The Effects of Cultural Differences and Politics on Tax Morale: The Case of Italy and Turkey

RecepTekeli
Adnan Menderes University, Nazilli, Turkey
rtekeli@adu.edu.tr

Abstract

In this paper we analyze the tax morale in Turkey and Italy, using data from the fifth wave of World Values Surveys. Using Survey data for comparative analysis we can see the differences in several factors affecting Tax Morale between Italy (mainly composed of Catholics) and Turkey (mainly composed of Muslims). The results for the magnitude of tax morale show that Italy and Turkey are rank in the highest as compared to other countries within their regions. Thus, this gives a task to explain why tax morale is very high in these two countries which differ in cultures and politics; what determines tax morale and are there any similarities between these two countries in the determination of tax morale level. We empirically test what shapes tax morale by using Ordered Probit model. We have followed the literature but used additional variables to see what determines the notion "intrinsic motivation to pay taxes i.e. tax morale". Most of our findings are in line with the earlier works in tax morale literature. We agree with the statement that not only trust in the government might have an effect on tax morale (Turkey), but also trust in the court, or the legal system (Italy), and hence the way the relationship between the state and its citizens is established. Also our findings indicate that older individuals tend to exhibit higher tax morale. In line with the previous findings in the literature pride has positive effect on tax morale level in the study countries. The results on religion indicate that while tax cheating is immoral for Religious individuals in Turkey, we cannot make the same conclusion for the religious individuals in Italy.

Keywords: Tax morale; Tax compliance

JEL classification: H26; H30

Introduction

Why do people pay taxes? This question recently has started to be pronounced more often and attracted increased attention in the tax (non)compliance literature over the last few years. It is supposed that nobody likes to pay taxes but governments can still generate tax revenues. One possible answer among the scholars is to force people to pay their taxes by establishing a deterrence policy.

In line with the economics-of-crime approach, Allingham and Sandmo's (1972) model shows that the extent of tax evasion is negatively correlated with the probability of detection and the degree of punishment. However, because of the empirical and experimental findings, their seminal model has attracted many criticisms by researchers. These deterrence models predict a comparatively high incidence of tax evasion; even in many countries, the actual level of deterrence is found to be too low to explain the high degree of tax compliance(see Torgler et al 2010:294; Torgler and Shaltegger, 2006:396).

In the tax compliance literature this seemed to be a "puzzle", or in other words, it is indeed an avenue to study further for the scholars. To resolve this puzzle of tax compliance, many researchers have tried to link tax morale to the high degree of tax compliance (e.g., Frey and Feld 2002; Feld and Tyran 2002; Torgler 2001 and Torgler and Schneider 2009). In this perspective, Torgler, (2003:290) argued that Erard and Feinstein's work (1994) "demonstrates the relevance of integrating moral sentiments into the models to provide a reasonable explanation of actual compliance behavior". Also while reviewing the tax compliance, Andreoni et al. (1998:852) suggest that "adding moral and social dynamics to models of tax compliance is as yet a largely undeveloped area of research" (see Torgler Schneider and Shaltegger 2010:294).

Following Torgler's researches into the field of tax morale, rather than treating tax morale as a black box, or a residuum, many papers have analyzed which factors shape or maintain tax morale (see Torgler and Schneider 2007ab; Torgler and Murphy 2004; and Torgler et al 2010). In addition, this puzzle concerns policymakers because they need to know the driving forces of tax morale and the possibility that it influences willingness to pay taxes so that they can design efficient tax system. In the literature, tax morale is defined as "a moral obligation to pay taxes", or "a belief in contributing to society by paying taxes". It is also defined as "the existence of an intrinsic motivation to pay taxes" (Torgler 2003; 2004; Torgler and Schneider 2009; Cummings et al 2009; Torgler 2005). This is not an output variable like the size of shadow economy; it measures individual attitude not individual behavior (Torgler 2004; Torgler and Schneider 2009). Tax morale is also closely linked to the term taxpayer ethics by Alm and Torgler (2006:228) and Torgler and Schneider (2007a:10; 2007b:444) and used the definition by Song and Yarbrough (1978:443) that, "the norms of behaviour governing citizens as taxpayers in their relationship with the government". Torgler and Murphy(2004:301) defines the concept as "tax morale can generally be understood to describe the moral principles or values individuals hold about paying their tax"[1]

Why Tax Morale is Important? Stemming from German scholars in the 1960s, Torgler and Schneider (2007a:10-11) argue that values and attitudes can affect individual behavior: Apart from sanctions, Spicer and Lundstedt (1976) argued that a set of attitudes and norms might have effect on the choice between tax compliance and evasion. Lewis (1982) points out that "it could be that tax evasion is the only channel through which taxpayers can express their antipathy … we can be confident in our general prediction that if tax attitudes become worse, tax evasion will increase" (p. 165, 177)." (excerpted from Torgler and Schneider 2007a:10-11). Therefore, we can state that values and attitudes can affect individual's behavior.

