

# HOW PROFESSIONAL ACCOUNTANT'S TAX MORALE AFFECTS TAXPAYER'S TAX MORALE? A STUDY IN BALIKESIR

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## ABSTRACT

Tax morale -the intrinsic motivation to pay tax-has received increased attention in both the behavioural finance and the business ethics literature. Factors affecting the tax compliance attitudes and behaviour of taxpayers have become a significant area of research in recent years. Although there is a plethora of studies in the tax compliance literature, exploring such a subject in the developing countries is still relevant and very little is processed. Further, the effect of the professional accountants (as consultants) on taxpayers is yet to be thoroughly investigated. Certified Public Accountants (CPA) are professional accountants who keep the accounts, make out tax declarations and provide advisory services to their clients (taxpayers), and they have legal responsibility to the financial administrators. Extant literature provides empirical evidence that professional accountants do influence the intentions and behaviour of taxpayers. This influence may motivate taxpayers to comply or neglect their tax duties. The present study focuses on the analysis of tax compliance behaviour from the tax morale standpoint. In particular, the study examines how does professional accountants' ethical judgments towards taxpaying effect their clients' tax morale. A field study is conducted in Balikesir province of Turkey and data is collected from 353 conveniently selected CPA's by face to face surveys. Data analyses revealed that CPA's intention to comply with the tax rules significantly positively influence taxpayers' tax morale, while CPA's intentions to tax fraud significantly negatively influence taxpayers' tax morale. Based on these findings theoretical and managerial implications are discussed.

**Keywords:** Accounting, Fiscal ethics, Tax morale, Tax fraud

## INTRODUCTION

Taxes are the main source of state revenue. However, since tax collection is compulsory, obligants may have different attitudes towards taxpaying. In addition, tax attitudes and compliance may be affected by various factors. One particular factor affecting tax compliance is tax morale. Tax morale is defined as the intrinsic motivation one has to pay his tax. (Torgler, 2003; Alm and Torgler, 2006; Flippin, Fiorio and Viviano, 2013). The higher levels of tax morale usually results with higher willingness and compliance to pay taxes.

This study is focused on small sized business organizations in Turkey. Small sized business organizations pay various types of taxes (corporate tax, income tax, etc.). Commonly, these organizations buy professional services from Certified Public Accountants (CPA) for tracking their tax duties. CPA's are professional accountants who keep the accounts, make out tax declarations and provide advisory services to their clients (taxpayers), and they have legal responsibility to the financial administrators. While CPA's provide such services, they may influence the tax-paying attitudes and behavior of their clients (Bayraklı et al., 2004; Kızmaz, 2005). This influence may be both in positive (compliance) or negative (tax evasion) directions in terms of willingness to pay taxes. In other words, CPA's may incline their clients to comply with the tax regulations, or they may mislead them (Organ and Yegen, 2013). While most of the CPA's help their clients to avoid tax errors, few of them may misguide their clients to take illegal actions by under-declaring or understating the income (Demir, 2008: 92-93).

Although there is a plethora of studies in the tax compliance literature, exploring such a subject in the developing countries is still relevant and very little is processed. Further, the effect of the professional accountants (as consultants) on taxpayers is yet to be thoroughly investigated. The aim of the present study in this sense, is examining the effect of professional accountants’ ethical judgments towards taxpaying, on their clients’ tax morale in a developing country context. In particular, we analyzed how does an CPA’s intention to comply with the tax rules/tax evasion influence taxpayers’ tax morale. The next section provides a literature review about the research subject. Following the literature review, methods and data analyses are provided. The paper ends with a discussion and conclusions.

## LITERATURE REVIEW AND HYPOTHESES

### Tax Morale

Studies about tax morale dates back to 1960’s. Tax morale is defined in various ways. A common point in the definition of tax morale is that it is an intrinsic motivation towards paying taxes (Flippin, Fiorio and Viviano, 2013). Intrinsic motivation, points out a voluntary action to pay taxes without an external pressure (Aktan, 2006). “Morale” in this sense, expresses the individual’s sincerity about his role and responsibility as a member of the society. Hence, individuals’ attitudes towards his tax responsibility matters (Bilgin, 2011). In addition, tax morale has been defined as a moral obligation to pay taxes or a belief to contribute to the society by paying taxes (Torgler, 2004, 239).

