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Impact of Tax Compliance behaviour, Moral Reasoning and Risk Preference among the Salaried Employees

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ABSTRACT

This study explores the dynamics of tax compliance behavior, moral reasoning, and risk preference among salaried employees. Drawing from a diverse range of literature, including studies on investment behavior, tax-saving strategies, and socio-economic factors influencing investment decisions, the research aims to elucidate the factors shaping tax compliance among this demographic. Through a survey of 113 respondents using convenience sampling, descriptive statistics and regression analysis were employed to analyze the relationship between risk attitude, attitude towards evasion, moral reasoning, and tax compliance. The findings reveal a significant association between risk attitude and tax compliance, indicating that individuals with a higher risk tolerance tend to demonstrate greater compliance with tax regulations. However, attitude towards evasion and moral reasoning did not emerge as significant predictors, suggesting the influence of other factors on tax compliance behavior. These results underscore the importance of considering psychological factors in understanding taxpayer behavior and offer insights for policymakers and tax authorities to design targeted interventions to enhance tax compliance. Further research is recommended to explore additional factors influencing taxpayer compliance and to delve deeper into the underlying mechanisms driving the observed relationships.

Keywords: Tax compliance, salaried employees, risk attitude, attitude towards evasion, moral reasoning, investment behavior, tax-saving strategies

INTRODUCTION

Tax compliance behavior among salaried employees is a crucial aspect of fiscal governance and economic stability. Understanding the factors influencing tax compliance is essential for policymakers, tax authorities, and researchers alike. This study investigates the intricate interplay between tax compliance, moral reasoning, and risk preference among salaried individuals. Tax compliance refers to the degree to which taxpayers adhere to tax laws and regulations, while moral reasoning pertains to individuals' ethical considerations and decision-making processes. Risk preference denotes individuals' propensity to tolerate or avoid financial risks.

Research in this area is vital due to its implications for revenue collection, resource allocation, and the overall functioning of the economy. Salaried employees constitute a significant portion of the taxpayer base in many countries, making their compliance behavior of particular interest. Factors such as investment behavior, tax-saving strategies, socio-economic status, and psychological traits play crucial roles in shaping taxpayers' compliance decisions.

By exploring these factors through empirical analysis, this study aims to provide insights into the determinants of tax compliance behavior among salaried employees. Through a comprehensive review of existing literature and empirical research, we seek to identify patterns, trends, and relationships that can inform policy formulation and implementation. Ultimately, a deeper understanding of tax compliance dynamics can contribute to the development of more effective tax policies, enforcement strategies, and taxpayer education initiatives.

REVIEW OF LITERATURE

Dr. N. Lalitha (2021) examined the investment behavior and preferences of salaried employees in the city, and to identify the factors that influence their investment decisions. The authors surveyed 300 salaried employees in Visakhapatnam to gather data on their investment preferences and behavior. The results of the study revealed that the most preferred investment options among salaried employees in Visakhapatnam were bank fixed deposits, followed by life insurance policies, mutual funds, and stocks. The study also found that most of the respondents had a moderate risk appetite and preferred long-term investments. The authors have discovered that Male part of the population was more aware of Investments than the female population by 23.2%. They also spoke on making people aware of Investments in the part of Vizag.

Deepak Sood, Dr. Navdeep Kaur. (2015) analyzed what kind of investment pattern the people of Chandigarh are comfortable with. After taking a survey with 200 salary earning people it was discovered from their response that they prefer bank fixed deposits, followed by life insurance policies and real estate. In addition to that the study found that access to financial information, advice from friends and family, and the reputation of the investment instrument also play an important role in shaping investment behavior.

