



Determinants of Tax Evasion Attitude of Individuals: Evidence from a Country Facing Fiscal Turmoil

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ABSTRACT

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The purpose of this study is to investigate the determinants of tax evasion attitudes of individuals in Pakistan. Data is collected through survey questionnaires distributed to individual taxpayers in Lahore, Pakistan. For data collection, 300 hundred questionnaires were distributed to individual taxpayers through Tax Consultants, and a Google form quiz link was also shared on social media. A total of 267 responses with a response rate of 66.75% were found duly filled and fit for data analysis. Correlation and regression analysis were performed on the collected data in Smart PLS software to highlight the determinants of tax evasion. The results of the study revealed that the tax evasion attitude of individuals is significantly influenced by tax knowledge, tax rates, and the taxation system. By focusing on these factors, the government can control tax evasion by individuals which would cause an increase in its tax revenues. The findings of the study suggest policymakers should conduct tax awareness campaigns to increase the tax literacy of individuals, decrease tax rates, and replace progressive taxation with fixed tax rates. The efficiency of the taxation system should be increased by emphasizing the governance of tax administration.

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Introduction

Across the world, people underreport their income and evade trillions of dollars from tax authorities annually (Tax Justice Network, 2020). Multinationals, small enterprises, and individuals dodge taxes. Governments globally struggle to comply with international tax laws due to globalization and digitization (Dharmapala, 2020; IMF, 2019). Undoubtedly, tax evasion has weakened government taxation and lowered public goods capability. Other concerns caused by tax avoidance hurt financial progress. Distorting the tax scheme and increasing deadweight are examples of tax avoidance. It reduces public tax income and repayment capacity and raises enforcement costs. Taxes are vital to any government. Fundamental public undertakings like human development, administrations like law and order, provision of public utilities, and foundations like street development and ecological security are supposed to be funded by taxes. Pakistan generates about 90% of its income from taxes (Kamal, 2019). Tax avoidance is illegal and immoral (Nwachukwu, 2006).

Tax evasion reduces government revenue, causing a gap between potential and actual tax collection (Adebisi & Gbegi, 2013). The Pakistani government has implemented many economic reforms over decades to generate tax income, yet tax revenue returns to total government revenue have continuously been low. Despite governmental and fiscal authorities' efforts to modify TS to prevent TE, this condition looks to be deteriorating. Pakistan has a budgetary deficit and relies on tax revenue to pay state spending. Reduced tax evasion would reduce the fiscal deficit.

Finally, TE is one of the greatest social challenges in emerging countries. It has led to an increasing emphasis on the determinants of tax evasion among governments, developed nations, global organizations, and research scholars to study the elements of TE. Zaidi (2010), says that since the last sixty years, the economy of Pakistan has been up and down. The Pakistani government receives less revenue because of tax evasion, loopholes, and exemptions are used. Out of 175 million people, less than 1.7 percent pay any kind of income tax, and the tax-GDP ratio between countries is less than 9 percent (2010). Tax evasion ensures that basic social services are provided with fewer resources. Tax reform can improve government incomes, but such reforms are always opposed by rich and powerful people.

Some earlier studies on TE have also been done in Pakistan (for example, Ahmed & Ahmed, 1995; Iqbal, Qureshi, & Mahmood, 1998; Akram, Ilyas, & Alam, 2017; Kamal, 2019) and have reported contradictory findings. These studies highlighted the impact of the tax rate, tax system, penalty rate, and corruption index on tax evasion. None of these studies examined the effect of tax knowledge on tax evasion.

Zaidi (2010), says that since the last sixty years, the economy of Pakistan has been up and down. The Pakistani government receives less revenue because of tax evasion, loopholes, and exemptions. Out of 175 million people, less than 1.7 percent pay any kind of income tax, and the tax-GDP ratio between countries is less than 9 percent (2010). Tax evasion ensures that basic social services are provided with fewer resources. Tax reform can improve government incomes, but such reforms are always opposed by rich and powerful people. Based on the research gap and severity of tax evasion and its implication for the fiscal matters of a country, this study aims to

investigate the determinants of the tax evasion attitude of individuals in Pakistan. This study contributes to the existing literature by investigating whether the tax evasion attitude of individuals is significantly influenced by the tax knowledge of individuals, tax rates, tax system of a country. The findings of the study suggest that serious efforts are required from policymakers as well as policy implementors to reduce tax evasion. By increasing tax literacy and disseminating information about tax collection and its spending on the provision of public utilities, individuals can be convinced to comply with tax rules. Further, instead of increasing tax rates, waiver of tax exemptions will reduce taxation disparity among the citizens and will prove more effective in increasing tax revenues. Moreover, to decrease tax evasion, taxation needs to be improved.

