

**EXPLORING THE IMPACT OF RELIGION ETHICS, AGE FACTORS, INCOME LEVEL, PROFESSIONAL, EDUCATIONAL, AND GENDER PERCEPTIONS ON TAX EVASION BEHAVIORS: A COMPREHENSIVE APPROACH**

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**ABSTRACT:** *A current survey is lacking on the impacts of religion ethics, age factor, income level, profession, educational, and gender perceptions on the growth of related issues of tax evasion and the impact on the official economy. This quantitative, non-experimental research was to examine the perceptions of people regarding the activities of tax evasion and consequently, its insinuations on official economies. Tax evasions have been of increasing concern among government officials, policy makers, and social scientists. In the past, discussions were on; size and growth of tax evasion activities, currently, attention is being strained on people's perceptions towards tax evasion and related issues for several reasons. Unemployment is rising, with the attendant problems of financing public expenditure, there is also a global anxiety about the present economic crisis and social policies. Policy makers and politicians have become increasingly aware of the need to solve problems associated with tax evasion both at the state and the national level. Insinuations from the study are made to encourage economic policy-making and to identify areas in which additional research is particularly warranted.*

**KEYWORDS:** Tax Evasion, Sam Agbi, Religion Ethics, Official Economy, Shadow Economy, and Tax Evasion Behaviors

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## **INTRODUCTION**

The provision of public infrastructure and government services is a key factor for economic development. In many countries, a lack of public service provision slows down economic growth and undermines efforts to improve the living standard of the population (De Paula & Scheinkman, 2008; Fuest & Riedel, 2009). There are a number of reasons for the failure of many governments in developing countries to provide sufficient public services. A lack of tax revenue is one of them (Fuest & Riedel, 2009; Schneider, 2007).

In 2012, the average tax revenue to GDP ratio in the developed world was approximately 36%. In the developing countries, it was approximately 16%, and in the poorest of these countries, the group of low income countries, tax revenue was just 11.5% of GDP (Fuest & Riedel, 2009; United Nations, 2013). This gap in average tax revenue to GDP can partly be explained by the fact that demand for public services increases more than proportionally as income rises (Breusch, 2005; Cobham, 2005). But it also reflects weaknesses in the ability of government to raise the revenue

required for the provision of adequate public services (Cobham, 2005; Feld, & Schneider, 2010; Fuest & Riedel, 2009; Schneider, 2008).

Since 2005, the academic and political debate on development finance and development aid has raised the issue that tax evasion may undermine the ability of countries to finance their public sectors (Dreher & Schneider, 2009; Sookram, Watson, & Schneider, 2009). This view is based, among other things, on the perception that the tax evasion in countries is becoming larger than can be imagined. The term tax evasion is defined as deliberate omission of a statutory requirement to reduce or eliminate a tax liability (Richardson, 2006). Richardson argued that it is not necessary that the conduct be underhanded or deceitful, any willful evasion will suffice. For example, those participating in tax evasion may under report taxable receipts or claim expenses that are non-deductible or overstated. Richardson said, individuals who deliberately conceal income (or businesses that deliberately conceal part of their sales) in order to pay less income tax are engaging in tax evasion. In addition, workers in the underground economy and businesses that fraudulently claim tax refunds are also committing tax evasion. The most typical example is a person who receives payment in cash and then omits to declare this income to the Government for taxation purposes (Frey & Torgler, 2007).

Little was known about people's perception towards issues of tax evasion (Frey & Torgler, 2007; McGee, 2005; Sikka & Hampton, 2005). Existing studies on tax evasion have been framed almost entirely to cover such discussions as size, causes, consequences, characteristics, and the effect of government policies on tax evasion activities. Although these studies are valuable, the body of quantitative underground economy research as a whole remains skewed. The investigation of tax evasion activity has a certain appeal in economic studies for policy making and economic growth (Bajada & Schneider, 2005). Therefore, policy makers need more studies on people's perception towards tax evasion 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 tax evasion. 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 tax evasion" (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 tax evasion on the official economy (Choi & Thum, 2004; Feld & Frey, 2007).

### **Statement of the problem**

A large body of literature exists on the single aspect of the hidden economy focusing on the size, causes, consequences, characterizing of the tax evasion, and the impact of government policies on the tax evasion activities (Feige & Urban, 2008). A current survey is lacking on the impact of people's perception to the growth of tax evasion activities and the impact on the official economy, government policies, and economic growth (Sikka & Hampton, 2005). This research study was conducted to address these limitations relating to tax evasion and economic growth.

The purpose of this quantitative, non-experimental research study was to examine the perceptions of people regarding the activities of tax evasion and its implications on official economy,

government policies, and economic growth. Activities of tax evasion economy have been of increasing concern among government officials, policy makers, and social scientists (Cobham, 2005). There are several important reasons to be concerned about the activities of tax evasion, in addition to its size and growth (Dreher & Schneider, 2006). In the 1980s, the causes, effects, and problems generated by an enlargement in tax evasion activities were comprehensively discussed and argued in countries all over the world (Schneider, 2006). Presently, attention is being drawn on people's perceptions towards tax evasion and related issues for several reasons. Unemployment is rising dramatically, with the attendant problems of financing public expenditure. There is also a rising anxiety and disappointment about the frequent economic crisis and social policies. Policy makers and politicians have become increasingly aware of the need to solve problems associated with tax evasion both at the state and the national level (Elijah & Uffort, 2007; Nikopour, Habibullah, & Schneider, 2008).

