

# The Moderating Effect of Religiosity in the Relationship between Money Ethics and Tax Evasion

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## Abstract

Past studies on the ethics of tax evasion seems to focus on comparing tax evasion from various demographic, religious or perspective from different countries. Extensive search through the literature revealed that there were no studies on the effect of money ethics toward tax evasion and also the moderating effect of religiosity on this relationship. Hence, the current research is exploratory in nature and is an attempt to expand the empirical base of research findings on the area of tax evasion from a different viewpoint. The objective of the study therefore is to examine the relationship between money ethics and tax evasion as well as investigating the moderating effect of religiosity (intrinsic and extrinsic) on this relationship. The results of the hierarchical regression analyses showed that money ethics was positively related to tax evasion. Additionally, intrinsic religiosity was also found to moderate the relationship between money ethics and tax evasion. However, the result indicated that extrinsic religiosity was not a moderator in this relationship.

**Keywords:** intrinsic and extrinsic religiosity, money ethics, tax evasion

## 1. Introduction

There is a popular saying that the only thing certain in life is death and taxes. This is a rather defeatist proverb which draws on the actual certainty of death to focus on the difficulty in evading the liability of taxes. Despite the certainty of taxes, many have been trying to evade paying taxes ever since governments started collecting them (Adams, 1993). Taxes were evaded because sometimes people gave little thoughts about the ethical issue of such practices. On other times people evaded taxes and in turn tried to justify their behaviour based on moral argument. In Malaysia, the seriousness of tax evasion has resulted in the Inland Revenue Board (IRB) dangling a carrot for whistleblowers to provide evidence on tax evaders (TheStar, 2011). The informants will be rewarded a slice of the tax recovered and their identity protected under the Malaysian Whistleblower Protection Act. The IRB also received 650 reports on tax evaders in 2010 as compared to 500 cases in 2009. The occurrences of tax evasion cases seem to be on the rise.

In a modern and progressive society, citizens usually believe that they ought to contribute their income for the improvement of society as a whole. The sense of right or wrong will be nurtured from young through the teaching of parents as well as school teachers. On the basis of that, an individual will perceive tax evasion somewhat differently. Some would consider tax evasion to be unethical whereas others would consider it to be somewhat ethical or even ethical. The objective of the current research is to examine the relationship between money ethics and tax evasion as well as investigating the moderating effect of religiosity (intrinsic and extrinsic) on this relationship. The study is exploratory in nature and attempt to expand the empirical base of research findings on the area of tax evasion from a different viewpoint.

## 2. Literature Review

### 2.1 Tax Evasion

The research on tax evasion from philosophical perspective started from Crowe (1944) and subsequently revisited and expanded by McGee (2006). Basically there are three fundamental views on the ethics of tax evasion. The first view takes the stand that tax evasion is unethical at all times. The basis behind this conviction

is that all people have a responsibility to the government to pay taxes as stipulated by the government (Cohn, 1998; Smith & Kimball, 1998; Tamari, 1998). This perspective is prevalent in countries with strong beliefs of conforming to the rule of the majority. Furthermore as stated by Cohn (1998) and Tamari (1998), citizens are duty bound to other members of the community and therefore should contribute to pay for services that the government provides and not merely being freeloaders. Lastly, there is the rationale that one owes a duty to God to pay taxes (Tamari, 1998; Cohn, 1998; Smith & Kimball, 1998) according to God's command. This final perspective is held strongly by those who believes in God and not adhered to by atheists.

The second view on tax evasion is known as the anarchist view (Block, 1989; 1993) in which that individuals are not duty bound to pay taxes as most governments are illegitimate with no moral power to take anything from anybody. The third perspective on the ethics of tax evasion took a more neutral stand in which it might be legitimate and therefore ethical in some circumstances but might not hold true in other circumstances. The proponents of this view are researchers such as Ballas and Tsoukas (1998), McGee (1998a, 1999a, 2005) and Lingle (2005).

Tax evasion had also been studied from the viewpoint of different countries as well as demographic and religious groupings. One of the recent study looks at tax evasion from the perspective of the theology and business students in Armenia (McGee & Marajyan, 2006). They discovered a somewhat startling result in which business students were found to oppose tax evasion more strongly compared to theology students. The reasons behind this seem to be that tax evasion is justifiable in two situations: firstly when individuals believed that the government of the day did nothing to substantiate collecting taxes from them and secondly when tax collection mechanism does not seems to work properly.

