

Conceptualizing Tax Evasion and Tax Compliance Strategies

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ABSTRACT

Tax evasion poses significant challenges to governments worldwide. It leads to substantial revenue loss and undermines the efficacy and integrity of tax systems. In retrospect, understanding the drivers of tax evasion and developing effective tax compliance strategies have become a necessity for policymakers, researchers, and social thinkers alike. This paper foremost delves into the underlying drivers for tax evasion behavior. This includes examining the role of moral suasion, penalties, new technologies, artificial intelligence, and block chain technology to improve probabilities in shaping taxpayers' decisions to evade taxes. The paper presents an interdisciplinary analysis that synthesizes recommendable insights from economics, psychology, sociology, and social science to comprehensively explore the complexities of tax evasion and propose innovative compliance strategies. This interdisciplinary analysis contributes to the ongoing discourse on tax evasion and compliance by presenting a comprehensive framework that integrates economic, psychological, sociological, and technological perspectives.

Keywords: Tax Evasion, Over-deducting, Underreporting, Tax Compliance

INTRODUCTION

Governments across the globe have complex methods of tax collection and rules governing taxing to ensure that there is an even amount and equality of taxation in society. Taxes form a crucial part of governments' revenue as this is used by states to fund governmental developmental projects. Economists are not in oblivion about the existing conflict between the comprehensive collection of government revenue and the unequivocally methods which are necessary to enforce these comprehensive collection rules. (Fochman & Wolf, 2019) The concept of tax evasion refers to incidents when people intentionally fail to follow their tax obligations. Tax payers carefully craft illegal means to reduce tax payments or avoid paying taxes totally. When taxpayers avoid paying taxes it goes a long way to hinder governments from raising funds to fuel public services. (Kamolli & Hoxhaj, 2022)

Tax evasion behaviors are fostered by a diverse number of reasons. A couple of these include, tax rate, penalty rate and audit probability among others. Factors that affect the tax evasion phenomenon may vary from one country to the other even though these factors can be grouped into social, psychological and economic factors. (Kamolli & Hoxhaj, 2022) The ways through which individuals and companies or organizations use to evade taxes include hiding money from the government via activities of money laundering and illegitimate accounting schemes among others.

(Kamolli & Hoxhaj, 2022) Also, underreporting of income, which is claiming too many tax credits and overstating deductions are all means the individual and companies use in their tax evasion. (Fochman & Wolf, 2019) Taxpayers use these mediums to defraud governments.

Tax evasion results in tax revenue loss and this may bring about harmful repercussions to the functioning of

the public sector, especially putting its capacity to finance projects and basic expenses under threat. In recent times tax evasion continues to persist in our society at an increasing rate and this is becoming alarming, it is therefore necessary to reexamine the factors that contribute to making people and companies engage in this unethical behavior, analyzing effects of this on governments to guide what workable steps can be introduced to arrest this issue. This paper attempts to make a description of tax evasion to be able to better understand the issue. The paper identifies ways individuals and organizations use to evade tax across the globe. Then it attempts to tap into various studies to come up with ways to combat individuals and company's attitudes of not paying taxes by projecting various tax compliance strategies.

The main methodology used to come out with the finding is through a rigorous qualitative theoretical review. This scholarship seeks to add a voice to reply two questions which have been asked of old as "How are taxes being evaded despite penalties and sanction in place by governments all around the world. Also what underlying factors brings about tax compliance in our society This paper will generate literature on the nature of tax evasion and come out with how tax compliance can be reached to help address the damages that tax evasion does to economic growth.

METHODOLOGY

In order to meet qualifications for the integrity of a theoretical work, with emphasis on the idea to make authentic theoretical contribution, the qualitative research approach was used in the paper guided by methodic literature review. (Bryman, 2012) Further, qualitative theoretical coding was applied. (Saldaña, 2013) This collaboration makes analyzing ideas rigorous hence removing biases through objective review. (Onwuegbuzie et al., 2012)

Primarily, original articles, book chapters, general news and media reports on the subject were materials selected and used. This was done by keying in peculiar keywords on the subject in reputable academic journals search facilitators as Scopus, Annual review and Google Scholar. The central keywords have been 'tax evasion, 'tax compliance, 'government revenue' as well as chosen combination of 'taxpayers attitude' 'technology and tax compliance' and 'mitigating tax evasion strategies' terminologies as search items. Moreover, the media reports on current happenings in the news on the subject were further checked. Considering keen emphasis on theoretical coding (Saldaña, 2013) the outcome collected was scrutinized to identify pertinent strands and exclude repetitions. This makes reports scientific and trustworthy to be used by policy makers. (Nowell et al., 2017)