Tax noncompliance is actually inevitable fact in all societies (see Schneider 2005; Schneider et al 2010 and Schneider and Buehn 2013). Schneider (2005:598) argues that most societies attempt to control shadow economic activities "through measures such as punishment and prosecution, or by relying on economic growth or education". Schnieder (2005), Schneider et al (2010)) and Schneider and Buehn (2013) have provided estimates of the size of the shadow economies for OECD countries over the periods of time. The first conclusion from these results is that for all countries investigated the shadow economy has

---

[1] Tax morale is sometimes related to the term tax culture. Although it is not well conceptually organized yet, tax culture is defined as all residual factors that have not been considered to explain the behavior of tax compliance. In this aspect, Nerre (2008:155) defines tax culture as follows: "A country-specific tax culture is the entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country's culture, including the dependencies and ties resulting from their ongoing interaction."

reached a remarkably large size and increasing over the years. Also, the empirical results convincingly demonstrate that an increasing burden of taxation and social security payments, combined with rising state regulatory activities, are the major driving forces underlying the size and growth of the shadow economy.

In Graph 1, the lowest shadow economies have Austria, Luxembourg and Britain with the size of shadow economy around 10 to 12 percent in 2010. The size of shadow economy in Italy was 26.74% in 2010. The highest shadow economies among 26 EU countries have Romania with 30.9 and Bulgaria 31.9 percent. These countries' sizes of shadow economy are above Turkey's size in 2010 i.e 29%. The comparison of shadow economies in EU shows an important phenomenon for some countries to deal with. The main problem in the shadow economy, or black economy, is the fact that individuals are behaving dishonestly by providing false information. If so, what would lead citizens to behave more honestly, provide correct information and improve the tax compliance rate? Some believe that tax morale is an answer to this question (see Feld and Frey 2002). Also, Torgler and Schneider (2007b) argue that *a reduction of tax morale reduces the moral costs of behaving illegally and increases the incentives to work in the black economy*.

Graph 1: Size of the Shadow Economy in 26 EU Countries and Turkey (2010)
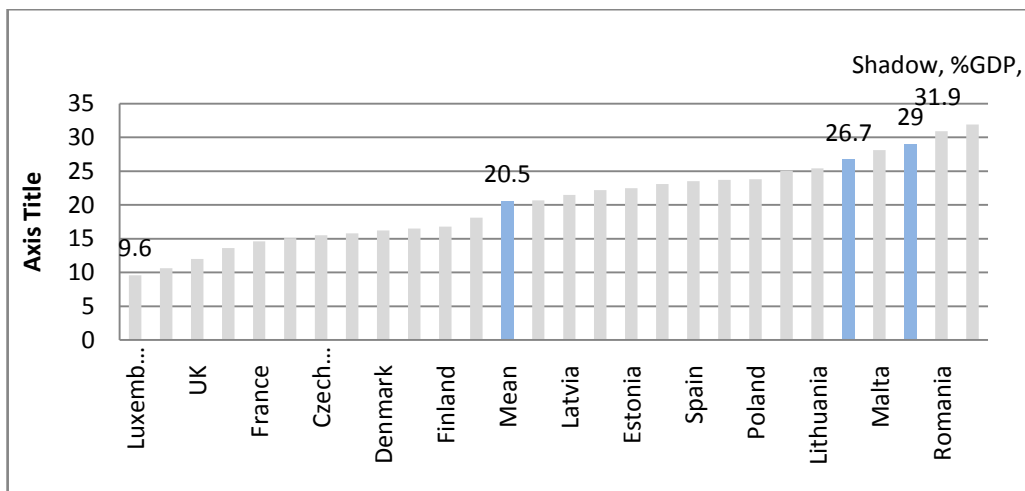
Source: Graph 1 is prepared by using shadow economy estimates of Schneider et al (2013)

According to Alm, et al (2004), a negative correlation between the size of the shadow economy, which is a measure of the extent of tax evasion, and tax morale indicates the extent to which individuals' revealed actions are related to their attitudes about paying taxes (Torgler and Schneider 2009:230; 2007b). In this extent, a number of previous studies have investigated the simple correlation between tax morale and the size of shadow economy. For example, Alm and Torgler (2006:242) focusing on Europe and the United States find a strong negative correlation (r=-0.460). Alm et al (2006) focused on transition countries and their results indicate a strong negative correlation between both variables (-0.657) (see Torgler and Schneider, 2009:230). Torgler (2005) studied in Latin America, and found a strong negative correlation between both variables (-0.511). Torgler and Schneider (2009) find a significant correlation between tax morale and the size of shadow economy. Also, the beta coefficients show that its quantitative impact is comparable to other determinants. Schneider and Buehn (2013) show that average relative impact of the

tax morale on the shadow economy of 38 OECD countries over 1999 to 2010 is 9,5% and its effect on the shadow economy is -0.21. The conclusion is that higher tax morale leads to a smaller shadow economy.

It has been argued that if tax authority places a taxman under every bed it is highly likely to achieve a high level of tax compliance rate but with high costs to the tax authority. Torgler and Shaltegger (2006:397) argues that "even though taxation is enforced by law, there is a moral dimension in paying taxes for many people". For example, Slemrod (1992:7) "states that methods that reinforce and encourage taxpayers' devotion to their responsibilities as citizens play an important role in the tax collection process" (excerpted from Torgler and Shaltegger 2006:397). *If tax morale is thought to be an explanation for why tax compliance rates are so high, it would be interesting to analyze what may shape tax morale among taxpayers.* Next section examines the magnitude and determinants of Tax Morale. Model and variables which are considered to be important explaining tax morale are presented as well. Section 3 gives the empirical results in Turkish and Italian experience i.e. those countries differ in culture, religion and politics. Last section concludes the paper.

