

# A Mixed-Methods Study of the Influence of Demographic Factors on Albanian Individual Taxpayers' Ethical Beliefs Surrounding Tax Compliance

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## Abstract

Many governments worldwide are concerned about tax evasion and avoidance, which has been studied extensively over the years. The primary goal of this research is to convey Albanian citizens' and taxpayers' perspectives on tax evasion, avoidance, and compliance. Several studies are being conducted worldwide to assess the public's perception of demographic factors influencing tax evasion and avoidance. The principal indicators used in this paper, such as the attitude toward tax evasion and tax avoidance, are based on individual taxpayer perceptions rather than real evidence. This issue is particularly acute in many developing and developed economies, including Albania. Tax evasion erodes the government's ability to raise revenue impartially and cost-effectively. Tax evasion creates inequality among citizens/taxpayers and economic difficulties for the country. Because of the lower revenue generated by tax evasion, the state coffers cannot provide public services such as health, transportation, and justice that are tailored to the needs of taxpayers and the contributor's rights. However, current research into the factors influencing tax evasion and avoidance in Albania is still limited. We analyzed data from a survey sent to 387 individual taxpayers in Albania to achieve our goals. We discovered relationships between socio-demographic factors and their impact on an individual's ethical perception of tax avoidance and evasion using empirical analysis. For the statistical analyses in this paper, we used Fisher's Exact Test on count matrices using R studio and JMP statistical software. Based on our empirical findings, we concluded that gender, marital status, level of education, and residential area all impact tax compliance and ethics. While there is a statistically significant relationship between employment status and influence on tax evasion and avoidance, insufficient evidence demonstrates a trend. No statistically substantial dependence was found for the age determinant. The study's findings may be helpful to researchers, policymakers' institutions, and practitioners.

**Keywords:** Fiscal Evasion, Tax Compliance, Gender, Education, Socioeconomic and Demographic Determinants.

**JEL Classification:** H21, H24, H26.

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## 1. Introduction

A large part of the world economies, especially countries in transition, face high levels of tax evasion and tax avoidance. Tax evasion and avoidance both have the same goal: to pay less tax and 'get around' tax laws. The criminal and administrative elements are sometimes used interchangeably, even though there is a significant

difference. In contrast to tax evasion, which is illegal, tax avoidance is the practice of arranging a transaction or series of transactions to earn a tax benefit. In many countries, tax evasion is a significant source of concern since it impacts decreasing government revenues. A bad fiscal culture that affects society is one of the primary motivators for tax avoidance and evasion. In essence, evasion refers to a taxpayer's active and/or passive acts to receive an unfair tax benefit. Operations like hiding earnings, deducting exaggerated or non-existent costs or moving money to foreign countries with more accessible tax systems enable the illegal reduction of the tax base, resulting in an excessive tax gain. (Lupi, 2009). The main factors that typically affect tax evasion are traditional (tax rate, penalty rate, and audit probability), institutional (corruption, cost compliance, and confidence), sociocultural (age, gender, education, social rules), macroeconomic (GDP, unemployment rate, and inflation), and business characteristics (size, ownership, and industry) (Kiri, 2016). According to Mamuti and McGee (2016), tax evasion is a result of a society's beliefs and morality rather than official financial policy.

Albania laid the groundwork for democratic changes and a market economy in the early 1990s. Albania is in the midst of a lengthy transition period. Albania understands the need to boost income to maintain its economic balance and address its balance of payments issues, eventually leading to more significant financial progress. Although being in the midst of a relatively protracted transition era, Albania has shown a slew of internationally widespread problems and has a multifaceted impact. Among these are fiscal policy's efficacy and quality in maintaining a steady link between its objectives and the methods utilized to attain them. The fiscal policy authority was critical in establishing the need for a new tax system. As a result, contributors' conduct and potential for evasion are usually considered crucial components in the formulation of fiscal policy.

Over the last three decades, many attempts have been made to modernize the state by adopting and executing the best policies for economic growth and citizen well-being. The tactics used to prevent or reduce obligation payments have become increasingly sophisticated. Noncompliance plagues revenue management in Albania, as it does in many other developing nations, hampering tax collection performance. Most of the time, overall tax compliance is low, and a large percentage of the economy's informal sector avoids paying taxes. Tax evasion and avoidance have a substantial impact on the loss of budget funds that could have been used to improve public services for a greater benefit in Albania due to the implications. No actual research has been conducted to assess tax evasion and avoidance in Albania. Several studies have been done throughout the years to establish the extent of the informal sector as a whole. Albanian Center for Economic Research (ACCER 1999) showed that 73% of evaluated enterprises do not report full profits. According to Pinto et al. (2015), systematic under-declaration of wages and salaries is widespread. The small size of enterprises, unfair competition, higher level of the income tax rate, especially for small businesses, and modest risks of detentions are the reasons for the flourishing informal economy that deprives the government of much-needed yearly revenue. More recent data from Medina and Schneider (2018) showed that the average size of the shadow economy as a percentage of GDP from 1991-2015 is 32.72% decreasing from a maximum of 40.2% in 1991 to 26.2% in 2015.

The relatively new experience of Albanian tax administration, the lack of tax culture inherited from the planned economy system, the high level of informality and corruption, as well as ongoing tax administration problems, are among the main factors that have contributed to the deterioration of this situation, according to them. According to Muharremi et al. (2014), the informal sector inhibits long-term economic development and productivity growth. The shadow economy is also one of the primary drivers of a drop in tax revenue. Furthermore, a hostile competitive environment leads to financial inequity and social injustice. The informal public economy harms the efficiency, quality, and quantity of services. Personal income and benefit tax rates, market circumstances, fiscal legislation, and tax administration skills are the five critical characteristics that positively affect Albania's tax evasion, according to Andoni et al. (2017). As previously said, taxes are essential for revenue creation and macroeconomic stability, but tax collection compared to GDP is still low globally, particularly in emerging economies (Abdu et al., 2021). Payne and Saunoris (2020) discovered that the impact of corruption on tax evasion follows the shape of an inverted "U". In terms of policy implications, the findings revealed that measures aimed at lowering tax burdens and controlling corruption would be more successful in the presence of widespread tax evasion. According to Tanto (2021), Albania has historically struggled to produce tax revenue, resulting in significant fiscal deficits. Three criteria have been established to determine if a tax avoidance transaction exists: (A) absence of a valid business purpose; (B) avoidance of obligations or constraints; and (C) tax advantage (Benefit-reduction or refund of taxes). Government policies, according to Salé et al. (2021), have a substantial correlation with taxpayers' tax compliance behavior, and higher tax rates are a key factor influencing tax evasion.

This research aims to contribute to the literature on the influence of demographic and socioeconomic characteristics on taxpayer perceptions of tax evasion and compliance in Albania. In the rest of the globe, there is a wealth of literature on these components, as well as a slew of research and analyses on their impacts. However, in Albania, this field of study is still fresh and unexplored.

Research Questions:

1. What role does taxpayer perception play in tax compliance and evasion?
2. What drives people to comply with the tax code?
3. What impact do socioeconomic and demographic characteristics have on taxpayers' perceptions of tax compliance and evasion?

The paper is organized as follows. In the beginning, there is the introduction, and the second section is the literature review. The third section addresses the methodology and empirical analysis and testing of the hypothesis – the fourth section presents conclusions and discussion and some limitations in the research and future work projects.

## 2. Literature Review

Why people cheat on taxes and fees is one of the most pressing questions concerning tax evasion. Taxpayers' willingness to pay tax is determined by their knowledge and understanding of tax rules, as well as their assessment of the taxing system's efficacy. The impact of demographic variables on tax evasion is debated in the literature. Some studies reveal a strong correlation between demographic characteristics and tax evasion, whereas others do not.