The rest of the paper is organized as follows. After describing the motivation and rationale for the current study in the introduction, section 2 provides a brief account of the findings of previous studies, and hypotheses are also developed here. The methodology used to investigate the determinants of the tax evasion attitude of individuals is described in section 3. The results of the analysis are presented in section 4. Section 5 provides a discussion of results, conclusions, policy guidelines, and future research direction.

2.0 Literature Review

2.1 Tax Knowledge (TK) and Tax Evasion (TE)

Tax literacy is the mechanism through which TPs are made aware of tax law and other tax information (Palil, 2010). Citizens typically have very limited knowledge of true government spending and budget expenditures for public services (Csontos, Kornai, & Tóth, 1998). Understanding taxes increases taxpayers' TE opportunities. TP compliance with tax regulations is linked to TK (Eriksen & Fallan, 1996). According to Eriksen and Fallan (1996), tax law awareness is more valuable for tax expectations and attitudes. General tax knowledge is closely associated with TPs' ability to understand tax laws and regulations. Tax knowledge and compliance are linked; hence TPs' TK increases tax compliance. Taxation skills would cut huge tax advice costs (Oladipupo & Obazee, 2016; Poudel, 2017). Without TK, there are higher chances of non-compliance among TPs to tax law either intentionally or unintentionally. Studies have also shown that TPs are more likely to ignore taxes due to a lack of knowledge of the consequences (Devos, 2006). A study conducted by Poudel (2017), examined TK among university teachers concluded that TK has a significant impact, even though the level of TK varies significantly among participants. The result indicates that more care should be given to conveying tax-related information to increase TK among university teachers. The above-mentioned studies indicated a positive relationship between TK and compliance behavior (Loo et al., 2008; Mc Kerchar, 1995). Nevertheless, the earlier study (Harris, 1990), was not consistent, which argued that the impact of tax information on TPs' compliance is not directly relevant. Based on the above discussion following hypothesis is developed.

H₁: Tax knowledge has a significant effect on the tax evasion attitude of individuals.

2.2 Tax Rate (TR) and Tax Evasion

The tax rate is the tax amount to be paid by a taxpayer in compliance with taxable products and the taxation rule. Gutmann (1977) established that high TR attracts noncompliance and encourages TE. The debate started in the 1970s and continues as most theoretical models assume that the estimated revenues would increase with increasing tax rates. In other words, rising tax rates discourage tax evasion. Poterba, Hall, and Hubbard (1987) investigated the effects on tax compliance by changes in the rate of capital gains. They also found that an increase in the marginal TR reduces the degree of voluntary compliance. The studies have concluded that TR is related to the willingness of the TPs to behold TE positively or negatively. Abiola and Asiweh (2012) reported a positive relationship between TR and TE. Clotfelter (1983) also suggests that there was a significant positive relationship between tax rates and tax evasion. Freire-Serén and Panadés (2013) found in their study that higher TR deters compliance. Khan and Ahmad (2014) said when TRs are increased and people realize that the tax advantages in return are not the same, they avoid taxation and thus evade taxes. As a result of higher tax rates and high compliance costs, people reduce their operations and the government is therefore deprived of revenue (Feltenstein & Cyan, 2013). The above discussion leads to the establishment of the following hypothesis.

H₂: Tax rate has a significant effect on the tax evasion attitude of individuals.

2.3 Corruption and Tax Evasion

Corruption means taxpayers compensate someone for escaping tax payments. It is generally agreed that public officials' corruption will severely reduce tax collection and damage economic progress. Complex and broken tax systems increase corruption levels. Complex, unclear laws and regulations benefit tax system operations, auditors, and taxpayers. Regulation sophistication allows officials to use their varied powers and increases tax corruption. If they think the penalty is weak, people are corrupt when they compare rewards against detection and punishment. Low tax administrator and taxpayer wages increase corruption (Ajaz & Ahmad, 2010; Fjeldstad & Tungodden, 2003; Toye & Moore, 1998).

