
ASSESSING THE IMPACTS OF PERSONAL AND SOCIETAL NORMS AND PUBLIC STATUS ON TAX MORALE AND SHADOW ECONOMY BEHAVIORS: A WORLDWIDE APPROACH

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ABSTRACT: *More and more people around the world are operating businesses off the data grid in order to avoid payment of taxes. The boom in underground economies leave governments insufficient revenue to provide adequate public services, which include health care, roads, education, or even better tax collection. Numerous literatures exist on the single aspect of the hidden economy focusing on the size, causes, consequences, characterizing of its presence, a current study is lacking on the impacts of people's perception on the growth of shadow economy. It is likely that this dearth of research on the impacts of peoples' perception regarding underground economy activities in the past is the result of the difficulties in providing reliable official indicators for direction of intended government policy measures. Presently, attention is being drawn on people's perceptions towards the shadow economy. This research study was conducted to address these limitations relating to underground economic activities from peoples' perspective.*

KEYWORDS: Shadow Economy, Sam Agbi, Employment Status, Official Economy, Societal Norms, and Eniola Agbi

INTRODUCTION

The concept of the shadow economy was originally derived from the literature on problems of developing countries (Dell'Anno & Solomon, 2008; Gerxhani, 2004). Researchers in various disciplines determined that large groups of the population in developing countries were not absorbed in the modern economy. In 1963, the eminent cultural anthropologist, Clifford Geertz introduced two terms for this phenomenon: the firm-centered economy and the bazaar economy (Dell'Anno & Solomon, 2008; Geertz, 1978). Elaborating on this dualistic model, Hart (1973) in Johnson, Kaufmann, and Zoido-Lobaton (1998) introduced the terms formal and informal in his study on the employment structure in Accra, Ghana. In addition, with the International Labor Organization (ILO) report on the Kenyan economy and a series of World Bank studies in the seventies, the terms took root in the debate on economic development (Amar, 2004; Chatterjee, Chaudhury, & Schneider, 2006; Feld & Schneider, 2010). Although, in this way, the informal economy became a common sense notion, strict definitions were never agreed upon. The Dutch Board of Advice (on development questions) therefore qualified the term as a notifying concept (Bhattacharyya, 1999; Williams, 2004). The term informal economy kept its notifying function when researchers and politicians discovered that also in the developed countries of Western Europe, United States, and Canada economic activities took place outside the scope and control of public authorities (Alexeev & Pyle, 2003; Cziraky, 2004, Williams, 2005).

In general, there are two approaches to defining the underground economy (Fleming, Roman, & Farrel, 2000). The definitional approach considered underground economic activity as merely unrecorded economic activities (Tunyan, 2005). The behavioral approach defined the shadow economy in terms of behavioral characteristics and the economic activities therein (Nikopour, Habibullah, & Schneider, 2008). The definitional approach is descriptive, whereas the behavioral approach provided underpinnings of a theoretical explanation for underground economic activities (Fleming et al., 2000).

The underground economy has become a topic for regular academic research (Schneider & Enste, 2003). Over the years, numerous studies have emerged, analyzing it in developing and developed countries, as well as in countries in transition from socialist to market oriented economies (Schneider & Enste, 2000). According to Kagan (1989) the term 'underground economy' refers to a broad phenomenon, including tax evasion, activities against government regulation, illegal activities, and hidden employment. Research usually focuses on any one of these in isolation, even though they are often directly or indirectly related to each other (Ahsan, 1990). This study focus on the broad phenomena related to the underground economy: also known as shadow economy (Collins & Plumlee, 1991). According to Bruce (2002) there are two main reasons for focusing on shadow economy. First of all, it is directly linked to large budget deficits and hence to lower investments in public goods. Besides being of general interest from an economic point of view, this means that the effects may differ significantly depending on the level of development of a country. Second, studying shadow economy creates the opportunity to investigate the decision-making process related to the underground economy at the individual level (Parker, 2003).