Magnitude and Determinants of Tax Morale

1 Magnitude
If tax morale is seen as an important factor to understand the puzzle of tax compliance and plays a significant role in determining the levels of shadow economy, then it is necessary to investigate the determinants of tax morale. Thus, this section focuses on the magnitude and determinants of tax morale in the study countries: Turkey and Italy. We define tax morale as "the intrinsic motivation to pay taxes" as defined by Torgler in his papers. This is not physical output variable such as tax evasion or the size of shadow economy. It measures an individual's willingness to pay taxes, in other words, "the moral obligation to pay taxes" or "the belief that paying taxes contributes to society". Data for the tax morale variable are extracted from the World Values Survey (WVS) (see Inglehart et al., 2000). The World Value Survey is a worldwide investigation of socio-cultural and political change, which includes the case of Turkey and Italy. In the 2005 wave of the survey, a total of 1346 Turkish citizens and 1012 Italian citizens agreed to participate in the study. In the survey, our main concern is the question number 200 which is about the attitudes toward cheating on taxation. This attitude was measured with the 10 different scales, where the value of one (1) indicates that cheating on taxation is never justifiable and the value of ten (10) means it is always justifiable. The general question to assess the level of tax morale in World Values Survey is that:

> "Please tell me for each of the following statements whether you think it can always be justified, never be justified, or something in between":
> V200. Cheating on tax if you have the chance.

1	2	3	4	5	6	7	8	9		10
never justified										always justified

Following the literature, the tax morale variable is generated by recoding this ten-point scale into a four point scale (0,1,2, and 3), with the value 3 standing for "never justifiable". As usual, the value of 0 is an aggregation of the last 7 scale points (4-10), which were rarely chosen (ie, 0 = "always justifiable" to 3 = "never justifiable"; original scores of 4-10 were recoded into 0 = "always justifiable").

We should point Elffers et al. (1987) that their findings indicate the differences between actual evasion assessed and evasion reported in survey responses. This result shows that subjective surveys are always prone to significant reporting errors. As argued by some researchers, tax morale is also measured with subjective survey responses in WWS, thus the measurement of tax morale is not free of bias (e.g. Torgler 2004; Torgler and Schneider 2007; Torgler et al 2010). Because the available data from surveys are based on self-reports in which respondents may tend to overstate their degree of compliance (Andreoni et al. 1998), no objective or directly observable measure of tax morale is available. However, the degree of honesty is expected to be higher because in the WWS the tax morale is defined less sensitive than directly asking whether a person has evaded taxes. Moreover, the dataset is based on wide-ranging surveys (based on more than two hundred questions) it was assumed to reduce the probability of respondent suspicion and the framing effects of other tax context questions. However, it can still be argued that a taxpayer who has evaded in the past will tend to excuse this kind of behavior and report a higher degree of tax morale in the survey. As no sanctions are involved in the survey many respondents might overstate their willingness to pay taxes or degree of honesty(see Torgler and Schneider 2007a; 2007b; Torgler and Shaltegger 2006).[2]

On the other hand, it was further argued that the use of such a single question (single item value) has the advantage of reducing problems of index construction complexity, especially in regard to measurement procedure or low correlation between items (see Torgler 2003; 2004; Alm and Torgler 2006; Torgler and Schneider 2007a). According to Torgler and Schneider (2007a:450) "tax morale is a multi-dimensional concept that requires a multi-item measurement tool and the likelihood of a multi-item index being adversely affected by random errors will produce more reliable measures. However, several previous studies have found consistent results using single-item survey measurements and laboratory experiments". Despite these criticisms our approach to measuring tax morale is consistent with the previous studies in this area (Torgler 2003; 2004; Alm and Torgler2006; Torgler and Schneider 2007a).

Graph 2 Tax Morale in EU Countries(12 EU Countries and Turkey)

---
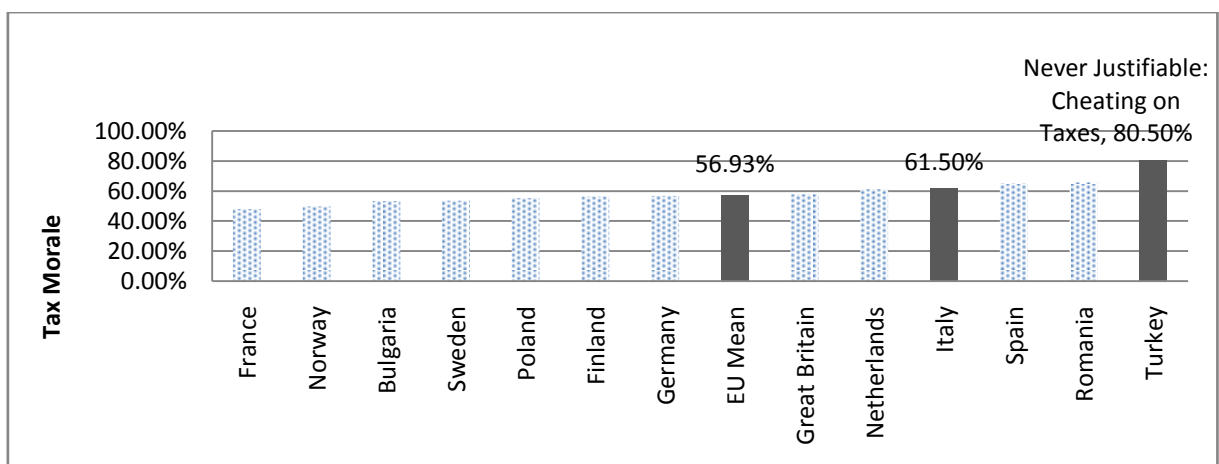
[2] We should also indicate another disadvantage of working with survey data as argued by Alm and Torgler (2006:237-238) that "we cannot control for such traditional factors as the audit probability (because this is not known for each individual) and the fine rate (because this is identical for all individuals in a country)".