A survey indicated that corruption rates increase tax evasion in Nigeria (Akinyomi Oladele & Okpala, 2013). The Uganda Revenue Authority's fiscal corruption management history is examined by Fjeldstad and Tungodden (2003). The study shows that URA tax officials' salaries are one of many factors determining tax behavior. Chand and Karl (1999) explained the importance of organizational setup and tax officials' service. He concluded that corruption is positively related to low wages and other social evils, while Sanyal, Gang, and Goswami, (2000) stated that with the increase in taxes or penalties, the level of corruption is likely to grow significantly, those latter instruments lose power, even if the government acts with optimum audit strength.

H₃: Corruption level has a significant impact on the tax evasion attitude of individuals.

2.4 Tax System (TS) and Tax Evasion

The tax system consists of a taxation process involving laws, regulations, and procedures that communicate with the administrative bodies, to generate government funds (Agbetunde, 2010). It refers to the system that includes the administration of government taxes, income taxes, fiscal laws, tax policy, and tax collection of the country (Akram, Ali, & Mughal, 2012). In the

existing literature, the tax system is revealed as a significant determinant of tax evasion attitude. Akram et al. (2012) found a strong relationship between TE and TS. The findings show that TS in the country contributes positively toward TPs' perspective and stimulates evasion behaviors. The study also concludes that the TS will motivate TP to comply or not to comply voluntarily with tax law (Mansor, 2016). A study by Everest-Phillips and Sandall (2008) explained the three dynamics reflect the relationship between governance, tax system, and fiscal climate. First, a better taxation system positively depends upon good governance. Second, a fair system of tax promotes a good governance system. Lastly, an efficient system of tax tends the population to pay. Thus, based on the above discussion following hypothesis is stated:

H4: The taxation system has a significant impact on the tax evasion attitude of individuals.

2.5 Theoretical Framework

Different models predict and explain Tax Evasion. In this most appropriate and modified framework is the A-S model. The research model for the proposed study is based on one DV (Tax evasion) and the other four are IVs that influenced the DV.

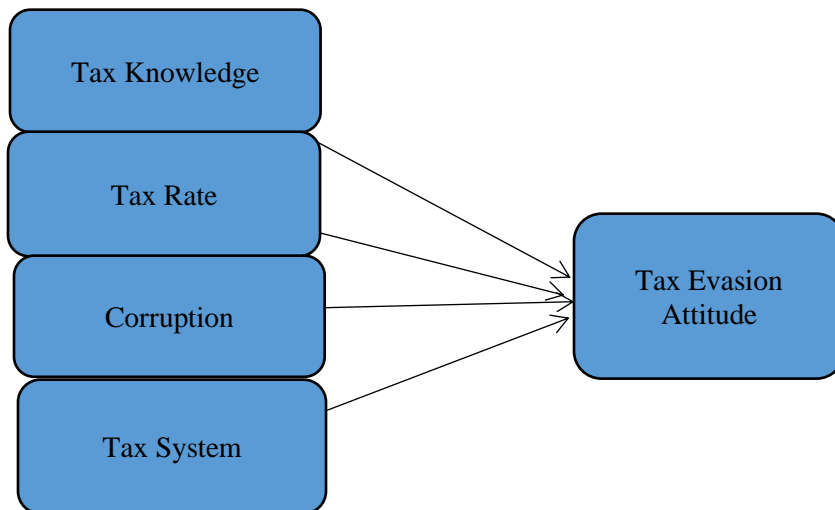


Figure 1: Structural Equation Model

3.0 Methodology

This study empirically examines the determinants of the tax evasion attitude of individuals in Pakistan. This section discusses the data collection method, population, sampling procedure, data analysis, instrument creation, instrument description, and data analysis tools, etc. This study is piloted in a normal flow of work and within a natural work setting, therefore, the interference by the researcher is minimal. The questionnaire consists of 28 questions on five variables i.e., tax evasion, tax knowledge, tax rate, and corruption in the tax system. Each question was scored on a 5-point Likert scale: (1. Strongly Disagree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree). To test the reliability of the questionnaire, a pilot study was conducted on 30 taxpayers and the results revealed Cronbach's Alpha 0.86. Data is collected using convenient sampling from the taxpayers residing in Lahore Pakistan. For the survey, closed-ended questionnaires were distributed to respondents having taxable earnings. Three hundred questionnaires were distributed

to individual taxpayers through Tax consultants. We also develop Google form quizzes and produce links that are shared on social media with our taxpayer friends with requests to fill and submit. We received 250 surveys from 300 distributed to tax consultants for response from their taxpayer clients, of which 200 were complete and accurate, 30 were incomplete, and 20 were unclear. Researchers obtained 100 responses from links shared on social media, but only 67 were useful for this study. Finally, we were left with 267 duly filled questionnaires from a total of 400 surveys with an overall response rate of 66.75%. For analysis, the Smart PLS software was used to estimate Person’s correlation coefficients and regression coefficients.

