TAX PROFESSIONALS' PERCEPTIONS OF TAX FAIRNESS: SURVEY EVIDENCE IN TURKEY

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Abstract

The aim of this study is to investigate whether the dimensions of tax fairness exist in Turkey. A survey questionnaire on tax fairness developed by Gilligan and Richardson was administered to a sample of 180 tax professionals (Certified Public Accountants and Sworn-in Certified Public Accountants). Factor analysis and reliability analysis identify six robust tax fairness dimensions. Namely general fairness, middle income earners tax share and tax burden, exchange with the government, tax rate structure, special previsions, tax system equality and inequality. While the previous studies point out significant differences in fairness perceptions among the countries, this study focuses on only the country, Turkey. The basic cause of this outcome is the difficulty in comparing the fairness perceptions due to differences in tax structure, time period, methodology, sample characteristics, and measures used in each study.

Keywords: Tax Fairness, Perception, Taxation, Turkey

1. Introduction

Perceptions of tax fairness are the main determinants of tax compliance. Thus, any study that reveals the culture/country specific dimensions of taxpayer's perception of the fairness is very important. There are numerous studies conducted in Western countries such as Australia and United States to observe how taxpayers perceive tax fairness. However, the number of studies conducted to observe tax fairness in a Turkish setting is limited. This study concentrates on perceived of tax system fairness of tax professionals in Turkey. Hence the purpose of the study is to investigate the mechanism which lies behind the perceptions of the tax professionals of tax system fairness in Turkey.

This study contributes to the tax fairness literature in at least three aspects. In the first place, it extends the studies of Richardson (2006), and Azmi and Perumal (2008) by assessing tax perceptions of another non-Western country. Secondly, this study, specifically contributes to our understanding of tax fairness in Turkey. And finally, identifying tax fairness dimensions provides useful information for the Turkish tax authorities for improving the fairness of the individual income tax system.

The rest of the study is structured as follows. The next section discusses the fairness construct and presents are view of the dimensions of tax fairness literature. Afterward the methodology, analysis, and the findings are presented to identify dimensions perceived by the Turkish tax professionals' of tax fairness. The last section includes the conclusion and limitations of this study.

2. Tax Fairness and Tax Fairness Dimensions: Theoretical Background

Perception of tax fairness is an important component of tax compliance. Taxpayers tend toward to evade paying taxes if they perceive unfairness on the taxes (Vogel, 1974). However, when the tax fairness literature is reviewed we notice that two critical problem arises. The first problem is; the concept of tax fairness is often not well defined. For example according to Adam Smith (1776), a tax system is defined as being fair when taxpayers are taxed based on their ability to pay. In this definition, Smith emphasizes the *vertical fairness of taxation*. But, this definition does not include the comprehensive tax fairness perception.

Jackson and Milliron (1986) stress another issue which concerns tax fairness namely, *Horizontal tax fairness*. Horizontal tax fairness is defined as the equal treatment of equally circumstanced individuals (Michael, 1978). However, such equal treatment sometimes conflicts with other economic objectives of taxation, which therefore need to be compromised (Holmes, 2001). Holmes (2001) further claims that, in practice, almost all tax systems have abandoned the horizontal tax fairness premise to meet economic, social or political objectives. On the other hand, Christensen et al. (1994) emphasized that the concept of tax fairness is difficult to define because:

(I)   Tax fairness is multidimensional;
(II)   The concept of tax fairness can be defined both I individual and societal levels;
(III)   Tax fairness and tax complexity are inseparable;
(IV)   Lack of tax fairness can be perceived as a justification for a cause for noncompliance;

The second problem is that the literature on the taxpayers' perception of tax fairness there is limited. Gerbing (1988) identified five dimensions of fairness which include;

(I)   General fairness and distribution of the tax burden;
(II)   Exchange with the government;
(III)   Attitude towards taxation of the wealthy;
(IV)   Preferred tax rate structure.

Gerbing (1988)'s pioneering study formed the origin for many of other studies about perception of tax fairness. For example, using a revised version of the survey instrument of Gerbing (1988), Christensen et al. (1994) and Christensen and Weihrich (1996) has confirmed these five dimensions. Richardson (2005a), on the other hand, used a modified version of the Gerbing's (1988) survey. The study was conducted on postgraduate business students to evaluate their tax fairness perceptions and the relationship with their tax compliance behaviour (Richardson, 2005a). And the author consequently reveals five underlying dimensions of fairness perceptions including: general fairness, exchange with government, special provision, tax rate structure and self-interest. Another study conducted by Richardson reported six dimensions of fairness, namely general fairness; tax rate structure; middle income earners' tax burden; exchange with the government; self-interest; and special provisions in a survey among postgraduate students in Hong Kong (Richardson, 2006b).

Richardson (2005b) and Gilligan and Richardson (2005) made a cross-cultural comparison between the findings from Australia and Hong Kong, where several significant differences of opinion regarding the fairness perceptions were reported.

