

The Role of Religiosity and Tax Compliance

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Abstract

Religion becomes the pillar for introducing beliefs that outline acceptable and unacceptable conduct, including tax compliance. This study aims to construct a conceptual framework of religion that can be utilised to analyse and examine the role of religiosity as a determinant in tax compliance. The framework components were extracted from the literature by searching for relevant keywords in the context of religiosity on tax compliance. The proposed framework may aid future research by offering a systematic means of evaluating how religious beliefs and values can help tax authorities and policymakers create specialised solutions sensitive to religious concerns. This study analyses and discusses appropriate religiosity variables as a factor of taxpayer compliance behaviour.

Keywords: Religiosity, Tax Compliance

Introduction

A person's religious beliefs might serve as an internal motivator. These beliefs introduced by religious institutions serve as a foundation for establishing norms for socially acceptable conduct (Basri, 2015), such as tax compliance. For many people, religious teachings have served as a foundation for ethical behaviour, making religion a significant influence on tax compliance. According to Mohdali & Pope (2014), religion is thought to drive taxpayers to comply with the tax law since most people use it to prevent negative attitudes and promote positive ones in their daily lives.

All religions provide their followers with honesty, integrity, and responsibility fulfilment. Religion instils a feeling of obligation in its adherents by continually stressing moral principles, including the need to pay taxes (Damayanti, 2018). On this consideration, there is a correlation between religious beliefs and risk aversion, making religion a significant consideration when it comes to tax compliance. For example, risk-averse people, whether they be individuals or taxpayers, tend to be conservative. Contrarily, risk-seeking individuals are more likely to have low or non-existent faith; as a result, they may have a low belief in divine protection, leading them to engage in tax evasion, tax aggressiveness, or might abuse loopholes in tax laws (Torgler, 2003). Nevertheless, individuals with solid religious convictions are more likely to avoid or pay close attention to any consequences for failing to comply with tax laws (Wang & Lu, 2021). This aligns with Utama & Wahyudi (2016), which suggests that a higher level of religion among taxpayers will lead to greater tax compliance.

Individuals tend to believe in the benefits associated with tax compliance and have faith in divine protection due to their religious beliefs. The existence of religious authorities also makes religion essential for tax compliance. It may be a religious organisation whose peers or leaders have become role models for taxpayers due to their emphasis on doing the right thing to fulfil their responsibilities.

This study aims to provide a theoretical framework for religiosity that may be utilised in examining and discussing religiosity as a determinant impacting tax compliance. The authors of this study assert that religiosity can possess a universally accepted definition in all forthcoming investigations on tax compliance and can be examined utilising the framework introduced in this study. Based on a review of relevant literature, it is proposed that the gap in the literature is that the concept of religiosity is not well-defined in tax compliance research and is commonly used in a broad sense.

Literature Review

Religiosity is typically connected to cognition (religious knowledge and beliefs), which influences actions through emotional attachment or sentiments towards religion and behaviour (Elci, 2007). Johnson (2001) describes religiosity as the degree to which people are devoted to their religious faith and implement its teachings so that their attitudes and behaviours reflect this dedication. In this study, religiosity demonstrates how taxpayers value and determine their level of compliance following their religious ideologies and the role played by the religious institution/authorities.

Methodology

This research adheres to the interpretivist paradigm. McKerchar (2010, p 75) argued that “interpretivism provides an understanding of social reality based on the subjective interpretation of the researcher.” The current research presents a framework for comprehending and analysing the concept of religion in tax compliance based on the authors' subjective literature review. The religiosity and tax compliance framework was derived from a literature review using academic database searches (for instance, Scopus, Emerald, Taylor & Francis, and EbscoHost) with the keywords "religion and tax knowledge" or related concepts. To develop the suggested framework, we systematically reviewed the literature, looking for recurring patterns and themes about religion and tax compliance.

