingham and Sandmo, 1972) has been criticized for being incomplete in explaining the taxpayers' behavior. Alm, Sanchez and De Juan (1995) pointed out that taxpayers' compliances are still high despite taxpayers' knowledge that the audit rates and penalties are extremely low. A rational taxpayer will avoid paying tax knowing that the probability of being discovered is minimal. Hence, it was concluded that economic deterrence alone is inadequate in justifying the taxpayers' behavior. This noteworthy argument has paved a way of giving due recognition for the

psychological factors in influencing taxpayers' compliance behavior. The factors contributing to tax compliances have since evolved and have been categorized under four broad groups: namely, the individual, social, economic and institutional factors (Loo, 2006; Kirchler 2007).

2.3 Happiness

An assessment of taxpayers' happiness is crucial because it provides a better understanding of the taxpayers' satisfaction and positive experience encountered by them. Happiness can be defined as people's assessments of their lives: both cognitive judgments and affective evaluations (Steel, Schmidt and Shultz, 2008), and positive experience of emotions (Lyubomirsky, King and Diener, 2005). It has been claimed that greater personal satisfaction is attained when people act unselfishly (Andreoni, Harbaugh and Vesterlund, 2007). This claim is further supported by numerous studies, corroborating the strong connection between altruistic prosocial behavior and happiness (Grant and Campbell, 2007; Dunn, Aknin and Northon, 2008; Borgonovi, 2008; Aknin et al., 2013; Drus, 2016). In the taxation field, there are evidences associating happiness with the moral obligation to pay taxes (Lubian and Zarri, 2011) and disagreement over tax cheating (Halliwell 2003; Verme 2009). Unfortunately, taxpayers' happiness is still not well researched in Malaysia, particularly among altruistic oriented and egocentric oriented taxpayers. Based on the above literature, the following hypothesis is proposed:

H1 - There is a significant difference in taxpayers' happiness between the altruistic and egocentric group.

2.4 Altruistic versus egocentric orientation

For many years, tax researchers revealed that most people dislike paying taxes (Kirchler, 1998; Sussman and Olivola, 2011) and are more likely to elude taxes compared to other costs (Sussman and Olivola, 2011). It is even more puzzling when others find it gratifying (Dunn, Aknin and Norton, 2008, Drus, 2016). This perplexing conundrum was later clarified by claims, that, resentment in paying tax was prompted by how taxpayers regard their tax payment (Grant, 2008). If tax payment is perceived as a contribution out of the concern for the welfare of others, then, taxpayers tend to regard such contribution as gratifying. However, if it is perceived as a loss of financial freedom or a financial burden, then, taxpayers are more likely to resent paying taxes. The former belief is altruistic oriented, while the latter is regarded as egocentric. Clearly, taxpayers' undesirable attitude can undermine tax compliance and erode revenue collection (Loo, 2006; Hammar, Jagers and Nordblom, 2008; Kamleither, Korunka and Kirchler 2012) although Guerra and Harrington (2018) found no evidence linking taxpayers' attitude with tax evasion. Based on the above discussions, the following hypotheses are proposed:

H2 - There is a significant difference in taxpayers' voluntary compliance, between the altruistic and egocentric group.

2.5 Underpinning theory

The Theory of Reasoned Action (TRA), coined by Fishbein and Ajzen (1967, 1975), is applied in this study. According to Fishbein and Ajzen (1975), individuals' behavioral intention is determined by their attitudes and norms. Subsequently, a stronger behavioral intention leads to an increased effort to perform a behavior. Fishbein and Ajzen (1975, 216) affirmed that attitude represents one's general feeling of favourableness and unfavourableness of the subject. In this study, two constructs are hypothesized to influence the taxpayers' intention to comply, voluntarily. The proposed model is presented in Figure 1, below. The first construct, altruistic orientation, represents a favorable attitude towards tax payment, signified by the taxpayers' belief that tax is a contribution to those in need, and out of the concern for their welfare. The second construct, egocentric orientation, epitomizes an unfavorable attitude towards tax payment. It is manifested by a selfish belief, whereby, tax payment is regarded as a financial burden or a

financial loss that cannot be recovered by the taxpayers. Based on the above discussions, the following hypotheses are proposed:

H3 - There is a significant positive relationship between altruistic orientation and taxpayers' intention to comply.

H4 - There is a negative relationship between egocentric orientation and taxpayers' intention to comply.