Little was known about impacts of personal and societal norms and public status on tax morale and shadow economy behaviors (Frey & Torgler, 2007; McGee, 2005; Sikka & Hampton, 2005). Very little has been written about tax morale and shadow economic activities based on personal and societal norms and public status. The investigation of shadow economic activity has a certain appeal in economic studies for policy making and economic growth (Bajada & Schneider, 2005). Therefore, policy makers need more studies on impacts of personal and societal norms and public status on shadow economic activities and its impacts on official economy and economic growth so that they can better understand, estimate, and suggest methods of solving the problems associated with activities of the shadow economy. According to Torgler and Schneider (2007), "it seems that the economic profession, immersed as it was in its theories, could not cope or was unwilling to cope with the messy world of the shadow economy" (p.102). However, some researchers have started to go beyond ignoring the topic and begun to be interested in the study of the impacts of personal and societal norms and public status on shadow economy and consequently, on the official economy (Choi & Thum, 2004; Feld & Frey, 2007). Today, it is imperative for policy makers to conduct more studies on the impacts of personal and societal norms and public status (toward shadow economy) so that they can better comprehend, provide appropriate estimation, and recommend approaches of solving the problems associated with the activities of the underground economy.

The problem to be addressed was the negative impacts of the shadow economy in developing and developed countries, as well as in countries in transition, including corruption, economic retardation, developmental disabilities, and lack of adequate revenue to the government. A large body of literature exists on hidden economy focusing on the size, causes, consequences, characterizing of the shadow economy, and the impacts of government policies on the shadow activities (Feige & Urban, 2008). There was very little quantitative evidence gathered on the impacts of personal and societal norms and public status on the growth of underground activities and the impacts on the official economy, government policies, and economic growth (Sikka & Hampton, 2005). This research study helped in addressing these limitations relating to shadow economic activities and the nation's economic growth.

Purpose, Research Direction, and Significance of the Study

The purpose of this quantitative study was to assess the impacts of personal and societal norms and public status on tax morale and shadow economy behavior and to relate the perceptions of workers regarding underground economic activities based on 'employment statuses'. The research study was non-experimental and comparative in design. Researchers have argued that small business owners and low income earners are more likely to be exposed to underground economic activities than the corporate workers and high income earners because the small business owners and low income earners move in circles where prospects to engage in underground economic activities is high. This is because, cash economic activities were most prevalent with the small business owners (Cobham, 2005; McGee, 2005; Schneider, 2008).

A stratified random sample of 100 each from small business owners and financial advisors were selected from a sampling frame of 1,500 workers. Data was gathered by means of an 18-item questionnaire regarding attitudes towards activities of an underground economy (McGee, 2006). To determine differences based on type of work, a two-tailed independent samples t test was used.

Shadow economy is an active component of the majority, if not all, of the world's economies, though its size appears to vary considerably among countries (Dreher & Schneider, 2006; Fleming et al., 2000; Schneider, 2005). Fleming et al. argued that underground economic activity should be included in national accounts statistics to the extent possible, given the obviously incomplete picture generated by ignoring such activity. It seems unlikely that robust estimators can be developed without a clear understanding of both the underlying economic theory describing how shadow economies come about and what drives the level of activity in each component sector of any economy (Fleming et al., 2000; Pickhardt & Shinnick, 2009; Schneider, 2006).

THEORETICAL FRAMEWORK

Several studies have involved examinations of the relationship between tax morale and the size of the shadow economy. Using a multivariate analysis and controlling for a variety of potential factors, Torgler and Schneider (2007) found that higher tax morale and a higher level of institutional quality led to lower levels of the shadow economy. In a study of the shadow economy in Europe and the United States, Alm and Torgler (2006) found a significant negative

correlation (Pearson $r = -0.46$, $p < .05$) between tax morale and the size of the shadow economy, with tax morale explaining more than 20% of the total variance of the size of the shadow economy (Fuest & Riedel, 2009). Alm and Torgler concluded that the degree of tax morale has consequences for real behavior, and might be responsible for the size of shadow economy. Thus, if tax morale is declining, then the shadow economy is likely to increase. Alm and McKee (2004) found that tax compliance was a complicated decision correlated with the financial incentives related to compliance. The findings by Alm and McKee also indicated the need for novel ways of addressing compliance decisions. Multifaceted approaches are needed that focus on both enforcement and creating motivations to entice people to follow rules and regulations.