LITERATURE REVIEW

Taxation is no new concept in the modern world. It has been a vital part in man's life within diverse economies across the globe. In ancient times, rulers came up with ways to maximize wealth to their dominion. This can be traced from the pharaohs delegating tax collection to the scribes to the Mediterranean civilizations where indirect taxes were introduced as the Greeks taxed almost everything that was purchased. (Adams, 2001) In Athens, foreigners had to pay poll tax which was a burden and hence they sought methods to minimize their tax liability (Redding, 2000) Since early times, history has recorded taxpayers seeing schemes to reduce their tax liability, in present times this is still being done. In ancient history, people who fled tax collectors when caught faced harsh prison sentences and in some cases attracted death penalties. (Adams, 2001) In recent times governments also do have in place strict penalties for culprits found evading taxes. However, amidst the sanctions individuals and corporations still do find ways to evade taxes in large amounts.

Tax evasion confronts both developed and transition economies. The main factors that impact the level of tax evasion in one country comprise traditional, institutional, microeconomic and business characteristics.

The traditional factors comprises tax rate, penalty rate and audit probability. Corruption and cost compliance are examples of the institutional factors whilst unemployment rate, GDP and inflation categorize the macroeconomic factors and then the business characteristics factors include size, ownership and industry. (Kiri, 2016) Three groups categorize factors that determine the level of tax evasion. In the first group, we find audits, tax rates and penalties. The second group comprises service quality and public trust that lies within the government. The third group consists of personal norms, societal norms and religiosity. (Alm, 2012)

Tax evasion results in resources inefficiency of countries, creating bad models for individuals and businesses. It also contributes to inflation. In 2001, the US National Research Program (NRP) was implemented to come up with an analysis of 46,000 tax returns by experienced auditors. (Fochman & Wolf, 2019) This was to help determine audit strategies and to estimate tax gaps. Analyzing individual income tax data, findings showed that taxpayers over deducted \$15 billion offsets to income which is about 4% of the true amount and over deducted an amount of \$17 billion credits also conforming to about 26% of the original amount. Again, the data shows underreporting of \$56 billion non-business income and about \$109 billion business income which is about 43% of the true income. This analysis propagates that underreporting income exceeds over-deducting of credits for individual income tax. (Fochman & Wolf, 2019)

Table 1 below shows some features of underreporting and over-deducting for tax evasion.

Underreporting	Over-deducting
Reporting partial income to tax authority	Claiming more deduction exemptions
Not reporting small enterprises owned	Exaggerating tax deduction on income
Not reporting Cash Tips at work	Reporting to claim high tax refunds
Hiding money and assets	Filing fraudulent tax refund

Table 1

Humans' as rational beings will always look for mediums to relieve their liabilities and cut down cost burdens. Therefore tax evasion behaviors have always been in existence and governments around the world have had measures in place to control behaviors by enacting harsh penalties on culprits found evading taxes. Taxpayer behavior can be structured under two ways. The first perspective can be termed 'noncompliance'. Noncompliance represents the failure of individuals and firms to meet their tax obligations pertaining to the motive being unintentional. Here, individuals may evade taxes unintentionally through miscalculations, wrong judgment, memory loss or inadequate knowledge of tax laws among others. This captures all tax evaded by individuals and firms without their deliberate actions. On the other hand the second way refers to "tax cheating" which encompasses the deliberate act of noncompliance leading to paying minimum tax rather than actually to be paid or totally not paying at all. (Tanzi & Shome, 1993) Variables that correlate to deliberate tax evasion behavior may be irrelevant in mediating unintentional tax evasion behavior. Tax cheating forms through income taxes where individuals deliberately under-report their income and claim unwarranted deductions. (Tanzi & Shome, 1993)

