

DETERMINING THE FACTORS THAT AFFECT TAXPAYERS' PERSPECTIVE ON TAX ADMINISTRATION: RESEARCH IN TURKEY

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— Abstract —

Countries that have restructured their tax administration often use a "with taxpayer" approach rather than a "despite taxpayer" approach and have organized tax administrations in the form of taxpayer-focused structures. Parallel to this approach, changes in taxpayers' perspectives have gained importance, and studies have begun to examine this perspective. Taxpayers' perspectives on tax administration are determined by various factors. Based on empirical data collected from a survey of 680 respondents in Turkey, this study seeks to identify factors that influence taxpayers' perspectives on tax administration. These factors

include fairness, trust, taxpayers' rights, resistance, respect, technology use, consultation, and outcomes favorability. A factor analysis is used to analyze the effects of these variables on taxpayers' perspectives on tax administration. The results indicate that fairness and trust in the administration have a significant impact on taxpayers' perspectives. The implications of these results are discussed.

Key Words: *Taxpayers, Tax Administration, Factor Analysis.*

JEL Classification: H29, H83, C38.

1. INTRODUCTION

Taxpayers' perspectives on tax administration are important to ensure tax compliance. For this reason, many developed countries and researchers have conducted surveys of taxpayers to evaluate their perspective and to develop better tax systems (James, Murphy, Reinhart, 2005: 19). Theoretical and empirical studies of taxpayers' perspectives on tax administration have been conducted in the international area. However, studies of this issue in Turkey remain at the theoretical level. The lack of empirical studies of taxpayers' perspectives and the absence of result-oriented activities is an important gap. This paper aims to fill this gap.

The objective of this research is to predict the factors that determine taxpayers' perspectives on tax administration in Turkey. The structure of this paper is as follows. In the first section, we describe the main factors that affect taxpayers' perspectives. Then, we present the results of our data analysis and discuss the implications of our findings for policy makers. A final section concludes.

2. THE MAIN FACTORS THAT AFFECT TAXPAYERS' PERSPECTIVES

Taxpayers' behavior toward the tax system has drawn considerable attention from revenue authorities around the world, especially in developed countries (Marti, Wanjohi, Magutu, 2010: 112). Tax administrations in the EU and OECD have attempted to improve their knowledge of the motives of taxpayers and their behavior toward taxation. Murphy (2004a), Murphy & Byng (2002), and James, Murphy, & Reinhart (2005) have proposed six direct determinants of taxpayers' perspectives on tax administration: fairness, trust, resistance, respect, consultation, and outcome favorability. To determine the effects of various factors on tax administration, this survey adapted information on taxpayers' rights and technology use from Çetin Gerger (2011) and Hung, Chang, & Yu (2006).

Fairness: The OECD (2010) has discussed three types of fairness in taxation: distributive fairness (the perception that the government acts as a wise spender of tax revenues); procedural fairness (the perception that the tax administration adheres to procedures that are fair in dealing with taxpayers); and retributive fairness (the perception that the tax administration is fair in applying punishments when the rules are broken). The latter two are more relevant to (and can be influenced by) tax administrations (Walsh, 2012: 5-6). If taxpayers do not trust the tax administration to collect taxes fairly and to spend tax revenues wisely, these will increase non-compliance (Murphy, 2004a: 203).

Trust: Basic trust in the tax authorities with respect to the honesty of taxpayers and the respectful treatment of taxpayers by the tax authorities must be accompanied by incentives for taxpayers to observe the rules of the game (Feld, Frey, 2002:10). The key to establishing trust is to frame the collection of taxes to the population in a transparent manner and to emphasize the perceived fairness of the approach (Walsh, 2012: 6). Treating others as trustworthy will produce a more cooperative approach with regulations and more information about practices and possible areas of noncompliance, and it will engage the regulators in best-practice decisions for securing compliance (Murphy, 2004a: 203). If those who are regulated are treated as trustworthy, they will be more likely to repay this respect with voluntary compliance with fair requirements (OECD, 2004: 42).

Taxpayers' Rights: Tax administrations around the world are attempting to 'personalize' services and to make it 'simpler' and 'easier' to comply. Taxpayers' charters specify how taxpayers can expect to be treated by tax authorities and provide a positive message about the common benefits of establishing a cooperative relationship (OECD, 2003:4). It would be correct to claim that the rights of taxpayers have always existed in Turkish tax law (Gerçek, 2006: 138). However, the consideration of the rights of taxpayers as a systematic concern began with the effect of this trend in the 1990s. In 2006, the TRA presented taxpayers' rights charter on its website. (Çetin Gerger, Yücedoğru, 2012: 142).