There are a number of factors determining a society’s tax morale. In general, these factors can be classified as economic, socio-cultural and demographic factors (Tosuner and Demir, 2008). In another classification, factors affecting tax morale are divided into two main categories: individual factors and environmental factors (Alm and Torgler, 2006). Both classifications cover the effect of accounting professionals either as an economic or environmental factor. Thus, the effect of accounting professionals is a significant factor to examine. Accounting professionals provide consultancy and give services to their clients (business organizations in this study) to carry out accounting, finance, and tax transactions. Consequently, they have a potential to influence their clients about taxpaying.

The extant literature provides a number of studies documenting the effect and directive function of CPA’s on their clients’ tax compliance (Klepper and Naggin, 1989; Schmidt, 2001; Organ and Yegen, 2013). Among others, a particular study provides empirical evidence about the significant effect of professional consultants’ ethical orientations on taxpayers’ compliance behavior (Darmayasa and Aneswari, 2015). The effect of accounting professional on their clients regarding taxpaying may be either positive or negative. CPA’s who has a deeper knowledge and experience about tax legislation and taxation may steer their clients to pay fewer taxes; consequently, they help their clients to be more profitable. This kind of a relationship can be seen as mutually beneficial and long lasting (even though such an action may be unethical, immoral, or even illegal). Understanding the effect of professional accountants’ and other financial consultants’ on taxpayers’ behavior may yield significant insights about tax compliance. Based on the literature review, we propose the following hypotheses:

H1: CPA’s intention to comply with the tax rules significantly positively influences taxpayers’ tax morale,

H2: CPA’s intention to tax fraud significantly negatively influences taxpayers’ tax morale.

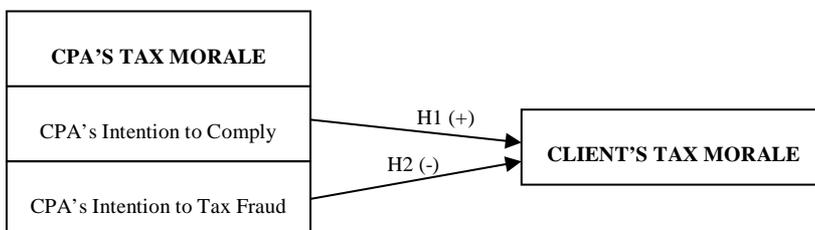


Figure 1: Research Model

## **METHODOLOGY**

### **Research Goal**

In this survey we aim to examine the effect of professional accountant's tax morale on taxpayer's tax morale. To test the hypotheses, a field survey using questionnaires was conducted.

### **Sample and Data Collection**

A field study is conducted in order to test the research hypotheses. The field study is conducted on CPA's working in Balikesir province of Turkey. According to Balikesir Chamber of CPA's, 579 CPA's are registered throughout the province. Registered 579 CPA's constitute the universe of this study.

A survey questionnaire is developed in order to collect data from CPA's. The first part of the questionnaire contains demographic questions. The second part contains 10 items to measure the CPA's tax morale. These items are adapted from the index developed by Tosuner and Demir (2008). The last part of the questionnaire contains items to measure CPA's perceptions about the tax morale of their clients. Tax morale items are derived from the WVS-World Value Survey (Torgler, 2004).

A pilot study is conducted to test the research instrument. The questionnaire is applied to conveniently selected 50 CPA's located in Balikesir provincial center. Final arrangements are made based on the feedback from the pilot study. The main study is conducted in April-June, 2014. The registration list of CPA's located in the province is acquired from the Chamber. Although a complete inventory of the entire 579 CPA's are aimed, only 351 of them accepted to participate the study. Data is collected by face to face interviews.

## **ANALYSES AND RESULTS**

Data analyses are performed by using SPSS software. Exploratory factor analyses are run to check the factor structure of the scales. Reliability analysis is performed by calculating Cronbach's Alpha coefficients. After calculating correlations among the variables, a series of regression analyses are performed to test the research hypotheses. The next section provides the findings, starting with the respondents' demographics.