The economic theory of tax evasion posits that individuals and companies pay taxes just because they are forced to do so. Here, people are only complying with paying taxes only because they believe that if they fail to do so, they will be liable to sanctions from the government. The basic economic view of tax compliance embedded in this tax theory is that taxes are perceived as a burden. People fail to consider taxes as revenue for the government to meet its expenditures. Allingham and Sandmo proposed the standard

theoretical model. (Gërxhani & Wintrobe, 2021) The primary problem in normative taxation theory is to come up with taxes that minimize any excess burden to minimize the total burden of taxation. This is because in Allingham and Sandmo theory the problem of tax evasion is seen from the taxpayer's perspective. The taxpayer is facing the difficult decision of whether to pay tax or not. Earnings and loss expectations associated with this decision. (Sandmo, 2005) Therefore, the objective is to help correct this to maximize the utility of the individual. (Gërxhani & Wintrobe, 2021) To ensure that individuals are not prone to choosing not to pay tax to gain extra money, the price of tax evasion should be tied to the probability of being audited or being caught with the repercussions of being caught defined. According to the Allingham and Sandmo's model the consequences are associated with fines which exceed the original tax due. The individual's likelihood of paying these fines depends on his or her probability of being caught. (Gërxhani & Wintrobe, 2021) The theory implies that the reduction of tax evasion is tied to increasing penalties associated with tax evasion or by maximizing the price of administrative expenses. That is assuming this increase advances the probability that the tax evader is captured easily.

However, this theoretical literature faces some important limitations. One peculiar limitation has to do with risk aversion. This is because the taxpayer's attitude toward tax compliance is centered on his or her attitude toward risk. Risk aversion means people tend to prefer results with low risk or uncertainty to those results with high risk or uncertainty. The theory is flawed in this light because it cannot be guaranteed that all possible evaders of tax possess the virtue of absolute and constant risk aversion. That is not all individuals or companies will be dire ready to consider penalties of their decisions before they conform to existing rules. In this case, the theory overlooks that people may be motivated by arranging schemes and structures to cover their activities so that they do not get caught other than taking motivation from outstanding penalties alone to influence their decision. (Sandmo, 2005)

Again, another limitation has to do with the theory focusing on sanctions for evaders who are caught. The penalties are not generalized but set for the unfortunate evaders who are caught. Hence considering the bigger picture, there would be many evaders who do not get caught and would not be affected by the sanctions. This limits the theory however in another light the application of this enhances minimizing of tax evasion if not completely eradicating it. The very step of acting to minimize tax evasion is a milestone as it goes a long way to correct the extremities of tax evasion. In another way, when the few caught ones are made an example of being penalized it serves as a deterrent to others in society to model their life in the right direction. (Alm, 2012)

RESULTS

The phenomenon of tax evasion is becoming more prevalent in our world today. To be able to come up with specific behaviors comprising income tax evasion, three types of strategies have been deployed by researchers to better understand the scope and detect its occurrence and foster ways to address it. These mediums of income tax evasion include self reports, behavioral simulations and behavioral outcomes. (Sandmo, 2005) Researchers deployed this medium to be able to understand the reasoning behind tax evasion behaviors and establish a systematic basis to give an insight on the role of an individual's distinctive attitudes and relevant impact of social condition on tax evasion behavior. (Sandmo, 2005)

On self-report measures, researchers relied on survey methodologies and respondents' verbal descriptions of their previous tax evasion behaviors to determine the occurrence and extent of tax evasion. Here, research directly asks respondents if they have ever evaded taxes, by how much they evaded, what means they used to evade taxes and why they evaded taxes. (Sandmo, 2005) This approach will give a vivid picture of tax evasion behavior as it is coming directly from the source who had evaded tax, however, this measure is limited by the fact that individuals do care about how they are perceived in society and hence will not give genuine responses to look bad. To create a good personal image and gain social approval, people may give

responses that either exaggerate the amount of taxes they are evading or minimize the amount they evade to avoid penalties. Researchers put in the extra work to check for the tendencies to verify responses of respondents however some answers given becomes more verifiable than others hence verifiable answers would inhibit misleading tendencies whereas once that can't be verified will supply self-serving and deceptive answers. (Wenzel, 2004)

A behavioral stimulation measure entails the use of laboratory experiments to attempt to estimate direct real time behaviors. For instance, in a study organized by researchers participants are selected and made to complete stimulated tax returns. Participants here are given a monthly income for several pay periods. Then, subjects are to take the initiative on how much of their income they want to pay as taxes due and the part they keep to themselves as gain. The findings of this research showed that independent variable effects such as audit probabilities, severity of fines and tax rates impacted the rate at which subjects under-reported their income and the amount they undeclared. The stimulation served as a measure to read subjects' tax evasion potentials. Nonetheless it is questionable whether the simulations granted valid estimations of taxpayers behaviors. (Fochman & Wolf, 2019)