A variety of variables can influence taxpayer compliance. These elements may include, among other things, the effectiveness of the tax system and legislation, personal understanding of the tax system, perceived faith that the system is giving advantages to taxpayers, perceived profits, or benefits from the system. Other factors include perceived compliance affordability, the low or high risk of being caught and punished if not paying the required taxes, cultural differences in tax system egalitarianism, and social-demographic and economic variables like gender, age, educational background, income level, marital status, education, and residential area. Among the research conducted in Albania, we can mention the empirical study done in Elbasan by Muceku and Balliu (2017) that revealed a direct relationship between taxpayers' income level and their evaluations of tax fairness by education level and age. Andoni et al. (2017) conducted an empirical study in Albania to investigate the elements that contribute to tax evasion. One of the five important criteria that positively influenced Albanian tax evasion was personal income. Hoxhaj and Kamolli (2022) conducted an empirical study on the factors influencing tax evasion at the business level. The researchers discovered that gender and age have a positive relationship, so women have more ethical behaviors than men, and older people have more ethical behaviors than younger taxpayers.

According to Michael and Richard (2012), tax compliance is evaluated by analyzing a taxpayer's incentive to follow tax regulations, correctly declare income, confirm deductions, tax reductions, and payments, and pay taxes on time. While there are considerable disparities in the likelihood of evasion between occupational categories, research on the relationships between compliance and age, gender, education, and wealth has shown conflicting results. Hofmann et al. (2017) investigated whether socio-demographic parameters had a significant influence on tax compliance; however, age and gender had limited predictive power, while education and income have insignificant influence.

### 2.1 Demographic Factors

**Age.** Age is an essential factor in explaining the extent of tax evasion and compliance. If we compare taxpayers based on age, older taxpayers are less likely to be at the top of tax rates, less knowledgeable about taxes, or more conservative. Hence, they are less likely to seek additional deductions to lower their taxable income, i.e., older taxpayers are less likely to be tax non-compliant. Nordblom and Žamac (2012) looked at the factors that underpin the generally accepted idea that young and old persons have vastly different moral attitudes about tax evasion. The difference between generations is essentially an age effect, which indicates that as today's young people grow up, they may have personal norms comparable to today's elderly, implying that society's tax morale will not be eroded due to the younger generation's more lenient views. Young people who avoid paying taxes are more likely to have poor tax morale; therefore, targeted interventions aimed at them may be essential to combat widespread tax avoidance. People grow increasingly opposed to tax avoidance as they get older, while people above 50 get less opposed to it with time. (McGee and Gelman, 2008).

When Brockmann et al. (2016) used an incentive system to encourage tax compliance, they discovered that age did not influence the results of their study. They used the bare-bones deterrence paradigm, in which tax compliance is encouraged, and tax evasion is discouraged solely via the threat of audits and fines. Despite employing cross-section data, Braithwaite et al. (2010) discover that the variation in taxpaying standards between the young and the old is more likely due to age than a cohort effect. Defitri and Fauziati (2018) discovered that neither age nor education has an impact on tax compliance.

**Gender.** The behavioral and political disparities between men and women have been the subject of many studies. They commonly hold competing policy views and preferences, and women behave differently than men in almost all situations and countries. According to extensive tax compliance study data (Cadsby et al., 2006; Gerxhani, 2007; Kastlunger et al., 2010; Lohse and Qari, 2014). According to Richardson and Sawyer (2001), as a more independent, non-traditional generation of women arises, the compliance gap between males and females appears to be decreasing. Brockmann et al. (2016) used gender as a residual predictor to examine gender differences in tax compliance. They showed that the two incentive treatments had a significant influence on taxpayer behavior but did not increase tax compliance in all subjects. A gender interaction effect is to blame for this. The incentive treatments boost women's tax compliance, but men's compliance is significantly lowered. When institutional, cultural, and social aspects are considered, D'Attoma et al. (2017) show that this is a significant omission: gender is strongly linked to an individual's tax behavior. Their analysis shows considerable gender differences in tax compliance across the four countries they analyzed, despite varying degrees of social and legal gender equality.

According to Hofmann et al. (2017), gender can explain a modest proportion of the difference in tax compliance (approximately 0.36 percent). Women have a greater rate of tax compliance than males. In their study, Jarboui et al. 2020 examined the relationship between board gender and tax evasion in the UK. They observed that when the share of women on corporate boards grows, so does the quantity of tax evasion. Stronger sustainability performance is frequently associated with more tax avoidance. Ross and McGee (2011) looked at more than 20 demographic factors of Malaysians' attitudes toward tax evasion (noncompliance) and found that women were more hostile to tax noncompliance than men. According to Torgler and Neven (2006), women are far less likely than men to think corruption and tax evasion are justifiable. Other research has discovered that when it comes to tax evasion, there is no statistical difference between men and women (Kasipillai & Jabbar, 2006).

**Marital Status.** Only a few academics have specifically researched the influence of marital status on tax compliance, even though other writers have examined the impact of taxpayer demographic traits on tax compliance. McGee (2012) claims that married status impacts ethical beliefs and attitudes about paying taxes and attitudes toward tax evasion, although the effect is unclear. There is evidence to support three opposing viewpoints on the relationship between taxpayer compliance and marital status: positive (Richardson and Sawyer, 2001; Asante and Seidu, 2011; Tazegül, 2016), negative (Ipek and Kaynar, 2009), and no influence (Yalama and Gumus, 2009). According to McGee and Gelman (2008), marital status negatively correlates with tax evasion. Married persons are more likely to reject tax evasion than divorced or single people. Divorced people are more likely to oppose tax evasion than single people. Individual taxpayers with spouses, i.e., married taxpayers, were more obedient than unmarried taxpayers in Richardson and Sawyer's (2001) study. In their analysis, Asante and Seidu (2011) found that unmarried self-employed taxpayers were much less compliant with tax laws than married taxpayers. According to Yalama and Gumus (2013), a person's marital status has no statistically significant impact on tax compliance. In terms of tax evasion, (Young, 1994) found that single taxpayers evade more than married taxpayers however (Nana et al., 2020) found no link between marital status and tax avoidance.

## **2.2 Socio-Economic Factors**

**Education.** According to previous studies, the impact of education on tax compliance is uncertain. Four education metrics have been established by Richardson and Sawyer (2001): general fiscal knowledge, awareness of evasion risks, general educational accomplishment, and specific tax knowledge. These numerous aspects may explain the uncertainty around the impact of the education variable on taxpayer compliance. There is a link between educational attainment and tax law knowledge. Tax compliance necessitates a complete grasp of the tax system, which is impossible to achieve without formal education. Respondents with a primary education level lack a clear understanding of tax policy, tax rules, and tax compliance procedures. Most of the time, people need to enlist the help of others (professionals) to cope with tax issues.



Frustration originates from a lack of comprehension of complex tax legislation, which leads to distrust and a lack of compliance. As a result, those with little education and understanding are more likely to make mistakes while filing their taxes. Low tax compliance may be linked to a lack of education (Bobek et al., 2007). Preobragenskaya and McGee (2016) did a demographic examination of Russian opinions on tax evasion and discovered that people with a greater education degree were less opposed to tax avoidance. On the other hand, Hofmann et al. (2017) found a statistically significant unfavorable relationship between education and tax compliance, accounting for just 0.04 percent of tax compliance variance. According to their findings, taxpayers with less education are more tax compliant than those with a more excellent education. Individuals with higher education are more aware of the law and filing obligations and have more access to information on tax evasion tactics. As a result, higher levels of education may be linked to lower evasion but higher avoidance tendencies. One of the most important factors that determine tax compliance is tax knowledge. Kasipillari et al. (2013) found a significant and favorable connection between educational attainment, tax knowledge, and tax compliance. Education has a negative influence on tax evasion, according to Yalama and Gumus (2013), and tax evasion is more prevalent among lower-educated taxpayers than higher-educated taxpayers. Mamun et al. (2014) discovered that there is a positive correlation between education and tax compliance.