Graph 2 provides a comparison of tax morale levels of 12 EU countries with the same method. It shows the frequency of response for "tax cheating is never justifiable" with respect to the total respondents and the EU average value for scaled response. The descriptive analysis reveals the percentage of individuals in each EU country stating that 'tax evasion is never justifiable' (i.e., those with the highest level of tax morale) and the mean level of tax morale among EU countries. Turkey with 80.50% shows a higher proportion of never justifiable response than that of EU average (57%). Italy's level of tax morale was above EU average. The lowest level of tax morale is observed for France and Norway.

In sum, the results for the magnitude of tax morale show that Italy and Turkey rank in the highest as compared to other countries within their regions. Thus, this gives a task to explain why tax morale is high in these two countries; what determines tax morale and are there any similarities between these two countries in the determination of tax morale level. Although two countries with very different cultures and a different history and politics, a comparison of tax morale and compliance between Turkey and Italy as a member of OECD constitutes a good experiment.

2 Determinants
After having discussed the magnitude of tax morale in EU countries, the question of the determinants of tax morale in Turkey and in Italy arises.

2.1 Model and Variables
The empirical analysis in this paper focuses on tax morale which is influenced by a variety of factors. In empirical analysis social, demographic and economic factors as well as national pride or religiosity play a role in determining tax morale in a society. Also, "there is the institutional arrangement in which the government works. Here, the extent of democratic participation (possibilities) by taxpayers as well as the level of institutional and political trust is decisive. Tax morale is driven by the acceptance of government decisions." (see Torgler and Shaltegger 2006:397). Our main model for predicting tax morale in the study countries has the following structure:

$$TM_i = \beta_1 TRUST_i + \beta_2 PRIDE_i + \beta_3 POL_i + \beta_3 HAPPY_i + \beta_k \sum_1^k X + \varepsilon_i$$

where *TM* denotes the individual degree of tax morale in a respected country; Our key independent variables *TRUST* denotes individual's trust in authority; *PRIDE* denotes pride of individual; POL is individual's political and pro-democratic attitudes, HAPPY denotes individual's wellbeing (happiness) and *X* is a vector of variables whichdenotes numerous socioeconomics and control variables such as age, gender, marital status, education, awareness, employment and occupational status. Our choice of independent variables is in line with the literature. Torgler and Shaltegger (2006) discuss the studies using the factors to explain the determinants of tax morale in various countries.

The dependent variable in our study is Tax Morale (TM_i) and the applied econometric method is Ordered Probit models. The tax morale variable is scaled dependent variable and hence the ordered probit models help to analyze the ranking information of this variable (Torgler 2006). Following Cummings et al (2009) answers of "don't know" and missing values were not coded and dropped from the sample. As the estimated equation has a non-linear form only the sign of the coefficient can be directly interpreted. Calculating the marginal effects is therefore a method to find the quantitative effect of independent variable has on tax morale. The marginal effect indicates the change in the share of

taxpayers (or the probability of) belonging to a specific tax morale level (i.e. 0,1,2,3) when the independent variable increases by exactly one unit. We will present only the marginal effects for the highest value - i.e. tax evasion is never justified- from the ordered probit estimation.

Table 1 shows the frequency of response for "tax cheating is never justifiable" with respect to the total respondents. Turkey shows a higher proportion of never justifiable response than that of Italy. The Italian sample had the lowest percentage (61.50%) response for that position but both countries had responses for the "never justifiable" position above sixty percent.

The following hypothesis is going to be tested by using main variables:

Hypothesis 1. The more extensive the citizens' trust in the government, in the parliament and the legal system (justice or the court), the higher the tax morale.

Hypothesis 2. The greater the citizens' national pride, the higher the tax morale.

Hypothesis 3. A stronger pro democratic attitude leads to higher tax morale.

Hypothesis 4. Tax morale increases with individual's wellbeing.

In addition to the main independent variables discussed above we also use additional independent variables as controls to more fully explore what factors might determine tax morale in the study countries. Each of these variables, the questions to be answered and expected coefficient are discussed below:

1. *Age* (+) We will use age as a continuous variable and also treat age as a categorical variable (three classes are formed in the survey: 18-29, 30-49, 50+ with 18-29 as the reference group): Do older people have higher tax morale than younger?

2. *Gender* (+) (categorical variable: 1= male (the reference group), 2=otherwise): Do gender differences affect the level of tax morale?

3. Marital status (+) [married (in the reference group), single, living together, divorced, separated, widowed]: Do married people have different levels of tax morale than others?

4. Education (+/-)[continuous variable for higher educational level attained: 1= low (never gone to the school), 10 = higher education)]: Do more educated people have higher tax morale level than less educated people? Besides using formal education as a proxy of such awareness, we also constructed a variable to measure awareness to see its effect on tax morale (see Torgler and Shaltegger 2006). Awareness is a categorical variable and measured by following question: People use different sources to learn what is going on in their country and the world. For each of the following sources, please indicate whether you used it last week or did not use it last week to obtain information: Daily newspaper? (categorical variable: 1=yes, 2=no)

5. Occupation status (-) [full time employed (in the reference group), part time employed, selfemployed,unemployed, housewife, student, retired, other]: Does the occupation status of individual influence tax morale?