Moreover, behavioral outcome measures focus on assessing the occurrence of some results that are contingent on that behavior. Here behaviors of tax evaders are examined and compared with non-evaders. Tax evaders in this experiment should be people who have been convicted of tax evasion. Also, some researchers to come out with behavioral outcome measures review data from sample audits from the revenue sources to come out with individual cases of noncompliance and income tax laws. This measure has limitations. Foremost, only detected tax evasion detected in the normal course of audits can be assessed hence, unintended miscalculations and errors cannot be separated from deliberate evading tax evasion and then the data is under the level of anonymity hence individuals cannot be contacted to know to allow investigation into the social and psychological conditions relating to their noncompliance. (Fochman & Wolf, 2019)

The measurement strategies above give an insight on how tax evasion comes about be it being deliberate or not deliberate. This guides governments and policy makers to know that taxes are being evaded and adopt proper mechanisms to educate the masses on tax laws and procedures to minimize the issue. That notwithstanding, to be able to strategize ways to combat evasion the sources have to be reviewed and the next block under this chapter walks through sources of tax evasion.

Sources and Implications of Tax Evasion

The ways through which tax evasion comes includes non-declaration of income, underreporting of revenue, income or wealth, smuggling activities and over reporting of deductible expenses among others. Tax evasion is predominant among independent workers (self-employed) and professionals such as doctors and lawyers among others. (Skinner & Slemrod, 1985) An official study in the United States identified that self-employment is the largest element resulting in un-declaration and un-report of legal income in the country. This accounted for more than two-fifths of income that was not reported whereas salaries and wages resulted for about one-quarter. (Alm, 2012) Individuals who are self-employed have comparative advantage and higher opportunities than salary and wage earners to underreport their income.

Estimating the extent of underreporting using information on consumption expenditure and reported income, researchers have used this strategy to capture ways of tax evasion by the self-employed.

This expenditure- based approach to estimate tax evasion as well as the black economy was pioneered by Pissarides and Weber. (Engström et al., 2023) The main ideology is that individuals participating in an expenditure survey accurately capture food expenditure hence no systematic misreporting comes in leading to employment status.

The self-employed therefore underreporting their income becomes evident in the data as excess food consumption for a given level of observed income. (Engström et al., 2023)

The proposition of Allingham and Sandmo (1972) identified one main reason engineering why the self-employed are alleged to evade more taxes and gives motivation for an examination on this subject as the inadequate and insufficient matched income reporting. They believe the self-employed have different income tax compliance behavior. (Sandmo, 2005) This makes it important to identify the different types of self-employed incomes. A distinction can be made between self-employed income that is registered as against that which is unregistered. (Alm, 2012) Generally registered income is within jobs that are in the public sector employment with contracts. Taxes can be deducted from regular wage payments if income is recorded and registered. Unregistered income has no job contract and this happens in the case of self-employment. There is no proper way for tax authorities to track their income as in this case income must be self-reported by individuals to tax authorities to get the income tax owed. (Briscoe et al., 2000) When this is left to individuals to do reporting of their income to be taxed, a whole lot of discrepancies will be seen as deception will set in. Therefore governments would have to have proper regulations of unregistered incomes and self-employed businesses for proper accounting.

Furthermore, the structure of the economy of a country has much to do with the incidence of tax evasion recorded. For instance, a country whose production takes place in very large establishments is likely to record low incidence of tax evasion as compared to an economy or country where production takes place in small farms, shops and single individuals. This is because it might be easier to track and regulate taxation among these large enterprises than tracking these minute establishments. (Briscoe et al., 2000) Again, economies with numerous businesses that operate cash transactions are more prone to tax evasion. This is because an all cash business may not report all income that comes in especially if some of the transactions done are illegal activities. In recent times, the use of cryptocurrencies and virtual currencies have rules of usage and some governments have taxing regulations on their terms of usage making their transactions taxable. Some developing economies are still in the loop of this and may not have solid regulations to tax virtual currencies. Also, taxpayers may fail to notice crypto holdings that have increased in value. Taxpayers omit, underreport or overstate deductions to evade taxes. The more common type of crypto tax evasion is evasion of assessment. (Briscoe et al., 2000) This means intentionally not reporting capital gains generated from sales or other dispositions of crypto. Unfortunately the virtual currency system acts as a shield against tax compliance. For example crypto currencies like ‘bitcoin’ and ‘ethereum’ give a way to guard an individual’s income from the Internal Revenue Service (IRS). This stems from the fact that lax reporting requirements make the federal government blind to certain transactions. (Lacurci, 2021)