4.0 Results

Table 1 displays sample distribution analysis and respondent demographics. Out of 267 participants, 189 (almost 71%) were males and 78 (almost 29%) were female. Nearly 43% of responders were 20–23 years old. Most responders have 1-3 years of experience. The majority of responders (38%) have graduated or earned a master's degree. The majority of responders were private sector workers.

Table 1: Demographic Variables

Variables	Frequencies	Percentages
Gender		
Male	189	70.8%
Female	78	29.2%
Age (years)		
Less than 20-30	126	47.2%
31-40	111	41.6%
41-50	12	4.5%
51-above	18	6.7%
Experience (years)		
1-3 years	114	42.7%
4-6 years	99	37.1%
7-9 years	33	12.4%
10-above	21	7.9%
Education		
Graduation	102	38.2%
Master	102	38.2%
MPhil or above	63	23.6%
Sectors		
Private	111	41.6%
Public	57	21.3%
Service	69	25.8%
Trading	18	6.7%
Manufacturing	12	4.5%

Table 2 displays data normality and descriptive statistics. Skewness and kurtosis tests determine data normality, while mean and standard deviation compute descriptive statistics. From the table, all skewness values meet the threshold, which is between -1 to +1 and -3 to +3. The accompanying table indicates that all kurtosis values meet the requirements of -10 to +10. Thus, data distribution is normal. In addition, all mean values are above 3 and near 4, indicating that respondents were generally positive about our questions. The standard deviation should be closer

to one, as shown in the Table 2.

Table 2: Descriptive Statistics

	Mean	Std. Deviation	Skewness.	Kurtosis
Tax Evasion	3.7659	.69467	-.194	.133
Tax Knowledge	3.3427	.76504	-.169	.008
Tax Rate	3.8764	.80927	-.174	.302
Corruption	3.4135	.56632	-.051	.059
Tax System	3.4135	.56632	-.051	.059

Table 3 demonstrates the construct's reliability based on Cronbach's alpha, composite reliability, and average variance retrieved. According to Hair et al. (2016), Cronbach's alpha should be above 0.70, acceptable up to 0.60, and unsatisfactory below 0.60. Results reported in Table 3 show that Cronbach's alpha is more than 0.60 which indicates that all variables have acceptable reliability. (Hair et al., 2010). Results show that composite reliability is more than 0.70 or very close to 0.70 which implies that the model is a reliable and adequate fit. A study demonstrates that the AVE value should be larger than 0.50. AVE values reported for variables in Table 3 are either more than 0.50 or very close to 0.50 which depicts that the convergent reliability of the model is satisfactory.