### **THEORETICAL FRAMEWORK**

The ethics of tax evasion can be examined from a number of perspectives. Some of these are of a religious nature while others are more secular and philosophical (McGee, 2005). One approach is to examine the relationship of the individual to the state. Another is the relationship between the individual and the taxpaying community or some subset thereof. A third is the relationship of the individual to God (McGee & Cohn, 2008). Crowe (1944) examined the literature on these approaches, which are the 3 main approaches that have been taken in the literature over the past 5 centuries. Over the centuries, 3 basic views have emerged on the ethics of tax evasion. These 3 views have been explored in depth elsewhere (McGee, 2006) but a brief overview is called for.

View one takes the position that tax evasion is always, or almost always unethical (McGee, 2006). There are basically 3 underlying rationales for this belief. One reason is the belief that individuals have a duty to the state to pay whatever taxes the state demands (Cohn, 1998; DeMerville, 1998; Smith & Kimball, 1998; Tamari, 1998). This view is especially prevalent in democracies, where there is a strong belief that individuals should conform to majority rule. The second rationale for an ethical duty to pay taxes is because the individual has a duty to other members of the community (Crowe, 1944; Tamari, 1998). This view holds that individuals should not be freeloaders by taking advantage of the services the state provides while not contributing to the payment of those services. A corollary of this belief is the view that if tax dodgers do not pay their fair share, then law-abiding taxpayers must pay more than their fair share (Cohn, 1998; Feld & Fred, 2007; McGee & Cohn, 2008). The third rationale is that we owe a duty to God to pay taxes, or, stated differently, God has commanded us to pay our taxes (Cohn, 1998; DeMerville, 1998; Smith & Kimball, 1998; Tamari, 1998). This view is weakly held among atheists, of course, but the view is strongly held in some religious circles (Dell' Anno, Gomez-Antonio, & Pardo, 2007; McGee, 2005; McGee & Preobragenskaya, 2006).

View Two might be labeled the anarchist view (McGee, 2006). This view holds that there is never any duty to pay taxes because the state is illegitimate, a mere thief that has no moral authority to take anything from anyone (Block, 1993). The state is no more than a mafia that, under democracy,

has its leaders chosen by the people. The anarchist literature does not address the ethics of tax evasion directly but rather discusses the relationship of the individual to the state (McGee & Lingle, 2005). The issue of tax evasion is merely one aspect of that relationship (McGee 2005; Spooner, 1870). There is no such thing as a social contract according to this position. Where there is no explicit agreement to pay taxes there also is no duty. All taxation necessarily involves the taking of property by force or the threat of force, without the owner's permission (Frey & Torgler, 2006). Thus, it meets the definition of theft. Stated as an equation, TAXATION = THEFT. A corollary equation is that FAIR SHARE = 0 (Fisman & Svensson, 2007).

Lastly, view three holds that tax evasion may be ethical under some circumstances and unethical under other circumstances. This view is the prevalent view, both in the literature (Ballas & Tsoukas, 1998; Crowe, 1944; Gronbacher, 1998; McGee, 1998, 1999), and according to the results of some of the surveys (McGee, 2005; McGee & Cohn, 2008; McGee & Preobragenskaya, 2006).

### **Perceptions of Tax Evasion and Religion**

Although much has been written about tax evasion from the perceptions of public finance, not many studies have focused on individual perceptions of tax evasion (McGee & Gelman, 2009). One of the most comprehensive early studies on the perceptions of tax evasion was done by Crowe (1944), a Catholic priest who surveyed the philosophical and religious literature that had been written over the previous 5 centuries (McGee, Nickerson, & Fees, 2005). Crowe found that 3 basic positions had emerged over the centuries. According to Crowe, tax evasion was considered to be: (a) never ethical, (b) always ethical, and (c) ethical under certain facts and circumstances. Torgler (2003) and McGee (2006) did more latter studies. The Torgler study was mostly empirical but did not examine the philosophical and ethical perceptions literature in depth. The McGee studies examined the philosophical and perceptions literature but did not conduct empirical investigations (McGee & Gelman, 2009). Although very few philosophical studies on the perceptions of tax evasion have been made, the ones that have been done span all 3 viewpoints. Block (1993) surveyed the public finance literature but failed to find any adequate explanations or arguments to justify the perceptions and ethical reason for the activities of shadow economy and related issues of tax evasion.