In addition, the structure of the tax system in a country also affects the incidence of tax evasion. The use of different tax bases connects to how tax evasion may vary. The tax system may vary between dependent and independent sources of income, and small, large and multinational enterprises. In the case of sales tax, tax evasion is aligned with the accounting concepts of tax liabilities. A country’s reliance on presumptive taxation makes tax evasion to be more limited. Presumptive taxation means the usage of indirect means to check tax liability. Thus tax payers pay their tax on their total revenue without any estimation of deducting their expenses from revenue. (Fochman & Wolf, 2019) This medium differs from the usual rules based on taxpayer’s accounts. The idea of ‘presumptive’ indicates that there exists a legal presumption that the taxpayer income is not less than the amount resulting from the application of the indirect method. Hence with this the only challenge is when the individual or company (taxpayer) is hiding assets. Also, some people ignore overseas income; especially businessmen who own rental properties and other companies outside the country may fail to report this in their tax reports. They assume because it is outside their residing country, they are not supposed to be taxed on this. The tax structure also influences tax evasion depending on the number of taxes posed on taxpayers. This is fostered by the additional taxes governments introduced to make up for the taxes loss in order to neutralize the losses which they come by through tax

evasion. This may cause taxpayers to find new ways to evade taxes. (Fochman & Wolf, 2019)

Unfortunately, tax evasion has become a social phenomenon other than an individual phenomenon. When tax evasion becomes a social phenomenon, it affects the efficiency of the tax system for competitive market framework. It is impossible to establish clean competitive markets when some businesses are able to evade taxes and in competition with others that keenly pay taxes and hence lose some income.

This brings about wide market adjustments that impacts income distribution. Tax advantage from evasion decreases as labor and capital goes to the tax-evading sector whereas competition and substitution incidences in production grow. (Alm, 2012) This goes a long way to bankrupt many genuine businesses just because they can't keep up with competitions where their opposition is cheating and making shortcuts to secure more gains. In the scenario of Latin Americans, a very small percentage of companies contribute a high proportion of the corporate tax. (Tanzi & Shome, 1993) This affects even the few honest tax payers to lose confidence in government. When people lose confidence in the tax they pay, they may also tow the line and stop paying taxes. Hence it is very essential for governments to foster tax compliance measures to prevent people from evading taxes and redeem the image of taxation. We look at effects of tax evasion to guide in exploring the subject of tax compliance in the next block.

Analyzing Effects of Tax evasion

Tax evasion is a social phenomenon posing harsh effects on society. This leads to a slow pace of social development. Tax evasion will require extensive efforts by tax authorities and the government to detect and combat it. This will bring about increased enforcement costs, diverting resources that could be used more productively elsewhere. Enhancing tax compliance reduces the need for expensive enforcement measures and allows authorities to focus on other crucial issues. (Kirchler et al., 2017) Again, high levels of tax evasion leads to the distortion of competition within companies and industries.

Businesses that engage in tax evasion may offer lower prices and make higher profits which are not deducted thereby creating unfair advantage over competitors. Honest businesses who pay their due taxes suffer from this and may incur losses as they compete with dishonest businesses. This leads to market imbalances and then negatively impacts honest businesses. This will force some businesses to die off leading to further economic hardships such as inflation, neglect in technological development and underinvestment among others. (Fochman & Wolf, 2019)

In the same way, widespread tax evasion may bring about a situation where governments increase tax rates in order to compensate for the lost revenue. This will affect compliant taxpayers, further burden honest taxpayers and make them lose faith in the tax system. This creates a vicious cycle due to the higher tax rates; therefore contributing to give morale to individuals and businesses to evade taxes. (Wenzel, 2004) Hence the issue has not been resolved as more numbers of tax evasion may be recorded due to this.

The incidence of tax evasion also leads to social and income inequality. Tax evasion can exacerbate income inequalities. When wealthy and corporations that can genuinely contribute funds to support social welfare programs evade taxes, it leads to a reduction in available funds to be used for social welfare programs for people in need. This puts people in need in more harsh states and widens the wealth gap in society leading to social tensions.

Tax evasion has far-reaching implications for economies and societies. Encouraging the spirit of tax compliance through strategic policies and regulations by governments is crucial for maintaining government revenue, promoting economic growth, and ensuring social equity and stability.