6. Economic class (-)[we used scale of incomes: 1=low income, 10=high income].: Do the levels of tax morale vary with the level of tax payers' income?

7. Religiosity (+): Does the religion make any differences to the levels of tax morale?

Empirical results

We observe for WVS data that tax morale is lower in Italy than in Turkey. However this purely descriptive analysis gives information about the raw effects and not the partial effects. The observed differences between Italy and Turkey might be explained in terms of differences in socio-economic, political and socio-demographic factors. Thus multiple

regressions in the next section help us to separate the effects of several socio-economic and socio-demographic factors from a possible culture difference. We estimate separately the determinants of Tax Morale at the individual level for Italy and Turkey.[3]

1 Empirical results on tax morale in Turkey

Table 2 presents the estimation results for Turkey, focusing only on ordered probit models.[4]. In a next step we test Hypotheses 1–4. We use three trust variables, (i.e Trust in Legal System, Trust in Government and Trust in Parliament), to check the robustness of the trust variables. These variables allow us to analyze trust at the constitutional level (e.g., trust in the legal system/justice), thereby focusing on how the relationship between the state and its citizens is established; they also allow us to analyze trust more closely at the current politico-economic level (e.g., trust in the parliament and government) (see Alm and Torgler 2006). **Trust in** Legal System/Justice and Trust in Government are found highly significant. However Trust in Parliament in some estimations is not significant while in some estimations it is significant but with a negative coefficient implying that for those who does not have confidence in parliament they have higher tax morale.

Notes: Dependent variable: tax morale on a four-point scale. In the reference group: full-time employed, married, read newspaper, male, lower age group (18-29), Marg.: marginal effect. The marginal effect is calculated at the highest TAX MORALE score. Significance levels are: *$0.05 < p < 0.10$, **$0.01 < p < 0.05$, ***$p < 0.01$. dy/dx is for discrete change of dummy variable from 0 to 1 and dy/dx for factor levels is the discrete change from the base level. In this table and following tables, variables Happiness, Trust Justice, Trust Parliament, Trust Government, Religious Service Attendance, Pride are rescaled in order to interpret the result straightforward. For example, in the survey, pride is measured on a 4 point scale i.e 1 for very proud 4 for not all. This was recoded into 4 for very proud and 1 for not all proud.

In all estimations both trust variables have a significantly positive effect on tax morale with marginal effects varying between 2.5 and 4.7 (Trust in Government) and between 2.6 and 3.6 (**Trust in** Justice/Legal System) percentage points. Therefore, our study finds support for the notion that trust matters for tax morale in Turkey. An increase in the trust in government (trust in legal system) scale by one unit increases the share of subjects indicating the highest tax morale by 2.5 to 4.7 (2.6 to 3.6) percentage points. As trust is highly and positively correlated with tax morale, Hypothesis 1 cannot be rejected.

Specifications show the relative importance of **Pride** in tax morale determination. In five estimations we have significant coefficient on this variable. As can be seen from the tables, there is a positive correlation between **Pride** and tax morale. The coefficient is always positive and the marginal effects indicate that an increase in Pride by one point raises the share of persons indicating the highest tax morale value by **3 to 4** percentage points. Thus, the results show that we cannot reject our main hypothesis.

The results in Tables also indicate that Hypothesis 3 is rejected. We observe a significant correlation between a **prodemocracy** attitude and tax morale. As Tables show, a one-point increase in the **prodemocracy** index **reduces** the share of persons with the highest tax morale by 2 percentage points, meaning that a higher degree of democracy leads to lower tax morale for the reference group. However, calculating the marginal effects at the lowest tax morale level (i.e, 0 scale) we observe that an increase in the democracy index by one

---

[3] The empirical results on the tax morale can be given on request from the author. See also Tekeli (2011).
[4] After the first estimation we have not included variables "trust in the government" and "trust in the Parliament" in the same model because there is a strong correlation between these two variables (r=0.60) that makes it impossible to clearly separate the effects of the two variables if they were included in one model.

unit reduces the probability of stating that tax evasion is always justified to less than one percentage point.

Political attitude was tested by the variable **ideology,** the self-placement in a left-right ideological scale from 1 (left) to 10 (right). It has positive sign but insignificant effect on tax morale. We did not find any evidence to support the view that individual's political alignments affect his/her behavior toward taxes.

To get a broader view and to consider the fact that a considerable number of citizens have a low living standard (as argued by Torgler 2004), we also include the variable happiness. In all specifications this variable does not significantly affect tax morale. The happiness variablehas interestingly, negative marginal effects but it is insignificant to derive any conclusion from it. Thus our hypothesis 4 cannot be proved statistically.

As argued by Torgler (2004:249) it was expected that "if the financial situation of a household is bad, the tax payments might be seen as a hard restriction of their possibility set, which might reduce tax honesty". In line with this argument we included **income** variable to test whether individuals in lower income classes are more likely to engage in criminal activities due to their lower opportunity costs, or not. However, in all estimations income variable did not have significant coefficient.

