



## Understanding Motivations of Tax Compliance Behaviour: Role of Religiosity and Tax Knowledge

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### ABSTRACT

The aim of this paper is to enhance the understanding of taxpayers' motivations to comply with tax rules in a developing country like Yemen. Intrinsic motivations, such as religiosity and knowledge can play an important role in driving taxpayers to engage in compliance with tax authorities' laws and regulations. Therefore, in this study, the effect of these internal factors on tax compliance has been examined. A cross-sectional approach has been utilized through a self-administered survey managed by individual taxpayers in Yemen to collect from 287 individual taxpayers. Multiple regression was employed to examine the relationship between variables of this study. The results show that taxpayers' compliance is negatively related to the level of religiosity, while positively influenced by knowledge of taxpayers. This paper provides significant insights for tax authorities and policymakers in developing countries, and in Yemen particularly, to provide more arguments to taxpayers about the importance of payment of tax, by adopting and deploying the perspectives of the Islamic scholars that have a positive perception about tax. Furthermore, tax authorities are advised to concentrate on enhancing citizens' tax knowledge which will lead to improvement in their compliance behaviour.

**Keywords:** Tax compliance, Religiosity, Tax knowledge, Developing country

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### INTRODUCTION

The issue of tax non-compliance is as old as tax itself, which has severely affected national economies worldwide. It could be seen that describing recorded patterns of non-compliance among taxpayers and eventually finding solutions to mitigate it has become a dominant feature of local governments globally. In the Middle Eastern region, for instance, Yemen is classified as one of the least developing countries that suffer from a large volume of administrative and financial challenges, including tax non-compliance, according to Transparency International's Quarterly Newsletter (TIQN, 2016).

Globally, the tax compliance literature has featured a typical model which primarily derived from economic aspects (Allingham & Sandmo, 1972; Gupta & McGee, 2010; Becker, 1968), and later on to some extent, this model has been integrated with the social and psychological (Weigel, Hessing & Elffer, 1978; Fischer, Wartick & Mark, 1992; Hanefah, 1996; Edlund, & Aberg, 2002; Mohdali, 2014; Al-Ttaffi & Abdul-Jabbar, 2018) and legal (Riahi-Belkaoui, 2004; Klepper, Mazur & Nagin, 1991) aspects as well. However, some scholars have argued that since social influences are challenging to recognize, there is still a lack of empirical studies on other perspectives that would influence taxpayers' behaviour to comply with tax regulations (Al-Ttaffi & Abdul-Jabbar, 2018; Mohdali & Pope, 2012).

Yemen is besieged by serious tax-related challenges, as there is tax non-compliance has become prevalent and commonly

widespread due to several factors. As one of the relentless efforts made by the Yemeni government to overcome delays in disbursing tax revenue to its channels, the government has introduced the Self-Assessment System (SAS) in 2004. However, the available information indicates that levels of tax compliance remain questionable and unsatisfactory (Bin-Nashwan et al., 2020; Aziz & Al-Harethi, 2018). Specifically, during the period from 1990 to 2010, many reforms have been regulated in order to mitigate the shortcomings in tax laws and systems. However, the available statistical information indicates that the level of tax non-compliance is on growing tendency and remains a serious obstacle as well as has led Yemen into a serious financial problem (United Nations Development Program [UNDP], 2005; Central Organization of Control & Audit [COCA], 2016; Ministry of Planning & International Cooperation [MPIC], 2018).

Over the period of 2004-2014, there was a steady increase in levels of tax non-compliance, reaching in 2004 to the amount of USD164 million, only to increase in 2009 to USD2 billion, followed by in 2012 to USD2.5 billion, in 2013 to USD3 billion and USD 4 billion in 2014 (COCA, 2016; MPIC, 2009). Low collection of tax has caused serious financial problems, such as the Yemeni cabinet approving a budget for the year 2013, with a deficit of YR690 billion or equivalent to USD3.2 billion. (Yemeni News Agency, 2012). By comparing the budget deficit of USD3.2 billion with the estimated amount of tax non-compliance for the same year 2013 (i.e., USD3 billion), it could be noted that minimizing the tax gap will lead to an increase in tax revenue, thus minimizing the budget deficit and

its corresponding reliant on foreign aids respectively (Al-Ttaffi & Abdul-Jabbar, 2018).