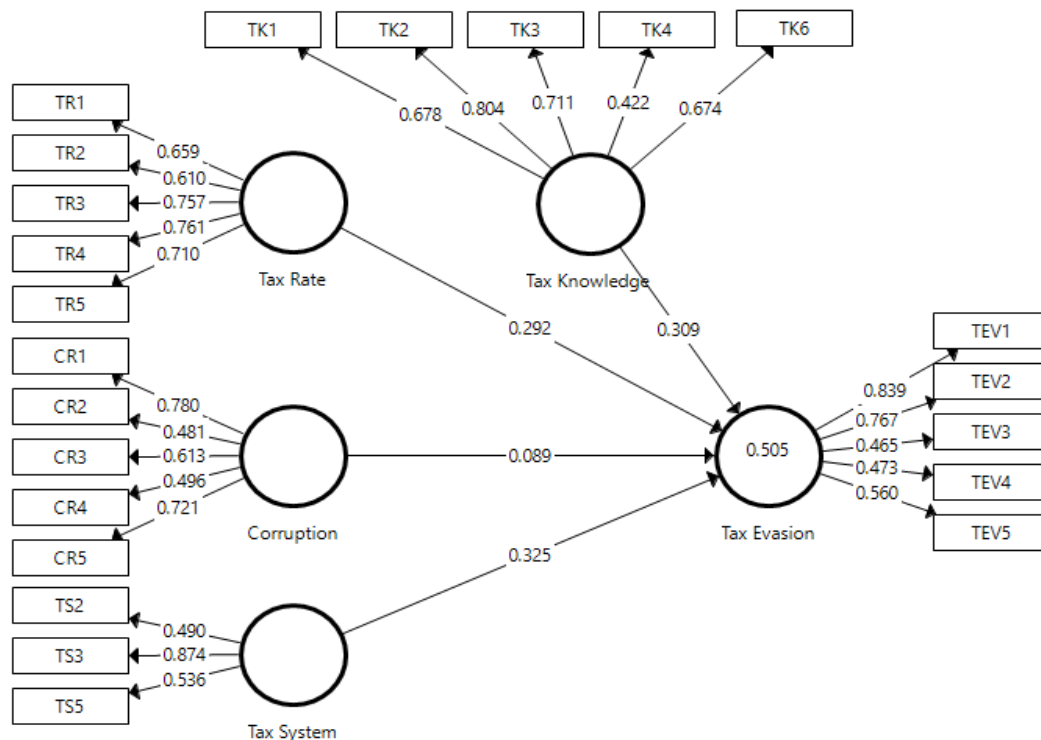


Figure 2: Measurement of Model | Partial Least Squares-Path Modeling (PLS-PM)

Table 3: Constructs Reliability and Validity

	Items	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Tax Knowledge	6	0.710	0.797	0.549
Tax Rate	5	0.752	0.828	0.492
Corruption	5	0.718	0.760	0.496
Tax System	5	0.659	0.679	0.530
Tax Evasion	6	0.649	0.765	0.509

After calculating reliability, we applied the validity test proposed by Fornell-Larcker Criteria 1981 and Heterotrait-Monotrait. The squared coefficients of AVE exhibited diagonally in Table 4 are greater than the correlation coefficients and imply that all values fulfill the criterion established by Hair et al. (2006). Thus, it is observed that all the values are fulfilling the criteria of discriminant validity. Further, we applied an advanced test of discriminant validity proposed by Heterotrait-Monotrai. All values of coefficients of correlations reported in Table 5 are more than 0.90 and it reflects that all variables used in the model met the criterion of discriminant validity.

Table 4: Fornell-Larcker Criterion

	Corruption	Tax Evasion	Tax Knowledge	Tax Rate	Tax System
Corruption	0.704				
Tax Evasion	0.522	0.713			
Tax Knowledge	0.391	0.473	0.740		
Tax Rate	0.558	0.516	0.263	0.701	
Tax System	0.460	0.499	0.160	0.288	0.728

Note: Bold elements are the square root of AVE

Table 5: Heterotrait-Monotrait Ratio (HTMT)

	Corruption	Tax Evasion	Tax Knowledge	Tax Rate	Tax System
Corruption	0.568				
Tax Evasion	0.732	0.567			
Tax Knowledge	0.605	0.615	0.456		
Tax Rate	0.740	0.613	0.415	0.654	
Tax System	0.880	0.887	0.371	0.497	0.342

To test the association between variables coefficient of correlation was computed and results are reported in Table 6. The results of correlation analysis show that the coefficient of correlation of all independent variables used in the study is positive and significant at 0.01. It implies that the independent are significantly related to the dependent variable. Further, the coefficients of correlation between independent variables are not high to the extent of multicollinearity.

Table 6: Latent Variable Correlations

	Tax Evasion	Corruption	Tax Knowledge	Tax Rate	Tax System
Tax Evasion	1.000				
Corruption	0.522	1.000			
Tax Knowledge	0.473	0.391	1.000		
Tax Rate	0.516	0.558	0.263	1.00	
Tax System	0.499	0.460	0.160	0.28	1.000

For testing the hypotheses, SEM analysis was performed by using the software Smart PLS and results are reported in Table 7. Results of SEM analysis show that tax knowledge, tax rate, and tax system are found to have a significant impact on tax evasion. Results reported in Table 7 are summarized as follows: The coefficient of tax knowledge ($\beta = 0.309$) is positive and significant at 0.05. It implies that with an increase in tax knowledge tax evasion increases It leads to the acceptance of hypothesis 1 i.e., Tax knowledge has a significant effect on tax evasion”. The coefficient of Tax rate ($\beta = 0.292$) is positive and significant at 0.05. It implies that an increase in tax rates causes an increase in tax evasion. Results support hypothesis 2 “Tax rate has a significant effect on tax evasion”.

