



MODERATION OF TRUST IN GOVERNMENT IN MODELLING TAX COMPLIANCE BEHAVIOUR BASED ON TAX FEATURES

Ismail Abu Amireh^{1*}, Norsiah Ahmad²
University Sultan Zainal Abidin, Malaysia

ABSTRACT

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SMEs in Jordan is important to the national employment and government revenue. While sales tax are the major source of tax revenue, Jordan government is haunted by a high rate of tax non-compliance behaviour that cost around JD1.4 billion in 2017. Thus, revealing the factors that determine the compliance behaviour has become imperative. Therefore, this study investigates the possible factors of tax compliance among SMEs in Jordan with consideration of trust in government as a moderator. The conceptual framework of this study include sales tax compliance behaviour as the dependent variable and the antecedents are tax knowledge, tax fairness, tax morale, tax authority, tax rate, and tax penalties. The population of this study is the small and medium size firms (SMEs) in Amman, Jordan. Approximately 59.9 percent (8,485 firms) of Jordanian SMEs are located in the capital city of Amman and the suitable sample size based on Morgan-Kerjice formula is 373. Unit of analysis for this research is the company principals (owners, CEOs, Financial managers) of the SMEs. The study adopts the direct collect survey technique to reach a relatively specific-target sample of SME principals. For data analysis, SmartPLS is used to do the regression-based analysis, but SPSS is used for data cleaning, demographic and descriptive analysis. Tax fairness has no significant impact while the other five antecedents have significant impacts. The precedence for the relations based on the path coefficient value is tax penalty (0.436), tax rate (0.233), tax authority (0.199), TK (0.142), and tax morale (0.103). Government trust have a significant moderation in two relationships that associated with tax authority and tax rate.

KEYWORDS: *tax compliance behaviour, tax knowledge, tax fairness, tax morale, tax authority, tax rate, tax penalties, trust in government, Jordan*

I. INTRODUCTION

Tax revenue will undoubtedly continue to be the main source of income for the government of Jordan. Direct taxes, such as sales tax, are a major source of government revenue as it comprises about 70 percent of the total revenue. Direct taxes in Jordan comprised of corporate income taxes, personal income taxes, sales tax, and other direct taxes. To motivate the national economy and encourage investment atmosphere, the government of Jordan has adopted the Self-Assessment System (SAS) in 2009 which simplifies the tax system procedures, improves the legal framework and mitigates the tax

burden on most of the citizens by exempting a large percentage of medium and limited income (ISTD, 2019). The adoption of SAS will encourage voluntary tax compliance which allows the taxpayer to take responsibility of their own tax obligations. There are 14,165 SMEs in Jordan and the employees working on these firms are approximately 292,198 which compose 60 % of the national workforce and the total to product counts 50 % of the national GDP (Moh'd AL-Tamimi & Jaradat, 2019). Increased tax compliance among SMEs taxpayers would help to reduce the budget deficit without raising taxes (Alshira'h & Abdul-Jabbar, 2020). According to

Aladejebi (2018), tax compliance breached when companies doing improper disclosure of their income and expenses. Past studies in this area have noted that this area of study is important due to the existence of a tax gap. As stated by Alshira'h and Abdul-Jabbar (2020), although non-compliance of sales tax is only 15.9 percent in Europe, the percentage of sales tax non-compliance is doubled in Jordan (32%) based on the report of International Monetary Fund (IMF) in 2017. The recent literary works on tax compliance acknowledges that two aspects were highlighted when asking why people pay their taxes, which are the enforcement policies and actions of tax managements (Abd Hamid et al., 2019; Alm, 2019).

The tax revenue can be raised only when efforts are actually exerted towards promoting tax compliance (Le et al., 2020). The non-tax behaviour is infusing concern across the world in both developing and developed countries (Lesage et al., 2020). Some studies revealed that low trust level on the council authority is an essential drivers of tax compliance (Gangl & Torgler, 2020). The sales tax compliance problem all over the world remains a spike on the side of policymakers, particularly in the developing economies (Alshira'h & Abdul-Jabbar, 2020). Trust in government in the government is the willingness of a citizen to be vulnerable to the actions of the government despite his/her inability to actively control the actions of the government (Muslichah & Graha, 2018). In the tax compliance literature have recently found that trust in government is highly influential on tax compliance and have intensified their studies in this regard (Gobena & Van Dijke, 2016). According to the Gangl, et al. (2019), pointed out that the investigated the relationship between tax compliance and trust in government, and concluded that the trust in government of taxpayers about the government influences tax compliance to a great extent. Trust in government increases the behaviors of the taxpayers towards taxation, as well as its commitment to the tax system and paying taxes (Faizal et al., 2017).