**Residential Area.** Only a few researchers have evaluated the effect of the residential area on tax evasion and tax avoidance. In terms of avoidance propensity, proximity factors demonstrate a significant geographical relationship between sites. When inhabitants of a surrounding region come into contact with a territory with a high evasion percentage, they respond similarly. Similarly, one's attitude toward tax compliance positively affects the surrounding local conditions. There also exists a relation between the residential area and the number of inspections from tax employees. An increase in the likelihood of tax control influences decision-making to engage in more dangerous evasion. If the taxpayer is risk cautious, increasing the number of inspections reduces tax evasion. There is a widespread belief that the shadow economy is more prominent in rural regions due to better social links, community spirit, and informal groupings that operate as substitutes for official institutions. However, there is no data to back this up. In the developing world, it is widely agreed that the shadow economy exists and that it is more prevalent in rural than urban areas (ILO, 2013; Jütting & Laiglesia, 2009).

According to Hedges (1999) and Shucksmith (2000), greater mobility and rapid population change in Europe's rural areas, as well as an increase in individualistic lifestyles, has led in the loss of distinct rural culture, language, dialects, and other intangible qualities. There is also a preference for working locally rather than commuting. According to a study done in Greece, the labor inspectorate does not examine the agricultural sector, meaning that farm diversification operations in the shadow economy go unreported (ILO, 2017). Tiutiunyk et al. (2021) conducted an investigation based on the built econometric equations of the reliance of personal income tax revenues on the degree of the shadow economy. They discovered that the shadow economy negatively influences the revenues from this tax in general. Both the conventional rational economic actor and the social actor approaches, according to Williams and Horodnic (2017), help reduce rural people's involvement in the shadow economy. They observed that when perceptions of detection increase and tax morale improve, rural residents' engagement in the shadow economy decreases.

**Employment Status.** There is a scarcity of research on occupation and employment status as factors influencing taxpayer compliance behavior. This ambiguity can be partly explained by the fact that various researchers utilize different occupational classifications in their investigations. Another factor contributing to the lack of advice is the belief that the non-compliance danger is related to the person rather than the occupation. Self-employed individuals traditionally have higher compliance expenses, creating a more significant incentive to dodge taxes. Taxes are more evident to self-employed individuals, who have a greater potential to hide or avoid them, Torgler and Schneider (2007). According to Chen et al. (2019), among other things, the scale of the tax system, the level of regulation, unemployment, and agricultural jobs have all had a substantial beneficial impact on China's shadow economy. Income levels, on the other hand, have had a substantial negative impact on China's shadow economy.

Work status does not appear to have a substantial influence on tax morale, according to Strielkowski and Čábelková (2015), with only upper and lower controllers, as well as manual supervisors, having considerably greater tax morale than agricultural workers. Occupational association status, location, gender, company type performed, age, degree of education, and family size are all important determinants of tax stamp compliance, according to Amponsah and Adu (2017). One of the most important factors in determining whether to dodge taxation is the taxpayer's money sources. Since withholding tax is charged on employers by law, there is

essentially no possibility for tax avoidance for taxpayers whose primary source of income is employment or benefits, according to Salé et al. (2020).

Table 1. Chosen Demographic and Socioeconomic Factors Affecting Tax Avoidance and Tax Evasion

Factors affecting tax avoidance and tax evasion	Authors
Age	Braithwaite et al. (2010), Nordblom and Žamac (2012), Brockmann et al. (2016)
Gender	Jarboui et al. (2020), Kastlunger et al. (2010), Hofmann et al. (2017)
Marital Status	Asante and Seidu (2011), Tazegül (2016), Ipek and Kaynar, (2009)
Education level	Bobek et al. (2007), Preobragenskaya and McGee (2016), Mamun et al. (2014)
Residential Area	Jütting & Laiglesia, (2009), Williams and Horodnic (2017), Shucksmith, (2000)
Employment status	Strielkowski and Čábelková (2015), Amponsah and Adu (2017), Amponsah and Adu (2017)

Source: Compiled by the authors

### 2.3 Study Objectives and Hypotheses

The primary purpose of this research is to discover Albanian taxpayers' perceptions of various tax factors. Individuals above 18, residents of urban and rural areas, and Albanian nationality were questioned. All participants in the study, whether employees or consumers are taxpayers. The purpose of this study is to determine the socioeconomic determinants and their impact on tax evasion using six significant factors based on literature reviews: age, gender, marital status, education level, residential area, and employment status. In the framework of this research question, the following auxiliary hypotheses have been posed:

- H1: Age influences behavior towards tax evasion. Older people tend to be more ethical in terms of tax payments.
- H2: Gender influences committing tax evasion. Women have more ethical behavior in terms of tax evasion and tax compliance.
- H3. Respondent's marital status has a positive influence on tax evasion and tax avoidance.
- H4. The level of education and tax knowledge influences the tendency for tax evasion, with a higher level of educated taxpayers having more ethical behavior regarding tax avoidance.
- H5. The respondent residential area has a positive influence on tax compliance.
- H6. The respondent's employment status has a positive influence on tax evasion and tax avoidance.

### 3. Methodology

A mixed-methods research design was used for this research. In the literature review, we provide an in-depth overview of theoretical and scientific studies in this research field as part of the qualitative aspect of the study. The quantitative aspect of the research included obtaining primary data through the distribution and analysis of survey responses. A questionnaire was created and distributed to taxpayers for the study to identify the factors influencing their perception of fiscal policy issues. We incorporated questions from previous studies in other countries about the relationships between socio-demographic variables and tax evasion and compliance in developing the questionnaire (McGee, 2014; Tarekegn, 2016), but most of them were original. The sample chosen must be distributed before the pre-testing of the questionnaire study. Pre-testing allows questions to be analyzed again to see if they are understood, adequately sorted, or if any questions should be removed or added. Before distributing the questionnaire to interviewers, pre-testing was carried out. Initially, a draft survey was presented for review to colleagues and experts in taxation and fiscal policy issues. The findings of this review indicated that several of the questions needed to be reworded and that various technical errors needed to be corrected. The survey was then piloted by conducting 30 field interviews in the following phase. Pilot testing results led to recommendations for further clarification of various questions. The final survey was developed and distributed online, via social media platforms, and by email for data collection. The final stage involved quality control over the completed surveys. The data from the respondents were then analyzed using Fisher's Exact Test in R Studio and JMP statistical software to determine where there were statistically significant relationships between the variables. We then created mosaic plots to assist in describing the distribution of the ethical beliefs variables' Likert responses for each demographic variable.

**Participants and Material.** The survey respondents are Albanian citizens who meet specific criteria and have a variety of characteristics. In total, 387 individual taxpayers provided data. (See Appendices B and C for survey participant characteristics and the distribution of these characteristics among respondents,

respectively.) The data were collected from February to July 2020. The survey included six demographic and socio-economic questions and 28 questions pertaining to Albanian tax policy and tax avoidance and evasion ethics. In the first group of questions, we asked respondents to provide their Age, Gender, Marital Status, Education Level, Residential Location, and Occupation/Employment Status.