We include different employment status such as part time employed, self-employed, retired, and unemployed. In the tax compliance literature, it was argued that self-employed persons have higher compliance costs than employed (e.g., Lewis, 1982). Therefore, Torgler and Schneider (2007b:452) argued that "taxes are more visible for the self-employed, who have a higher opportunity to evade or avoid them. Moreover, pensions of retired individuals are incomes provided or at least heavily regulated by the state, so transparency is higher and the control better". However, we did not find significant coefficient on self-employed. On the other hand we have significant coefficients on **unemployed** and **housewife.** An increase in Housewife by one point reduces the share of persons indicating the highest tax morale value by 8 percentage points. Our results indicate that the proportion of **unemployed** who report the highest tax morale is approximately 10 percentage points lower than the one of full-time employees. An increase in unemployment by one point reduces the share of persons indicating the highest tax morale value by almost 10 percentage points. Unemployed individuals might have a higher incentive to act in the shadow economy, which might influence their attitude regarding tax evasion.

Table presents evidence regarding the variable religiosity, measured as frequency of Mosque attendance. We first included the variable measured as frequency of Mosque attendance. The result in the first specification indicates that an increase in the religious attendance increases the tax morale around 2 percentage points. To make a comparison between Italy and Turkey we included the variable religiosity, measured as Religious person on a three point scale (i.e 1 for religious 3 for atheist). Robust across all 8 specifications is the negative correlation between Tax Morale and **Religiosity** variables. We would expect that religiosity might influence people's habits, and might make individuals reluctant to engage in tax evasion. Our findings are consistent with those of Alm and Torgler (2006) and Torgler and Murphy (2004), who find that a higher religiosity is correlated with a higher tax morale. Our results indicate that an increase in religiosity increases the tax morale between 8 and 10 percentage points.

McGee (1998) reports that the coefficient on Muslim is mostly not significant and also argues that Muslims are not always obligated to pay all taxes. Torgler (2006:94) points that "If the government engages in activities that are not legitimated, tax evasion might not be immoral (for a list of possible immoral state activities, see Yusuf, 1971). It would not be

immoral for a Muslim not to pay indirect taxes, to avoid paying tariffs, to evade income taxes, or not to comply with a law that causes prices to rise". Our results on religiosity in Turkey do not seem to support McGee's (2006:23) argument that "the Muslim view toward tax evasion seemingly falls under category three that evasion is sometimes ethical". The result rather seems to fit under McGee's first category that "tax evasion is never ethical".

The positive coefficients on **education** and negative coefficients on **gender (woman)** deserve special attention. In the models we have run, women do not seem to have stronger tax morale than men but this argument is not proved statistically. Our results show that **education** does not have any significant effects.[5] However, we found that if the **reading daily newspaper** rate decreases tax morale increases by 8 to 10 percentage points. This result indicates that unawareness has significantly positive effect on tax morale. This result does not change even if we drop education variable from the estimation. It seems that reading newspaper makes individual's behavior somehow deteriorated. We cannot say that individuals' constraints by their social networks affect tax morale. In tables our results indicate that **married people** having higher tax morale than singles is not supported by the evidence from Turkey. Actually marital status did not have any effect on tax morale in all estimations. Also, older individuals (third age group in the estimation) tend to exhibit higher tax morale, but the coefficients on **age** group are not statistically significant in all estimations.

2 Empirical results on tax morale in Italy

Next we present the results of ordered probit models in Italy[6]. In Table 3 **Trust in Parliament and Trust in Government** are found insignificant. In all estimations Trust in Parliament and Trust in Government did not have significant effects on tax morale. However **Trust in Legal System/Justice** was found significant in all estimations with positive coefficient implying that for those who does have confidence in Legal System/Justice they have higher tax morale. An increase in trust in Legal System/Justice scale by one unit increases the share of subjects indicating the highest tax morale by 4 to 5 percentage points. Therefore, our study finds support for the notion that trust matters for tax morale in Italy. As trust is highly and positively correlated with tax morale, Hypothesis 1 cannot be rejected for Italian case.

Specification (1-5) shows the relative importance of **Pride** in tax morale determination. Only in one specification we did not have significant coefficient on this variable. We find that there is a positive correlation between **Pride** and tax morale. The marginal effects indicate that an increase in Pride by one point raises the share of persons indicating the highest tax morale value by **3 to 5** percentage points. Thus, the results show that we cannot reject our main hypothesis.

The results in Table 3 also indicate that Hypothesis 3 is rejected. We do not observe a significant correlation between a **prodemocracy** attitude and tax morale. Thus we dropped this variable from the models for Italy. Political attitude was tested by the variable **ideology,** the self-placement in a left-right ideological scale from 1 (left) to 10 (right). We did not find any evidence to support the view that individual's political alignments affect his/her behavior toward taxes in Italy.[7]

In all specifications in preliminary regressions the variable **happiness** does not significantly affect tax morale. The happiness variable has positive marginal effects but it

---

[5] The result on education did not change even if we used education as a continuous variable.
[6] See footnote 5, as r=0.67.
[7]It has negative sign but insignificant effect on tax morale except for the preliminary estimates.

is insignificant to derive any conclusion from it. Thus our hypothesis 4 cannot be proved statistically. We also dropped this variable from various estimations. As previously stated, we included **income** variable to test whether individuals in lower income classes are more likely to engage in criminal activities due to their lower opportunity costs, or not. As in the Turkish case, income variable did not have significant coefficient.