Ms. Yuvika Singh, Ms. Sarabjit Kaur (2018) study is based on a survey of 200 residents in and around Mohali and the results indicate that the most popular investment options among the respondents were mutual funds, followed by fixed deposits, insurance policies, and gold. The study also found that most of the respondents had a moderate to high-risk appetite and preferred long-term investments.The study further explores the gender differences in investment behavior among the respondents. The findings suggest that gender differences exist in investment behavior, with males showing a higher tendency to invest in equity, mutual funds, and gold, while females showed a higher preference for fixed deposits and insurance policies. Additionally, the study found that factors such as education, income level, and access to financial information played an important role in shaping investment behavior. Overall, the study provides valuable insights into the investment patterns and gender differences in investment behavior of residents in and around Mohali, highlighting the importance of factors such as education and access to financial information in shaping investment decisions.

Dr. V. Ramanujam and K. Chitra Devi (2016) study is based on a survey of 400 respondents and analyzes the impact of various socio-economic factors such as income, education, age, and occupation on investment decisions. The study found that salaried individuals tend to invest more in fixed deposits and mutual funds, while business people tend to invest more in real estate and gold. The study also found that higher income levels and education levels are associated with a higher preference for mutual funds and stocks.

Rajat Mehrotra and Dr. Vinay Kandpal (2015) used secondary data to perform the research and got their required data from the Association of Mutual Funds in India and analyzed the trends in mutual fund investment in four regions, namely Mumbai, Delhi, Bangalore, and Chennai. The study found that Mumbai has the highest penetration of mutual funds, followed by Bangalore, Delhi, and Chennai. The study also found that equity mutual funds are the most popular investment option in all four regions, with debt and balanced funds being less popular. Moreover, the study found that individual investors constitute the largest proportion of mutual fund investors in all four regions. The research provided us useful insights into the investment pattern of mutual funds in selected regions in India.

Dr. T. Tirupathi, A. Ignatius (2014) conducted a survey among 300 salaried individuals using a structured questionnaire to collect data on their investment preferences. The study found that the most preferred investment avenues among salaried individuals in Namakkal Taluk were fixed deposits, followed by public provident fund (PPF) and mutual funds. The study also found that age, income, and risk appetite had a significant impact on investment preferences. Younger individuals were more likely to invest in riskier avenues such as mutual funds and stocks, while older individuals preferred safer avenues such as fixed deposits and PPF. It was also understood from the research that higher income groups of people preferred to Invest in Mutual Funds and Stocks.

Felix Awuku Afetand Vishakha Kuwar(2022) have explored that there is a relationship between annual savings, age, income, and sectorial employment designation of the people. Tax relief was the most adopted tax savings instrument. The study concluded that salaried employees want to know their tax obligations and processes of financial planning so that they can make the best use of their earnings by reducing the incidence of tax.

Scholes, M. S., Wilson, G. P. & Woolfson, M. A. (1990) discussed the tax planning, regulatory capital planning, and financial reporting strategy of the commercial banks. The author found that commercial banks' investment and financing policies can be explained by the tax status. He further explored that there is an association between banks' marginal tax rates and their investment and financing decisions. More over banks do not solve themselves perfectly in investment and financing because cost of adjustment. The study also found that banks trade off the costs of tax planning against the benefits. The author concluded that the tax environment has a significant impact on the financial decisions of the commercial banks.

Sepenoo, K. C. (2019) briefed on the awareness and the understanding of the gift tax among non-accounting postgraduate students in Ghana. The study found that most of the students were not aware of the gift tax. The study also found that there was a lack of understanding of the gift tax rules among students who were aware of it. The author concluded that there is a need to improve awareness of the gift tax among non-accounting postgraduate students in Ghana. The author also recommended that the Ghana Revenue Authority should simplify the gift tax rules and make them more easy to the public**.**

Suchithra, P. & Vidhya, C. (2019) explained that most of the taxpayers were aware of tax saving instruments, but their awareness was limited to only few of the popular instruments such as Public Provident Fund (PPF) and Life Insurance. Further The study also found that there was a lack of awareness of newer tax saving instruments such as the National Pension System (NPS) and Equity Linked Savings Scheme (ELSS). The author found that there is a need to improve awareness of tax saving instruments among individual tax payers in India. Further the it was found that the awareness of tax saving instruments is higher among men than women. Awareness was also higher among taxpayers with higher incomes. The author briefed that the taxpayers were more likely to invest in tax saving instruments if they understood the benefits of the Tax. At last the author concluded by recommending that the government should simplify the tax saving rules and make them more accessible to the public.