Of the 28 remaining study questions, 23 pertained to Albanian tax policy (independent variables), and five questions pertained to the respondents' beliefs regarding the ethics of tax avoidance and evasion (dependent variables). Ordinal responses were on a 7-point Likert response scale ranging from 1=Strongly Disagree, 2=Disagree, 3=Somewhat disagree, 4=Neither agree nor disagree, 5=Somewhat agree, 6=Agree, 7=Strongly agree. We previously published work analyzing and factoring the 23 tax policy variables and their relationship to the five ethical beliefs variables (Salé et al., 2021). This research concentrates on the relationship between the six demographic and socio-economic variables and the five ethical beliefs variables. A complete list of questions used for the empirical analyses is provided in Appendix A.

**Procedure and Data Screening.** The final survey was created in Google Forms and distributed to various respondents (Facebook) via social media. We also used email distribution to achieve stratified random sampling that was disproportionate. Individuals chosen met the criteria, and we received responses from people of all ages, genders, employment statuses, educational levels, and so on. Respondents were asked to distribute and complete the survey to additional family members or friends, resulting in snowball sampling. There were no missing values as all survey questions were required. Our final sample size was 387.

**Analyses of Relationships.** A Fisher's Exact Test was performed on the matrices of counts to determine the initial presence and significance of the relationships between the demographic variables and the ethical beliefs variables. We chose this method over a Chi-Square Test of Independence since several of the individual matrix cell counts were less than five, and therefore Chi-Square determinations would be suspect. Since the Fisher's Exact Test is suitable, even when Chi-Square conditions are satisfied, we chose to uniformly use Fisher's Exact Test with a two-sided alternative hypothesis throughout (Kim, 2017). Because we are not trying to create a model for the effect of demographic variables on ethical beliefs and instead of seeking to test a statistically significant relationship, the Fisher's Exact Test was preferred over an ordinal logistic regression. The results from this analysis can be seen in Table 2. Statistically significant relationships ( $p < 0.05$ ) are shaded.

Table 2. Matrix of p-values for Fisher's Exact Test (N=387,  $\alpha=0.05$ )

	Item 14	Item 15	Item 16	Item 17	Item 18
<i>Age</i>	0.1003	0.0920	0.4608	0.2198	0.0762
<i>Gender</i>	0.0285	0.4257	0.0694	0.2830	0.0147
<i>Marital</i>	0.0003	0.1165	0.0003	0.2299	0.0044
<i>Education</i>	0.4425	0.3373	0.0132	0.6506	0.4319
<i>Residence</i>	0.6562	0.1353	0.0199	0.1607	0.6626
<i>Employment</i>	0.2445	0.2815	0.2427	0.3602	0.0037
<b>Item Descriptions</b> Item 14: Is it acceptable for companies to implement unethical tax policies if this is the only way to keep them competitive? Item 15: Tax avoidance is ethical if tax levels are too high Item 16: Tax avoidance is ethical if everyone does it Item 17 (Rev Coded): Fiscal evasion is morally wrong and unethical in any form and size Item 18: Tax evasion is ethical even if the tax level is not very high because the government has no right to take as much as it takes from me					

Source: Compiled by the authors

NB: The Fisher's Exact Test is very computationally intensive for matrices larger than 2x2. All of our matrices are larger than this dimension. Therefore, we utilized a Monte Carlo simulation to sample 500,000 outcomes instead of enumerating all possible outcomes (fisher. test, n.d.). Even though this means the p-value is somewhat approximated, the high number of simulations yielded almost identical results. To confirm the results, we performed multiple re-runs of the analyses where we increased the number of simulations. Neither repeated runs nor an increase in simulations per run affected any changes in statistical significance using an  $\alpha$  of 0.05.

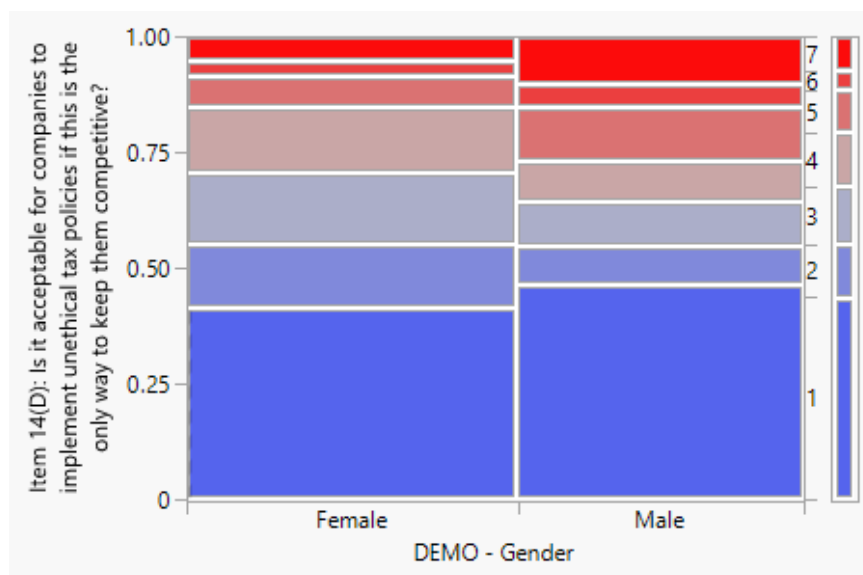
### 3.1 Data Analysis & Discussion

Results from the analyses of the relationships between demographic variables and ethical beliefs variables showed multiple significant relationships.

- Gender and Item 14 – Is it acceptable for companies to implement unethical tax policies if this is the only way to keep them competitive?
- Gender and Item 18 – Tax evasion is ethical even if the tax level is not very high because the government has no right to take as much as it takes from me.
- Marital Status and Item 14 – Is it acceptable for companies to implement unethical tax policies if this is the only way to keep them competitive?
- Marital Status and Item 16 – Tax avoidance is ethical if everyone does it.
- Marital Status and Item 18 – Tax evasion is ethical even if the tax level is not very high because the government has no right to take as much as it takes from me.
- Education Level and Item 16 – Tax avoidance is ethical if everyone does it.
- Residential Location and Item 16 – Tax avoidance is ethical if everyone does it.
- Employment Status and Item 18 – Tax evasion is ethical even if the tax level is not very high because the government has no right to take as much as it takes from me.

Interpretations of these results are discussed below. In our interpretations, we use the term “agree” when a respondent selected 5: *Somewhat agree*, 6: *Agree*, or 7: *Strongly agree*. We use the term “disagree” when a respondent selected 3: *Somewhat disagree*, 2: *Disagree*, or 1: *Strongly disagree*. In some cases, a case count for a sub-category was too low to make any sound interpretations.

*Relationship 1 – Gender and Item 14 – Is it acceptable for companies to implement unethical tax policies if this is the only way to keep them competitive?*



**Figure 1. Mosaic Plot – Gender and Item 14**

Source: Compiled by the authors

Interpretation: Respondents who identified as Male more frequently agreed that it was acceptable for companies to implement unethical tax policies if it were the only way to keep them competitive.