Tax Compliance

Tax compliance refers to the decision by individuals and businesses to adhere to taxation laws and

regulations existing in a given jurisdiction. There are various tax laws that exist in state and federal governments. These laws vary from state to state for instance some states may have higher taxes on sales and others may not have property taxes at all among other variables. Tax compliance is formed by key factors including enforcement, voluntary and committed motivation. Individuals and companies who are motivated through an enforced motivation only pay their due taxes for the purposes of audits and fines which are against non-compliance.

Committed motivation represents an intrinsic motivation, whereby taxpayers feel a moral obligation and responsibility to be honest. However, little and inconsistent empirical research exists on the relationship between motivations and tax compliance. The present paper empirically examines the connection between motivations and reported tax compliance based on data from two representative samples of 500 self-employed Austrian taxpayers and 1,377 Dutch entrepreneurs. Results show that an enforced motivation is negatively related to tax compliance, whereas a committed motivation is positively related to compliance. Contrary to expectations, voluntary motivation is not about tax compliance. (Wenzel, 2004) Based on the present outcomes it is suggested that tax authorities should present themselves as legitimate and benevolent to decrease enforced motivations and to foster committed motivations and subsequent high tax compliance. Economists believe taxes can bring a positive turn in an economy. They agree that individuals and corporate bodies will generally respond to taxes if there is a conscious planning and implementation process for taxation. Tax compliance is important to keep governments and their system working. It also ensures that public programs and services that improve lives are supported. Tax compliance generally refers to taxpayers' decision to abide by tax laws by paying their due tax timely and accurately. (Wenzel, 2004)

Consequently, individual tax compliance though similar to business tax compliance may differ in some ways. Individual Tax compliance includes accurate reporting of the individual yearly income and gains. The individual reports all income by him/herself without leaving out any income to be taxed. In the United States, the individual has the responsibility to file their taxes appropriately and accurately depending on how much income they have earned. There are services available for the individual to task for this filing for them usually at a fee. In this process, should the individual not declare all income accrued then tax evasion will occur. (Sandmo, 2005)

Business tax compliance also revolves around businesses accurately reporting all their accrued income within a year. Businesses must pay accurate state and federal taxes. They must declare all charitable donations made and their employees with their identification number. Some businesses consult services of tax accounting companies to assist them with tax compliance. Taxes are very central to governments and economies as by paying taxes individuals and businesses provide fundings to the government's tax revenue. This enables governments to balance budgets and be able to provide goods and services to its people. The breakage in the stream of flow of tax revenue will rob the government of funds to actualize these goals.

Tax compliance encompasses the timely and accurate reporting of income, deductions and payment of taxes owed by individuals and businesses. This is central to maintaining fair and effective tax systems as it ensures all taxpayers contribute their quota to tax revenue. Implementing effective tax administration, this plays a vital role in promoting compliance.

Examining Tax Compliance Mediums

Moral persuasion, also known as moral persuasion, involves the use of ethical arguments, social norms, and intrigue to the individual sense of morality and conscience to sway their decisions and behaviors. In the context of tax compliance, moral persuasion seeks to motivate the taxpayer to voluntarily follow their tax obligations. This is usually achieved through appealing to their moral obligation and social responsibility to contribute to the functioning and existence of the society. This scheme stresses the moral aspects of tax compliance rather than relying solely on enforcement measures and sanctions. Moral persuasion can foster

tax compliance when the individual intrinsic motivation is appealed to do the right thing. There have been proven studies and researches showing that individuals possess a natural inclination to adhere to social norms and regard moral values. Therefore by emphasizing the essence of paying taxes for the collective well-being of society and availability of public goods and services, moral persuasion can be upheld. Also, promoting a sense of civic duty and encouraging taxpayers to willingly fulfill their tax responsibilities promotes the intrinsic motivation of individuals to pay for their taxes. (OECD, 2001)

Moral persuasion goes further to shape the individuals perceptions of fairness and equity within the tax system. In the incidence that people perceive the tax system as fair and just, they are more likely to comply with paying their due voluntarily. Moral arguments and perspectives that show the importance of everyone contributing their fair share and presenting negative consequences and penalties of tax evasion can reinforce perceptions of fairness and boost tax compliance. (Torgler, 2004) Through creating a social norm of tax compliance and socializing individuals to adopt the belief that paying taxes is the morally right thing to do, moral persuasion can help establish a culture of compliance within a society. This facilitates a crucial role in promoting tax compliance by appealing to the individual sense of morality, perceptions of fairness and intrinsic motivation. The conscious effort to emphasize on the moral duty and social obligation of taxpayers goes a long way to contribute to developing societies through tax revenue. This encourages voluntary compliance and establishes a culture of tax compliance among taxpayers.