SMEs in Jordan are essential to the economy, but there is some weakness in the tax compliance; therefore, there is a practical gap that reveal the high rate of tax noncompliance especially in sales tax in Jordan and this particular research is going to examine the possible antecedents of this matter. SMEs in Jordan is a main source for employment and GDP; however their non-compliance tax behaviour affects the national GDP and doing a research in the compliance of SMEs' in Jordan become important. Tax compliance is enhanced by increasing the level of general fiscal knowledge because of the resulting increase in favorable perceptions about taxation (Gangl & Torgler, 2020). Nevertheless, improved knowledge of tax evasion possibilities has a negative effect on tax compliance because it allows non-compliance in Jordan (Alshira'h & Abdul-Jabbar, 2020). Therefore, tax knowledge is one of the

antecedents of tax compliance, which will be examined in this particular study. Alshira'h and Abdul-Jabbar (2020) recommended to do more research by integrating more factors to explain the sales tax non-compliance in Jordan. In another study by Alsqour and Alshirah (2020), the proposed model of tax complexity can explain 24 percent of the non-compliance of sales tax in Jordan and authors call for future research to reveal more factors and increase the prediction power. Consequently, in this line of the concern, the factors steering tax compliance behaviour one of SMEs have yet to become validated, and consequently, the main objective of this particular research is actually to check out the elements that cause a very high amount of tax non-compliance amongst SMEs in Jordan.

It appears that tax non-compliance needs more investigation in Jordan, to figure out the reasons of the non-compliance behaviour, which affect one of the main revenues of the government. Particularly to Jordan, the non-compliance behaviour price JD1.49 billion; for that reason, this research is crucial to expose the antecedents of compliance behaviour.

II. LITERATURE REVIEW AND RESEARCH HYPOTHESES

A. Tax compliance behaviour

The SMEs, Jordan's economy is comprised mainly of SMEs. They make about 96 percent of total Jordanian enterprises, employ 60 percent of the country's labor force and contribute about 50 percent of the country's GDP. SMEs play a vital role in national economic development (Moh'd AL-Tamimi & Jaradat, 2019). Consequently, SMEs consistently report that complying with taxation regulation is a constraint on their growth and development due to the cost they have to incur to become and remain tax compliant (Eragbhe & Modugu, 2014). A number of researchers found that SMEs businesses, especially the owner-manager, are more likely to commit non-compliance behaviour than other groups of taxpayers (Remali et al., 2018). It is widely acknowledged that SMEs play a major role in majority of the countries' economies whether in developing or developed countries (Nagaya, 2017) and they constitute the most dynamic companies in the transitional economies and developing countries (Alshir'ah et al., 2016).

B. Tax knowledge and tax compliance behaviour

Tax knowledge is the level of awareness or sensitivity of the taxpayers to tax legislation. Tax knowledge refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information (Oladipupo & Obazee, 2016). Previous studies have acknowledged the effects of tax knowledge on tax compliance behaviour. Most studies such as Aondo and Sile (2018) found tax knowledge have a positive effect on tax compliance.

Therefore, tax knowledge plays a vital role in influencing tax compliance (Hamid et al., 2019).

- H1: Tax knowledge has a positive effect on tax compliance behaviour.

C. Tax fairness and tax compliance behaviour

Tax fairness is one component of a good tax system (Tan & Chin-Fatt, 2000). Tax fairness plays an important role in the behaviour of taxpayers in reporting taxes (Hartner et al., 2008). Richardson (2006) states that the key to tax compliance behaviour is tax fairness. Upstream research shows that tax fairness have a positive impact on taxpayer compliance (Muslichah & Graha, 2018).

- H2: Tax fairness has a positive effect on tax compliance behaviour.

D. Tax morale and tax compliance behaviour

Tax morale of taxpaying behaviour are playing an effective role on taxpayers` compliance behaviour (Yucedogru & Hasseldine, 2016). Tax morale is the attitudes of a group of population on a particular subject, in this case tax compliance (Richardson, 2016). Tax morale is the motivation of a tax payer to comply. Studies have shown that tax morale is a positive effect related to SMEs tax compliance (Hamid et al., 2019).