Corruption was found to be insignificantly associated with tax evasion. Based on the results, this study rejects hypothesis 3 i.e., “Corruption level has a significant impact on tax evasion”. The coefficient of the tax system ($\beta = 0.325$) is significant at 0.01 and evasion. The results indicate that the tax system has a significant positive impact on tax evasion. Thus, results support hypothesis 4 “Tax system has a significant effect on tax evasion”. relationship between (0.05).

This study supports the last hypothesis about the tax system and tax evasion.

Table 7: Mean, STDEV, T-Values, P-Values

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P-Values
TK -> TE	0.309	0.305	0.102	3.031	0.003
TR -> TE	0.292	0.302	0.140	2.082	0.038
CR -> TE	0.089	0.116	0.103	0.857	0.392
TS -> TE	0.325	0.312	0.088	3.671	0.000

Note: significance level; $p > 0.05$

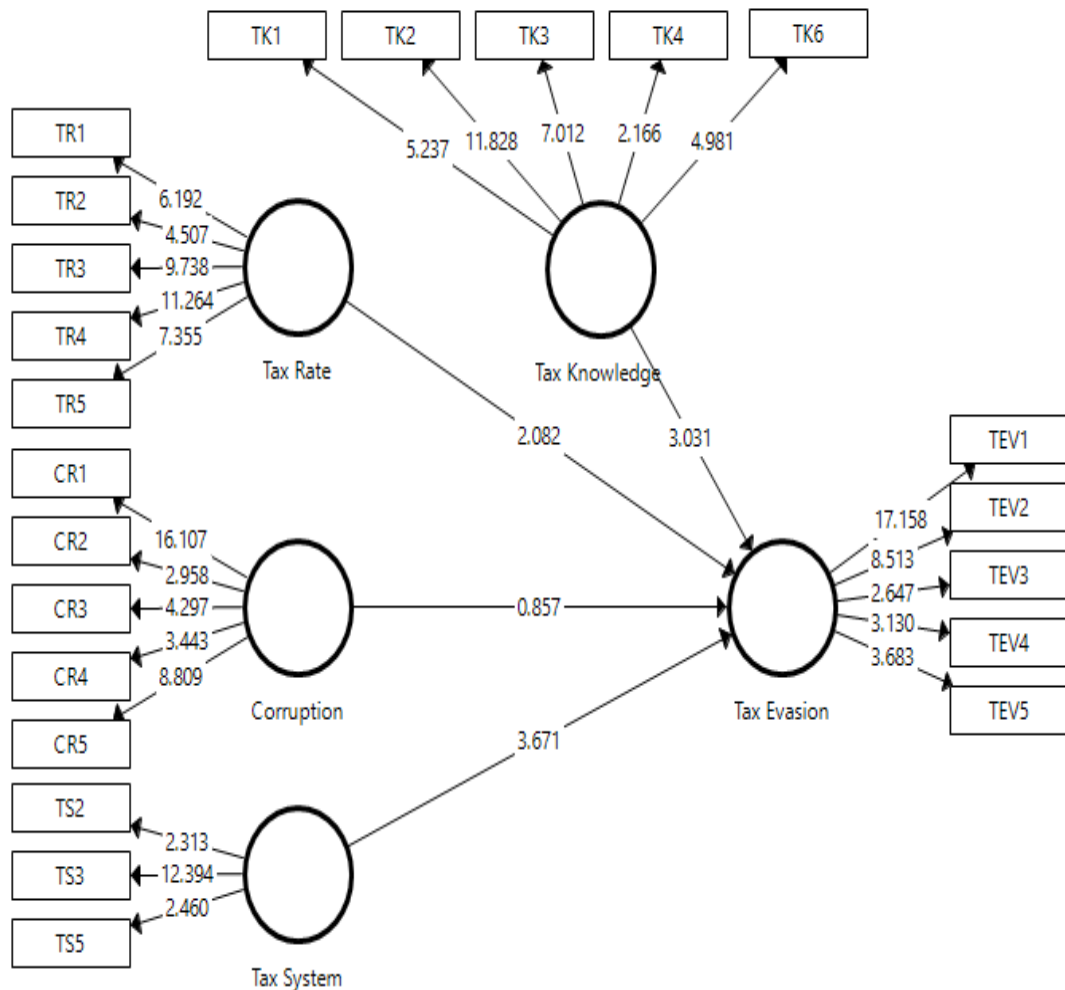


Figure 3: Structural Model (PLS-SEM)

Table 8: Construct Measurement | Collinearity Statistics (VIF)