In another research, McGee and Bernal (2006) studied the opinion of economic students in Poland and their findings pointed that when the tax systems is deemed to be unfair or the government was perceived to corrupt, tax evasion was justified. McGee et al (2008) comparative study on US and Hong Kong students discovered that regardless of where the students come from, they do not perceive tax evasion to be ethical. Nevertheless, under certain circumstances such as when the government was corrupt or when the tax system was discriminating, tax evasion seems to be ethically acceptable. In another study by McGee and Gupta (2008) on 620 accounting, business, economics and law students in New Zealand, they found that tax payment was considered a duty but the students also believed that it was not absolute.

From the religious perspectives, McGee's (1998b) survey on Christian viewpoint discovered that they believed tax evasion to be immoral in any event and any situation. However, this is not an absolute opinion held by all. Therefore, there is no one coherent and single opinion in this regard. From the Jewish perspective (McGee & Cohn, 2008), tax evasion is perceived to be always unethical. This is an absolutist view. Murtuza and Ghanzanfar (1998) discussed the ethics of tax evasion from the Islamic perspective and their study was further commented by McGee (1999b).

Despite much literature on the ethics of tax evasion, there seems to be no past or current studies looking at the effect of money ethics on the ethics of tax evasion and also the moderating role of religiosity on this relationship. Due to the lack of study from this perspective, the current study will be exploratory in nature and sought to investigate these relationships.

## *2.2 Money Ethics*

Tang (2002) reported that one's money ethics has a significant and direct influence on unethical behaviour. This means that people with a high money ethics (love of money) who place a great importance on money would be less ethically sensitive than a person with low money ethics. In a study by Mitchell and Mickel (1999), money seems to be associated with important individual personality and attitudinal variables. In addition, some of the researchers also proposed that the love of money is the root of all kinds of evil (Tang & Chiu, 2003; Vitell, Paolillo & Singh, 2006; Vitell, Singh & Paolillo, 2007).

Money ethics is also found to be directly related to unethical behaviour and indirectly related to unethical behaviour through pay satisfaction. This is concluded from Tang and Chiu's (2003) research on professional Hong Kong employees. In another study, looking at the relationship between money ethics and unethical behaviour across three levels of economic development, Tang et al. (2007) discovered that for full time managers, money ethics is significantly related to unethical behaviour for high GDP group and median GDP group but not for the low GDP group. His conclusion is that money ethics is positively related to unethical behaviour for all GDP groups. Thus, money ethics will be related to unethical behaviour, in general.

### 2.3 Religiosity

The definition of religiosity as defined by McDaniel and Burnett (1990) is a belief in God accompanied by a commitment to follow principles believed to be set by God. This differs from spirituality in that spirituality may involve ‘a search for meaning, unity, connectedness to nature, humanity and the transcendent’ whereas religiosity provides a ‘faith community with teachings and narratives that encourage morality’ (Emmons, 1999, p. 877).

Glover (1997) maintained that an individual’s moral reasoning is subjected to, in part, upon the importance and character one placed on their religious beliefs. Allport (1950) suggested that religion presumed distinctive roles in an individual’s life. He believed that the extrinsic character represents the exterior role of religion for social endorsement or even individual contentment, whereas the intrinsic role represents a strong internal assurance to religion as a part of one’s everyday life. Hence, extrinsic religiosity is suggestive of having religious participation for somewhat self-seeking reasons (endorsing one’s own business interests and finding ways that religion might serve an individual), whereas intrinsic religiosity is indicative of having religious commitment and connection for more innate, spiritual purposes (using faith to promote the interests of the people and finding ways to serve one’s religion). Donahue (1985) further argued that intrinsic religiosity associated more highly than extrinsic religiosity with religious commitment.

The description of this religious alignment is indicative that extrinsic dimension is a weaker predictor of positive life outcomes in contrast to the intrinsic dimension (Salsman et al. 2005). In addition, the extrinsic element has sometimes even been linked with negative life outcomes (Smith, McCullough & Poll, 2003). The ‘extrinsically motivated individual uses his religion while the intrinsically motivated lives his religion’ (Allport & Ross, 1967, p.434).