- H3: Tax morale has a positive effect on tax compliance behaviour.

E. Tax authority and tax compliance behaviour

Tax authority is the managing and controlling entity that plays the role of enforcing tax payers to comply. Tax authority play an important role towards reducing tax evasion among SMEs taxpayers (Alkhatib, Abdul-Jabbar, & Marimuthu, 2018). Previous research emphasizes that tax authority has a positive relationships with tax compliance behaviour role in creating taxpayer compliance (Girma, 2017).

- H4: Tax authority has a positive effect on tax compliance behaviour.

F. Tax rate and tax compliance behaviour

The importance of tax rate in relation to taxpayers' compliance behaviour is getting more attention from researchers. According to Alkhatib et al. (2018), the deterrence theory predicts that progressive tax rate minimizes tax scheming. In comparison to the theory, many research from each developed and developing countries confirmed that tax rates are positively linked with tax evasion (Dlamini, 2017). Taxpayers look at a higher tax rate as an excuse for evading income taxes, therefore underreport their revenues and profits to the tax experts. Alkhatib et al. (2018) checked out improvements in tax costs and the result on tax manipulation in Palestine. The research found that the impact of tax rate on tax evasion declared. In a more recent study by Remali et al. (2018) found that the tax rate demonstrated the positive effect relationship towards tax compliance among the SME.

Previous researches claimed that the tax rate has a positive influence on tax compliance (Aondo & Sile, 2018).

- H5: Tax rate has a positive effect on tax compliance behaviour.

G. Tax penalties and tax compliance behaviour

Tax penalties is one of the tools used by the government to enforce tax payer for compliance by giving out summons for the non-compliance behaviour. Tax penalties is a disciplinary measure that the tax legislation conduct to assure that tax payers will pay the government on time and to motivate them to comply before the due date to avoid paying the extra penalty of the delayed payments (Oladipupo & Obazee, 2016). Namusonge, Biraori and Kipicoech (2014) examined the impact of penalties and fines on tax compliance amongst SMEs and found that it is an essential practice that motivate SMEs to pay taxes on time. Likewise, previous research studies revealed that the tax penalties possess a beneficial effect on tax compliance behaviour (Gemmell & Ratto, 2018).

- H6: Tax penalties has a positive effect on tax compliance behaviour.

H. Moderation of trust in Government

Previous research emphasizes that trust in government plays an important role in creating taxpayer compliance. A recent industry report reveals that trust in governments has been decreasing worldwide (Bush, 2014). This trend should concern tax authorities because regaining lost trust is a difficult, long-term endeavor (Slovic, 1997). In tax compliance, more efforts are needed to explore strategies for regaining trust in government. That is, trust in government, as a moderator, would clarify the boundaries within which the relationships between tax compliance and outcomes occur. In recent research, Paek and Hove (2019) examined the moderating effect of trust in government on the effective risk management. Although there is substantially less empirical work on the role of trust in government as a moderator in the tax compliance paradigm, it may be worth investigating further particularly within the context of the current interest in taxation domain. Abba and Natrah (2018) proposed a model on the effect of fairness perceptions on voluntary tax compliance with trust in government as a proposed moderator and revealed a mixed result of moderating effects.

- H7a: Trust on government moderates the relationship between tax knowledge and tax compliance behaviour.
- H7b: Trust on government moderates the relationship between tax fairness and tax compliance behaviour.

- H7c: Trust on government moderates the relationship between tax morale and tax compliance behaviour.
- H7d: Trust on government moderates the relationship between tax authority and tax compliance behaviour.
- H7e: Trust on government moderates the relationship between tax rate and tax compliance behaviour.
- H7f: Trust on government moderates the relationship between tax penalties and tax compliance behaviour.

A. Conceptual Framework

The research framework of this particular study has six determinants of tax compliance (tax knowledge, tax fairness, tax morale, tax authority, tax rate, tax penalties) as independent variables that have a direct impact to tax compliance behaviour. Besides, the model includes the moderating impact of trust on government in the relationship between determinates of tax compliance and tax compliance behaviour (Figure 1).