Coding	Statements	Outer Loading	Outer VIF Values	Inner VIF Values
Tax Evasion Attitude				
TEV1	Money collected is spent unwisely by the Government.	0.839	1.585	
TEV2	A large portion of the money collected is spent on projects that do not benefit me.	0.767	1.469	
TEV3	The probability of getting caught is low.	0.465	1.197	
TEV4	The tax system is complicated (I don't understand how the system works).	0.473	1.149	
TEV5	It seems to favor the rich than the poor.	0.560	1.183	
TEV6	While tax collection, the Government discriminates against me due to my religion, ethnicity, or other background.	Deleted	-	
Lack Tax Knowledge				
TK1	Is right to evade tax if I don't understand the tax laws?	0.678	1.638	1.185
TK2	I would evade tax due to my inability to apply the tax laws in computing my tax liability.	0.804	1.557	
TK3	I would evade tax because the tax officials failed to educate me on the need to pay taxes.	0.711	1.345	
TK4	I don't pay tax because I am not aware of the need to pay tax.	0.422	1.263	
TK5	Tax payment is every citizen's obligation.	Deleted	-	
TK6	Is it right if taxpayers have higher tax education, they will evade more from paying tax?	0.674	1.336	
Tax Rate				
TR1	Tax rates are too high.	0.659	1.642	1.461
TR2	Tax rates are increased every year.	0.610	1.432	
TR3	Determining tax rates does not consider the less income earner.	0.757	1.519	

TR4	The government spends on bogus projects which does not give benefits.	0.761	1.435	
TR5	When Government is changed then tax rates are also changed.	0.710	1.625	
Corruption				1.853
CR1	Officials who collect tax on behalf of the government are willing to accept bribes to reduce my tax liability.	0.780	1.396	
CR2	Tax officials are willing to assist me to understate my income for Consideration.	0.481	1.129	
CR3	Taxes paid for use by the government end in the pockets of some Individuals.	0.613	1.206	
CR4	Environmental Taxes are hardly used for the purpose for which it was collected.	0.496	1.114	
CR5	Tax officials' threat, if taxpayers will not give briberies*.	0.721	1.257	
Tax System				1.271
TS1	Is there a fair tax system in Pakistan?	Deleted	-	
TS2	There are lenient punitive measures for non-compliance with tax Laws	0.490	1.044	
TS3	There are penalties for tax evasion but not imposed by the tax official	0.874	1.073	
TS4	The government took measures against the people for non-compliance with the tax system	Deleted	-	
TS5	How tax system can be improved?	0.536	1.039	

Note: The items having values ≥ 3 are deleted

Table 8 shows all item and variable factor loading values. Hair et al. (2016) recommend factor loading values above 0.60. Some of the aforementioned variables match the criterion, but some do not. To improve reliability, entries with outer loading values of 3 or less are eliminated. The outer VIF should be less than 5, and the chart shows that all values meet the criteria. Additionally, all inner VIF values are below 5, meeting the requirements and threshold.

5.0 Discussion of Results, Conclusion, and Policy Implication

5.1 Discussion of Results

This study investigated the effect of tax knowledge, tax rates, corruption, and tax system on the tax evasion attitude of individuals in Pakistan facing financial deficits. Results showed that tax knowledge, tax rate, and tax system have a significant impact on the tax evasion attitude of individuals. Lack of tax knowledge is found to have a significant negative impact on the tax evasion attitude. In Pakistan, tax literacy is very poor and most people are not aware of the utility of tax payments (Palil, 2010). Further, the Government facing very profound fiscal problems in Pakistan is not found efficient in providing public utilities to the public. Citizens lack knowledge about budget allocation for public service delivery and public welfare projects (Csontos, Kornai, & Tóth, 1998). Complicated taxation procedures and the public inability to comply with tax law also result in a tax evasion attitude (Oladipupo & Obazee, 2016; Poudel, 2017).

Higher tax rates are found to cause an increase in the tax evasion attitude of individuals. Due to increases in taxes, people's net disposable income decreases and they treat it as an unnecessary burden. Further, progressive taxation discourages individuals from reporting higher earnings and paying higher taxes. Similar findings were reported by earlier studies. For example, Poterba, Hall, and Hubbard (1987) established the negative effect of an increase in tax rates on the tax compliance attitude of individuals. Abiola and Asiweh (2012) reported that an individual's inducement to evade taxes increases with an increase in tax rates. Freire-Serén and Panadés (2013) also established that an increase in tax rates dismay tax law compliance. Similar findings were reported by Khan and Ahmad (2014). Higher tax rates and progressive taxation hurt the marginal earnings of individuals and discourage them from paying taxes.