McGee (2005) and McGee and Gelman (2009) applied Spooner's (1870) philosophy to the issue of tax evasion, which challenged the social contract theories of Hobbes (1651), Locke (1689), and Rousseau (1762). At the other end of the spectrum, a few philosophical studies concluded that tax evasion is never justified (McGee & Gelman, 2009; McGee & Tyler, 2007). From the study of the Baha'i literature, DeMerville (1998) discovered that the Baha'i religion strictly prohibits tax evasion, the main argument being that individuals have a duty to obey the laws of the country in which they live. A study of the Mormon religious literature by Smith & Kimball (1998) reached the same conclusion and for the same reason (McGee & Rossi, 2006; McGee & Preobragenskaya, 2006; McGee & Tyler, 2007).

Two philosophical studies of the religions perceptions of tax evasion from a Jewish perspective (Cohn, 1998; McGee & Gelman, 2009; Tamari, 1998) both concluded that tax evasion is never, or

almost never ethical according to the Jewish literature. A third Jewish study, which was both philosophical and empirical in nature by (McGee & Cohn, 2006), found that, the Jewish literature was firmly against tax evasion on ethical grounds, although, the Jews who were surveyed were more flexible on the issue. An empirical study of Mormon views by McGee & Smith (2006) found that many Mormons were also more flexible on the issue than their religious literature would suggest (McGee et al., 2005; McGee & Tyler, 2007).

Several philosophical studies concluded that tax evasion could be ethical in certain situations (Dell' Anno, Gomez-Antonio, & Pardo, 2007). Pennock (1998) concluded that tax evasion was ethical in cases where the country collecting the taxes was engaged in an unjust war. Morales (1998) regarded a man's duty to feed his family was more important than feeding the state's coffers. Gronbacher (1998) and Schansberg (1998) concluded that the Catholic religious literature permits tax evasion in certain situations, a view that concurs with the Crowe (1944) study. Gronbacher's study of the Christian literature reached the same conclusion. Two Islamic scholars (Murtuza & Ghazanfer, 1998) examined their religious literature and reported that Muslims have a duty to God to contribute to the poor. They did not address the issue of the relationship of the individual to the state and the corresponding duty to pay taxes. A survey of the Islamic business ethics literature by a non-Muslim scholar (McGee, 1997; 2006; McGee & Gelman, 2009) found that tax evasion can be justified by Muslim in cases where the effect of the tax is to increase prices or where the tax is on income.

### **Tax Evasion from Professional Perspective**

Studies were found that focus on tax evasion in a particular country. Ethics are sometimes discussed but, more often than not, the focus of the discussion is on government corruption and the reasons why the citizenry does not feel any moral duty to pay taxes to such a government (McGee & Cohn, 2008). Ballas and Tsoukas (1998) discussed the situation in Greece. Smatrakalev (1998) discussed the Bulgarian case. Vaguine (1998) discussed Russia, as do Preobragenskaya and McGee (2004) to a lesser extent. A study of tax evasion in Armenia (McGee, 1999; 2008) found the two main reasons for evasion to be the lack of a mechanism in place to collect taxes and the widespread opinion that the government does not deserve a portion of a worker's income.

A survey of international business professors in United State by McGee (2005) found that some arguments justifying tax evasion are stronger than others are but none of the arguments was very strong, since most of the professors who responded to the survey were strongly against tax evasion. However, the law students felt less strongly about condemning tax evasion on ethical grounds than did the business students and female students were more opposed to tax evasion than were male students (McGee & Cohn, 2008). A survey of Romanian business students (McGee, 2005) found that respondents often felt tax evasion was ethically justified. A survey of German business students also found that respondents were strongly against tax evasion, although some arguments were stronger than others (Dell' Anno, Gomez-Antonio, & Pardo, 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). McGee and Bernal conducted the study for Polish business and economics students 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, 2006).

Several Chinese studies have also been conducted. McGee and Yuhua (2006) surveyed business and economics students in Beijing. McGee and Guo (2006) surveyed law, business, and philosophy students in Central China. McGee and Ho (2006) surveyed accounting, business, and economics students in Hong Kong. McGee, Noronha, and Tyler (2006) surveyed business students in Macau. One finding these studies all have in common is that the moral acceptability of tax evasion depends on the fact situation. Tax evasion is more morally acceptable in some cases than in others (McGee, 2009).

### **Demographic Perspective of Tax Evasion**

Numerous studies have compared male and female attitudes and opinions on a variety of moral issues (McGee & Gelman, 2009). Some studies have concluded that females are more principled than males (Boyd, 1981; Dawson, 1997; Ruegger & King, 1992) while other studies have accomplished just the opposite (Barnett & Karson, 1987; Weeks, Moore, McKinney & Longenecker, 1999). According to McGee & Gelman, a third group of studies establishes no statistical dissimilarity between male and female attitudes (Loo, 2003; Posner & Schmidt, 1984; Stanga & Turpen, 1991). A small number of studies have explored male and female attitudes toward the ethics of tax evasion. Women were found to be more strongly opposed than men to tax evasion in studies of accounting practitioners (McGee & Maranjyan, 2006), Guatemala (McGee & Lingle, 2005), Hong Kong (McGee & Butt, 2006, Hubei, China (McGee & Guo, 2006), international business professors (McGee, 2005), Orthodox Jews (McGee & Cohn, 2006), Spain (Alm & Torgler, 2004), Thailand (McGee, 2006) and U.S. business students in Utah (McGee & Smith, 2006). A study of opinion in 33 countries also found women to be more opposed to tax evasion (McGee & Tyler, 2007). A study of mostly Mormon students in Utah found women to be somewhat more opposed to tax evasion (McGee & Smith, 2007). Men were found to be more opposed to tax evasion in studies of Romania and Slovakia (McGee, 2005; McGee & Gelman, 2009; McGee & Tusan, 2006).