In terms of GDP, when comparing Yemen with other similar developing countries, it is observed that the average proportion of tax revenue was only 6.7% of GDP for the period of 2008-2013, compared to countries with similar economies, e.g., Egypt (14%) and Jordan (16%), according to the World Bank (2018). Furthermore, Haque and Osborn (2007) argued that the tax revenue as a proportion of the GDP in some Middle Eastern countries, such as Libya, Sudan and Yemen appeared very low and far from expected. Additionally, World Bank (2018) declared that the tax revenue-to-GDP ratio in Yemen ranged between 4.5% to 8% over 2007-2015. Thus, there is a pressing need to increase tax revenues' contribution to be at least 15%, as suggested by the World Bank (2018). Low taxpayers' compliance in Yemen is one of the main reasons driving such an issue (Obaid, Ibrahim & Udin, 2020). As such, the phenomenon of tax non-compliance has garnered interest from governments and researchers to find effective ways to overcome it.

In order to provide a thorough understanding of motivations driving taxpayers to evade paying tax in a developing Muslim country like Yemen, we explore the impact of intrinsic motivations, as a more reasonable perspective, that may shape individual taxpayers' compliance behaviour, as individuals are more likely to recognize internal values than organizations (Mohdali, 2014). Drawn on the social influence theory, attitudes are a crucial factor that possesses much to offer to shape the favourable behaviour of individuals (Ajzen, 1999). Thus, the current study investigates the effect of two internal values of individual taxpayers on tax compliance, namely, religiosity and tax knowledge. Religiosity of taxpayers is expected to shape up attitudes effectively, providing a thorough understanding of favourable compliance attitudes among most taxpayers, as underlined in previous research (Mohdali & Pope, 2012). Moreover, previous studies have indicated the relevance of specific tax-related knowledge in forging taxpayers' attitudes (Fallan, 1999; Mustafa, 1997; Eriksen & Fallan, 1996). As such, tax knowledge and religiosity are key drivers that could strengthen people's attitudes towards the compliance behaviour of individual taxpayers. Accordingly, the religiosity and tax knowledge have been concentrated in the current study as attitudes of taxpayers, which may affect the behaviour of taxpayers in terms of compliance and non-compliance.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This study was underpinned by the social influence theory. This theory was proposed by Kelman (1958) and improved by Bandura (1977). It refers to the individual's attitudes, emotions and opinions towards the behaviour (Sussman & Gifford, 2013). Davis, Bagozzi and Warshaw (1989) pointed out that the impact of social influence theory on behaviour is needed to be investigated, and proposed that further research can use this theory as the theoretical base. The current study is mainly based on religiosity and tax knowledge. These factors are shapes the attitudes of taxpayers. Thus, this theory gives a rational explanation of the relationship between religiosity and tax knowledge, as attitudes of taxpayers, and the likely tax compliance.

## Compliance behaviour of taxpayers

In this research, we employ the theory of social influence. It describes the beliefs, attitudes, opinions and emotions of individuals (Sussman & Gifford, 2013). Theoretically, many researchers have examined the phenomenon of tax compliance with more attention paid to the economic approach (Gupta & McGee, 2010), as well as social and legal aspects (Fischer et al., 1992; Jackson & Milliron, 1986; Klepper et al., 1991). As comprehensive research into tax compliance, studies conducted by Richardson and Sawyer (2001) and Jackson and Milliron (1986) have reviewed the most significant and relevant predictors and theories related to taxpayer compliance (Abdul-Jabbar & Pope, 2008). Nevertheless, both studies have overlooked other crucial factors.

The determinants influencing tax non-compliance have been classified by Fischer, Wartick and Mark (1992) into four groups, structural and attitudinal factors, non-compliance opportunity and demographic factors. However, McGee and Tyler (2006) argued that ethical aspects can play an essential role in forming taxpayers' compliance by empirically conducting a study in thirty-three countries from Central Asia, Europe, North America and South America. They found that taxpayers may evade paying tax if the collected taxes wind up in corrupt politicians' pockets, where non-compliance could be ethical. In the context of a developing country like Yemen, tax revenues would play an essential role in the national income while high levels of non-compliance among taxpayers were acknowledged. However, the issue of non-compliance among taxpayers from the Middle East is yet to be sufficiently explored (Al-Ttaffi & Abdul-Jabbar, 2018) and thus it warrants more investigation (Bin-Nashwan et al., 2020).