This study revealed the significant impact of the taxation system on the tax evasion attitude of individuals. The findings of the study established that an unfair tax system, poor administration of the taxation system, inefficient and corrupt employees, and lack of effective governance of the taxation system increase the tax evasion attitude of individuals. Previous studies e.g., Akram et al. (2012) found a strong relationship between tax evasion and the taxation system. They found that an inefficient and unfair tax system is one of the main causes of tax evasion attitudes of individuals. Recently, Mansoor (2016) also established that the tax system has a strong bearing on the individuals' tax law compliance attitude individuals are significantly influenced by the taxation system. An earlier study conducted by Everest-Phillips and Sandall (2008) also emphasized that poor governance mechanism of taxation also causes an increase in tax evasion.

Overall, the findings of this study are consistent with the findings of earlier studies conducted by Ahmed and Ahmed (1995), Aslam (1998), Iqbal et al. (1998), Akram et al. (2017), Kamal (2019), and Muhammad Akram (2017). Further, the findings of the study support the deterrence theory and psychology theory. Firstly, deterrence theory increases the risk of being detected and being fined harsher penalties for tax evasion. Psychology theory emphasizes ethics' role in controlling the tax evasion attitude of individuals. According to the theory, taxpayers may cooperate even if detection is unlikely.

5.2 Conclusion

This study has addressed one of the major issues that is prevailing in Pakistan nowadays. Individuals of Pakistan are increasingly showing tax evasion which is an unethical, immoral, and illegal practice. Based on the findings of this study and a review of some earlier studies it is concluded that tax knowledge of individuals, higher tax rates, and inefficient taxation system have a strong bearing on the tax evasion attitude of individuals. To reduce tax evasion tax literacy should be increased, instead of increasing tax rates, penalties, and fines for non-compliance with tax rules should be increased.

5.3 Policy Implications

Based on the findings, the following strategies for controlling tax evasion are proposed. Current research shows that people evade taxes more when they know the tax system is weak and taxpayers can easily escape after evading taxes, therefore, customers will hide their actual taxable income. Individuals also evade taxes when they are more familiar with varied tax rates. The findings of the study are useful for the Federal Revenue Board (FBR). FBR should launch a public awareness program and emphasize improving the level of tax literacy of individuals. Information regarding tax revenue targets, collection targets achieved, and spending on public utilities from the tax collection should be made public every quarter. Tax rules and regulations should be simplified and the filing procedure should be made easier for taxpayers. Public trust and confidence should be developed by educating the usefulness of tax rules compliance to the general public, through seminars and engaging social media.

To increase the motivation for tax compliance, tax exemption extended to various individuals and groups should be waived. Progressive taxation system and tax exemption to elite class officers of Government, Politicians, Judiciary, and Armed forces create discrimination among the taxpayers and discourage the high performers in the economy. It further increases the undue tax burden of high earners causing them to hide their income and evade taxes. Further, to modify the tax evasion attitude of individuals, fair taxation, simplified tax rules, documentation of the whole economy, and effective governance of the taxation system should be ensured. Religious scholars, celebrities, political leaders, business leaders, and motivational speakers should be encouraged to play their influence in controlling tax evasion.

5.4 Limitations and Future Research Directions

The generalization of the findings of this study is subject to certain limitations. The study is conducted in Pakistan a special case where the tax burden of individuals has increased due to an increase in tax rates while their real income has declined due to slowdown economic conditions. Pakistan is facing fiscal turmoil and reducing the tax spending on the provision of necessities of life such as education and health, etc. Lack of social security among individuals negatively affects their voluntary compliance with tax rules. Thus, the findings of this study should be generalized with care. Further, this study emphasized the behavioral impact of individual taxpayers and ignored the determinants of tax evasion related to tax department officials, tax consultants, and corporate taxpayers. Future studies should apply the holistic approach to provide very relevant insight into tax evasion. Over time government has implanted various incentive schemes and

facilitation schemes to increase tax collection. There is a need to investigate the treatment effect to help policymakers in assessing the effectiveness of various strategies and policies implemented over time to control tax evasion. Further, some qualitative studies are required to engage experts from various walks of life.

Usman Ali: Problem Identification and Model Devolvement,

Bilal Nafees: Literature search, Methodology

Nisar Ahmad: Supervision and Drafting

Conflict of Interests/Disclosures

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