Resistance: An attitude of resistance represents taxpayers who actively resist the self-regulatory system (Braithwaite, 2005). Individuals who adopt a resistant stance are likely to view the tax office with antagonism because they feel that this office actively pursues taxpayers to "catch them out" rather than to help them. Resisters are also likely to believe that people should take a stand against the tax office (Murphy, 2005: 5).

Respect: The more respectfully taxpayers are treated by the tax administration; the less likely they are to evade. This situation contributes to the desire to “do the right thing”. Taxpayers’ charters and the presumption that taxpayers are honest reflect this type of approach (Walsh, 2012: 6). The TRA has promised to work on the principles of respect and honesty within the concept of taxpayer-focused and qualified service (TRA, 2006).

Technology Use: E-taxation must support the tax authority’s processes, including workflow systems and electronic record management, on the one hand, and knowledge management and automated risk analysis to assess the credibility of tax returns, on the other hand (Makolm, Orthofer, 2007). Some or all of these processes may be suitable for direct or indirect measures to influence taxpayers’ behavior (Walsh, 2012: 23). The use of technology in taxation can reduce taxpayers’ resistance toward the tax system and can increase their compliance with taxation (Schaupp, Carter, Mcbride, 2010: 641).

Consultation: An environment should be established that encourages taxpayers to submit proper returns and pay taxes voluntarily. This includes communication with taxpayers through public relations, general guidance, and consultations (James, Murphy, Reinhart, 2003: 15). Tax administrations consult with taxpayers about changes in taxation and provide beneficial information to them. The success of these consultations positively affects taxpayers.

Outcomes Favorability: Individual beliefs about the outcomes favorability of authorities influence taxpayers’ perspectives (Murphy, 2004a: 4). There is a positive effect of the existence of a relational and instrumental component of legitimacy, suggesting that authorities draw an important part of their legitimacy from their relationship with taxpayers (Tyler, 1997). Furthermore, outcomes favorability influences the reactions of third parties, which improve voluntary compliance with taxation.

3. METHODOLOGY

To obtain research data using the developed survey, an e-mail announcement was sent to accountants in 26 cities of NUTS-2 statistical sub-regions of Turkey. The survey questions were designed to assess the participants’ perceptions of the variables. All survey results were confidential. Some demographic data were obtained through the survey questions. The results were analyzed through exploratory factor analysis using SPSS 20.0 software.

3.1. Sample

The sample of this study was certified public accountants who were members of TURMOB (Chambers of Certified Public Accountants of Turkey) because these individuals conduct taxpayers' taxation work and have knowledge about taxation. This population consists of approximately 86.000 persons. The sample size was calculated as 660 at a 99% confidence interval and a 5% margin of error. We received 680 responses. The majority (83.2%) of participants was male, and 16.8 % were female. Most of the respondents' ages ranged from 31 to 40 years (34.8%). The education level of most respondents was at bachelor's degree level (81.2%); therefore, most respondents were highly educated. Approximately half (44.9%) of the respondents had more than twenty years of work experience. The majority of the respondents (56%) were at a low-income level, 34.9% were at a middle-income level, and 9.1% were at a high-income level (see Table 1).

Table 1: Demographic Profile of All Respondents

Variable		Count	Percentage
Age	18-30 years old	42	6.1
	31-40 years old	239	34.8
	41-50 years old	210	30.6
	51-60 years old	147	21.4
	> 60 years old	48	7.1
Gender	Female	115	16.8
	Male	571	83.2
Education	High school	66	9.6
	Bachelor	557	81.2
	Master or above	63	9.2
Work Experience	≤ 5 years	43	6.3
	6 – 10 years	100	14.6
	11 – 15 years	102	14.9
	16 – 20 years	133	19.4
	> 20 years	308	44.9

3.2. Instrument Development

To measure taxpayers' perspectives on the TRA, a survey-based data-gathering technique was used. Questions were adopted from relevant studies (Murphy (2004a), Murphy & Byng (2002), James, Murphy & Reinhart (2005), Hung, Chang & Yu (2006), Çetin Gerger (2011)). Fairness, trust, taxpayers' rights, resistance, respect, technology use, consultation, and outcomes favorability were measured

using a five-point Likert-type scale, with anchors ranging from 1 (strongly disagree) to 5 (strongly agree). All items in the questionnaire were randomly sequenced. The construction of the questionnaire was modified through pre-testing.