## Religiosity and tax compliance

Religion refers to "a system of worship and faith or human recognition of a superhuman controlling authority, and religiosity describes the quality of being religious" (Oxford Dictionary (2012). Religion is one important social aspect in every believer's life (Aliman, Ariffin, & Hashim, 2018; Subramaniam, Vaicondam, Nadarajan & Leng, 2020). Prior literature pointed out that religion is a critical determinant controlling and influencing behaviour of people (Cornwell et al., 2005). Religiosity compels taxpayers to fully disclose and comply with tax laws (Nwidobie, 2018). Torgler (2003), Stack and Kposowa (2006) and Welch et al. (2005) emphasised the significance of religiosity in determining the behaviour of individuals. Bin-Nashwan, Abdul-Jabbar and Aziz (2019) supported that religiosity is regarded as an internal value of individuals which prevent immoral and illegal behaviour. In specific, the literature found that religious beliefs have a significant influence on certain behaviour, such as ethical behaviour (Keller, Smith & Smith, 2007), criminal behaviour (Baier & Wright, 2001) and cheating behaviour (Rettinger & Jordan, 2005; Bloodgood, Turnley & Mudrack, 2008), therefore, the level of religiosity might provide moral constraints to distinguish and choose between good and bad behaviour (Margolis, 1997).

Despite the crucial role of internal motivation driving people's behaviour, the literature indicates that the religiosity-tax compliance relationship has not been broadly examined. Amongst the earliest studies in this regard is Tittle and Welch's (1983) research, investigating the role of religious beliefs in shaping different behaviours, including tax evasion.

Tittle and Welch (1983) indicated that the religious communities' characteristics can form behaviour of individuals. Torgler (2003) also carried out an extensive study on the religious beliefs of taxpayers, revealing that taxpayers' compliance behaviour could be fostered by levels of religiosity. This finding has been confirmed by several studies in different countries, such as European countries (Torgler and Schneider, 2007; Feld and Torgler, 2007), and the USA (Torgler, 2012), concluding that behaviour of taxpayers is significantly influenced by religious beliefs.

In Muslim countries, there is a lack of research exploring the impact of religiosity on taxpayers' behaviour. However, recently numerous studies carried out in the field to enrich the literature and provided clear evidence for the significance of religiosity as a determinant driving voluntary tax compliance, specifically the studies of Torgler et al. (2007) in Turkey, Mohdali and Pope (2014) in Malaysia, Subramaniam et al. (2020) in Malaysia Bulutoding et al. (2020) in Malaysia and Abodher, Ariffin and Saad (2020) in Libya. Nevertheless, the Yemeni environment, as a Muslim country, has not been investigated so far, therefore, this study attempts to bridge the gap and assume that:

H1: *Religiosity is strongly related to taxpayers' compliance behaviour.*

#### **Tax knowledge and tax compliance**

Knowledge of tax refers to how people can understand tax policies that take place within a country (Newman et al., 2018). According to Pertiwi et al. (2020), tax knowledge is the extent to which people can know and understand tax laws and regulations. Some scholars, such as Palil (2015) and Adam (2012), have argued that specific knowledge related to tax laws has much to offer in shaping taxpayers' behaviour to comply with such laws. Taxpayers' knowledge about tax rules is considered one of the most significant motivations that forge their willingness to comply with tax, especially when applying the SAS (Loo, 2016). Empirical evidence by Kasippilai and Abdul-Jabbar (2013) indicated that the more adequate knowledge of tax rules, the stronger the taxpayers' compliance.

The results of the association between compliance and tax knowledge in the prior research were not steady. For instance, Mustafa (2007) argued that tax-related knowledge exerts a strong effect on compliance with tax regulations. Likewise, Mckerchar and Hansford (2015) found that lack of knowledge among taxpayers about tax laws could be a reason to evade complying with them. Recently, some researchers have also emphasized a strong association between people compliance with tax rules and their knowledge and understanding of such rules (Pertiwi et al., (2020; Oktaviani et al., 2020; Masari & Suartana, 2019; Manuputty & Sirait, 2016). However, other studies have argued that compliant people with tax laws are not necessarily to be knowledgeable ones (Harris, 2012; Fauziati et al., 2016; Nyamwanza et al., 2014). Apart from this, we argue that the more knowledgeable and familiar a taxpayer is with tax laws and regulations, the greater he/she will comply with these laws.

H2: *Tax knowledge is strongly related to taxpayers' compliance behaviour.*

Figure 1 shows the research framework that shows the hypothesized relationships between endogenous and exogenous variables.