### 2.4 Conceptual Framework

Based on the discussion presented in the literature review section, the following conceptual framework was constructed and presented in Figure 1.

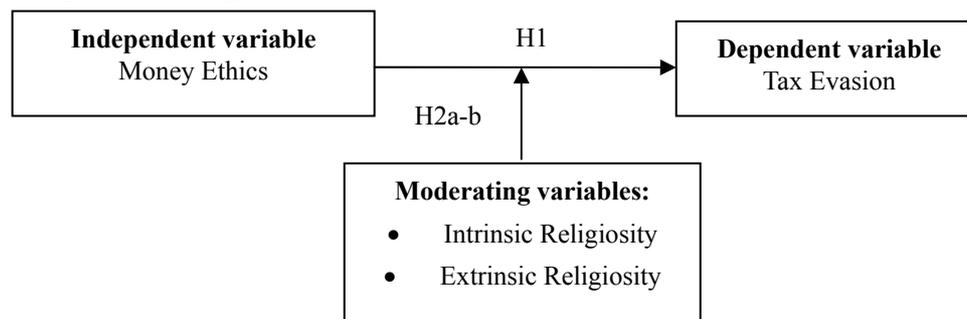


Figure 1. Conceptual framework

Based on the analytical interpretations in the previous section, the following hypotheses were proposed:

H1: Money ethics will be positively related to tax evasion.

H2a: Intrinsic religiosity will moderate the relationship between money ethics and tax evasion.

H2b: Extrinsic religiosity will moderate the relationship between money ethics and tax evasion.

## 3. Research Method

### 3.1 Sample and Procedure

The primary data for this research were collected through a structured questionnaire to answer the research hypotheses. The questionnaires were administered to about 400 undergraduate business students in a large private university in Malaysia through convenience sampling method. As the current study is exploratory in nature, Ferber (1977) explains that using students sample is considered valid. Survey participation was voluntary and no remuneration was offered. Subsequently 395 questionnaires were received. Each of the response received was screened for errors, incomplete and missing responses. Questionnaires that had more than 25% of the questions in the survey that have been left unanswered were discarded from data analysis. After the screening process was carried out, only 387 responses were considered complete for data analysis.

### 3.2 Measures

The survey questionnaire consists of two sections. Section A comprises of all the constructs and Section B the demographic details. Respondents were asked to indicate their agreement or disagreement with several statements on a five-point Likert scale from 1 = strongly disagree to 5 = strongly agree. The items used to measure tax evasion (15 items) were adopted from McGee and Guo (2007) while money ethics (17 items) were adopted from Tang (2002). For tax evasion, low scores show an acceptance of tax evasion, while high scores show a disagreement with tax evasion. In the case of money ethics, high scores indicate the importance one placed money in their lives. For intrinsic and extrinsic religiosity (13 items), the questionnaires were adopted from Allport and Ross (1967). A high score in this construct indicates higher level of religiosity among respondents.

### 3.3 Data Analysis

Statistical Package for Social Science (SPSS) version 17.0 was used to analyze the questionnaire data. Cronbach alpha analysis was initially conducted to assess the reliability of the measurement scales (Hair et al., 2007). Then, Pearson correlation analysis was conducted to measure the study's variables and the usefulness of the data set (Foster et al., 1998). Finally, hierarchical moderated regression analysis as recommended by Cohen and Cohen (1983) was used to measure the moderating effect of intrinsic and extrinsic religiosity in the hypothesized model. According to Cohen and Cohen (1983) and Jaccard et al (1990), moderating effect is an interaction that shows the degree of relationship between the independent variables and dependent variables and that will change if other variables exist in the relationship. The results of an interaction are evident when the relationship between interacting terms and the dependent variable is significant.

## 4. Results

### 4.1 Respondents Profile

In relation to the sample profile of 387 respondents, there were 128 (33.1%) male and 259 (66.9%) female. As for religion of the respondents, there were 75.3% Buddhist, 11.5% Christian, 7.6% free thinker, 3.1% Taoist and 2.6% from other religion. Majority of the respondents were studying marketing 58.4% and 45.2% were studying accounting course.