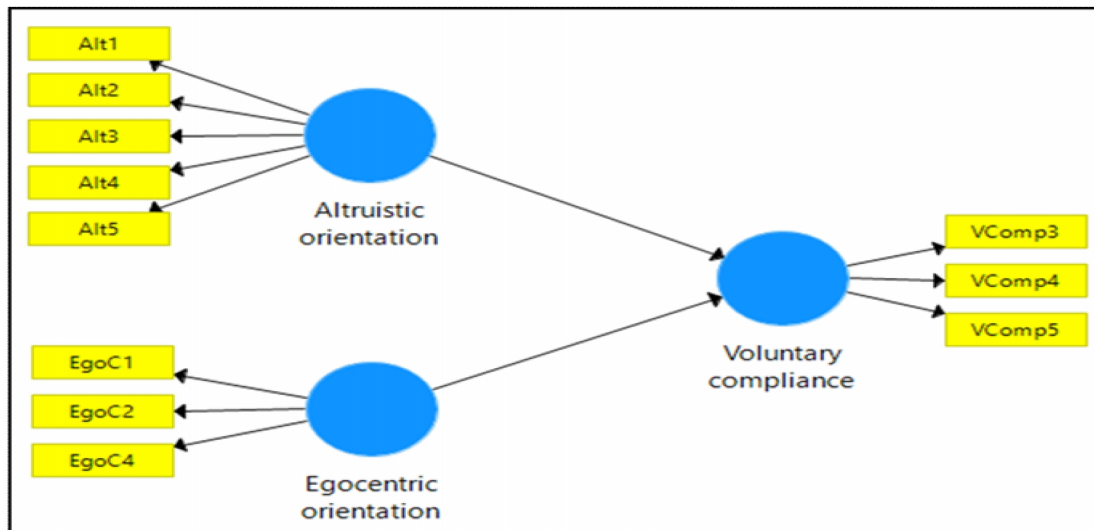


Fig.1. The proposed model

3. Research Method

3.1 Measurement development

The measurement items for this study consisted of self-developed and validated items from past studies. Taxpayers' happiness consisted of 12 items adopted from the improved Oxford Happiness Index (Hills and Argyles, 2001). A five-point Likert-like scale ranging from 'Does not describe me at all' to 'Describe me greatly' was used. Five items of altruistic oriented attitudes were adapted from Grant (2008), while another 4 items of egocentric oriented attitudes were self-developed. A five-point Likert-like scale ranging from 'Not true at all' to 'Completely true' was utilized. Lastly, 5 items of voluntary tax compliance were adapted from the 'Tax Compliance Inventory Tax-I' developed by Kirchler and Wahl (2010), utilizing a five-point Likert-like scale ranging from 'Not true at all' to 'Completely True'. The questionnaire consisted of four sections: (i) Section A consisted of demographic profiles of the respondents; (ii) Section B, the respondents' levels of happiness; (iii) Section C, the respondents' altruistic and egocentric oriented attitudes; and (iv) Section D, the respondents' intention to comply, voluntarily.

3.2 Data distribution and collection

Data were collected using survey questionnaires. A mixed-mode method, comprising of manual and online distributions was employed. These questionnaires were distributed to salaried and self-employed taxpayers, working in the eastern and western parts of Malaysia. Approximately 267 questionnaires were

collected. However, only 244 questionnaires were considered useable and appropriate for analysis. This study utilized a convenience and snowball sampling with the help of several referral networks.

3.3 Data analysis

Four variables were examined in this study, namely, the taxpayers' happiness, altruistic orientation, egocentric orientation and taxpayers' intention towards voluntary tax compliance. In order to compare the mean differences between the altruistic and the egocentric group, pertaining to their taxpayers' happiness and intention towards voluntary tax compliance, the Mann Whitney U test was conducted using SPSS version 25. Consequently, the measurement and structural models were analyzed using Smart PLS 3. In order to determine the levels of significance for loadings, weights and path coefficients, a bootstrapping method with 500 resamples was used (Gil Garcia, 2008; Nor Hashima Hashim et al, 2016).

4. Results

The findings of this study are presented as follows. The first section reports about the respondents' analysis, followed by the reports of results obtained from the Mann Whitney U test. The results of the measurement model and structural model are presented, thereafter.

4.1 Respondents' analysis

The respondents comprised of 55% female and 45% male. Approximately 32% of the respondents were between the age of 40 and 49 years, followed by 28% between the age of 30 and 39, while the remaining were between 50 and 59 years of age. Almost half of the respondents [49%] earned between RM40,001 and RM100,000, annually. The majority of the respondents were married [75%] and worked in the public sector [64%]. Additionally, nearly 64% of the respondents worked in East Malaysia. In general, the respondents are well-educated, whereby, 93% had a university education.