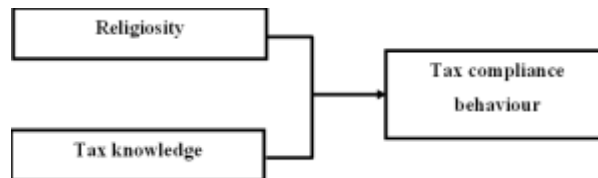


Figure 1: The research framework

## **METHODOLOGY**

### **Sample**

This study aims to scrutinize the role of internal factors (religiosity and knowledge) in compliance with tax laws in a developing country such as Yemen. Therefore, a cross-sectional approach has been followed through a self-administered survey managed to individual taxpayers in Yemen, specifically people in Hadhramout as a governorate with better levels of stability at the moment, as the country is in ongoing civil conflict.

Additionally, Hadhramout is the largest part of Yemen in terms of area, as well as the most thriving business regions in the country (Bin-Nashwan et al., 2016). We adopted the convenience sampling technique because the population units of this research are not available, as suggested by Iredele (2018). The main cities of the governorate, i.e., Tareem, Seiyun, Ghail Bawazir, Al-Sheher and Mukalla were selected to distribute a total of 350 questionnaires. 287 responses (82%) were retrieved, as useable for further analysis. The minimum and adequate sample size for the proposed model in this study was estimated to be 74 using the G\*Power, version 3.1.9.4 software (Bin-Nashwan et al., 2022) based on the presence of two predictors at the 0.05 significance level to achieve 8% of the statistical power.

### **Instrument and measurements**

As a sensitive issue, the data related to the dependent construct (tax compliance) is preferable to be collected indirectly. It is suggested to use 'scenario' as an appropriate way to minimize potential personal bias (Kirchler & Maciejovsky, 2001). Thus, to measure taxpayers' compliance, we adapted the hypothetical scenario case from Brown and Mazur (2003) by using four elements are "reporting, deduction, filing and payment". As such, participants in the study were asked to indicate levels of their tax compliance by answering hypothetical scenario questions.

Concerning the independent variables of the study, a total of 10 measurement items were adapted from Mohdali (2013) to measure the religiosity of respondents using the 5-point Likert scale, ranging from 1 = TOTALLY TRUE to 5 = NOT AT ALL TRUE. The tax knowledge of the respondents was measured using two aspects: (a) income reported in the tax return, and (b) claimed expenses. Then, we used three scales, 1=Yes, 2=No, and 3= Do not know, to measure each aspect.

## **RESULTS AND DISCUSSION**

### **Sample characteristics**

We used SPSS 24 software to analyse the data of this study. The sample demographic characteristics indicate that a substantial majority of the participants in our study were male (90%), and married respondents represent 69%. The sample displayed in Table 1 also shows that 37% of the participants



were aged 30-50 years old, followed by 35% of them aged above 50 years old. In terms of education, 50% of the respondents held secondary or diploma certificates, and 34% with bachelor's degrees and above. Almost two-thirds (64%) of individual taxpayers are employees in the public sector, leaving 36% in the private sector (see Table 1).

Table 1. Demographic information

Variable	Item	N	%
Age (years)	Less than 30	79	28%
	30 - 50	106	37%
	More than 50	102	35%
Gender	Male	257	90%
	Female	30	10%
Marital status	Single	57	20%
	Married	199	69%
	Others	31	11%
Education	Before secondary school	46	16%
	Secondary school/Diploma	144	50%
	Bachelor's degree and above	97	34%
Sector	Government	185	64%
	Private	102	36%

### Descriptive analysis

Four situations, i.e., "reporting compliance, deduction compliance, filing compliance and payment compliance" were used to measure tax compliance. The overall tax compliance was explained in three categories, namely compliant, partly compliant and fully non-compliant. Respondents who comply with all four situations are considered as compliant respondents, while the fully non-compliant are those who are totally non-compliant in the four situations, and the partly compliant is the respondents who are complying in some situations. Table 2 illustrates the levels of tax compliance and tax non-compliance.

Table 2. Overall taxpayers' compliance and non-compliance

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	Compl iance	Non-compliance				
						Full non- compliance
		Partly compliance				
	N	%	N	%	N	%
Taxpayers' compliance and non-compliance	92	32%	65	23%	130	45%

The results obtained indicate that 45% of individual taxpayers in Yemen were fully non-compliant, while only 32% of them were fully compliant. The results also show that 23% of taxpayers were partly compliant to pay tax. As such, we can note that overall levels of taxpayers' non-compliance in Yemen are relatively high.