### 4.2 Reliability Analysis

The data was also subjected to a test for internal consistency. To determine this, the extent of agreement between the respondents for each dimension was taken into consideration. Higher agreement would indicate higher reliability. When the alpha value was above the threshold value of 0.70, this means that the measure was reliable (Nunnally & Bernstein, 1994). The highest alpha was money ethics (0.923) and the lowest alpha value was intrinsic religiosity (0.732). The coefficients alpha for all dimensions was reported in Table 1.

Table 1. Reliability of tax evasion, religiosity and money ethics

Construct	No of Items	Cronbach Alpha
Tax evasion	15	0.852
Religiosity		
Intrinsic	7	0.732
Extrinsic	6	0.758
Money ethics	17	0.923

### 4.3 Correlations Analysis

Pearson correlation coefficient analysis was employed to determine the association between the variables (refer to Table 2). All the variables were found to be significantly correlated and ranged from -0.114 to 0.270. It was also important to note that all the variables were not highly correlated as it concurred with Hair et al's (2007) minimum threshold of 0.60. This was a necessary condition to ensure that strong multicollinearity effects were not present in the study.

Table 2. Correlation analyses between money ethics, tax evasion and religiosity

Construct	1	2	3	4
1. Tax evasion	1	-	-	-
2. Intrinsic religiosity	-0.237**	1	-	-
3. Extrinsic religiosity	0.136**	0.135**	1	-
4. Money ethics	0.270**	-0.114*	0.138**	1

Note: \*\* Sig. at 0.01, \* Sig. at 0.05

#### 4.4 The Moderating Effect of Intrinsic Religiosity

The regression results summarizing the relationships between tax evasion, intrinsic religiosity and money ethics were presented in Table 3. The results indicate that control variables (gender, religion and course of study) accounted for 4.5% of the variance in tax evasion ( $R^2 = 0.045$ ). From the second phase of entry (model 2), the  $R^2$  change was significant (0.056), proposing that an added 5.6% variance was explained by money ethics. Specifically, money ethics ( $\beta = 0.244$ ,  $p < 0.05$ ) was found to be significant and positively related to tax evasion. This result provided support for H1. At the third phase of entry (model 3), intrinsic religiosity beta value was significant ( $\beta = -0.151$ ,  $p < 0.05$ ), suggesting that intrinsic religiosity has a significant and negative relationship with tax evasion. With the final addition of the interaction term (money ethics x intrinsic religiosity) into the model (model 4), the additional increase of 1.3% was found to be significant ( $p < 0.05$ ). This indicates that intrinsic religiosity did moderate the relationship between tax evasion and money ethics. The negative sign for this interaction term (money ethics x intrinsic religiosity) demonstrated the buffering role of intrinsic religiosity on tax evasion for increasing levels of money ethics. In sum, the result provided support for H2a.

Table 3. Moderator effect intrinsic religiosity on the relationship between money ethics and tax evasion

Variables	Standardized Beta				
	Model 1	Model 2	Model 3	Model 4	
<b>Control variables</b>	Gender	-0.016	-0.015	-0.022	-0.012
	Religion	-0.190*	-0.146*	-0.147*	-0.146*
	Course	0.082	0.040	0.046	0.051
<b>Independent variable</b>	Money Ethics	-	0.244*	0.227*	0.206*
<b>Moderator variable</b>	Intrinsic Religiosity	-	-	-0.151*	-0.127*
<b>Interaction</b>	Money Ethics x Intrinsic Religiosity	-	-	-	0.118*
<b>R<sup>2</sup></b>		0.045	0.100	0.123	0.135
<b>R<sup>2</sup>-Change</b>		0.045	0.056	0.022	0.013
<b>F-Change</b>		5.730*	22.901*	9.328*	5.375*

Note: \* Sig. at 0.05, VIF 1.004 to 1.114, Tolerance 0.897 to 0.996

#### 4.5 The Moderating Effect of Extrinsic Religiosity

The regression results summarizing the relationships between tax evasion, extrinsic religiosity and money ethics were presented in Table 4. At the third phase of entry (model 3), the beta value for extrinsic religiosity was not significant, suggesting that extrinsic religiosity did not have any independent effect on tax evasion. With the final inclusion of the interaction term (money ethics x extrinsic religiosity) into the model (model 4), the interaction was found to be insignificant. This indicates that extrinsic religiosity did not moderate the relationship between tax evasion and money ethics. Therefore, H2b was not supported.