The views of men and women toward the ethics of tax evasion were found to be the identical in studies of Argentina (McGee & Rossi, 2006), Beijing, China (McGee & An, 2006), on Guangzhou, China (McGee & Noronha, 2006), Hong Kong (McGee & Ho, 2006), Macau (McGee, Noronha & Tyler, 2006), Poland (McGee & Bernal, 2006), Ukraine (Nasadyuk & McGee, 2006), and 13 Asian countries (McGee, 2006). Various studies by McGee et al. found that women were more opposed to tax evasion than were males, while other studies found no statistical differences between men and women. But all of the McGee et al. studies found that tax evasion was more acceptable than other researcher's studies did. One possible explanation for the difference is the methodology used. The McGee et al. studies distributed a survey anonymously, whereas for example, the

Inglehart et al. (2004) study gathered the information using interviewers in face-to-face encounters. It is reasonable to expect that people who are asked face-to-face questions will give responses that are more morally acceptable than will people who can answer anonymously.

### **Tax Evasion Activities and Comparisons by Age**

A few studies of tax evasion have also examined the age factor. A study of 33 countries by Schneider (2007) using the Inglehart et al. study (2004) data and methodology found that people become more opposed to tax evasion as they get older. The difference was significant when comparing the 15-29 and 30-49 age groups and also the 30-49 and 50 plus age groups. A study of 13 Asian countries using the Inglehart et al. (2004) data also found that people become more opposed to tax evasion as they get older (McGee, 2006). However, a study of Vietnamese opinion using the Inglehart data (McGee, 2008) found no difference. At least two studies using a different methodology compared the views on tax evasion of groups under 25 to those 25 or older. The Slovak study (McGee & Tusan, 2006) found the older group to be slightly more opposed to tax evasion, but the survey of Mormon students (McGee & Smith, 2007) found no difference in opinion. Both groups were strongly opposed to tax evasion. One possible explanation for this latter finding might be that more than 80 percent of the sample was members of the Mormon religion and religion plays a more important part in the formation of moral opinions about tax evasion than age does (Dell' Anno, Gomez-Antonio, & Pardo, 2007; McGee, 2008).

### **Tax Evasion from Educational Perspective**

Studies have examined the relationship stuck between the levels of education and attitudes toward tax evasion using the Inglehart et al. (2004) data. A study of 33 countries (McGee & Tyler, 2007) found the differences between the middle and upper groups were insignificant. However, the lower group was considerably more opposed to tax evasion than were the middle and upper level group. A study of Vietnamese opinion (McGee, 2008) found that a good number of educated groups were radically less opposed to tax evasion. A comparative study of Australia, New Zealand, and the United States (McGee & Bose, 2007) found no relationship between education levels and moral attitude to tax evasion activities for United States, but a momentous difference was discovered for the Australia and New Zealand educational levels and moral attitudes to underground economic activities and tax evasion. According to McGee (2007), what is mainly interesting about this study was that there was less hostility to tax evasion for the Australian and New Zealand samples as the level of education increased (McGee, 2007).

From McGee (2007) study of attitude toward tax evasion for each level of education on different countries, generally, individuals within the lower education group have a stronger aversion to tax evasion than do the other two groups. Individuals in the middle and upper ranges hold about the same view toward tax evasion. About half the time the upper group is slightly more opposed to tax evasion than is the middle education group and the other half of the time the opposite is true (McGee, 2007; 2008b). One possible interpretation of McGee (2007) study is that people tend to have less respect for government and the rule of law as they become more educated. But one might also interpret McGee's finding to conclude that people respect for government based on the

levels of education is less whereas their respect for the rule of law is unaffected. That is because one cannot automatically conclude that less respect for government translates into less respect for the rule of law. It is likely that many individuals in transition economies have a great deal of respect for the rule of law and would like to have more of it. One reason why people do not have respect for their government is the absence of the rule of law. More research would have to be done on this point before any definitive conclusions could be drawn from McGee studies.

## RESEARCH METHODOLOGY AND DESIGNS

For this study, data was gathered by means of an 18-item questionnaire about the perception of Workers towards activities of tax evasion using MESI instrument (Appendix: B) (McGee, 2006). The estimated population size for the study was 1,500 small business owners and financial advisors with World Financial Group (WFG), a financial services distribution company in Canada. Feedback from 84 respondents provided sufficient data to generalize the results to the population with a confidence level of 95% and a confidence interval of 10% (Sample size calculator, 2012). Study participants were sampled from across provinces of Ontario, Alberta and Quebec in Canada, in order to maximize the geographic dispersion of the study.