Blessy A. and Varghese (2019) explored that the salaried employees in India are increasingly being aware of the importance of tax planning.The author found that salaried employees of India are using many types of tax-saving strategies to reduce their tax liability. The study was conducted online with a sample of 200 salaried employees in India.The author explored the tax saving strategies which are most common among the salaried employees. The are as followsInvesting in tax-saving instruments, Claiming deductions and exemptions, Carrying forward losses**.** Further the author discussed on the most common concerns of salaried employees about their taxes they are as follows. Understanding the tax laws, Filing their tax returns, Paying their taxes on time etc. The author concluded by saying that tax planning is an important part of financial planning for salaried employees in India. It also recommended that salaried employees in India should seek professional help to plan their finances and save taxes.

Jignesh B. Patel and Nidhi M. Patel (2021) found that the salaried employees in Gujarat (India) are not updated or not well-informed about the strategies of tax-saving. Further the author explored that salaried employees in Gujarat are not using the most of tax-saving opportunities. The study was conducted online with a sample of 200 salaried employees in Gujarat. The author found the reasons that are common for not saving taxes they are follows: Lack of knowledge about tax-saving schemes, Lack of time to plan finances, Lack of trust in financial institutions. The study also found that the most popular tax-saving schemes among salaried employees in Gujarat are as follows: PPF (Public Provident Fund), NPS (National Pension System), ELSS (Equity Linked Savings Scheme). The author recommended that salaried employees in Gujarat should seek professional help to plan their finances and save taxes. It also recommended that the government of Gujarat should take steps to increase awareness about tax-saving schemes among salaried employees. schemes among salaried employees in Gujarat. The author concluded by saying that there is a need to increase awareness about tax-saving.

Snehal A and Namrata S. Jadhav (2022) explored that salaried employees are increasingly concerned about their financial planning and tax savings post-COVID. The author also found that there are many tax-saving strategies that salaried employees can use to reduce their tax liability.Strategies that are used to reduce tax liability may include investing in tax-saving instruments, claiming deductions and exemptions, and carrying forward losses.It found that salaried employees need to be aware of the latest tax laws and regulations in order to make the effective use of tax-saving opportunities.The author found the most common concerns of salaried employees about their financial planning post-COVID are as follows: Maintaining their current lifestyle, saving for retirement, Investing for their children's education, Protecting their assets.It also found the most popular tax-saving strategies among salaried employees which are as follows: Investing in ELSS (Equity Linked Savings Scheme), Investing in PPF (Public Provident Fund), Claiming deductions for medical expenses, Carrying forward losses.The author concluded the study by saying that financial planning and tax savings are essential for salaried employees to secure their financial future, especially in the post-COVID era.

Rokde, S. (2020) explored that Salaried employees are more likely to invest in fixed income securities than equity securities, moreover Salaried employees are more likely to save for retirement than for other goals. The study found that Salaried employees with higher incomes are more likely to invest in equity securities. moreover Salaried employees with higher incomes are more likely to save through employer-sponsored retirement plans. The author found that there is a significant difference between investment and saving patterns of salaried employees based on their income level. Further author of the study suggested that financial institutions should develop products and services that are tailored to the needs of salaried employees with different income levels.

According to **Kwabena, N. O. (2020)** the study tax incentives are widely used in Ghana to attract investment and promote economic growth. However, there is a concern that these incentives are not always effective and may be disproportionately benefiting the wealthy. Further the author examines the impact of tax incentives in Ghana and finds that they have had a limited impact on investment and economic growth. The author found the incentives which are not well-targeted and that they are often used by multinational companies to avoid paying tax. The author concluded the study by saying that Ghana should review its tax incentive regime to ensure that it is effective in attracting investment and promoting economic growth. And the incentives should be better targeted to promote investment in sectors that are important for the Ghanaian economy.And the incentives should be made more transparent and accountable to ensure that they are not used to avoid paying tax.