As argued above we include different employment status to see if it affects tax morale. Robust to all estimations is significant coefficient on self-employed. Our results indicate that the proportion of **self-employed** who reports the highest tax morale is approximately 15 percentage points lower than the one of full-time employees. The result indicates that an increase in self-employee by one point reduces the share of persons indicating the highest tax morale value by **14** to **18** percentage points. The results are in line with the argumentation that higher compliance costs reduce tax morale.

Notes: See also notes in Tables for Turkey. We also included both religiosity variables in separate estimations but the results did not change very much. Also with age and age group separate regressions were run but the results did not change.

Table presents evidence regarding the variable **religiosity**, we also included the variable measured as frequency of Religious attendance it was statistically insignificant but it has positive sign indicating that religious attendance increases the level of tax morale. In addition, to make a comparison between Italy and Turkey, we included the variable religiosity, measured as Religious person on a 3 point scale (i.e. 1 for religious 3 for atheist). Robust across all specifications is the insignificant correlation between Tax Morale and **Religiosity** variables. As argued above we would expect that religiosity might influence people's habits, and might make individuals reluctant to engage in tax evasion. However our findings for Italy are not consistent with those of Alm and Torgler (2006) and Torgler and Murphy (2004), who fined that a higher religiosity is correlated with higher tax morale.

We found the positive coefficients on **education** and **gender (woman)**. In the models we have run, **women** seem to have stronger tax morale than men in Italy. Robust across all 5 specifications is the significant correlation between Tax Morale and **Education** variables. Our results show that **education** has significant effects. We found that if the individual's education level increases tax morale increases by **2 to 3** percentage points. However, we found that awareness does not have significant effect on tax morale.[8]

Also, older individuals (third age group in the estimations) tend to exhibit higher tax morale than younger age groups; the coefficients on higher **age** group are statistically significant in all estimations[9]. The proportion of people aged over 50 who report the highest tax morale is approximately **18** percentage points higher than the 18-29 year old reference group (lower age category). The result indicates that an increase in old age category by one point increase the share of persons indicating the highest tax morale value by **14** to **18** percentage points. The proportion of people of the age 30-49 who report the highest level of tax morale is around 12 percentage points higher than for the 18-29 reference groups. In fact we can see from the tables that the marginal effects increase with an increase in age. For example 50+ age group reports the highest tax morale higher than the other age groups.

We can state that individuals' constraints by their social networks affect tax morale. In tables our results indicate that **married people** having higher tax morale than singles

---

[8]This result does not change even if we drop education variable from the preliminary regressions we run.
[9] The result on age did not change even if we used age as a continuous variable.

supported by the evidence from Italy. Actually, marital status did have effect on tax morale in 2 estimations. The proportion of **singles** who report the highest tax morale is **8** percentage points lower than the married people. The results also indicate that the proportion of the **separated** people who report the highest level of tax morale is 18 to 20 percentage points lower than the one of the married people.

Conclusions

It has been argued in the tax compliance literature that audit rate, tax fine and tax rates have effects on tax payers' decision to comply. However over last decades researchers have argued that individual's tax compliance behavior cannot be explained by traditional economic analysis considering entirely deterrence components of tax compliance. Tax morale has been used as a residual while searching the reasons why people pay taxes. Several studies argued that tax morale, or ''the intrinsic motivation to pay taxes'', might help to explain the puzzle of why so many individuals pay their taxes. Instead of taking tax morale as a black box or a residuum, a number of studies have examined the determinants of tax morale, and what shapes tax morale or has it being changed over the time in a specific country and/or across the countries over the world. Many social, institutional and economic factors have been found to explain the notion of tax morale, or intrinsic motivation to pay taxes.

We attempt to bring together the numerous insights from the earlier works on tax morale by examining many social, economic and institutional factors in Turkey and in Italy. By analyzing tax morale as a dependent variable, our findings give further evidence in tax morale literature. We report a large number of alternative specifications in the tables, and all specifications show the marginal effects of the explanatory variables on the highest value of tax morale (i.e tax cheating is never justified). We found that there are not many similarities between Turkey and Italy in determination of tax morale.

While variables pride (+), trust (trust in justice system) (+), marital status [separated (-), singles (-)], self-employment (-), education (+), gender (women) (+) and age (+) are significant to explain tax morale level in Italy, trust (trust in the government and trust in legal system) (+), pride (+), religiosity (+), the prodemocracy (-), unemployment (-), house wife (-) and reading daily newspaper rate (-) are found significant in Turkey.

The effects of trust on tax morale were analyzed on two different levels: (i) at the constitutional level (trust in the legal system, or in the court/justice system) and (ii) at the current politico-economic level (trust in the government and trust in parliament). We agree with the statement that not only trust in the government might have an effect on tax morale (Turkey), but also trust in the court, or the legal system (Italy), and hence the way the relationship between the state and its citizens is established. Also our findings indicate that older individuals tend to exhibit higher tax morale. In line with the previous findings in the literature pride has positive effect on tax morale level in the study countries. The results on religion, indicates that while tax cheating is immoral for Religious individuals in Turkey, we cannot make the same conclusion for the religious individuals in Italy.

References

Allingham, Michael G & Sandmo, Agnar (1972), ''Income Tax Evasion: A Theoretical Analysis.'' Journal of Public Economics 1:323–38.

Alm, J., & Torgler, B. (2006), "Culture Differences and Tax Morale in the United States and Europe", Journal of Economic Psychology, 27:224-246.