Tax Morale and related Issues of Tax Evasion

In the past two decades, a huge body of empirical literature has emerged which highlights the importance of tax morale (taxpayers' attitudes, perceptions and moral values) for individual evasion decisions (Traxler, 2006). Tax evasion seems to be more than a risky gamble of rational individuals, who trade off the costs from detection with the chance of getting away undetected (Allingham & Sandmo, 1972). As expressed by Sandmo (2005), people refrain from tax evasion not only from their estimates of the expected penalty, but for reasons that have to do with social and moral considerations. One crucial factor that systematically influences such moral considerations is the (perceived) compliance of other taxpayers: Individuals, who believe that most fellow citizens are honest, consider evasion as a more serious wrongdoing than those, who presume tax evasion to be more widespread.

As discussed by Frey and Torgler (2006), higher expectations about the level of tax evasion result, in lower tax morale and not the other way around. Traxler stated, if a taxpayer deviates from the norm and conceals income, conduct is not in line with the individual's self-image as a good member of society, who complies with societal norms and expectations. The strength of the norm and thereby the self-imposed sanctions associated with a norm violation is determined by two factors: First, by an exogenously given, individual specific degree of norm internalization. Second, by the endogenously determined share of evaders in the society, Frey and Torgler stated, the more people deviate from the norm, the weaker the compliance norm becomes. This creates an interdependency of evasion decisions. An increase in evasion will trigger a bandwagon effect as it lowers the strength of the norm and thereby raises other taxpayers' disposition to dodge taxes. Hence, individuals act conditionally cooperative they condition their compliance on the behavior of other members of the society (Gächter, 2006). The intuition for this result is that conditional cooperation works not only within but also between groups. If, for example, looser tax enforcement among one specific group results in more evasion, this creates an externality on the norm strength in other groups. The more a community takes over the position of a social reference group, the more detrimental are norm violations within this group on the perceived norm strength in the rest of the society.

In order to maintain a strong social norm, it is therefore crucial, to enforce a high level of tax compliance among morale leaders, that is, members of moral reference groups (Gächter & Renner, 2006). Gächter & Renner, show that higher contributions by a leader first-mover in sequential public good game make followers expect higher levels of cooperation. In turn, this results in more contributions among the followers. The importance of such a leader follower

interaction is also emphasized by Hammar, Sverker, and Nordblom (2005). Hammar et al. reported on a study by the Swedish Tax Agency, which found that the most common argument legitimizing tax evasion among Sweden is that those in leading positions in society violate the social norms.

Personal and Social Norms of Tax Compliance

Various studies have demonstrated the role of personal norms for taxpaying behavior (Wenzel, 2004). Schwartz and Orleans (1967) provided early experimental evidence that appeal to taxpayers' personal conscience, which could increase their tax compliance (Wenzel, 2004). Although the conceptual replication of this study by McGraw and Scholz (1991) did not show an equivalent effect on actual tax return data, the moral appeal had consistent effects on more peripheral taxpaying attitudes and behaviors (Wenzel, 2004). Further experimental evidence came from a simulation study by Bosco and Mittone (1997). Personal moral concerns were operationalized as the existence of a redistributive purpose of the tax collection, where tax evasion would be at the cost of less affluent others; the factor accounted significantly for the observed degree of evasion (Alm & Torger, 2006; Wenzel, 2004). There are also a number of survey studies showing that general honesty (Porcano, 1988); ethical convictions concerning taxpaying (Reckers, Sanders, & Roark, 1994), or the anticipation of experienced guilt over non-compliance (Grasmick & Bursik, 1990; Scott & Grasmick, 1981) were significantly related to tax compliance (Feld & Fred, 2007; Wenzel, 2004).

Studies on effects of personal taxpaying norms, ethics, and morality rarely ask for the origin of these personal norms (Feld & Fred, 2007). Personal tax norms are certainly to a large part based on processes of social learning and absorption from the environment and thus have a social basis (Fisman & Svensson, 2007; Weigel, Hessing, & Elffers, 1987; Wenzel, 2004). Moreover, personal norms need not be understood as stable and enduring personality characteristics, but, because they are largely of a social nature, rather as depending on and varying with the groups and social norms one refers to at any given point in time (Abrams & Hogg, 1990; Terry, Hogg, & White, 2000). In this sense, studies that test and thus control for the effects of personal norms may underestimate the role of social norms for tax compliance (Wenzel, 2004). For instance, Grasmick and Bursik (1990) tested in their interview study for effects of personal norms and social pressure, as experience of guilt and loss of respect in the eyes of valued others, respectively. Regression analyses conducted by Frey and Torgler showed that personal norms were significantly related to anticipated tax cheating, while social norms were not, even though their zero-order correlation with tax cheating was significant (Frey & Torgler, 2006; Wenzel, 2004).