4.2 Mann Whitney U test

Table 1. Mean differences in happiness between altruistic and egocentric group

Group	N	Mean Rank
Altruistic	128	137.97
Egocentric	124	114.77

Table 1 displays the mean differences in the level of happiness between two groups of taxpayers. Evidently, the level of happiness recorded by the altruistic group was significantly higher than the egocentric group ($U = 6481$, $p = .012$). Hence, hypothesis 1 is supported. Table 2 below, depicts the mean differences between the two groups about their behavioral intention towards voluntary tax compliance. The altruistic group demonstrated a better intention towards voluntary tax compliances ($U = 5720.50$, $p = .000$) compared to the egocentric group. Therefore, hypothesis 2 is supported.

Table 2: Mean differences in voluntary tax compliance between altruistic and egoistic group

Group	N	Mean Rank
Altruistic	130	145.50
Egocentric	124	108.63

4.3 Measurement model

A two-step approach is undertaken, as recommended by Anderson and Gerbing (1988). The approach begins with an evaluation of the convergent validity and reliability, followed by an assessment of the discriminant validity. The results from both tests are displayed in Tables 3 and 4, respectively.

Table 3: Results summary for reflective outer model

Model construct	Measurement item	Loading	CR	AVE
Altruistic orientation	Alt1	0.789	0.942	0.766
	Alt2	0.785		
	Alt3	0.856		
	Alt4	0.993		
	Alt5	0.934		
Egocentric orientation	Egoc1	0.871	0.939	0.836
	Egoc2	0.871		
	Egoc4	0.996		
Voluntary compliance	VComp3	0.706	0.843	0.646
	VComp4	0.954		
	VComp5	0.727		

The results in Table 3 revealed that the loadings are greater than 0.50, while the Average Variance Extracted (AVE) values are greater than the acceptable threshold of 0.50 (Bagozzi and Yi, 1988), suggesting convergent validity is confirmed. Additionally, the values of composite reliability (CR) are higher than 0.70, indicating the high levels of internal consistency reliability demonstrated among the 3 constructs.

Table 4: Discriminant validity of construct using Fornell-Larcker criterion

Constructs	1	2	3
1. Altruistic orientation	0.875		
2. Ecocentric orientation	-0.212	0.915	
3. Voluntary compliance	0.702	-0.292	0.804

*The diagonals represent the square root of the average variance extracted (AVE).

The discriminant validity of the constructs was tested using the Fornell-Larcker criterion. Adequate discriminant validity is achieved if the correlations for each construct is less than the square root of the average variance extracted by the indicators measuring the construct (Fornell and Larcker, 1981). As displayed in Table 4, the average variance shared between each construct and its measure is greater than the variance shared between the construct and other constructs, suggesting discriminant validity is attained.

4.4 Structural model

The results from the consistent bootstrapping analysis are presented in Table 5 and Figure 2. Table 5 presents the results of the path coefficient and hypotheses decisions. It suggested that altruistic orientation has a positive and significant influence ($\beta = 0.670$, $p = 0.0001$) on taxpayers' intention towards voluntary tax compliance. On the other hand, egocentric orientation has a significant negative relationship ($\beta = -0.152$, $p < 0.05$) with the taxpayers' intention towards voluntary tax compliance. Both hypotheses are supported.

Table 5. Path coefficient and hypothesis teting

Hypothesis	Relationship	β	T-statistics	p-value	Decision
H3	Altruistic orientation -> Voluntary compliance	0.670	12.854	<0.001	Supported
H4	Egocentric orientation -> Voluntary compliance	-0.152	2.601	<0.05	Supported

Figure 2 below, summarises the results of the structural model, which consists of the path coefficient (β) and variance explained (R^2) of the model. The results suggest that 51.4% of the variance in voluntary compliance is explained by taxpayers' altruistic prosocial and egoistic orientations.

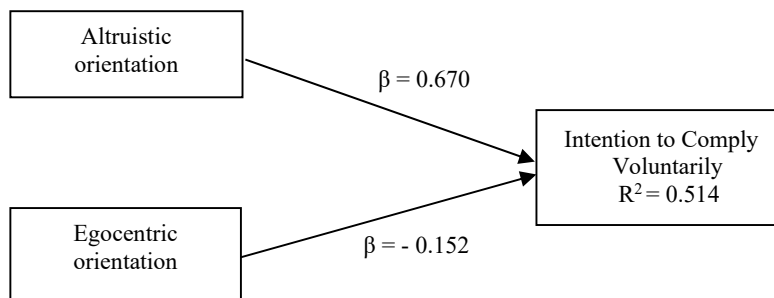


Fig.2. Result of the structural model

5. Discussion and conclusion

Two types of attitudes are examined in this study, namely, the favorable and unfavorable attitude. The favorable attitude towards tax is signified by the taxpayers' beliefs that tax is a form of contribution which benefits those in need. Its orientation is altruistic in nature. Conversely, unfavorable attitude is manifested by views that tax is a financial burden, and that, it is a loss which cannot be recovered. In short, it is self-regarding and is leaning towards egocentric disposition. The present study examines the levels of happiness and voluntary tax compliances, between the altruistic and egocentric groups. Consequently, these attitudes are examined for their association with taxpayers' intention towards voluntary tax compliances.