**Table 1: Demographic Characteristics of the Respondents**

Location	Frequency	Percent	Monthly Income	Frequency	Percent
Provincial Center	143	40,7	Less than \$500	40	11,4
Ayvalik	16	4,55	\$500-\$1000	108	30,8
Bandirma	55	15,66	\$1000-\$1500	107	30,5
Burhaniye	23	6,6	\$1500-\$2000	57	16,2
Dursunbey	11	3,1	\$2000-\$2500	13	3,7
Edremit	42	12,0	More than \$2500	19	5,4
Erdek	13	3,7			
Gonen	39	11,1	<b>Tenure in the Profession</b>	<b>Frequency</b>	<b>Percent</b>
Ivrindi	5	1,4	1 – 10 Years	54	15,4
Kepsut	3	0,9	11 - 21 Years	140	39,9
			22 - 32 Years	90	25,6
			33 - 43 Years	51	14,5
			44 - 54 Years	6	1,7
<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>	<b>Tenure as a CPA</b>	<b>Frequency</b>	<b>Percent</b>
Female	65	18,5	1 – 9 Years	82	23,4
Male	284	80,9	10 - 19 Years	131	37,3
			20 - 29 Years	63	17,9
<b>Education</b>	<b>Frequency</b>	<b>Percent</b>	30 - 39 Years	50	14,2
Vocational School	69	19,6	40 - 49 Years	10	2,8
Undergraduate	222	63,3	Missing	15	4,3
Graduate	53	15,1	Total	351	100,0
<b>Marital Status</b>	<b>Frequency</b>	<b>Percent</b>			
Married	323	92,0			
Single	24	6,8			
Missing	4	1,1			
Total	351	100,0			

Table 1 summarizes respondents' demographic characteristics. Most of the respondents are located in the provincial center. 81% of the participants are males and 92% of them are married. The average tenure in profession is 21,2 years, while the average tenure working as an CPA is 17,1 years.

## Exploratory Factor Analysis

An exploratory factor analysis is performed to check the dimensionality of the scales. Table 2 provides the factor analysis results. The principal components analysis with varimax rotation yielded three factors: Client's Tax Morale is found to be unidimensional, while CPA's tax morale is composed of two dimensions. The first dimension is named as "Intention to Comply" and the second dimension is named as "Intention to Tax Fraud". As seen on Table 2, all of the factor loads are over the ,50 threshold. These results provide evidence about the validity of the scales used in the study (Hair, Black, Babin, and Anderson, 2010).

**Table 2: Exploratory Factor Analysis Results**

Items	Factor Loadings		
	Client's Tax Morale	CPA's Intention to Comply	CPA's intention to Tax Fraud
According to you; to what extent your clients consider tax evasion as fair/unfair?	0,903		
According to you; to what extent your clients consider tax evasion as a false step?	0,890		
According to you; to what extent your clients consider tax evasion as a necessity?	0,859		
If I evade taxes, and if people around me learn about it, I would be very ashamed.		0,794	
Someone who evades taxes must be blamed by the society.		0,748	
I pay taxes voluntarily and on my own accord		0,687	
Tax evasion must be regarded as immorality		0,601	
I never evade taxes		0,503	
Small amounts of tax evasion could be considered reasonable			0,704
If I knew that I won't pay a penalty, I would pay fewer taxes			0,686
Tax evasion is a necessity in the current condition			0,591
We cannot blame an obligant who evades taxes			0,589
If I pay all of the taxes requested by the government, I cannot make business			0,562

Extraction Method: Principal Component Analysis.

Varimax Rotation with Kaiser Normalization.

Scale reliability is controlled by calculating inter item consistency using the Cronbach Alpha coefficients. As seen on Table 3, Cronbach Alpha coefficients are over 0,60 threshold. This finding shows that the scales show internal consistency (Hair et al., 2010). Based on these results, three composite variables are created by averaging the responses to the scale items under each dimension. These composite variables (factors) are used for hypotheses testing.