There is also evidence showing that social norms do affect on taxpaying behavior. In an experimental study by Alm, McClelland, and Schulze (1999), participants who learned that the majority rejected a more severe enforcement showed subsequently lower levels of compliance. In a field-experiment, Wenzel (2004) provided a group of taxpayers with feedback about survey findings showing that people underestimate other taxpayers' normative beliefs supporting tax compliance. Compared to control groups, the feedback was partly effective in significantly reducing deduction claims. Moreover, a number of studies found that people with more non-compliant attitudes or behaviors perceived tax non-compliance to be more prevalent among

people known to them (Wenzel, 2004). Wenzel argued that, the direction of causality underlying this finding is ambiguous. Furthermore, the findings seem more consistent for taxpayers' perceptions of tax compliance among friends and people known to them, but there have been negative findings for the perceived prevalence of tax non-compliance among taxpayers in general (Wenzel, 2002; 2004). According to Bardach (1989), this would suggest that social norms are not a promising channel for regulation attempts, because campaigns could hardly address the norms of each taxpayer's more immediate peer groups, while broader societal norms could be targeted but seem less relevant to people. One reason for the inconsistent findings could be that social norms do not exist in an unstructured social field. Rather, others' beliefs and behaviors become normative when refer to others as a relevant reference group (Frey & Torgler, 2006; Kelley, 1952; Torgler & Schneider, 2007).

Canadian Shadow Economy and Tax Evasion

Despite what many might argue, working in the official economy and paying taxes is one of the cornerstones of a healthy economy. More and more people around the world are operating businesses off the data grid in order to avoid payment of taxes. The boom in underground economies leave governments insufficient revenue to provide adequate public services, which include health care, roads, education, or even better tax collection. In Canada, shadow economy grew steadily relative to measured GDP over the period 1976 to 2001 (Breusch, 2005a; Tedds, 2005). The value of the shadow economy grew from about 7.9% of GDP in 1976 to about 16% in 2001 (Choi & Thum, 2004). In fact, a new report estimated that in 2009, an average of 16.8% of official gross domestic product of Canada slipped through the shadow economy (Schneider et al., 2010).

There is considerable agreement internationally, on both theoretical and empirical grounds, about the factors that determine the relative size of the shadow economy (Mummert & Schneider, 2002). These factors include the tax burden, regulation, enforcement, labour force characteristics, confidence in government, and morality (Tedds, 2005). The relationship of these factors to the Canadian underground economy cannot be underestimated. In Canada, the single most commonly cited driving force of the underground economy is the tax burden (Bajada & Schneider, 2005).

There also appears to be an exceptional degree of agreement on the empirical proposition that the shadow economy has grown significantly in Canada and all over the world, as a percentage of GDP, since early 1991 (Giles & Tedds, 2002; Gylliane, 1994; Tedds, 2005). One key piece of evidence for this is the large increase in cash now in circulation worldwide relative to reported incomes (Choi, & Thum, 2005; Schneider, 2007). There is also a fantastic amount of anecdotal evidence and consumer survey data, which is probably why the issue has fascinated such extensive popular attention. Even Statistics Canada's analysis of discrepancies in the GDP data supports the view that the underground economy began growing in Canada in 1991 (Amar, 2004; Bajada & Schneider, 2005; Statistics Canada, 2009).

There has been a groundswell of concern about the shadow economy in Canada, to an extent not found in other countries (Giles & Tedds, 2002; Schneider, 2007; Tedds, 2005). Tedds (2005) argued that, in 1993, some 77 articles featured the underground economy in magazines and

newspapers listed in the Canadian Periodicals Index, as compared with half a dozen in 1992. By contrast, the United States Business Periodicals Index contained only three references to the subject of shadow economy 1994, and of these, one was about Canada (Dreher & Schneider, 2006; Pickhardt & Shinnick, 2009). Therefore, a substantial body of opinion exists in Canada to the effect that a variously defined shadow economy accounts for a large and growing share of total economic activity in the country. The news media have given the topic considerable attention in recent years. There is also extensive belief with very few dissenting that the shadow economy is a growing problem in Canada and has contributed to a worsening of government deficits (Choi, & Thum, 2005; Owen & Walker, 1997).