*Relationship 2 – Gender and Item 18 – Tax evasion is ethical even if the tax level is not very high because the government has no right to take as much as it takes from me.*



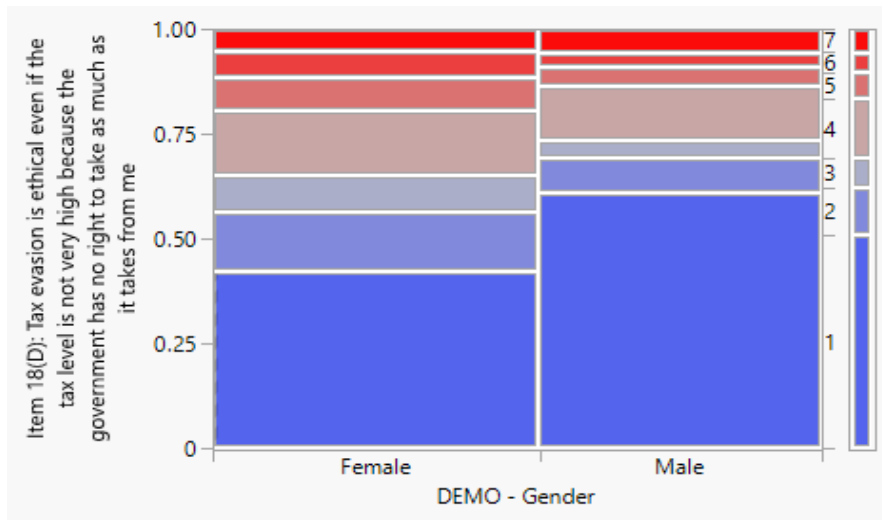


Figure 2. Mosaic Plot – Gender and Item 18

Source: Compiled by the authors

Interpretation: Respondents who identified as Females more frequently agreed that they felt that tax evasion was ethical even if the tax level is not very high because the government has no right to take as much money as it takes.

*Relationship 3 – Marital Status and Item 14 – Is it acceptable for companies to implement unethical tax policies if this is the only way to keep them competitive?*

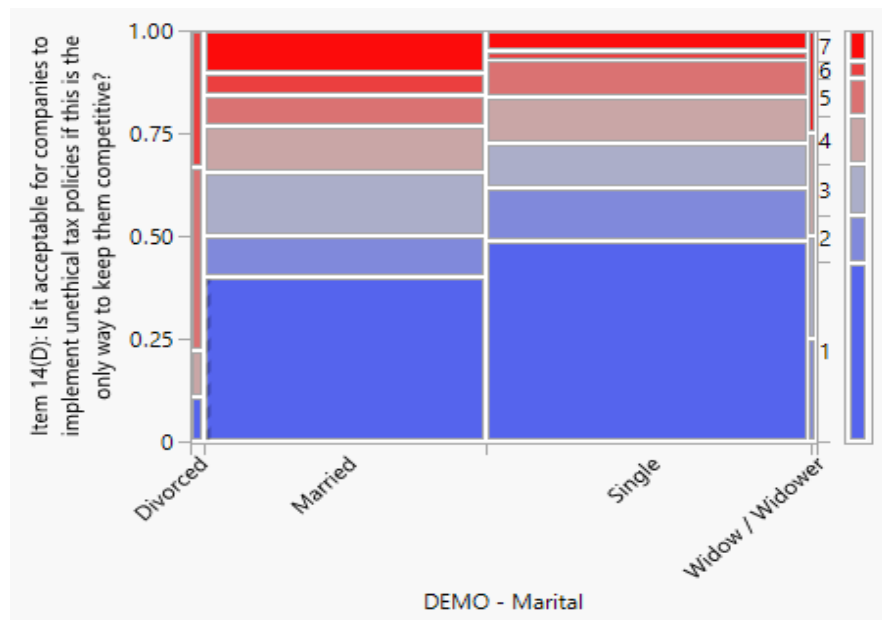
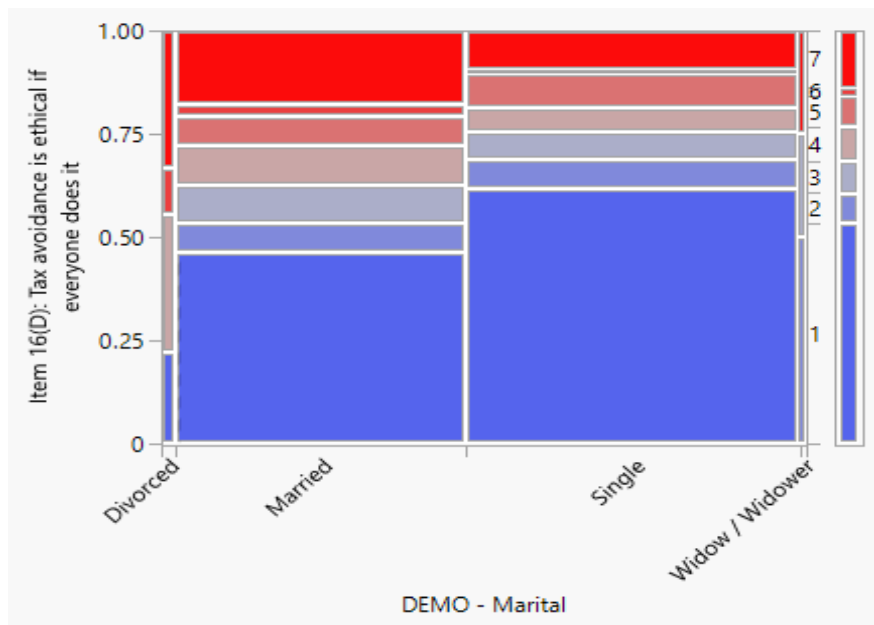


Figure 3. Mosaic Plot – Marital Status and Item 14

Source: Compiled by the authors

Interpretation: A substantially high percentage of Single respondents agreed that it was unacceptable for companies to implement unethical tax policies if it were the only way to keep them. A similar percentage of both Married and Single respondents agreed that it was acceptable. Widows/Widowers and Divorced respondents (although a small subset of the data) agreed much more often than other marital statuses.

*Relationship 4 – Marital Status and Item 16 – Tax avoidance is ethical if everyone does it.*

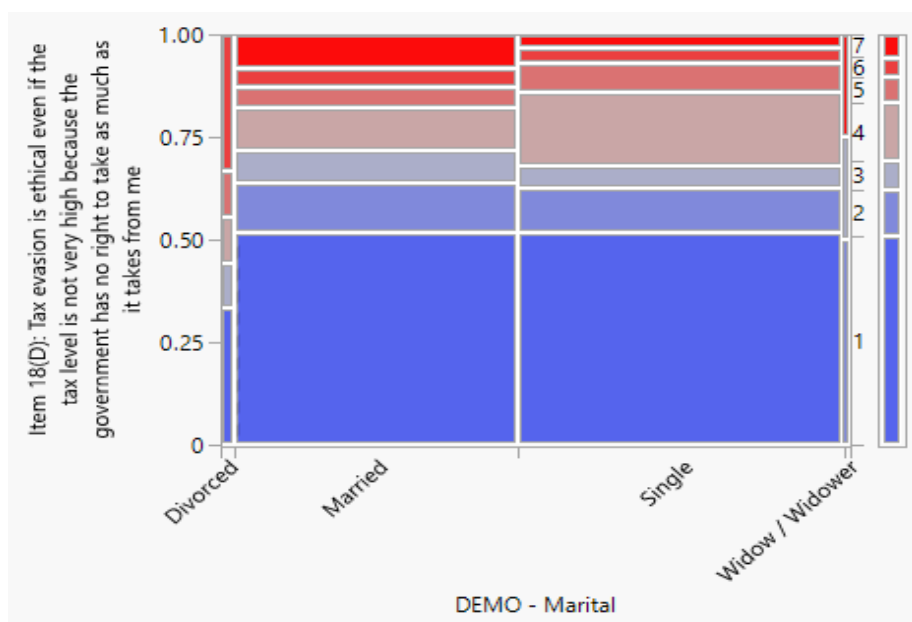


**Figure 4. Mosaic Plot – Marital Status and Item 16**

Source: Compiled by the authors

Interpretation: The distribution of responses shows a clear polarity in responses between Married and Single respondents. The largest disparity is between Married and Single respondents and their disagreement with the statement that tax avoidance is ethical if everyone is doing it. Married respondents disagreed far less often with this statement than Single respondents. Divorced respondents agreed far more often than other marital statuses. Widows/Widowers were unremarkable in their responses.