To investigate the question of the perceptions of workers towards tax evasion activities, the following research questions were presented, together with null hypotheses (H<sub>0</sub>) and alternative hypotheses (H<sub>a</sub>) as they were associated with each research question.

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

**H1<sub>0</sub>.** Workers' perceptions towards underground economic activities do not differ based on income level.

**H1<sub>a</sub>.** Workers' perceptions towards underground economic activities differ based on income level.

**Q2.** To what extent, if any, do workers' perceptions towards tax evasion differ, based on income level?

**H2<sub>0</sub>.** Workers' perceptions towards tax evasion do not differ based on income level.

**H2<sub>a</sub>.** Workers' perceptions towards tax evasion differ, based on income level.

## Participants

The population of this study included small business owners and corporate employees located in Canadian provinces of Alberta, Ontario, and Quebec. 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. Study participants were



sampled from across the provinces (Alberta, Ontario, and Quebec) in order to maximize the geographic dispersion of the study, Canada being home for all nations.

The sample size for the study was calculated to be 200 self-employed and employees from three provinces. According to studies in the literature, response rate from an e-mail survey could range between 25% and 60% (Schneider, 2007; Tedds, 2005; Tunyan, 2005). In order to achieve an adequate sample size, a 36% response rate was used to attain a 200 total sample size. A stratified sample design was also used to randomly select a proportional number of cases from each province. The targeted population and the stratified sample size proportionally to the population size from each province based on a sample size of 200 individuals (financial advisors and small business owners) from three provinces is as shown in Table 1 below.

Province	Target Population N	Target Population %	Sample Size from Each Province
Alberta	254	16.9%	34
Ontario	898	59.9%	120
Quebec	348	23.2%	46
<b>Total</b>	<b>1500</b>	<b>100%</b>	<b>200</b>

Table1: Target Population and Stratified Sample

**Note: The three provinces of Alberta, Ontario, and Quebec (3.7 Million, 13.1 million and 7.8 million people respectively) represent about three-fourth (73%) total population of Canada (33.7million people). Majority of people living in Quebec speak French language. They represent 23.2% of the population. The remaining parts (76.8%) speak largely English language. The province of Alberta and Ontario were chosen because they represent key economic blocks within the English speaking area and Canada in general, this sample population allow for possible worldwide generalization (Statistics Canada, 2012).**

## SUMMARY OF FINDINGS

Tables 1 through 8 (see appendix A) depict the demographic information of the respondents of the survey. Participants provided demographic information by completing part one of the survey instrument. Participants were asked to respond to 10 demographic questions. The demographic questions provided data relating to: (1) Age distributions by employment status, (2) Age distributions by annual income, (3) Gender distributions by employment status, (4) Gender distributions by annual income, (5) Education distributions by employment status, (6) Education distributions by annual income, (7) Profession distributions by employment status, and (8) Profession distributions by annual income.

A one-way analysis of variance was conducted to determine whether the differences among income groups regarding perceptions toward activities of shadow economy were significant. Table

2 displays the distributions of the independent variables (income level) for all participants. The mean score for income group less than \$35,000 was 4.53 ( $SD = 1.75$ ). The mean score for income group \$35,000 to \$65,000 was 3.39 ( $SD = 1.67$ ). The mean score for income group \$65,001 to \$95,000 was 3.37 ( $SD = 1.61$ ). The mean score for income group \$95,001 to \$125,000 was 2.95 ( $SD = 1.76$ ). The mean score for income group \$125,001 or more was 2.47 ( $SD = 1.35$ ). Differences were significant,  $F(4, 200) = 8.32$ ,  $p < .001$ , partial eta square = .14. The null hypothesis  $H_{10}$  was rejected. Table 2 shows the mean scores for each income group regarding perceptions towards shadow economy.

Income group	<i>N</i>	<i>M (SD)</i>	Minimum	Maximum
Less than \$35,000	64	4.53 (1.75)	1.00	7.00
\$35,001 to \$65,000	62	3.39 (1.67)	1.00	6.56
\$65,001 to \$95,000	37	3.37 (1.61)	1.00	7.00
\$95,001 to \$125,000	24	2.95 (1.76)	1.00	6.78
\$125,001 or more	18	2.47 (1.35)	1.00	6.11
Total	205	3.61 (1.78)	1.00	7.00

Table 2: Perceptions toward Shadow Economy – Mean Scores by Income Level

A pairwise analysis showed that with one exception, differences in perceptions toward activities of shadow economy among income groups were significant only for differences between the lowest income group (less than \$35,000 per year) and the other groups. Table 3 displays the differences among the income groups for perceptions of activities of the shadow economy.