The implementation of the Goods and Sales Tax (GST) in 1991 has probably received the most credit for increasing the size and growth of the Canadian shadow economy in recent times (Giles & Tedds, 2002). This is interesting because, when the GST was first proposed (and throughout its implementation), the federal government argued that the GST would reduce the scope for tax evasion. This was based, in part, on evidence at that time from New Zealand. In fact, until the advent of the Canada Customs and Revenue Agency's Underground Economy Initiative (UEI) in November 1993, the Canadian government has dismissed the notion that the underground economy was of any significance, in contrast with the position of the IRS in the United States (Tedds, 2005). Tedds argued that, the stacking of taxes in Canada is also a likely driver of underground activity.

In Canada, both the federal and the provincial governments have the ability to utilize methods of direct and indirect taxation to raise revenue. As a rule, Canadians are taxed on the same base whether it is income or consumption of goods and services by both levels of government (Giles & Tedds, 2002). Provincial personal taxes, for the most part, are based on a set percentage of federal personal tax collected. As a result of this stacking effect, Canadians may suffer from tax fatigue. That is, it is the number of different taxes that Canadians pay that drives them into the shadow economy, and not necessarily a particular tax (Giles & Tedds 2002; Tedds, 2005). According to Giles and Tedds, lowering one tax, such as the federal marginal tax rates, would likely do little to curb shadow economic activities in Canada, whereas eliminating a tax, such as the GST or PST, would likely have a substantial impact on curbing shadow economic activities.

Canadians are, for the most part, extremely proud of their social safety net, but this too provides incentive to hide income and to work off the books. Small businesses in Canada often find it difficult to pay their portion of payroll taxes, notably workers' compensation, employment insurance, and pension premiums in the Canadian context. Employees can also find these so-called payroll taxes a burden. In addition, people receiving welfare or disability payments find that their payments for welfare or disability is reduced if they earn any other income and an additional tax is imposed on those receiving Employment Insurance (EI) benefits if their total annual income exceeds a certain income level. Additionally, lack of confidence in the performance of government may also be a factor in the decision to participate in the shadow economy. Some taxpayers may have concerns about the way in which their income tax is spent or are perceived as being spent. Closely related to this issue is morality. Individuals may choose their level of compliance with laws and regulations to match their perception of the extent to which others comply (Breusch, 2005a; Tedds, 2005).

RESEARCH METHODOLOGY AND STRENGTH

The basis of this study was to examine the perceptions of workers regarding the activities of the shadow economy and related issues of tax evasion and its implications on official economy, government policies, and economic growth using McGee's (2005) Ethical Survey Instrument (MESI). The MESI has been used, modified, and extended in various studies examining the perceptions, ethical attitude, and behavior of workers towards underground economic activities. The assumptions of this study include (a) the responses to the survey were honest and, (b) the results of this study is sufficient and provide applicable results for examining the perceptions of workers towards shadow economic activities.

The research study utilized a quantitative research design to address the two research questions. Quantitative research design is appropriate for testing hypotheses that are constructed before the data are collected (Collins, Onwuegbuzie & Sutton, 2006). In addition, the quantitative method can be used to generalize research findings when the data are based on random samples of sufficient size (Cozby, 2009). Quantitative research designs are also appropriate to generalize a research finding when it has been replicated on many different populations and subpopulations. Quantitative method provides precise, quantitative, numerical data. According to Johnson and Onwuegbuzie (2004), quantitative data analysis is relatively less time consuming (using statistical software). Quantitative research results are relatively independent of the researcher (Creswell, 2009). Additionally, the strength of the quantitative research approach is that the research results are derived by discovering exact facts and, therefore, the same research methods and the results can be generalized. Lastly, quantitative research design is appropriate for studying large numbers of people (Teddlie & Tashakkori, 2006).

Participants

The sampling frame for this study included small business owners, public, and private corporate employees, and business associates of WFG with a combined estimated study population size of 1,500 eligible participants. Small business owners for the survey included sole proprietors, lawyers, financial accountants, tax consultants, and tax accountants who prepare income tax returns. Corporate employees were recruited from the public and private corporate organizations, and mainly from a financial services distribution company in Canada (WFG) with headquarters in the United States.