*Relationship 5 – Marital Status and Item 18 – Tax evasion is ethical even if the tax level is not very high because the government has no right to take as much as it takes from me.*



**Figure 5. Mosaic plot – Marital Status and Item 18**

Source: Compiled by the authors

Interpretation: We discovered a statistically significant relationship between these two factors, although there does not appear to be a discernible pattern in the responses of Married and Single respondents. Widows/Widowers and Divorced respondents seem to be causing the dependence. Divorced respondents agree more often with the belief that tax evasion is ethical even if the tax level is not very high because the government has no right to take as much money as it takes than all other marital statuses.

*Relationship 6 – Education Level and Item 16 – Tax avoidance is ethical if everyone does it.*

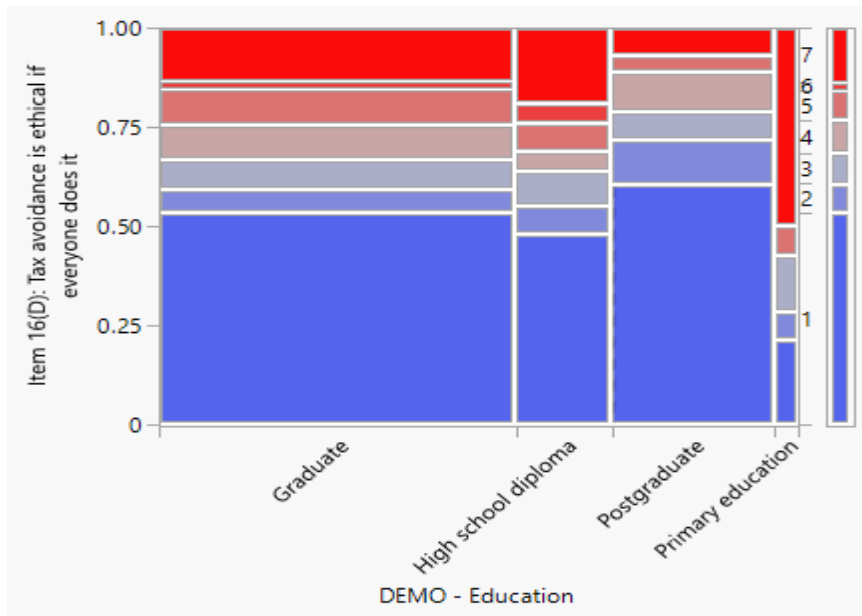


Figure 6. Mosaic Plot – Education Level and Item 16

Source: Compiled by the authors

Interpretation: The distribution of responses shows a clear trend in response to the statement that tax avoidance is ethical if everyone does it. A substantially high percentage of respondents with an education level above a High School Diploma (Graduate and Postgraduate) agree that tax avoidance is not ethical if everyone does it. Respondents with an education level equal to or below a High School Diploma (High School Diploma and Primary Education) more often agreed that it was ethical.

*Relationship 7 – Residential Location and Item 16 – Tax avoidance is ethical if everyone does it.*

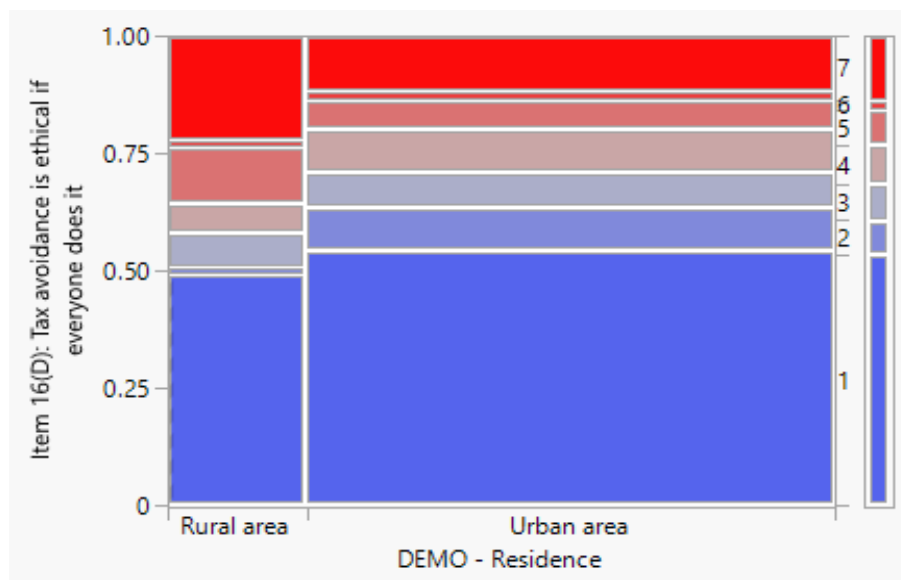


Figure 7. Mosaic Plot – Residential Location and Item 16

Source: Compiled by the authors

Interpretation: Respondents who live in Rural Areas more frequently agreed that tax avoidance is ethical if everyone does it as opposed to respondents who live in Urban Areas who more frequently responded that it was unethical.

*Relationship 8 – Employment Status and Item 18 – Tax evasion is ethical even if the tax level is not very high because the government has no right to take as much as it takes from me.*

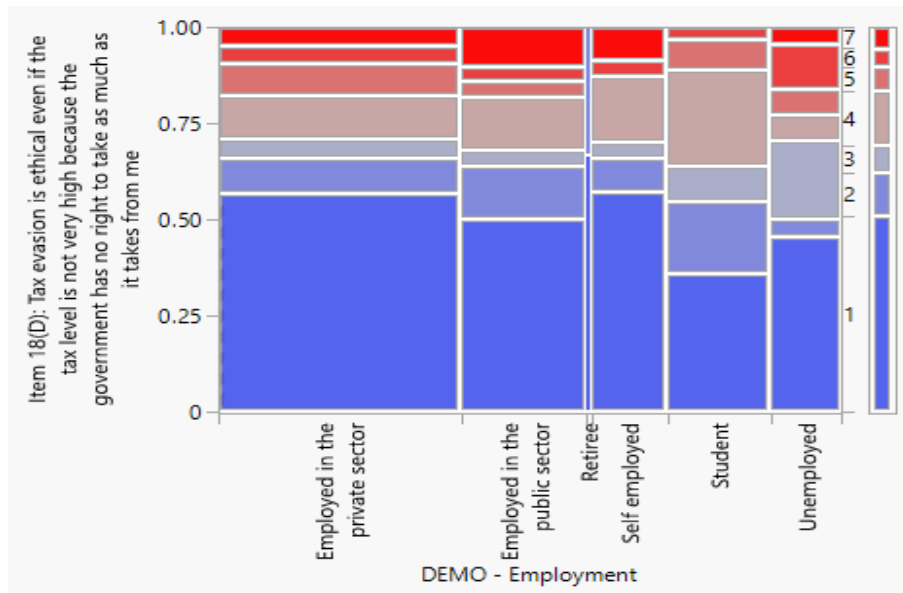


Figure 8. Mosaic Plot – Employment Status and Item 18

Source: Compiled by the authors

Interpretation: The distribution of Student respondents are the categories of note in this relationship. Less than 12% of Students agreed with the belief that tax evasion is ethical even if the tax level is not very high because the government has no right to take as much money as it takes. Students seem to be what is causing the dependence in this relationship.