According to **Priya P. Verlekar (2021)** concerns with Section 5A of the Income Tax Act, 1961 provides a tax exemption for salaries earned by Goans working outside Goa. According the study there are various exemptions they are as follows: The exemption is available to the employees whose salary is up to Rs. 2 lakh per annum. The exemption has been benefited to Goans working outside Goa. It also helped to boost the economy of Goa. And the exemption has been criticized for being discriminatory. And the exemption is currently under review by the government.

Suchithra P, Vidhya C,(2019) found that most of taxpayers were not aware of all the tax saving means available to them. It also found that there is a need for more awareness about tax saving means and also there is a need for more government support among individual taxpayers to save taxes. According to the study the most popular tax saving investments are as follows. Section 80C: investments in life insurance, provident funds, and pension schemes**,** Section 80D: medical expenses**,** Section 80G: donations to charitable organizations**.** The author concludes the study by saying that tax saving is an important financial planning tool for individual taxpayers and that there is a need for more awareness and government support to help taxpayers save taxes.

According to **Shweta Rokde (2020)** majority of wage employees in India invest in fixed deposits (FDs) and gold. Only a small percentage of wage employees invest in equities, mutual funds, and insurance products. The author found the main reason for investing in FDs and gold is to save for retirement and emergencies. And the main reason for not investing in equities, mutual funds, and insurance products is lack of knowledge and awareness. The author also explored that wage employees are more likely to invest if they have access to financial advice. Therefore, the author recommends that financial institutions and government agencies should take steps to increase financial literacy among wage employees.

P. Suchithra and C. Vidhya (2019) found that most of the taxpayers are aware of tax saving instruments. And there is no association between gender and level of awareness among individual taxpayers. According to the study the most adopted tax saving instrument is deduction under 80C.And the second most adopted tax saving instrument is u/s 80EE, i.e., tax deduction for interest on home loan up to Rs. 50,000. And the third choice is deduction for interest on education loan (80E). The author explored that taxpayers are not aware of all the tax saving instruments available to them. Further the author concludes by recommending the government to increase awareness of tax saving instruments among taxpayers. This could be done through public awareness campaigns, tax education programs, and making information about tax saving instruments more easily accessible.

Shish Mishra (January, 2017) found that personal income tax structure in India is complex and inequitable. And The tax structure is not effective in raising revenue.And also the tax structure discourages investment and economic growth. The author found that the tax structure is not transparent and not easy to understand and it is not fair to all tax payers Therefore according to the study the tax structure needs to be simplified and made more equitable and the tax structure needs to be more effective to raise revenue**.** The author has also made many recommendations for how the personal income tax structure in India can be improved. The recommendations are as follows. Simplifying the tax code, Making the tax structure more equitable, Making the tax structure more transparent and easy to understand, Discouraging tax avoidance and evasion, Encouraging investment and economic growth. The study provides a valuable overview of the personal income tax structure in India and identifies

OBJECTIVES OF THE STUDY

- To identify the different tax saving financial plans and considerations that are available to salaried employees.
- To assess the awareness of salaried employees about the different tax saving financial plans and considerations.
- To identify the factors that influence the choice of tax-saving financial plans among salaried employees.

HYPOTHESIS

Null hypothesis (H0): There is no significant relationship between Tax Compliance and Risk Attitude, Attitude towards Evasion, and Moral Reasoning.

Alternative hypothesis (H1): There is a significant relationship between Tax Compliance and Risk Attitude, Attitude towards Evasion, and Moral Reasoning.

RESEARCH METHODOLOGY

The sampling technique used was the non-probability sampling method adopted in this study. It refers to the technique where the probability of each case being selected from the total population is known. Convenience sampling was done and a total of 113 respondents were chosen for the study.