To explore the question of the perceptions of workers towards underground economic activities, the following research questions were presented, together with null hypotheses (H₀) and alternative hypotheses (H_a) as they were associated with each research question.

Q1. To what extent, if any, do workers' perceptions towards underground economic activities differ, based on employment status?

H₁₀. Workers' perceptions towards underground economic activities do not differ based on employment status.

H_{1a}. Workers' perceptions towards underground economic activities differ based on employment status.

Q2. To what extent, if any, do workers' perceptions towards tax evasion differ, based on employment status?

H2o. Workers' perceptions towards tax evasion do not differ, based on employment status.

H2a. Workers' perceptions towards tax evasion differ, based on employment status.

FINDINGS

Response rate. The study was conducted for a period of three weeks using survey Monkey; the sample size for the survey was 333. The survey was successfully distributed to 309 participants (24 or 7.2%, were undeliverable), and 273 surveys were returned for an overall response rate of 82%. The adjusted response rate was 67% because out of 273 returned surveys, 224 surveys were complete, and the rest (49 or 14.7% surveys) were determined to be incomplete and unusable.

Table 1 below indicates the status of surveys distributed electronically.

Status	N	Percent (%)
Undeliverable	24	7.2%
Not returned	36	11%
Returned but Incomplete	49	14.7%
Returned and complete	224	67%
Total	333	100%

Table 1: Status of Distributed Surveys

An independent samples *t* test was conducted to determine whether the differences between self-employed professionals and corporate employees regarding perceptions toward activities of shadow economy were significant. Table 2 displays the distributions of the independent variables (employment status) for all participants. The mean score for self-employed was 4.05 ($SD = 1.91$). The mean score for employed in corporation was 3.05 ($SD = 1.44$). Differences were significant, $t(203) = 4.23$, $p < .001$, 95% CI = [0.53, 1.46]. The null hypothesis H_{10} was rejected. The self-employed had higher mean scores on the McGee Ethical Survey Instrument (MESI), indicating that self-employed individuals had more disagreement with the survey statements than did individuals employed in a corporation (see, Table 2).

Employment status	<i>N</i>	<i>M (SD)</i>	Minimum	Maximum
Self-employed	115	4.05 (1.91)	1.00	7.00
Employed in a corporation	90	3.05 (1.44)	1.00	7.00
Total	205	3.61 (1.78)	1.00	7.00

Table 2: Perceptions toward Shadow Economy – Mean Scores by Employment Status

The results were consistent with prior research studies in that there were significant differences in shadow economic behavior depending on employment status. The results were consistent with prior research conducted by Eilat and Zinnes (2004) for transition countries and study by Enste (2009) for 25 organizations for economic co-operation and development (OECD) countries. In addition, the results were consistent with research conducted in Vietnam ((McGee, 2008b) and in Slovakia (McGee & Tusan, 2006). In Vietnam and Slovakia studies, findings revealed that self-employed workers were more ethically opposed to the activities of the shadow economy.

However, the results were not consistent with prior research conducted in Beijing (McGee & Guo, 2006) and in central China (McGee & Yuhua, 2006). In both research studies, the findings indicated that small business owners engage more in the activities of the shadow economy compared to the corporate employees. A related contribution to McGee works is Ahmed and Braithwaite (2005) (as cited in La Porta & Shleifer, 2008) argued that small business owners are more likely to be exposed to shadow economic activities than the corporate workers because the small business owners move in circles where prospect to evade is high and cash economy activity is most prevalent.

In another study by (Torgler & Schneider, 2007) on the reasons for the increase in size of shadow economy, Torgler and Schneider (2007) argued that the methods by which income is reported to the tax authorities vary significantly across types of employment in the United States and Canada. One of such differences is the requirement that employers report their employees' income to the taxing authority. This requirement is known as a matched income arrangement. Conversely, often the income of self-employed individuals is not reported by a third party. This form of income is known as non-matched income, which greatly encourages self-employed to hide their income (Alm & McKee, 2004; Torgler & Schneider, 2007).