#### 4. Conclusions and Recommendations

Tax evasion is a complex process that is even more difficult to measure and quantify. Taxpayers come in various genders and ages, with varying income levels, work status, cultural and religious backgrounds, literacy levels, and fiscal knowledge. According to Faridy et al. (2016), a jurisdiction's tax culture can influence tax compliance, with the presence or lack of trust and/or corruption impacting compliance behavior. Combating tax evasion and fraud as measures aimed at the hidden economy is one way to enhance government income and improve the justice, acceptability, and credibility of the tax system among citizens and companies. It is also vital in advancing human rights and providing proper protection for our society's most vulnerable people. As a result, the moral tax, which is a dependent variable of tax evasion, significantly impacts tax compliance. Not only does the economic system influence formal and informal economic activities, but so does the political system. The willingness to pay taxes is inextricably tied to the quality of government administration. Albania's informal sector is primarily unknown in terms of its impact on employment and production.

Tax evasion and the adoption of effective regulations and processes continue to be contentious topics. The quality of public institutions, notably the efficient and effective implementation of the tax code and regulations by government authorities, is critical to developing the informal economy. The grounds for the evasive phenomenon may be found first and foremost in the economic-productive structure, which is characterized by a significant concentration of small businesses and self-employed persons. Administrative controls are thus approximations and spot checks on the ground rather than capillary. The degree of informality is directly proportional to corruption. The greater the informality, the greater it is corruption. Albania occupies one of the first places among the countries of Eastern Europe for work of darkness, informality, and corruption. Furthermore, the combination of the possibility of being penalized and the actual punishment applied in the event of proven tax evasion is insufficient to inspire individuals to pay the amount owing to state authorities. Above all, inefficient administrative efficiency is a significant contributor to all of this.

Based on our empirical analysis of demographic and socio-economic factors have on tax compliance we found that:

- No statistically significant dependence was found regarding our first hypothesis, the relation between age and tax evasion. Brockmann et al. (2016) discovered that age did not affect the findings of their study. According to Defitri and Fauziati (2018), neither age nor education affects tax compliance.



- Hypothesis 2, the relation between gender and tax evasion was accepted. More Males seem to feel that unethical company tax policies are acceptable when compared to Females. However, more Females responded that tax evasion was ethical even if the tax rates are not high. While at first, these seem to contradict each other, it is important to note that the first relationship is regarding corporate tax policy and not personal tax avoidance. Our results are similar to another researcher that noticed that in terms of tax compliance there is a trend that women are more compliant than men, (Cadsby et al., 2006; Gerxhani, 2007; Kastlunger et al., 2010; Lohse and Qari, 2014).
- Hypothesis 3, the relation between marital status and tax evasion was accepted. From our analysis, we noticed that Single people seem to feel that unethical company tax policies and tax avoidance, in general, are unacceptable and unethical when compared to Married people. Our result conforms to findings from Aregbesola et al., 2020, who showed that marital status has a substantial effect on personal income tax compliance in Nigeria, with singles being more compliant than other marital status groups such as married and divorced. It is interesting to note that Divorced respondents seemed to support unethical tax policies and tax avoidance above other marital statuses.
- Hypothesis 4, that the level of education and tax knowledge influences the tendency for tax evasion was accepted. Taxpayers with higher education levels showed that they feel that tax avoidance is unethical much more than those with a lower degree such as a High School Diploma. Our results are like Muzainah & Gurama (2016) found that educational level has a significant positive relation with tax evasion. Individuals' attitudes and behaviors are naturally influenced by their level of education. In this study, however, the results show a positive and significant relationship between education level and tax evasion. If the individual taxpayers have a high level of education and knowledge, this will have a greater impact on their ability to interpret and manipulate tax law to their advantage to reduce the amount of tax liability.
- Hypothesis 5 was accepted, and the respondent's residential area has a positive influence on tax compliance. We found from statistical analysis that those who live in Rural Areas seem to feel that tax avoidance is more ethical if everyone is doing it far more than those living in Urban Areas. Our findings are consistent with those of Jütting and Laiglesia (2009), Williams and Horodnic (2017), and Shucksmith (2000) in that the shadow economy exists and is more prevalent in rural than urban areas.
- Regarding hypothesis 6, the respondent's employment has a positive influence on tax evasion and tax avoidance. While there is a statistically significant relationship between these variables, there is not enough evidence to demonstrate a trend. However, it is interesting to note that Student respondents agreed with tax evasion practices less often than other employment statuses.

Some of the recommendations made to tax policymakers based on the findings of the analysis are as follows:

- The government should invest in developing a long-term taxpayer education strategy. Tax education is regarded as a long-term winning strategy: the primary key to developing a culture of voluntary tax compliance. The only way to close the tax gap and improve citizenship compliance is to invest in tax culture. Individuals must be encouraged to pay their taxes, and they must understand the critical role of taxes in society. According to their responses, citizens are not particularly inclined to perceive the benefits of paying taxes, both individually and for the community. Educational initiatives should ideally begin in educational institutions and continue throughout the taxpayer's life through teaching, awareness, and assistance – to ensure that taxpayers are educated, informed, and capable of complying.
- We noticed that people living in rural areas have more unethical behavior than people living in urban areas. Through their analysis, Williams and Horodnic (2017) recommended that the conventional rational economic actor and the social actor approach properly reduce rural people's involvement in the shadow economy. Based on their observations that when perceptions of detection increase and tax morale improve, rural residents' engagement in the shadow economy decreases, we recommend increasing the levels of control and auditing in rural areas.
- The responses revealed a strong belief in tax administration inefficiency. The primary goal of a tax audit should be to detect flaws, correct them, and educate taxpayers. Controls should be conducted more frequently to orient law enforcement fairly and transparently. In the future, they need to establish a merit-based recruitment system, steps must be taken to reduce bureaucracy and improve ways of communicating with taxpayers as formally as possible to avoid any personal relationships that may develop between taxpayers and control inspectors.

➤ Another factor to consider is the relationship between the taxing authority and the taxpayers. Both parties have reciprocal expectations, and taxpayer conduct will be influenced by authority expectations and treatment received. Taxpayers must be treated as loyal partners by the authority, which will control and improve the chance of honesty, respect, trust, higher tax morale, and, eventually, voluntary tax fairness by taxpayers.

#### 4.1 Limitations of the Study and Future Research

This paper is a follow-up to a study released last year by Salé et al. (2021). One of our goals was to investigate the influence of demographic variables on people's ethical judgments about tax avoidance and evasion. This study has a few limitations: Most of the participants were from Albania's central regions. The study might be expanded in the future to include additional geographical zones, such as the north or south. While this study focuses on individual taxpayers, the situation for company taxpayers may differ, and this might be the topic of future research. We intend to delve deeper into the ethical ideas surrounding tax avoidance and evasion, particularly from the perspective of company owners. Like earlier compliance studies, this study relied on taxpayer reports of their behavior. We conducted a direct poll of taxpayers for this investigation. According to Tanzi and Shome (1993), and other authors, there is criticism in using direct surveys because individuals may not remember how they behaved as taxpayers in the past, and individuals may not convey accurate and sincere/truthful information about an activity that may be considered anti-social even if he/she is assured anonymity. We examined socioeconomic and demographic determinants and their impact on tax evasion. Still, other areas and aspects of compliance and evasion behavior and attitudes should be researched, such as income level. Other in-depth research must be conducted in the future to gain a better understanding of the impact of each factor on tax non-compliance. We intend to complete a new survey that more accurately reflects Albania's tax culture's attitudes.

**Author Contributions.** Conceptualization: Oltiana Muharremi, Michael J. Salé, Meleq Hoxhaj; data curation: Meleq Hoxhaj; formal analysis: Michael J. Salé, Oltiana Muharremi; investigation: Oltiana Muharremi; Michael J. Salé; methodology: Michael J. Salé; project administration: Oltiana Muharremi, Meleq Hoxhaj; resources: Oltiana Muharremi; Meleq Hoxhaj; software: Michael J. Salé; supervision: Oltiana Muharremi, Michael J. Salé; validation: Michael J. Salé, Oltiana Muharremi; visualization: Michael J. Salé; writing - original draft: Oltiana Muharremi, Michael J. Salé; Meleq Hoxhaj.