The study revealed that altruistic oriented taxpayers are, generally happier. This finding is consistent with previous studies conducted by Grant and Campbell (2007), Dunn, Atkin and Northon (2008), Borgonovi (2008), Aknin et al. (2013), and Drus (2016). On the contrary, those who perceived tax as a financial burden were found to be significantly less happy, consistent with the statement proclaimed by Grant (2008). The findings suggested that taxpayers' intrinsic view about tax payment is an important

ingredient towards happiness. In other words, an unselfish view will regard tax payment as prosocial spending, which in turn, is a rewarding feeling. In contrast, a selfish view will perceive tax payment as a liability, leading to a dissatisfied feeling.

Taxpayers who regard tax payment as a contribution to improve the welfare of others have significantly higher intentions towards voluntary tax compliance. The opposite is the case for those who view tax payment as a burden. They appeared to have a significantly lower intention to comply, voluntarily. This finding supports a statement put forward by Frey and Togler (2007), about increased cooperative behavior amongst individuals with good values. These findings implied that taxpayers' conformity is stronger among those with genuine desire to improve the welfare of others.

The altruistic oriented attitude is positively associated with the taxpayers' intention towards voluntary tax compliance. The relationship is strongly significant. In contrast, egocentric oriented attitude is negatively associated with taxpayers' voluntary compliance. These findings support the Theory of Reason Action (TRA) theorized by Fishben and Ajzen (1975). The TRA postulated that attitude influences the behavioral intention of the individual, on the subject matter. The sympathetic attitude held by taxpayers were found to encourage the taxpayers' intention to comply, voluntarily. As predicted, the undesirable attitude possessed by the taxpayers have no influence on their intention to comply. Instead, taxpayers are more likely to defy the tax authority, supported by the evidence of a negative relationship.

It is recommended that the policymakers consider including behavioral aspects of taxpayers in devising the national policies. Given that altruistic prosocial conduct is a learned behavior, factors influencing altruism must be given due considerations. The prosocial value should be imparted from a young age, starting from home, because it provides the individual with sound moral beliefs. Similarly, policymakers need to implement a continued effort to educate the younger generations about prosocial value, which can be embedded in the school curriculum, school projects, drama competitions and many more. These efforts are crucial to generate altruistic taxpayers in the future. In addition, a short drama during TV commercial breaks, or a brief advertisement in social media, accentuating the impact of tax revenues on the socio-economic welfare can motivate altruistic conduct.

Most taxpayers are hostile towards the tax authority because it has, traditionally, been perceived as the collector of revenue and the enforcer of tax law. Therefore, an effective engagement program should be conducted to improve this social gap. Such a program should emphasize in building a good relationship with the taxpayers, thanking taxpayers for their contribution, acknowledging the importance of their contribution in sustaining socio-economic welfare, and providing a clear outlook of the efficient collection system and deployment of tax funds. Such engagement is an important step in stimulating and nurturing prosocial behavior towards voluntary tax compliance.

At present, bridging the gap between government and the taxpayers is becoming increasingly important. One crucial reason is, that the ability to collect tax revenues depends highly on taxpayers' cooperation. Taxpayers need to be reaffirmed that their contributions are indeed channeled to the revenue pool and are spend wisely, fairly and in a transparent manner. News of corruptions, unfair revenue distributions or wasteful spending will influence taxpayers' beliefs, which can undermine the act of altruism. Hence, zero tolerance of corruption, heavy penalties on misconduct, transparent spending, obtaining citizens' consensus about the government's investment in big projects can boost taxpayers' confidence towards the government.

In the present study, we concluded that taxpayers' altruistic orientation, not only promotes greater happiness among taxpayers but is also an important element in cultivating and sustaining voluntary tax compliances. Given that an altruistic oriented attitude is an internalized belief, the individual's exposure to altruism behavior will likely increase the prospect of monetary contribution, in a form of tax. Hence promoting social values within the education system, society and at the governmental level, is warranted to address the challenges of egocentricity among taxpayers. As such, our study underscores the need for a

better understanding of taxpayers' behavioral aspect, and to integrate behavioral aspects of taxpayers in refining the current tax policy.

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