Using enforcement measures and penalties remain keen in addressing tax evasion. However, moral persuasion offers a complementary approach that can positively influence taxpayers' behavior and decision-making. The use of moral suasion traces to the studies in the field of monetary or environmental economics. It stresses on investigating the relationship between central and commercial banks. (Torgler, 2004) They came out with the findings that the techniques of moral suasion enable the central and commercial banks to exchange views on present economic situations and further develop a common view of the entire economy. Again, a field experiment organized to determine the effects of moral appeals and punishments on compliance with tax laws. They found out that the magnitude of influence of moral appeal was greater than punishments. These findings were important in realizing the different potential compliance factors. (Torgler, 2004)

Further, in the case of India the state engaged two private marketing enterprises to carry out a marketing campaign based on moral suasion to increase tax compliance. India's tax amnesty 1997 was very successful. It boosted additional revenue of about 100 billion rupees into their economy. (Torgler, 2004) Tax administration should concern themselves with generally increasing voluntary compliance with tax laws then creating a social norm of compliance. Promoting voluntary compliance should be of primary concern to revenue authorities. (OECD, 2001)

In addition, most US states have had a series of "name and shame" programs to reveal names of top tax debtors publicly on state websites. This goes a long way to speak to the conscience of these debtors and others in the society. Also, as an alternative some nations recognize efforts of complaint or high-paying taxpayers publicly. An increasing number of developing countries adopt this strategy. Some countries also stage public campaigns to influence change in attitudes towards tax evasion. For instance, in Italy recently, their television and print media highlighted the need to reduce widespread tax evasion to ensure a better cope with the European debt crisis. (Luttmer & Singhal, 2014) Moral suasion can be used as a socializing and re-socializing technique to help individuals and groups to embrace taxation. This can impact individuals and companies to be honest in paying their taxes.

Furthermore, simplifying tax laws and regulations contributes to individual and business tax compliance. Complicated tax regulations and laws end up confusing taxpayers. Hence they are unable to comprehend what is due them to pay and lack of clarity breeds ignorance that leads to tax evasion., leading to unintentional errors or non-compliance. Simpler and clearer tax regulations and laws make it way easier for

individuals and businesses to understand their tax obligations therefore reducing the likelihood of non-compliance. A study found that simplified tax systems positively impacts voluntary tax compliance whereas complicated tax systems lead to a good number of the population evading taxes. It is therefore very important for governments to break down tax laws and regulations to its simplest forms as much as for the lane taxpayer to understand and contribute to their tax obligations. This prevents people from evading taxes through ignorance and confusion. (Alm, 2012)

Equally important, intensifying tax education and introduction of assistance programs on tax filing will go to the extent of expanding tax compliance. The provision of effective and efficient taxpayer education by governments will enable the taxpayer to understand the importance of taxes to the government and society. It further expands the understanding of individuals and businesses on the benefits of tax compliance. This approach educates taxpayers about their tax obligations and gives guidance on tax filing processes. Providing education programs to the taxpayer significantly increases chances of voluntary compliance behavior from taxpayers. This reduces the incidences of tax evasion in the society. (Kirchler et al., 2017)

The rise of technology has significantly impacted all aspects of our lives and can be used for tax compliance practices. This can lead to the emergence of various tax compliance mediums. Traditional tax compliance methods often revolve around time-consuming paperwork and cumbersome manual processes, making it difficult for taxpayers and tax authorities alike. The introduction of digital tax compliance mediums will streamline the process and improve compliance rates. Electronic filing, or e-filing, is a digital medium that has been introduced to enable taxpayers to submit their tax returns electronically to tax authorities. E-filing platforms are accessible through web portals. This enables taxpayers to input relevant financial information, deductions, and credits. (Johnson, 2018) Using this medium provides several advantages, such as reduction of errors due to automated calculations, faster processing times, and increased convenience for taxpayers. Research has shown that e-filing has positively influenced tax compliance rates (Johnson, 2018) Governments around the world can therefore engage in this platform to boost tax compliance in their jurisdiction. However, challenges like cybersecurity issues and the digital divide among taxpayers need to be addressed for broader adoption and effectiveness.