**Table 3: Correlations and Descriptive Statistics**

Variables	(1)	(2)	Cronbach's Alpha ( $\alpha$ )	Mean	Std. Dev.
(1) CPA's Intention to Comply			0,699	3,751	0,765
(2) CPA's intention to Tax Fraud	-0,242**		0,644	2,696	0,798
(3) Client's Tax Morale	0,229**	-0,333**	0,895	3,244	1,157

\*\* . Significant at 0.01 level

Table 3 also provides the mean scores, standard deviations and correlations among the factors. There are significant but moderate correlations among the study variables. CPA's Intention to Comply has the highest mean score (3,75); while CPA's intention to Tax Fraud has the lowest mean score (2,69).

## Hypotheses Testing

Linear regression analysis is performed to test the research hypotheses. CPAs' tax morale dimensions (Intention to Comply and Intention to Tax Fraud) are used to predict Clients' tax morale. Table 4 provides the results of the regression analyses.

**Table 4: Regression Analyses**

CPA'S TAX MORALE	Std. Beta	t	Sig.	Model Parameters		
				R <sup>2</sup>	F	P
CPA's Intention to Comply	0,157	3,060	0,002	0,134	26,960	0,001
CPA's intention to Tax Fraud	-0,295	-5,737	0,001			

Dependent Variable: Client's Tax Morale

Regression analysis results show that the model is significant as a whole to predict the dependent variable ( $R^2=,134$ ;  $p<0,001$ ). Both dimensions of CPA s' tax morale are found to be significant predictors of clients' tax morale. CPAs' intentions to comply with the tax rules significantly positively influence taxpayers' tax morale ( $B=0,157$ ,  $p=0,002$ ), while CPAs' intentions to tax fraud significantly negatively influence taxpayers' tax morale ( $B= -0,295$ ,  $p=0,001$ ). According to these results, H1 and H2 are supported. CPA's intention to tax fraud is a stronger predictor of taxpayer's tax morale compared to CPA's intention to comply.

## Conclusions

This study aimed to investigate how does professional accountants' ethical judgments towards taxpaying effect their clients' tax morale. Research data is collected from professional CPAs, since they constitute a significant group of professionals providing consultancy and making tax transactions of the small sized business organizations in Turkey. Participating CPAs are requested to assess both their own attitudes towards taxpaying as well as their clients' levels of tax morale. An exploratory factor analysis revealed that CPAs' tax morale can be analyzed in two dimensions: intention to comply and intention to tax evasion. Hypothesis tests revealed that CPAs' tax morale significantly effects their clients' intentions towards taxpaying. This finding is consistent with several other studies in the relevant literature (Klepper and Naggin, 1989; Schmidt, 2001; Organ and Yegen, 2013; Darmayasa and Aneswari, 2015).

A particular finding of this study is that CPAs' intentions to comply with tax regulations significantly positively influence the taxpayers' tax morale. This finding indicates the importance of CPAs who provides consultancy and proceeds tax related transactions in the name of taxpayers. If CPAs have a positive intention to comply with tax rules, their clients will be more likely to carry out their tax obligations. The other dimension of CPAs tax morale-intention to tax evasion- is found to significantly negatively influence taxpayers' tax morale. This finding exhibits the potential negative effect of CPAs, on taxpayers' intention to comply. Small business organizations (mostly managed by the owner) are an important source of tax income for the government. In order to improve the willingness to comply tax regulations, professional CPAs can be an important leverage for the government bodies. Hence, fiscal administrations must take the effect of CPAs on their clients into consideration when planning the tax regulations in order to obtain better results in tax collection.

This study is conducted under certain limitations. A particular limitation is the potential single source bias, since data is collected from CPAs only. Future studies may collect data about the tax morale of business organizations' administrators directly from them. Further, this study is conducted on a small group of CPAs located in a conveniently selected region. Further studies may reach bigger samples from different regions of the country in order to gain a better understanding of the problem. Last, but not the least, future studies may take other possible factors that have a potential to influence the tax compliance behavior of the obligants.

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