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## Appendix A

### Survey Questions/Items

- Item 1: Tax legislation is simple to understand and apply.
- Item 2: The personal income tax rate is appropriate.
- Item 3: The social and health insurance contribution rate is appropriate.
- Item 4: The tax system of our country is fair to everyone.
- Item 5: The progressive personal income tax system is fair.
- Item 6: I am confident that the government is doing a good job in collecting taxes.
- Item 7: The government uses properly the taxes and fees collected.
- Item 8: Individuals have information on how the taxes collected from them by the government are used.
- Item 9: The government is interested in having the opinion of their citizens before making legal changes.
- Item 10: The current fiscal system favors high-income individuals rather than low- and middle-income employees.
- Item 11: I believe the government is fighting and punishing people who evade taxes and commit tax evasion.
- Item 12: The consequences of catching for tax evasion (measures, penalties, fines) are not very serious.
- Item 13: There is a general culture in Albania regarding tax avoidance and tax evasion.
- Item 14: It is acceptable for companies to implement unethical tax policies if this is the only way to keep them competitive.
- Item 15: Tax avoidance is ethical if tax levels are too high.
- Item 16: Tax avoidance is ethical if everyone does it.
- Item 17: Fiscal evasion is morally wrong and unethical in any form and size.
- Item 18: Tax evasion is ethical even if the tax level is not very high because the government has no right to take as much as it takes from me.
- Item 19: The desire to achieve significant profits in a short time encourages evasion.
- Item 20: Continuous changes in tax legislation and the level of taxes encourage tax avoidance and evasion.
- Item 21: A high level of corruption from the tax administration encourages tax avoidance and evasion.
- Item 22: The ability of the tax administration to control and collect taxes and levies from individuals and businesses influence tax compliance.
- Item 23: A lack of transparency regarding fiscal changes and reforms encourages tax avoidance and evasion.
- Item 24: Unfair business competition influences tax avoidance and evasion.
- Item 25: Frequent and increasing changes of the tax base encourage tax avoidance and evasion.
- Item 26: Non-severe punitive measures for violators of the law encourages tax avoidance and evasion.
- Item 27: Misuse of revenues collected by the government influences tax avoidance and evasion.
- Item 28: The lack of a proper tax culture influences tax avoidance and evasion.

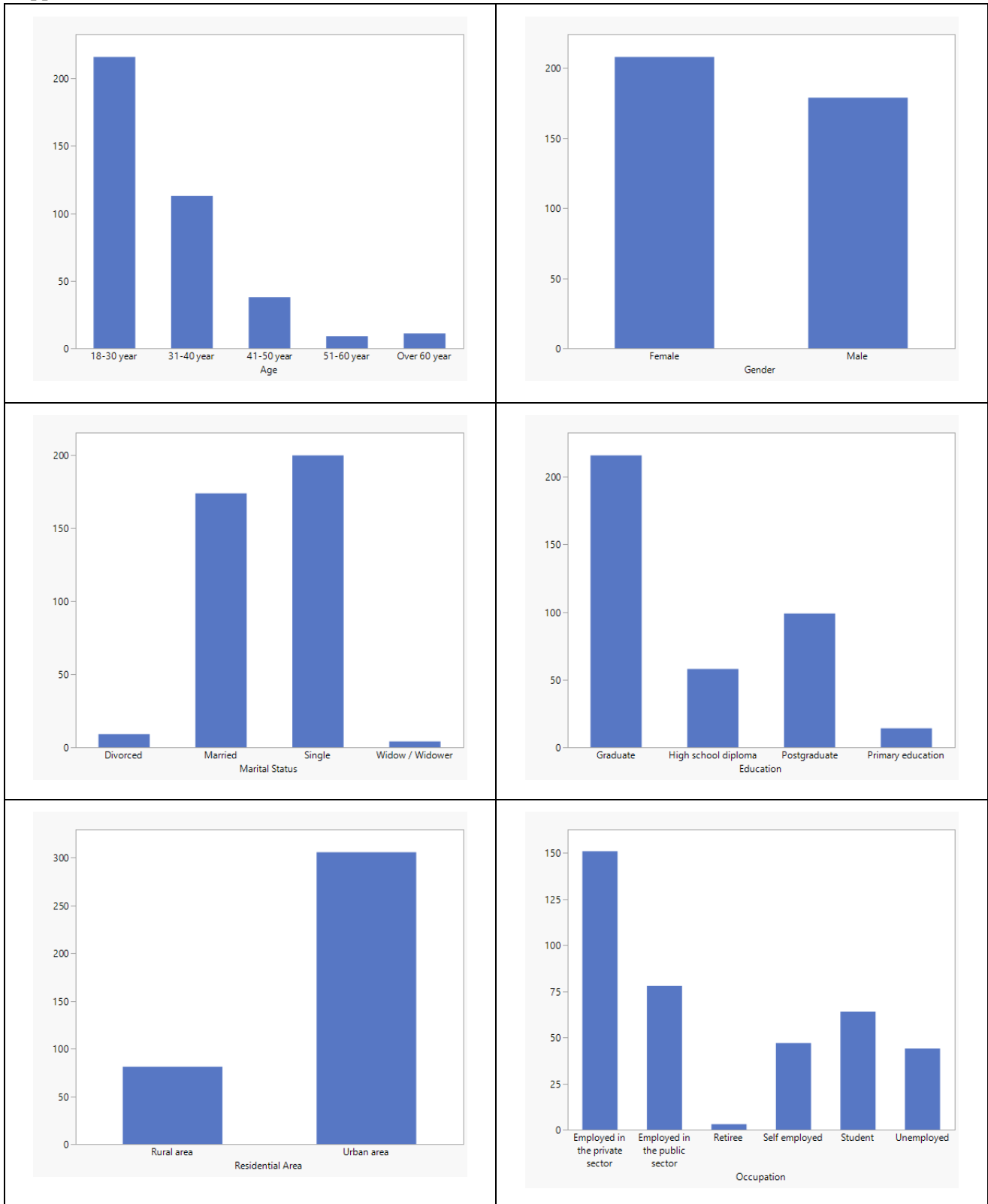
Appendix B

Frequency Table of Survey Respondent Demographic Characteristics

Demographic Attribute	Requirements/Sample Frame	Frequencies		%
Age	18 years of age or older	18-30	216	55.81%
		31-40	113	29.20%
		41-50	38	9.82%
		51-60	9	2.33%
		61+	11	2.84%
		Total	387	
Gender	Male and female (identified as)	Male	179	46.25%
		Female	208	53.75%
		Total	387	
Marital Status	Single, married, divorced, and widowed	Single	200	51.68%
		Married	174	44.96%
		Divorced	9	2.33%
		Widowed	4	1.03%
		Total	387	
Education Level	Primary school, high school, college graduate, and post-graduate (highest level completed)	Primary School	14	3.62%
		High School	58	14.99%
		College Graduate	216	55.81%
		Post-Graduate	99	25.58%
		Total	387	
Residential Area	Urban and rural	Urban	306	79.07%
		Rural	81	20.93%
		Total	387	
Employment Status	Unemployed, student, private employee, public employee, self-employed, and retired	Unemployed	44	11.37%
		Student	64	16.54%
		Private Employee	151	39.02%
		Public Employee	78	20.16%
		Self-Employed	47	12.14%
		Retired	3	0.78%
		Total	387	

Source: Compiled by the authors

Appendix C



**Bar Charts of the Distribution of Demographic Characteristics of Survey Respondents**

Source: Compiled by the author