The proliferation of smartphones can be harnessed for mobile tax applications that enable taxpayers to manage their tax-related affairs on the go. These apps offer features like tax calculators, document scanning, and secure payment options. Mobile applications cater to the growing number of tech-savvy taxpayers and can potentially increase tax compliance among younger demographics. Studies have indicated that mobile tax apps can enhance taxpayer engagement and simplify compliance processes. (Casal et al., 2019) Artificial Intelligence has gained traction in various fields, and tax compliance is no exception. AI-driven tax compliance platforms may use machine learning algorithms to investigate vast amounts of data, detect discrepancies, and identify potential tax evasion sequences. Leveraging AI by tax authorities can improve tax risk assessment and enforcement capabilities. This contributes to increased compliance and reduced tax fraud. (D'Antonoli, 2020)

Implications of Tax compliance

The examination of tax compliance mediums demonstrates the potential benefits and challenges associated with existing tax compliance and bring about the loopholes in the tax evasion schemes that exist among individuals and businesses. Tax authorities can use these mediums effectively for the eradication of tax evasion. First, governments must continuously monitor and evaluate the performance and effectiveness of tax compliance mediums. This will enable them to identify areas that demand improvement and adapt to changing technological landscape and operational schemes to boost compliance mechanisms. This will make existing compliance methods stay relevant and functional in a changing world. (Kirchler et al., 2008)

Moreover, tax regulations and laws should be in clear and concise guidelines for the lane taxpayer to be able

to understand details of what is expected to avoid evasion of tax through ignorance. Again, promoting digital literacy among taxpayers, especially the elderly and less technologically inclined individuals will contribute to expanding to bridge the digital divide and ensure inclusivity. Also, clear tax regulations and laws brings about transparency and fairness hence will encourage taxpayers to oblige to their tax obligation. (Casal et al., 2019)

Tax compliance ensures that individuals and businesses pay their fair share of taxes, which contributes to government revenue. When people accurately report their income and pay the right amount of taxes, it helps fund public services, infrastructure, education, healthcare, and other essential functions of the state. On the other hand, tax evasion results in a loss of revenue for the government, potentially leading to budget deficits or a need for higher tax rates on compliant taxpayers to compensate.

Tax compliance promotes a sense of fairness and equity in society. When everyone pays their due taxes, the burden is distributed more evenly among citizens, reducing the tax gap and preventing a situation where some individuals or businesses exploit loopholes to avoid taxes, leaving others to bear a disproportionate burden. A high level of tax compliance contributes to public trust and confidence in the tax system and government. When people believe that their taxes are being used effectively and efficiently, they are more likely to comply willingly. Conversely, widespread tax evasion erodes trust in the system and may lead to reduced voluntary compliance. When governments around the world make available infrastructural development and other basic amenities for their citizens it leads to transparency where the people know their taxes are being used rightly. Hence transparency in government administration leads to lane citizens getting positive impacts on taxes and hence will be willing to contribute their quota. (Feld & Frey, 2007)

CONCLUSION

In conclusion, the study of tax evasion and tax compliance sheds light on the intricate dynamics between taxpayers and tax authorities, usually the government. Throughout this paper, we have explored the concept of tax evasion and varying factors that influence tax evasion among individuals and businesses. Some of these factors include economic incentives, social norms, institutional trust, and enforcement mechanisms. Tax evasion remains a paramount challenge facing governments worldwide, leading to revenue shortfalls and undermining the social contract that exists between citizens and the state. In order to effectively combat tax evasion and promote tax compliance, a multi-faceted approach is required, combining legal and enforcement measures with behavioral interventions and also complementing these with taxpayer education.

The recognition of the essence of voluntary compliance should be encouraged as it proves to be effective in combating tax evasion. Policymakers should emphasize strategies that foster a culture of tax compliance, incorporating elements such as simplified tax systems, enhanced transparency, and public awareness campaigns on the benefits of taxation. Further, promoting trust between taxpayers and tax authorities is critical, as it positively correlates with higher compliance rates.

Moreover, incorporating technological perspectives can significantly improve tax administration and detection of evasion, enabling more targeted enforcement efforts. Combating tax evasion and promoting tax compliance requires a comprehensive approach that encompasses legal, economic, behavioral, and technological dimensions. By comprehending the underlying drivers of tax behavior and implementing evidence-based policies, governments can ensure greater compliance, strengthen public finances, and ultimately develop more robust and equitable societies. Continuous research and evaluation of policy effectiveness will be crucial to refining strategies and meeting the evolving challenges posed by tax evasion in the years to come.

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