The results supported the literature review research findings are consistent with the current study, in that small business owners have differing behavior to the activities of the shadow economy compared to the corporate employees. Indeed, the differing compliance behavior between self-employed individuals and individuals in wage and salary employment has been the subject of considerable study. In a review of the literature on taxation and workers' compliance behavior, Scheutze and Bruce (2004) concluded that differing tax compliance behavior among workers is a significant concern, citing research that found that both self-employed and employees in salary and wages sectors of the economy makes very significant contribution to the total level of the activities in the shadow economy in the nation.

An independent samples *t* test was conducted to determine whether the differences between self-employed professionals and corporate employees regarding perceptions toward tax evasion were significant. Differences were significant, $t(203) = 2.37, p = .02, 95\%CI = [0.09, 1.01]$. Table 3 displays the distributions of the independent variables (employment status) for all participants. The mean score for self-employed was 3.20 ($SD = 1.67$). The mean score for employed in corporation was 2.64 ($SD = 1.64$). The null hypothesis H_{20} was rejected. The self-employed had higher mean scores on the MESI, indicating that self-employed individuals had more disagreement with the survey statements than did individuals employed in a corporation (see, Table 3).

Employment Status	<i>N</i>	<i>M (SD)</i>	Minimum	Maximum
Self-employed	115	3.20 (1.67)	1.00	6.67
Employed in a corporation	90	2.64 (1.64)	1.00	7.00
Total	205	2.95 (1.67)	1.00	7.00

Table 3: Perception toward Tax Evasion – Mean Scores by Employment Status

The results were consistent with prior research studies in that there were significant different in Tax evasion behavior depending on employment status. The results were consistent with prior research conducted in Germany (McGee, Nickerson, & Fees, 2006), in Brazil (Fajnzylber, Maloney, & Rojas, 2006), in Poland (McGee & Bernal, 2006), and in Sweden (Scheutze & Bruce, 2004). The research work in Germany by McGee et al. (2006), found a significant differing tax evasion behavior depending on employment status of the workers. In addition, the research works of Fajnzylber et al. (2006) and Scheutze and Bruce (2004), revealed that self-employed workers were more ethically opposed to the activities of the tax evasion.

The information obtained from this research contradicted prior research conducted in Hong Kong by McGee and Ho (2006), in Macau by McGee, Noronha, and Tyler (2006), in New Jersey by McGee (2008), and in New York by Orviska, Caplanova, Medved, and Hudson (2006). McGee (2008) and Orviska, Caplanova, Medved, and Hudson (2006) found in their studies that, small business owners are more likely to engage in tax evasion than most other workers because of the opportunities for cash transactions. In supports of McGee (2008) findings, Torgler and Schneider (2007) found that the lack of secondary income reporting among self-employed individuals may decrease the likelihood that tax evasion among this group would be detected. According to these research findings, self-employed individuals would face a lower effective tax rate in a simple rational tax evasion model. The result would be an increase in the relative return for self-employment and, perhaps inefficiently, an increase in the number of self-employed individuals (Torgler & Schneider, 2007).

Similar studies have been conducted of Bosnian business and economics students (McGee, Basic & Tyler, 2006). Another study was conducted for Argentinean business and law students (McGee & Rossi, 2006). The study for Polish business and economics students was conducted by McGee and Bernal in 2006. In Armenian, a study on business students was conducted by McGee and Maranjyan (2006), in Ukrainian on business and economics students by (Nasadyuk & McGee, 2006) and in Ukrainian law students by (McGee & Cohn, 2008; Nasadyuk & McGee, 2006b). One finding these studies all have in common is that the moral acceptability of tax evasion depends on the employment status. In Germany and Brazil studies, tax evasion was less morally acceptable to small business owners than for employees in corporate organizations (Fajnzylber et al., 2006; McGee et al., 2006). However, the research studies carried out in New Jersey, New York, and in Hong Kong found that tax evasion was more morally acceptable to small business owners than for employees in corporate organizations (McGee, 2008; McGee & Ho 2006; Orviska et al., 2006).