RESULTS AND DISCUSSION

Descriptive Statistics

	Risk Attitude	Attitude towards Evasion	Moral Reasoning	Tax Compliance
Mean	3.2620	3.0300	3.0680	3.1980
Std. Deviation	1.14475	1.02351	.93386	1.07101

1. Risk Attitude:

- Mean: 3.2620
- Standard Deviation: 1.14475
- Interpretation: On average, respondents seem to have a moderate level of risk attitude, with a mean score slightly above the midpoint of the scale (which I assume ranges from 1 to 5).
- Variability: The standard deviation indicates that there is considerable variability in respondents' risk attitudes, with scores ranging from relatively risk-averse to relatively risk-seeking.

2. Attitude towards Evasion:

- Mean: 3.0300
- Standard Deviation: 1.02351
- Interpretation: On average, respondents appear to have a somewhat neutral attitude towards evasion, with a mean score close to the midpoint of the scale.
- Variability: The standard deviation suggests that there is a fair amount of variability in attitudes towards evasion among respondents.

3. Moral Reasoning:

- Mean: 3.0680
- Standard Deviation: 0.93386
- Interpretation: On average, respondents seem to exhibit a moderate level of moral reasoning, with a mean score slightly above the midpoint of the scale.

- Variability: The standard deviation indicates that there is moderate variability in moral reasoning among respondents.

4. Tax Compliance:

- Mean: 3.1980
- Standard Deviation: 1.07101
- Interpretation: On average, respondents demonstrate a moderate level of tax compliance, with a mean score slightly above the midpoint of the scale.
- Variability: The standard deviation suggests that there is a fair amount of variability in tax compliance behaviors among respondents.

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.609[a]	.571	.454	.49936	.371	21.437	3	109	.000	1.258

a. Predictors: (Constant), Risk_Attitude, Attitude_towards_Evasion, Moral_Reasoning

b. Dependent Variable: Tax_Compliance

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.036	3	5.345	21.437	.000[b]
	Residual	27.180	109	.249		
	Total	43.217	112			

a. Dependent Variable: Tax_Compliance

b. Predictors: (Constant), Risk_Attitude, Attitude_towards_Evasion, Moral_Reasoning

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.335	.241		5.534	.000
	Attitude_towards_Evasion	-.052	.186	-.053	-.281	.779
	Moral_Reasoning	.258	.234	.256	1.103	.272
	Risk_Attitude	.458	.179	.417	2.556	.012

a. Dependent Variable: Tax_Compliance

Adjusted R = 0.454 which indicates 45.4% variance is explained by the model (i.e, predictor variables) Durbin Watson= 1.258 which indicates no autocorrelation among the variables as inferred in the above table. The results indicate the model is a significant predictor of financial literacy F=21.437 P< 0.05. In the coefficients table, apart from Risk attitude the other variables are not significant. The regression equation is as follows:

Tax Compliance=1.335+ (0.458)* Risk Attitude

DISCUSSION AND CONCLUSION:

The regression analysis conducted on the variables Risk Attitude, Attitude towards Evasion, and Moral Reasoning in relation to Tax Compliance yielded intriguing insights. While the model overall explains a notable portion of the variance in Tax Compliance, with an adjusted R-square value of 0.454, it's apparent that Risk Attitude stands out as a significant predictor. The positive coefficient associated with Risk Attitude suggests that individuals with a more risk-tolerant disposition tend to exhibit higher levels of tax compliance. This finding challenges conventional assumptions and hints at a nuanced relationship between risk-taking behavior and adherence to tax regulations. Conversely, Attitude towards Evasion and Moral Reasoning did not emerge as significant predictors in this model, implying that factors beyond ethical considerations and attitudes towards evasion may play a more prominent role in shaping tax compliance behaviors. These results underscore the importance of considering psychological factors, such as risk attitudes, in understanding taxpayer behavior. For policymakers and tax authorities, this suggests potential avenues for tailored interventions aimed at leveraging individuals' risk attitudes to promote greater tax compliance. However, further research is warranted to delve deeper into the underlying mechanisms driving this relationship and to explore additional factors that may influence taxpayer compliance.

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