4. DATA ANALYSIS AND RESULTS

4.1. Reliability Analysis

To determine reliability, pre-testing of the 49 questionnaire questions was conducted using a sample of 60 taxpayers. Six questions were found to be unreliable and were eliminated from the analysis. The reliability tests on the 43 questions produced a Cronbach's alpha of 0.811.

4.2. Factor Analysis

The values of Bartlett's Test of Sphericity (0.000) and KMO (0.896), suggest that the data were appropriate for factor analysis (See Table 2).

Table 2: Factor Analysis for Taxpayers' Perspectives on the TRA

Factor	Load	Communal	Anti-image	Total variance (%)
Factor 1: Fairness				11.46
Q2: TRA treats all taxpayers fairly and reasonably.	0.832	0.724	0.919	
Q3: TRA is generally honest in the way it addresses all taxpayers.	0.830	0.739	0.920	
Q4: TRA tries to be fair in its decision-making.	0.756	0.644	0.937	
Q1: TRA gives equal consideration to all taxpayers.	0.744	0.625	0.927	
Q8: TRA is trusted to administer the tax system fairly.	0.529	0.513	0.940	
Q9: TRA is open and honest in its dealings.	0.452	0.534	0.935	
Q6: TRA respects taxpayers' rights.	0.438	0.674	0.919	
Q7: TRA treats taxpayers as trustworthy.	0.417	0.544	0.946	
Factor 2: Trust				8.64
Q15: TRA takes advantage of taxpayers.	0.694	0.621	0.927	
Q16: TRA helps to minimize the cost of complying with tax laws.	0.660	0.623	0.932	
Q11: TRA has acted in the interest of all taxpayers.	0.640	0.545	0.910	
Q14: TRA offers professional service and assistance to taxpayers.	0.590	0.540	0.943	
Q10: TRA meets its obligations to taxpayers.	0.576	0.527	0.946	

Factor 3: Taxpayers' Rights				7.17
Q19: TRA accepts that taxpayers have rights protected by law.	0.745	0.586	0.780	
Q18: TRA does not adequately describe the rights of taxpayers.	0.710	0.561	0.833	
Q21: Tax law gives the right to an external review of TRA decisions.	0.706	0.724	0.807	
Q20: TRA is concerned about protecting taxpayer's rights.	0.670	0.538	0.902	
Factor 4: Resistance				6.38
Q24: TRA is more interested in catching taxpayers.	0.812	0.700	0.828	
Q25: TRA will get tough with taxpayers if they do not cooperate.	0.732	0.605	0.859	
Q22: TRA avoids its responsibility to taxpayers (R).	0.688	0.521	0.844	
Q27: As a society, we need to take a stand against TRA's wrong decisions.	0.583	0.509	0.904	
Factor 5: Respect				6.22
Q30: TRA respects taxpayers' privacy.	0.823	0.732	0.862	
Q32: TRA keeps information confidential.	0.784	0.713	0.848	
Q31: TRA treats taxpayers as honest in their tax affairs.	0.413	0.560	0.939	
Q29: TRA is concerned about protecting rights.	0.406	0.617	0.925	
Factor 6: Using Technology				6.05
Q34: Using technology in TRA decreases errors in taxation.	0.834	0.734	0.761	
Q35: Using technology in TRA prevents corruption and abuse.	0.750	0.630	0.851	
Q33: Using technology in TRA reduces the tax compliance cost.	0.747	0.636	0.776	
Factor 7: Consultation				5.70
Q36: TRA consults taxpayers about changes to make their obligations easier.	0.767	0.654	0.839	
Q39: TRA goes to great lengths to consult with the community about taxation.	0.722	0.622	0.894	
Q37: TRA gives advice and information to taxpayers.	0.546	0.558	0.925	
Q38: TRA gives access to information about taxation.	0.479	0.502	0.857	
Factor 8: Outcome Favorability				3.77
Q41: Taxpayers generally agree with TRA's decisions.	0.768	0.635	0.654	
Q42: TRA's decisions generally are not favorable to tax law (R).	0.750	0.601	0.640	
Cronbach Alpha: 0.811 KMO: 0.896	Total variance explained: 55.39% Bartlett's test of Sphericity: Sig 000			

Note: 1. Load = Factor loading, communal = communality, anti-image = anti-image correlation.
 2. Item Q5, Q12, Q13, Q17, Q23, Q26, Q28, Q40 and Q43 was deleted in analysis.