A more recent study on fairness perceptions was undertaken by Azmi and Perumal (2008), which attempted to identify the fairness dimensions among Malaysian taxpayers, using a revised version of Gerbing's (1988) questionnaire. Their study suggests that Malaysian taxpayers perceive the fairness of the income tax system in terms of general fairness, tax structure and self-interest. These dimensions of fairness, identified through a factor analysis, are slightly different from those documented in the US (Gerbing, 1988), and Australia and Hong Kong (Gilligan & Richardson, 2005; and Richardson, 2005b). While previous studies indicate somehow differences in fairness perceptions between the countries, it is difficult to compare directly the fairness perceptions due to differences in tax structure, time period, methodology, sample characteristics, and measures used in each study (Saad, 2011).

3. Methodology

3.1. Participants

Data required determining the dimensions of tax fairness were obtained through questionnaires applied to tax professionals (Certified Public Accountants and Sworn-in Certified Public Accountants) in Turkey.

This study focuses on the perceptions of tax professionals, because they possess the adequate capability to evaluate both tax system and taxpayers in Turkey. The questionnaires were administered via Google e-mail survey system in 2011. Participation in the study was voluntary and the participants were assured that their answers would be kept confidential. 185 out of 750 questionnaire forms distributed to the taxpayers were returned. Return rate calculated as 24.67 %. During the analysis, 180 questionnaire forms were accepted for consideration. Table 1, shows the demographics of the sample. As shown in this table, demographical variables collected were age, gender, level of education, and professional title.

Table 1: Demographics

Variable	Frequency	Percent (%)
Age		
20-29	14	7.8
30-39	70	38.9
40-49	59	32.8
50-59	29	16.1
60 or over	8	4.4
Gender		
Male	150	83.3
Female	30	16.7
Education Level		
Less than high school	2	1.1
High School	22	12.2
Graduate	141	78.4
Master's Degree	13	7.2
PhD	2	1.1
Professional Title		
CPA[*]	159	90.0
SCPA[**]	18	10.0

[*]CPA: Certified Public Accountant, [**]SCPA: Sworn-in Certified Public Accountant

3.2. Measured Variables

In this study, Gilligan and Richardson's "21 item-tax fairness perception scale" was used to collect the data concerning tax fairness perceptions of the Turkish individual income tax system (Gilligan and Richardson, 2005). The questionnaire was translated from English into Turkish, and re-translated into English to check the validity of the translations. Understandability levels of the questions in the questionnaire form were tested on 30 graduate students by conducting a pilot study and it was confirmed that these questions were appropriate.

Table 2: 21 Item-Tax Fairness Perception Scale

Tax-Fairness Perception Items	Mean	SD
General Fairness		
1. For the average taxpayer, I think that the income-tax system is.	2.19	1.13
2. For me personally, I believe that the income tax system is.	2.52	1.30
3. Generally, I believe that the manner in which the income-tax burden is distributed across tax payers is.	2.00	1.01
4. Generally, I feel that the income tax is a fair tax.	2.66	1.30
5. On the whole, the burden of income taxes is fairly distributed.	2.08	1.02
16. Middle-income earners pay more than a fair share of the income-tax burden.	3.53	1.10
17. The share of total income taxes paid by middle-income earners is much too high.	3.51	1.07
Exchange with the Government		
19. I get fair value for my income-tax dollars in terms of benefits received from the government.	2.39	1.18
20. The income taxes that I have to pay are unreasonably high considering the benefits provided by government.	2.43	1.16
21. The benefits I receive from the government in exchange for my income-tax dollars are reasonable.	2.32	1.10
Special Provisions		
9. The tax system provides big breaks for undeserving.	1.98	1.10
10. Special provisions in the income tax- law that apply to only a few people are unfair.	3.48	1.18
11. Some perfectly legal tax deductions are not fair because only the wealthy are in a position to use them.	3.57	1.18
18. Compared to the amount paid by more wealthy taxpayers, I pay more than fair share of income taxes.	3.71	1.09
Tax-Rate Structure		
12. High-income earners have a greater ability to pay income taxes, so it is fair that they should pay a higher rate of than low-income earners.	3.55	1.23
13. It is fair that high-income earners pay proportionately more tax than low-income earners.	3.75	1.17
14. A fair tax rate should be the same for everyone, regardless of their income.	3.86	1.30
15. The share of the total income taxes paid high-income earners is much too high.	3.47	1.30
Self Interest		
6. I believe that the income-tax system is the fairest kind of system that the government could use to collect revenue.	2.51	1.23
7. Current tax laws require me to pay more than my fair share of income taxes.	2.37	1.15
8. Compared the other taxpayers, I pay less than my fair share of income taxes.	1.89	1.03

As illustrated in the Table 2, the participants were asked to indicate their degree of agreement in 21-item scale about tax fairness in a five point "strongly disagree-strongly agree'' (4 reverse coded) Likert scale questions[1]. Reliability was assessed using Cronbach's Alpha. The scale scores 0.71, which exceeds the minimum acceptable level of 0.70 as recommended by Carmines & Zeller (1979). In addition, it was observed that none of the variables has a negative relationship with the total correlation. Thus, this findings show us that internal consistency of the data is considerably high.