Table 4. Moderator effect extrinsic religiosity on the relationship between money ethics and tax evasion

		Standardized Beta			
Variables		Model 1	Model 2	Model 3	Model 4
<b>Control variables</b>	Gender	-0.016	-0.015	-0.016	-0.026
	Religion	-0.190*	-0.146*	-0.146*	-0.137*
	Course	0.082	0.040	0.040	0.043
<b>Independent variable</b>	Money Ethics	-	0.244*	0.240*	0.235*
<b>Moderator variable</b>	Intrinsic Religiosity	-	-	0.031	0.068
<b>Interaction</b>	Money Ethics x Intrinsic Religiosity	-	-	-	-0.099
<b>R2</b>		0.045	0.100	0.101	0.110
<b>R2-Change</b>		0.045	0.056	0.001	0.008
<b>F-Change</b>		5.730*	22.901*	0.391	3.486

Note: \* Sig. at 0.05, VIF 1.004 to 1.189, Tolerance 0.841 to 0.996

## 5. Discussion

The present study looks at the effect of money ethics on tax evasion as well as exploring the moderating role of intrinsic and extrinsic religiosity in the relationship. Data were gathered from undergraduate students sample in Malaysia. The result indicated that there is a positive relationship between money ethics and tax evasion. When respondents placed much emphasis on the importance of money and acquiring wealth, they would be more likely to perceive tax evasion to be acceptable. A person who is highly motivated by money or who place money as top priority would believe that tax evasion practices are more acceptable. This is consistent with past studies that one's money ethics has a significant and direct impact on unethical behaviour (Tang & Chiu, 2003; Vitell, Paolillo & Singh, 2006; Vitell, Singh & Paolillo, 2007).

Result of the research also suggests that high levels of intrinsic religiosity within a person may buffer the positive impact of money ethics on tax evasion. Individuals with high intrinsic religiosity may react less favorably to tax evasion practices. Individuals who are intrinsically more religious may view tax evasion as more unethical in the money ethics – tax evasion relationship compared to individuals with low intrinsic religiosity. This is consistent with past studies that found intrinsic religiosity to be indicative of having a true religious commitment and involvement rather than a superficial level of religiosity (Donahue, 1985; Salsman et al., 2005).

The result on the moderating effect of extrinsic religiosity did not bear any significant outcome. This means that individuals who are extrinsically religious will not moderate the relationship between money ethics and tax evasion. The person who is extrinsically religious will not affect the perception of tax evasion practices. This is somewhat consistent with past studies that show the extrinsic dimension to be associated with negative life outcomes (Smith, McCullough & Poll, 2003). Allport and Ross (1967, p. 434) even go far to conclude that 'extrinsically motivated person uses his religion whereas the intrinsically motivated person lives his religion'

## 6. Conclusion

There are several limitations in this research. This study utilizes a cross-sectional methodology. Caution must be taken when making interpretations regarding the causality of the relationships reported. Using longitudinal method would increase the capacity to make causal inference. As for second limitation, the sample consisted of students from one university in Malaysia. Thus, generalization cannot be made in regards to the other section of the Malaysian population. It would be useful for future researchers to conduct comparable studies to include a more representative section of the Malaysian population instead of just student population. Third, the study was limited to examining the moderating influence of intrinsic and extrinsic religiosity on tax evasion. Future researchers might consider exploring other variables that have the potential to enhance or suppress the effects of money ethics on tax evasion such as materialism, attachment to possessions, belief in material growth or one's attitude towards business.

This study contributed to the existing literature on tax evasion, despite the various limitations highlighted. It examined the linkage between money ethics and tax evasion using student sample from an emerging economy

such as Malaysia. Furthermore, the research also seeks to discover the role of intrinsic and extrinsic religiosity as moderators in the proposed relationship. This will be an addition and thus contribution to the limited number of research on the antecedents of tax evasion especially in the Asian context. This further expands the empirical base of research findings on the area of tax evasion.

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