Alm, J., J. Martinez-Vazquez & Torgler B. (2006) "Russian Attitudes Toward Paying Taxes - Before, During, and After the Transition", International Journal of Social Economics, 33: 832-857.

Alm, J., Martinez-Vazquez, J. & Schneider F. (2004), "Sizing the Problem of the Hard-To-Tax". Working Paper. Georgia State University: USA.

Andreoni, James, Erard, Brian & Feinstein, J.,(1998), "Tax Compliance", Journal of Economic Literature 36:818–60.

Cummings, R. G., Martinez-Vazquez, J., McKee, M., & Torgler, B. (2009), "Tax Morale Affects Tax Compliance: Evidence from Surveys and an Artefactual Field Experiment", Journal of Economic Behavior and Organization, 70:447-457

Elffers, H, Russell H. W, & Dick, H (1987), "The Consequences of Different Strategies for Measuring Tax Evasion Behavior", Journal of Economic Psychology 8:311-37.

Erard, B. and Feinstein, J. S. (1994), "The Role of Moral Sentiments and Audit Perceptions in Tax Compliance", Public Finance, 49: 70-89.

Feld, L. P., & Frey, B. S. (2002), "Trust Breeds Trust: How Taxpayers Are Treated", Working paper98, Institute of Empirical Research in Economics, University of Zurich.

Feld, L. P., & Tyran, J.-R. (2002), "Tax Evasion and Voting: An Experimental Analysis", KYKLOS, 55:197-222.

Frey, B. S. and Feld, L. P. (2002), "Deterrence and Morale in Taxation: An Empirical Analysis", CESifo Working Paper No. 760, August 2002.

Inglehart, R (2000), "Codebook for World Values Survey", Ann Arbor: Institute for Social Research.

Lewis, A. (1982), "The Psychology of Taxation", Martin Robertson, Oxford.

McGee, R.W. (1998), "The ethics of tax evasion in Islam", in: McGee, R.W. (Ed.), The Ethics of Tax Evasion. The Dumont Institute for Public Policy Research, South Orange, pp. 214-219.

McGee, R.W. (2006), "Three Views on the Ethics of Tax Evasion", Journal of Business Ethics, (DOI 10.1007/s10551-006-9002-z), 67:15–35

Nerre, B. (2008), "Tax Culture: A Basic Concept for Tax Politics", Economic Analysis & Policy, 38 (No. 1): 153-167.

Schneider, F. (2005), "Shadow Economies Around the World: What do we Really Know?", European Journal of Political Economy, 21(3): 598–642.

Schneider, F., Buehn, A. & Montenegro, CE. (2010), "Shadow Economies all over the World: New Estimates for 162 Countries from 1999 to 2007 Submitted to the EPCS 2010", Izmir, Turkey

Schneider, F., & Buehn, A. (2013) Shadow Economies in highly developed OECD countries: What are the driving forces?, The 2013 Meetng of The European Public Choice Society Zurich Switzerland, 3-7 April.

Slemrod (ed.) (1992), "Why People Pay Taxes", Tax Compliance and Enforcement. Ann Arbor University of Michigan Press.

Song, Y. & Yarbrough, Y. E. (1978), "Tax Ethics and Taxpayer Attitudes: A Survey", Public Administration Review 38: 442-457.

Spicer, M. W. & Lundstedt, S. B. (1976), "Understanding Tax Evasion", Public Finance 31: 295-304.

Tekeli, R (2011) The Determinants of Tax Morale: the Effects of Cultural Differences and Politics PRI Discussion Paper Series (No.11A-10)

Torgler, B., (2001), "What Do We Know about Tax Morale and Tax Compliance?", RISEC: International Review of Economics and Business 48:395–419.

Torgler, B., (2003), "To Evade Taxes or Not: That is the Question", Journal of Socio-Economics, 32:283-302.

Torgler, B (2004),"Tax Morale in Asian Countries", Journal of Asian Economics,15:237-266.

Torgler, B., (2005), "Tax morale in Latin America", Public Choice, 122: 133-157.

Torgler, B., (2006), "The Importance of Faith: Tax Morale and Religiosity", Journal of Economic Behavior & Organization, 61: 81-109.

Torgler, B., & Murphy, K (2004), "Tax Morale in Australia: What Factors Shape It and Has It Changed Over Time?", Journal of Australian Taxation, 7: 298-335.

Torgler, B & Schaltegger, C. A (2006), "Tax Morale: A Survey with a Special Focus on Switzerland", Schweizerische Zeitschrift für Volkswirtschaft und Statistik,142(3): 395-425.

Torgler, B., & Schneider, F.,(2007a), "Shadow Economy, Tax Morale, Governance and Institutional Quality: A Panel Analysis", QUT School of Economics and Finance Working/Discussion Paper 210, February 2007.

Torgler, B & Schneider, F (2007b), "What shapes attitudes toward paying taxes? Evidence from multicultural European countries", Social Science Quarterly, 88: 443–470.

Torgler, B & Schneider, F (2009), "The Impact of Tax Morale and Institutional Quality on The Shadow Economy", Journal of Economic Psychology 30 (2009) 228–245

Torgler, B, Schneider, F & Schaltegger, C A. (2010), "Local Autonomy, Tax Morale, And The Shadow Economy", Public Choice 144: 293-321.

Yusuf, S.M., (1971), "Economic Justice in Islam", Sh. Muhammad Ashraf, Lahore.