Income group	1	2	3	4
1. Less than \$35,000	--			
2. \$35,001 to \$65,000	-1.14 (0.30)***	--		
3. \$65,001 to \$95,000	-1.16 (0.35)*	-0.02 (0.35)	--	
4. \$95,001 to \$125,000	-1.58 (0.40)***	-0.44 (0.40)	-0.42 (0.44)	--
5. \$125,001 or more	-2.06 (0.45)***	-0.92 (0.45)*	-0.90 (0.48)	-0.48 (0.52)

Table 3: Perceptions toward Shadow Economy – Mean Differences by Income Level

\* $p < .05$ . \*\* $p < .01$ . \*\*\* $p < .001$ .

*Note.* Results are reported as mean differences (standard error), left column minus top row.

A one-way analysis of variance was conducted to determine whether the differences among income groups regarding perceptions toward activities of tax evasion were significant. Table 4 displays the distributions of the independent variables (income level) for all participants. The mean score for income group less than \$35,000 was 3.74 ( $SD = 1.50$ ). The mean score for income group \$35,000 to \$65,000 was 2.82 ( $SD = 1.54$ ). The mean score for income group \$65,001 to \$95,000 was 2.35 ( $SD = 1.64$ ). The mean score for income group \$95,001 to \$125,000 was

2.69( $SD = 1.93$ ). The mean score for income group \$125, 001 or more was 2.20( $SD = 1.78$ ). Differences were significant,  $F(4, 200) = 6.49$ ,  $p < .001$ , partial eta square = .12. The null hypothesis  $H_{20}$  was rejected. Table 4 shows the mean scores for each income group regarding attitudes to tax evasion.

Income group	<i>N</i>	<i>M (SD)</i>	Minimum	Maximum
Less than \$35,000	64	3.74 (1.50)	1.00	6.28
\$35,001 to \$65,000	62	2.82 (1.54)	1.00	6.78
\$65,001 to \$95,000	37	2.35 (1.64)	1.00	7.00
\$95,001 to \$125,000	24	2.69 (1.93)	1.00	6.67
\$125,001 or more	18	2.20 (1.45)	1.00	6.22
Total	205	3.61 (1.78)	1.00	7.00

Table 4: Perceptions toward Tax Evasion – Mean Scores by Income Level

A pairwise analysis showed that differences in perceptions toward activities of tax evasion among income groups were significant only for differences between the lowest income group (less than \$35,000 per year) and the other groups. Table 5 displays the differences among the income groups for perceptions toward activities of tax evasion.

Income group	1	2	3	4
1. Less than \$35,000	--			
2. \$35,001 to \$65,000	-0.91 (0.28)**	--		
3. \$65,001 to \$95,000	-1.38 (0.33)***	-0.48 (0.33)	--	
4. \$95,001 to \$125,000	-1.04 (0.38)**	-0.14 (0.38)	0.34 (0.42)	--
5. \$125,001 or more	-1.54 (0.42)***	-0.62 (0.42)	-0.15 (0.46)	-0.49 (0.50)

Table 5: Perceptions toward Tax Evasion – Mean Differences by Income Level

\*\* $p < .01$ . \*\*\* $p < .001$ .

*Note.* Results are reported as mean differences (standard error), left column minus top row.

## EVALUATION OF FINDINGS

Research Question Q1. To what extent, if any, do workers' perceptions towards underground economic activities differ, based on income level? A one-way analysis of variance was conducted to determine whether the differences among income groups regarding perceptions toward activities of shadow economy were significant. Differences were significant,  $F(4, 200) = 8.32$ ,  $p < .001$ , partial eta square = .14. From analysis of variance conducted of the median showed that sufficient evidence exists to reject the null hypothesis. Follow-up tests of pairwise analysis showed that with one exception, differences in perceptions toward activities of shadow economy among

income groups were significant only for differences between the lowest income group (less than \$35,000 per year) and the other groups also displays the differences among the income groups for perceptions toward activities of shadow economy.

Few studies of perceptions toward activities of shadow economy have included other variables, McGee and Tyler (2007) examining for age, educational level, socioeconomic status, social organization, and religious traditions. A study of 33 countries by Schneider (2007) using the Inglehart et al. study (2004) data and methodology found that people become more opposed to shadow economic activities as they get older. A few studies of shadow economic activities and tax evasion have also examined the age factor; at least two studies using a different methodology compared the views on shadow economy of groups under 25 to those 25 or older. The Slovak study (McGee & Tusan, 2006) found the older group to be slightly more opposed to tax evasion. No studies have controlled for levels of income on perceptions toward activities of shadow economy. The use of income level in evaluating perceptions towards shadow economy is a contribution of the current study.

Research Question Q2. To what extent, if any, do workers' perceptions towards tax evasion differ, based on income level? A one-way analysis of variance was conducted to determine whether the differences among income groups regarding perceptions toward activities of tax evasion were significant. Differences were significant,  $F(4, 200) = 6.49$ ,  $p < .001$ , partial eta square = .12. From the ANOVA conducted of the median showed that sufficient evidence exists to reject the null hypothesis ( $p < 0.001$ ). Follow-up tests of pairwise analysis showed that differences in perceptions toward activities of tax evasion among income groups were significant only for differences between the lowest income group (less than \$35,000 per year) and the other groups.