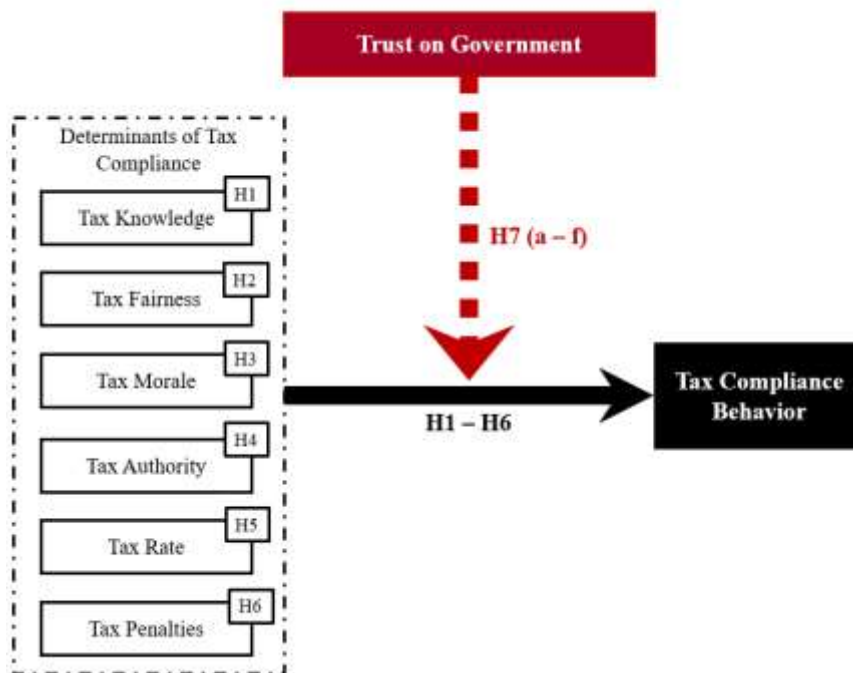


Figure 1: Research Framework

III. METHODOLOGY

The study used quantitative methods to perform the suitable statistical analysis on the primary data that collected for this particular study. The sample size of this research is 368 respondents from the SMEs in Jordan who have the role of owner, CEO, or financial manager. The tool used for collecting the data is a well structure questionnaire. The questionnaire was adapted from previous studies and have eight sections.. The questionnaire items use the closed-end approach with five agreement options. The technique is known as Likert 5. In Likert 5 style, 1 represents “strongly agree” and 5 as “strongly disagree”.

IV. FINDINGS

A. Validity and Reliability of Constructs

Items within every variable must be consistent and representing the same concept. Internal consistency can be estimated by Cronbach’s Alpha or composite reliability measure. Any measure above the threshold of 0.7 is successful. In addition, 0.6 is considered

successful in exploratory research (Bagozzi & Yi, 1988; Hair et al., 2014). The results of all the seven variables, which show an acceptable level of reliability. For composite reliability, all the values are within the range between 0.879 and 0.946, which shows an adequate internal consistency. For Cronbach’s Alpha reliability, the valued are ranged from 0.820 to 0.929, which shows adequate level of internal consistency. As all results are above 0.7 and below 0.95, the dataset is internally reliable and consistence.

Table 1 presents the Fornell & Larcker criterion matrix. The matrix is a refined matrix of the latent variables’ correlations. The test is successful if the value in the diagonal is higher than any other value within the crossed column and row. Tax rate (TR) has the value of 0.899, which is higher than all the other scores within the shared column and row. Tax authority (TA) has the value of 0.882, which is the second higher than all the other scores within the shared column and row. All other variables have the

same criterion and thus the seven research variables have an adequate level of discriminant validity.

Table 1: Discriminant validity – Fornell-Larcker Criterion

	GT	TCB	TF	TK	TM	TP	TR	TA
Trust in Government	0.785							
Tax Compliance Behaviour	0.293	0.761						
Tax Fairness	0.200	0.074	0.771					
Tax Knowledge	0.121	0.293	0.001	0.754				
Tax Morale	0.209	0.268	0.292	0.053	0.748			
Tax Penalty	0.351	0.608	0.125	0.185	0.206	0.808		
Tax Rate	0.212	0.473	0.110	0.141	0.240	0.331	0.899	
Tax authority	0.603	0.419	0.109	0.164	0.146	0.276	0.293	0.882

B. Relationships Examinations and Discussions

Table 2 shows the predictive power and predictive relevance of the endogenous latent variable, tax compliance behaviour (TCB). In addition, the relational model estimates of the research proposed model. Results of the dependent variable, tax compliance behaviour (TCB), illustrate a satisfactory predictive power and a medium predictive relevance.