Eight factors were extracted from the factor analysis using varimax rotation, as stated in the theory. These factors explained 11.46%, 8.64%, 7.17%, 6.38%, 6.22%, 6.05%, 5.7%, and 3.77% of the variance with an Eigen value of each factor greater than 1. Other results of the analysis indicate that the factor loading of the items of the eight factors ranged from 0.406 to 0.834. The lowest values for communality and the anti-image correlation coefficient were recorded on items Q38 (0.502) and Q42 (0.640), respectively.

5. DISCUSSION

The results of this study indicate that fairness is the strongest factor determining taxpayers' perspectives on TRA. The literature specifically highlights the importance of an authority's fairness and neutrality in its dealings with others (Bordignon, 1993; Tyler, 1997; Murphy, 2004a; Hartner et al., 2008). If people believe that the tax administration is "trying" to be fair and treats all taxpayers fairly and honestly, they trust the motives of that authority and develop a long-term commitment to accept its decisions.

According to the results of the analysis, trust was the second strongest factor determining taxpayers' perspectives on the TRA. Feld & Frey (2002) and Walsh (2012) clearly support this finding. The results demonstrates that providing an advantage to the taxpayers and helping to minimize their costs in complying with tax laws have a positive effect on taxpayers' perspectives.

This study differs from previous analyses in that we measure the taxpayers' rights as a factor. The results indicate that they are the third strongest factor determining taxpayers' perspectives on TRA. The acceptance by the TRA that taxpayers have rights protected by law and the TRA's adequate description of taxpayers' rights were found to be useful in affecting taxpayers' perspectives. This result is parallel to the changing approach of the tax administration to taxpayers' rights.

Braithwaite (2005) and Murphy (2005) argued that resistance negatively affects taxpayers' perspectives on tax administration. Our survey found that this was the fourth strongest factor. The TRA's interest in catching taxpayers rather than helping them is a significant part of taxpayers' perspective on tax administration.

The literature emphasizes the importance of interpersonal respect in authorities' treatment of taxpayers and demonstrates the relationships among procedural justice, perceived fairness, neutrality, and interpersonal respect (Murphy, 2004b).

Our survey results indicate that treating taxpayers with respect for their privacy and confidentiality affects taxpayers' perspectives on the TRA.

The other factor included in this survey was the use of technology in taxation. Technology use in taxation provides important benefits, such as reducing both the administrative and compliance costs of taxation, increasing the quality of service to taxpayers, and preventing corruption (OECD, 2007). Our most interesting finding is that taxpayers in Turkey think that the TRA's use of technology has decreased errors in taxation.

The seventh factor, consultation, includes two important findings. One of these findings is that the TRA consults taxpayers extensively about changes to make their obligations easier. The second finding is that the TRA goes to great lengths to consult with the community about taxation. These results are in accordance with a taxpayer-oriented approach (James, Murphy, Reinhart, 2003).

Murphy (2004a) and Tyler (1997) found that individual beliefs on the outcomes favorability of authorities' decisions influence taxpayers' perspectives. According to the results of our research, alignment between the TRA's decisions and taxpayers' opinions also affects taxpayers' perspectives.

In terms of practical implications, the results of this study suggest that policy-makers, particularly those in Turkey, should adopt strategies that support taxpayers' perspectives on the TRA. These strategies should focus on improving fairness, trust, and taxpayers' rights.

6. CONCLUSION

This study was conducted to identify the factors that influence taxpayers' perspectives on the TRA using factor analysis. The findings demonstrate that fairness, trust, and taxpayers' rights are crucial determinants of taxpayers' perspectives. Moreover, other findings of this study reveal that resistance, respect, and technology use positively affect taxpayers' perspectives. In addition, we observe that consultation and outcome favorability are less important than other determinants. This study measured the influences of two new factors, and taxpayers' rights appeared as the third most important factor that affects taxpayers' perspectives on tax administration.

The results of this study indicate that policy-makers who want to support taxpayers' perspectives on tax administration, particularly those in Turkey, should develop strategies based on improving fairness, trust, and taxpayers' rights. Moreover, longitudinal studies should be conducted to observe changes in taxpayers' perspectives on tax administration over time.

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