Regarding the religiosity level of respondents, descriptive analysis displays that the means of all items are less than 3. Furthermore, the analysis reveals that the lowest mean value is 1.97 with a standard deviation of 0.745, while the highest

mean is the value of 2.24 with a standard deviation of 0.810. In general, the findings indicate that the participants are religious, and their religion has a major impact on their actions and behaviour. Furthermore, the results of descriptive statistics of tax knowledge demonstrate that the overall mean values range between 1.11 and 1.34, with corresponding standard deviation values ranging between 0.23 and 0.40. Hence, the results indicate that individual taxpayers in Yemen have inadequate knowledge about income tax laws and regulations.

### Regression analysis and hypotheses testing

To estimate the research model and hypothesized relationships of this study, the analysis of multiple regression was employed. Table 3 illustrates the result of regression analysis.

Table 3. Results of multiple regression

Variables	$\beta$	$t$	Sig.	Supported?
Hypothesis 1:				Yes
Religiosity $\rightarrow$ tax compliance	0.135	3.026	0.003	
Hypothesis 2:				Yes
Tax knowledge $\rightarrow$ tax compliance	0.149	3.327	0.001	
$R^2$	0.233			
Adjusted $R^2$	0.209			
$f$ -value	8.773			
$p$ -value	0.011			
$p < 0.05$				

As displayed in the table above, the findings of the multiple regression demonstrate that the proposed model of this study is significant ( $p = 0.011$ ), indicating the total variance in the compliance model is 21%.

In other words, all the determinants included in the model (religiosity and tax knowledge) can jointly explain 21% of the variance levels of tax compliance behaviour. The results show that religiosity ( $\beta = -0.135$ ;  $p = 0.003$ ) and tax knowledge ( $\beta = 0.149$ ;  $p = 0.001$ ) are significantly related to taxpayers' behaviour. Therefore, it could be stated that both hypotheses are statistically supported.

Specifically, the findings indicate that the people with strong religious values will exert lower levels of tax compliance than those people with low religious values. Contrasting to this result, earlier studies, such as the studies of Stack and Kposowa (2006), Tittle and Welch (1983), Richardson (2008) and Mohdali and Pope (2013), found that the greater the levels of religiosity, the higher will be the levels of taxpayers' compliance. The finding of the present research could attribute to the fact that most taxpayers in Yemen believe that tax is totally forbidden in the Islamic system. They believe that Muslim countries should adopt only the Zakat system instead of tax (Al-Ttaffi, 2017; Al-Ttaffi et al., 2021). Thus, this belief will absolutely affect their action and behaviour. Regarding the other factor in the model, the result shows that taxpayers' compliance was significantly and positively influenced by their knowledge about tax laws and regulations. This confirms the findings reported by some prior studies (e.g., Pertiwi et al., 2020; Masari & Suartana, 2019; Fauziati et al., 2016; Palil, 2010; Nyamwanza et al., 2014).

## IMPLICATIONS OF THE STUDY AND CONCLUDING REMARKS

This research aims at examining intrinsic motivations that drive taxpayers' behaviour to obey tax laws in a developing community such as Yemen. The empirical findings obtained show that religiosity influences tax compliance behaviour negatively, whereas tax knowledge has a positive influence on taxpayers' compliance. Arguably, the results of the research are in line with the supposition of social influence theory, suggesting that an individual always is influenced by his/her surroundings environment, behaviours, attitudes, beliefs, knowledge, and education.

Finally, it is worth highlighting that, the present study is likely to be the first study that incorporated religiosity and tax knowledge in the model of tax compliance in Yemen. Based on the results obtained, it could be concluded that to strengthen the compliance of taxpayers, the government is recommended to deliver more arguments to taxpayers about the significance of payment of tax, by adopting and deploying the perspectives of the Islamic scholars that have a positive perception about tax, such as Nabulsi (2005), who believes that tax permissible in Islam because it is paid in exchange for service rendered by the government to its citizens. Similarly, the government is advised to improve citizens' knowledge of tax laws and regulations by conducting seminars, courses and workshops. These actions may result in enhancing the behaviour of taxpayers towards more tax compliance, and so boost tax collections which possibly help solve many financial problems besieging the government.

In conclusion, it should be mentioned that this study is like any other research work in terms of limitations in the study. While prior studies have indicated the association between religiosity and compliance, and tax knowledge and compliance of taxpayers are inconsistently reported, Kirchler (2007) claimed that these relationships are likely to be moderated by some sensitive determinants. This is anticipated to provide a thorough understanding of compliance decisions with tax regulations among taxpayers, both individuals and corporations.

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