As seen in the Table 3, the related R square value is 0.523 (a power of 52.3%) and the related Q square is 0.297 (a relevance of 29.7%). The prediction constructs (tax knowledge, tax fairness, tax morale, tax rate, tax authority, tax penalty and trust in government) can explain 52.3% of the variance in the dependent variable, tax compliance behaviour (TCB).

Table 2: Predictive Power and Predictive Relevance of Proposed Model

	Predictive Power		Predictive Relevance	
	R Square	Status	Q Square	Status
Tax Compliance Behaviour	0.523	moderate	0.297	Medium

Table 3 shows the findings of the relationships between the variables. The rule of thumb to accept or reject the relationship is either the p-value less than 0,05 or the t-statistics is more than 1.98 (Hair Jr, Wolfinbarger, Money, Samouel, & Page, 2015). The t-statistics estimates of the research designed model and the path coefficient assessment with the values of t-statistics and Beta values for the outcome variable

tax compliance behaviour (TCB). Tax fairness has no significant impact while the other five antecedents have significant impacts, in which the p-value scores are above 0.05 and the t statistics scores are above 1.98. The precedence for the relations based on the path coefficient value is tax penalty (0.436), tax rate (0.233), tax authority (0.199), TK (0.142), and tax morale (0.103).

Table 3: Path Coefficient Assessment of the Direct Relationships

	Relationship	Path Coefficient	Standard Deviation	t-statistics	P Value (one tailed)	Status
H1	TK → TCB	0.142	0.039	3.616	0.000	Significant
H2	TF → TCB	-0.058	0.040	1.455	0.146	Non-Significant
H3	TM → TCB	0.103	0.037	2.810	0.005	Significant
H4	TA → TCB	0.199	0.045	4.426	0.000	Significant
H5	TR → TCB	0.233	0.040	5.824	0.000	Significant
H6	TP → TCB	0.436	0.037	11.901	0.000	Significant

Government trust hypothesized to have six moderating effects; as seen in table 4. The results revealed that trust in government have no significance moderating effects on four relationships, which are associated to tax fairness, tax knowledge, tax morale, and tax penalty. The relationship between

tax authority and tax compliance behaviour is moderated by the trust in government with a change in the path coefficient equal to 0.190. In addition, the relationship between tax rate and tax compliance behaviour is moderated by the trust in government with a change in the path coefficient equal to 0.084.

Table 4: Path Coefficient Assessment of the Mediating Effects

		Path Coefficient	Standard Deviation	T Statistics	P Values
H7a	GT (TK->TCP)	-0.052	0.031	1.716	0.087
H7b	GT (TF->TCP)	0.011	0.038	0.296	0.767
H7c	GT (TM->TCP)	-0.024	0.036	0.670	0.503
H7d	GT (TA->TCP)	0.190	0.038	5.053	0.000
H7e	GT (TR->TCP)	0.084	0.038	2.195	0.029
H7f	GT (TP->TCP)	-0.053	0.036	1.456	0.146

Overall, the proposed model can explain 52.3% of the tax compliance behaviour based on five antecedents, which have the effects of tax penalty (0.436), tax rate (0.233), tax authority (0.199), TK (0.142), and tax morale (0.103). Government trust have a significant moderation in two relationships that associated with tax authority and tax rate.

V. CONTRIBUTIONS AND RECOMMENDATIONS

The results of this research can help the policy makers in Jordan and other middle east countries in improving the tax compliance behaviour by focusing on regulating the tax penalties as it has the highest impact, besides to making the tax rate reasonable because it has the second impact. In addition the tax authority, which is logically connected to the trust in government is also important.

For other scholars, further research is needed to assess the model in different environments. One of the constraints is the limited approach of implementation, which reduces the generalization, therefore replicating the same assessment education sectors/industries in other countries is recommended to get a better understanding and generalization. Another constraint is the participants' types and selection, employees in education sector, which reduce the generalization, therefore replicating the same assessment in other industries such as energy or other sector is recommended to get a better understanding and generalization. Recommendations are extended, to test the model and the instrument in other Small and Medium Enterprises (SMES) sectors or even to test whether this model can be suitable for other sectors. Simply, the recommendation is for testing the model in different scenarios and conditions to enhance the generalization of the theory. Further studies must focus in exploring, and examining additional factors, other than six determinants of tax compliance we chose.

The rejected moderating hypothesis could of have a significant impact in other environments. And the impact of moderating variables can be different and vary from positive to negative or vice versa.

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