Although there are numerous study on perception of tax evasion using different variables accounted for age, educational levels, religious traditions, profession, gender, and race (McGee, 2007; 2008b; McGee & Gelman, 2009; McGee & Maranjyan, 2006; McGee & Smith, 2007; McGee & Tyler, 2007), most studies of perceptions toward tax evasion fail to target the effects of income level. Studies by McGee and Tyler (2007) have examined the relationship stuck between the levels of education and attitudes toward tax evasion using the Inglehart et al. (2004) data. McGee and Tyler found a momentous difference was discovered for the Australia and New Zealand educational levels and moral attitudes to tax evasion. According to McGee and Tyler, what is mainly interesting about this study was that there was less hostility to tax evasion for the Australian and New Zealand samples as the level of education increased. From McGee (2007) study of attitude toward tax evasion for each age group on different countries, generally, individuals within the upper age group (old people) have a stronger aversion to tax evasion than do the other groups. The use of income level to examine perceptions of workers towards activities of tax evasion is an important contribution of this study.

## **CONTRIBUTIONS**

This research study has contributed to the study of underground economy in inquiry about the perceptions toward tax evasion by providing actual data regarding factors contributing to the increase of underground economy in countries' economy. The focus of the study was unique as it examined the perceptions of workers to the activities of tax evasion. There were prior researches in the area of underground economy; however, no study existed regarding the perception of workers toward the activities of tax evasion using sample population from Canada for generalization. Existing studies on tax evasion have been framed almost entirely to cover such discussions as size, causes, consequences, characteristics, and the effect of government policies on underground 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 tax evasion 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 tax evasion. 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.

## **RECOMMENDATIONS AND CONCLUSION**

The research study builds on the current body of knowledge regarding tax evasion to provide a foundation from which further research studies could be developed to examine other factors that could affect the increase of underground economy in Canada, which was the focus of this research work as well in any economy. Findings from Research Question 1 and 2 confirmed that worker' perceptions towards tax evasion differ, based on income level. In addition, the findings for Research Questions revealed that perceptions toward underground economy and tax evasion differ based on income level.

The findings from the study may also assist various governments with different level of tax evasion economic activities to design policy measures in reducing the impacts of tax evasion on their official economy. The study may help in further researches on activities of tax evasion as its affect different economies. 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 tax evasion.

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**APPENDIXES (A)**

Age group	Self-employed	Employed in a corporation	Total
18 to 29	12 (66.7%)	6 (33.3%)	18 (8.0%)
30 to 39	34 (63.0%)	20 (37.0%)	54 (24.1%)
40 to 49	42 (48.3%)	45 (51.7%)	87 (38.8%)
50 to 59	25 (47.2%)	28 (52.8%)	53 (23.7%)
60 and above	7 (58.3%)	5 (41.7%)	12 (5.4%)
Total	120 (53.6%)	104 (46.4%)	224 (100.0%)

Table1: Age Distributions by Employment Status

Age group	Less than \$35,000	\$35,001 to \$65,000	\$65,001 to \$95,000	\$95,001 to \$125,000	\$125,001 or more	Total
18-29	10(55.6%)	7 (38.9%)	0 (0.0%)	0 (0.0%)	1 (5.6%)	18 (8.1%)
30-39	15(27.8%)	21(38.9%)	9 (16.7%)	6 (11.1%)	3 (5.6%)	54 (24.4%)
40-49	24(28.6%)	23(27.4%)	19(22.6%)	10(11.9%)	8 (9.5%)	84 (38.0%)
50-59	14(26.4%)	11(20.8%)	12(22.6%)	9 (17.0%)	7 (13.2%)	53 (24.0%)
60and above	2 (16.7%)	4 (33.3%)	2 (16.7%)	1 (8.3%)	3 (25.0%)	12 (5.4%)
Total	65(29.4%)	66(29.9%)	42(19.0%)	26(11.8%)	22(10.0%)	221(100.0%)

Table2: Age Distributions by Annual Income

Gender	Self-employed	Employed in a corporation	Total
Female	49 (55.7%)	39 (44.3%)	88 (39.3%)
Male	71 (52.2%)	65 (47.8%)	136 (60.7%)
Total	120 (53.6%)	104 (46.4%)	224 (100.0%)

Table3: Gender Distributions by Employment Status

Education	Less than \$35,000	\$35,001 to \$65,000	\$65,001 to \$95,000	\$95,001 to \$125,000	\$125,001 or more	Total
Female						88 (39.3%)
Male						136 (60.7%)
Total						224 (100.0%)

Table4: Gender Distributions by Annual Income

Education	Self-employed	Employed in a corporation	Total
High school diploma or GED	1 (100.0%)	0 (0.0%)	1 (0.4%)
Some college	12 (70.6%)	5 (29.4%)	17 (7.6%)
Associate's degree	16 (94.1%)	1 (5.9%)	17 (7.6%)
Bachelor's degree	51 (64.6%)	28 (35.4%)	79 (35.3%)
Master's degree	36 (38.3%)	58 (61.7%)	94 (42.0%)
Doctoral degree	4 (25.0%)	12 (75.0%)	16 (7.1%)
Total	120 (53.6%)	104 (46.4%)	224 (100.0%)