The results supported the literature review research findings are consistent with the current study, in that small business owners have differing behavior to the activities of the tax evasion compare to the corporate employees. It was well established that, in theory, a higher tax rate has conflicting effects on compliance for both self-employed and corporate employees (Allingham & Sandmo, 1972). According to Allingham and Sandmo, a higher tax rate increases the incentive for cheating, thereby increasing the amount of tax evasion for both self-employed and employees depending on the incidence of the taxable amount. However, a higher tax rate also lowers income, and, with decreasing absolute risk aversion, lower income makes an individual more risk averse; reducing tax evasion. In addition, as Yitzhaki (1974) demonstrated, when the penalty is imposed on evaded taxes (not evaded income), the substitution effect disappears. In this circumstance, theory predicts that tax compliance should actually increase as the tax rate increases. However, most empirical and experimental work finds that there is a positive relationship between tax rates and tax evasion (Dreher et al., 2007; Schneider, 2010).

CONTRIBUTIONS

This study was designed to contribute to the limited body of knowledge regarding the impacts of personal and societal norms and public status on tax morale and shadow economy behaviors and the consequential impacts on the official economy. The study of the shadow economy is necessary for providing updated and improved measures of the size and characteristics of shadow economy, its impact on the official economy, and policymaking (Kelly, 2007). Information on impacts of personal and societal norms and public status on tax morale and shadow economy behaviors is needed, this information would provide a foundation of statistics that policymakers could use to identify the key questions, and use those questions to inform policies (Tunyan, 2005). In addition, the findings of this study may also assist policymakers in identifying desirable policy measures previously unrecognized or underutilized in the process of solving the attendance problems of shadow economy. The findings from the study may also assist various governments with different level of shadow economic activities to design policy measures in reducing the impacts of shadow economy and related issues of tax evasion on their official economy. The study may help in further researches on activities of underground economy as its affect different economies.

In addition, this research study has contributed to the study of underground economy in inquiry about the impacts of personal and societal norms and public status on tax morale and shadow economy behaviors by providing actual data regarding factors contributing to the increase of underground economy in Canada in particular, and other economies. The focus of the study was unique as it examined in addition, the impacts of personal and societal norms and public status on tax morale and shadow economy behaviors of Canadian workers in the three provinces of Alberta, Ontario, and Quebec. There were prior researches in the area of underground economy; however, no study existed regarding the impacts of personal and societal norms and public status on tax morale and shadow economy behaviors in these three provinces, and Canada in general. Existing studies on shadow economy have been framed almost entirely to cover such discussions as size, causes, consequences, characteristics, and the effect of government policies on shadow economic activities.

Although these studies are valuable, the body of quantitative underground economy research as a whole remains skewed. In addition, the findings of this study support the framework of shadow economy theory advanced by Schneider (2000), especially the concept of how policy measure can be used to curb the ever increasing negative impacts of underground activities in many economies. The strongest contribution to underground economy research in the current study was the introduction of income level as one of the two independent variables to examine the perceptions of workers toward the activities of the underground economy. Although there are numerous studies on perception of tax evasion using different variables accounted for age, educational levels, religious traditions, profession, gender, and race, most studies of perceptions toward tax evasion fail to target the effects of income level. The use of income levels to examine perceptions of workers towards activities of underground economy is a contribution of this study.

RECOMMENDATIONS AND CONCLUSIONS

The divergent shadow economy behavior between self-employed individuals and individuals in wage and salary employment has been the subject of considerable study. Results indicated that individuals who receive relatively more non-matched income exhibit significantly higher shadow economy behavior rates than individuals who receive less non-matched income. The results supported the literature review research findings are consistent with the current study, in that small business owners have significant differing behavior to the activities of the shadow economy compare to the corporate employees. In addition, the results were consistent with prior research studies in that there were significant different in activities of tax evasion behavior depending on employment status. The results also indicated that higher income levels, higher tax rates, and lower audit rates lead to increased tax evasion, but with responses that vary depending upon the proportion of matched versus non-matched income (Alm, Deskins, & McKee, 2007). Findings of this study also confirm this observation. Finally, the use of income level in evaluating perceptions towards shadow economy is a major contribution of the current study.

Further research is needed in area, particularly in light of the finding that perceptions towards shadow economy vary as income level changes and with different employment status. Further research is also needed to determine the role of personal and societal norms towards the activities of the shadow economy. Observational studies are needed in order to determine the perceptions and attitudes of workers towards shadow economy as it is actually practiced in the field, without the contaminating effects of random assignment, passivity, and disempowerment that attend to an experiment. In addition, an observational study is the only kind of quantitative study that can realistically be conducted to evaluate various type of workers who have been engaging in underground activities. Qualitative research is also needed to complement the current study.

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