Result and Discussion

Religious Ideology and Tax Compliance

The effect of religion on tax compliance only succeeded in demonstrating an optimistic feature of general religious faithfulness, noting that 5% of taxpayers were more likely to pay their taxes, and only 4% of them acquired tax conformity attitudes (Benk et al., 2015). Individuals with strong religious views view obeying tax regulations based on their convictions as a moral responsibility and gladly do so (Mohdali & Pope, 2014). In this vein, the notion of sowing and reaping in Christianity supports the idea that every action has repercussions, positively influencing taxpayer compliance (Nor Raihana Mohd Ali, 2013). Ross & McGee (2011) examined the relationship between religion and socio-demographic factors and tax compliance in Malaysia. They discovered that Protestants opposed tax evasion the most, followed by

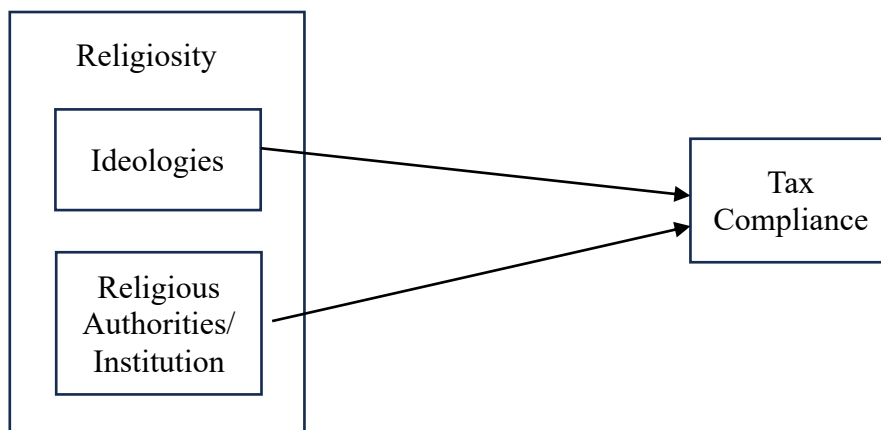
Roman Catholics, Muslims, Hindus, and Buddhists. This synonym with Stark & Glock (1965) that the five significant characteristics of religiosity are belief (ideological), religious practice (ritualistic), appreciation, knowledge (intellectual), and practice (consequential). Redistribution of wealth demonstrates that some religions uphold economic justice and support the fair distribution of wealth, while some advocate progressive tax systems that impose higher burdens on the wealthy to solve economic inequality, which could subsequently affect attitudes towards taxation policy.

Religious Institution / Authorities and Tax Compliance

Religion is essential for tax compliance because of the existence of religious authorities. It can be an organisation with religious activities whereby the peers or leader of this authority body has become the role model for taxpayers since they emphasise a good thing to fulfil their duty (Torgler, 2006). Many religious organisations are very committed to their communities, which puts pressure on them to conform to their communities' consensus action, including complying with the tax law (Strielkowski & Čábelková, 2015). Besides, direct democracy, citizen involvement, and religiosity were found to increase tax morale in a study of tax attitudes in three multicultural European nations (Belgium, Switzerland, and Spain) (Torgler & Schneider, 2007). For example, Muslims who pay zakat have a solid understanding of their religious duties and are driven by a genuine sense that a higher authority is observing their acts, Pusat Zakat, in each respective state of Malaysia. Wang & Lu (2021) investigation in China shows that areas with more prominent religious institutions and a more religiously-oriented culture have a higher rate of tax compliance among their residents.

A framework for understanding and analysing “religiosity” and tax compliance

This thematic analysis of the literature concludes that religious ideologies and the role played by religious authority or institutions are best understood together. Incorporating these two factors into the tax compliance model, as shown in Figure 1 below, could provide a helpful framework for understanding and studying the religious effect on tax compliance.



Theoretical and Practical Contribution and Conclusion

Making a theoretical implication involves using logic and evidence to strengthen a preexisting theory. Based on a review of the existing literature, this research established a conceptual framework and showed that the two main parts of religiosity in tax compliance are due to ideologies in religion and the role played by the religious authorities/institute. Our finding is

that there is a dearth of religious research on tax compliance, and the number of articles on tax compliance associated with religion is relatively small. As a multi-religious society, Malaysia is ideally suited to implement the idea of using religious beliefs to increase tax compliance. Having strong religious values among Malaysians will stimulate their positive behaviour to be very obedient, to be good citizens and to assist the government in developing the country for the common good.

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