Table 5: Education Distributions by Employment Status

Education	Less than \$35,000	\$35,001 to \$65,000	\$65,001 to \$95,000	\$95,001 to \$125,000	\$125,001 or more	Total
High school diploma or GED	1 (100.0%)	0(0.0%)	0(0.0%)	0 (0.0%)	0 (0.0%)	1 (0.4%)
Some college	12 (70.6%)	3 (17.6%)	1 (5.9%)	0 (0.0%)	1 (5.9%)	17 (7.6%)
Associate's degree	12 (75.0%)	1(6.2%)	1(6.2%)	0 (0.0%)	1 (6.2%)	16 (7.2%)
Bachelor's degree	27 (34.6%)	25 (32.1%)	12 (15.4%)	11 (14.1%)	12 (15.4%)	78 (35.3%)
Master's degree	12 (12.9%)	30 (32.3%)	26 (28.0%)	12 (12.9%)	26 (28.0%)	93 (42.1%)
Doctoral degree	1 (6.2%)	7 (43.8%)	2 (12.5%)	3 (18.8%)	2 (12.5%)	16 (7.2%)
Total	65 (29.4%)	66 (29.9%)	42 (19.0%)	26 (11.8%)	42 (19.0%)	221 (100.0%)

Table 6: Education Distributions by Annual Income

Profession	Self-employed	Employed in a corporation	Total
Self-employed / financial sector	64 (100.0%)	0 (0.0%)	64 (28.6%)
Self-employed / nonfinancial sector	44 (86.3%)	7 (13.7%)	51 (22.8%)
Public sector employee	4 (9.3%)	39 (90.7%)	43 (19.2%)
Private sector employee	2 (4.5%)	42 (95.5%)	44 (19.6%)
Other	6 (27.3%)	16 (72.7%)	22 (9.8%)
<b>Total</b>	<b>120 (53.6%)</b>	<b>104 (46.4%)</b>	<b>224(100.0%)</b>

Table 7: Profession Distributions by Employment Status

Profession	Less than \$35,000	\$35,001 to \$65,000	\$65,001 to \$95,000	\$95,001 to \$125,000	\$125,001 or more	Total
Self-employed / financial sector	26 (41.3%)	15 (23.8%)	6 (9.5%)	6 (9.5%)	10 (15.9%)	63 (28.5%)
Self-employed / nonfinancial sector	20 (39.2%)	11 (21.6%)	9 (17.6%)	7 (13.7%)	4 (7.8%)	51 (23.1%)
Public sector employee	4 (9.3%)	18 (41.9%)	11 (25.6%)	5 (11.6%)	5 (11.6%)	43 (19.5%)
Private sector employee	8 (19.0%)	14 (33.3%)	10 (23.8%)	7 (16.7%)	3 (7.1%)	42 (19.0%)
Other	7 (31.8%)	8 (36.4%)	6 (27.3%)	1 (4.5%)	0 (0.0%)	22 (10.0%)
<b>Total</b>	<b>65 (29.4%)</b>	<b>66 (29.9%)</b>	<b>42 (19.0%)</b>	<b>26 (11.8%)</b>	<b>22 (10.0%)</b>	<b>221(100.0%)</b>

Table 8: Profession Distributions by Annual Income

Appendix B

MESI Ethical Scale on Tax Evasion

**MESI Ethical Scale on Tax Evasion**

Indicate how much you agree or disagree with each of the following statements by selecting a number between "1" and "7" where "1" indicates that you strongly agree with the statement and a "7" means you strongly disagree with the statement.  
A "2" indicates you agree, "3" means you somehow agree, "4" indicates you are neutral, "5" indicates you somehow disagree, and "6" indicates disagree with the statement.

Work as quickly as you can, don't stop to think too deeply about any one question, but mark down your first thought.

Please answer all of the questions.

**\* A "1" indicates that you strongly agree with the statement**

**A "7" means you strongly disagree with the statement**

**A "4" indicates you are neutral**

	1	2	3	4	5	6	7
29. Tax evasion is ethical if tax rates are too high.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
30. Tax evasion is ethical even if tax rates are not too high because the government is not entitled to take as much as it is taking presently.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
31. Tax evasion is ethical if the tax system is unfair.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
32. Tax evasion is ethical if a large portion of the money collected is wasted.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
33. Tax evasion is ethical even if most of the money collected is spent wisely.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
34. Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
35. Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
36. Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
37. Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
38. Tax evasion is ethical if everyone is doing it.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
39. Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
40. Tax evasion is ethical if the probability of getting caught is low.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
41. Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
42. Tax evasion is ethical if I can't afford to pay.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
43. Tax evasion is ethical even if it means that if I pay less, others will have to pay more.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
44. Tax evasion would be ethical if I lived under an oppressive regime.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
45. Tax evasion is ethical if the government discriminates against me because of my religion, race, or ethnic background.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
46. Tax evasion is ethical if the government imprisons people for their political opinions.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>