4. Results

To test for divergent validity, the response items were factor analyzed. Results of the principle components analysis are presented on Table 3. Only factors with eigenvalues greater than or equal to one were retained. The factor analysis accounted for 63.96 % of the overall variance among response items.

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[1] Question 7, 14, 17, and 20 were reverse encoded.

Table 3: Factor Analysis Results

Items	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6
1	0.779					
2	0.846					
3	0.805					
4	0.782					
5	0.780					
6	0.650					
11		0.671				
16		0.779				
17		0.754				
18		0.479				
19			0.690			
20			0.649			
21			0.800			
12				0.686		
13				0.745		
14				0.815		
8					0.757	
9					0.720	
10					0.477	
7						0.723
15						0.757
Eigenvalue	4.538	3.176	1.798	1.499	1.313	1.109
Percent of Variance	18.27	11.98	9.65	9.48	7.25	6.83
Cumulative Percent	18.27	30.26	39.91	49.40	56.13	63.96
Kaiser-Meyer-Olkin Measure of Sampling Adequacy			0.761			
Bartlett's Test of Spherecity			(Chi-Square 1308.447, p<0.000)			

Notes: Factor 1= General Fairness, Factor 2= Middle income earners tax share/burden, Factor 3= Exchange with the Government, Factor 4= Tax Rate Structure, Factor 5= Special Previsions, Factor 6= Tax system equality/inequality. Only factor loadings .40 are displayed.

Inspection of the correlation matrix showed us that there was an essential numbers of correlations higher than 0.30; consequently, factor analysis was appropriate for the data (Hair et. al, 1998). The Bartlett's test of Spherecity is significant with chi square = 1.284E3, p<0.000. Kaiser-Mayer-Olkin was 0.761 that is above the recommend value of 0.6 (Kaiser, 1974).

According to factor analysis there are six dimensions of tax fairness exist in Turkey. These dimensions are described below in order of importance:

> ***i. General fairness:*** This dimension accounts for 18.27 percent of the variance. Dimension of general fairness consists of six items that provide a general representation of the overall fairness of the Turkish tax system, and is composed of questions that relate to the fairness of the tax system, the distribution of the tax burden and fairness for the average taxpayer.
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> ***ii. Middle income earners tax share/burden:*** This dimension accounts for 11.98 percent of the variance, and principally encompasses four items that are concerned with the middle income earners tax share/burden under the Turkish income tax system.
>
> ***iii. Exchange with the government:*** This dimension accounts for 9.65 percent of the variance, and consists of three items that directly relate to the benefits received by Turkish taxpayers from the government in exchange for the taxes paid in the tax system.
>
> ***iv. Tax rate structure:*** This dimension accounts for 9.48 percent of the variance, and consists of three items that are mostly concerned of tax rate structure of Turkish tax system.
>
> ***v. Special provisions:*** This dimension accounts for 7.28 percent of the variance, and encompasses three items that relate to the special provisions of the Turkish tax system.
>
> ***vi. Tax system equality/inequality:*** This dimension accounts for 6.83 percent of the variance, and encompasses two items that relate to the general equality or inequality of the Turkish tax system.

5. Conclusion and Limitations

The concept of tax fairness, which indicates the equal distribution of tax burden, appears to be the most important factor in ensuring voluntary tax compliance. The regulations on the tax structure aiming at providing tax fairness directly affect tax compliance. Therefore, clarifying the dimensions underlying tax fairness reveals necessary regulations in terms of sphere and method. With this in mind, the aim of this study is to investigate the dimensions of tax fairness which exist in Turkey. Drawing upon the work of Gilligan and Richardson (2005) as a starting-point, six tax fairness dimensions are identified relating to (i) general fairness, (ii) middle income earners, (iii) tax share/burden, (iv) exchange with the government tax rate structure, (v) special provisions for high income earners, and (vi) tax system equality/inequality.

The results of this study reveal that tax fairness perceptions can be assessed by Gilligan and Richardson (2005)'s 21 item tax fairness perception scale in different cultures. As this study was applied in Turkey, results empower the cross cultural validity of this scale, and we believe that, this study provides some insights for the studies which will be conducted for non-Western countries which adopted different versions of Western tax structures.

Be that as it may, our study is subject to a number of limitations. Firstly, the anticipated limitations of questionnaires, such as misunderstood or avoided questions, could affect the validity of the results. Pilot testing and modifying questionnaires used in prior research alleviated, but not totally eliminated this potential problem. Secondly, the survey participants were Turkish tax professionals, therefore the results may not be generalized. Thirdly, this study focused on six tax fairness dimensions, while there might be others that were not identified in this study. There is a potential for future research which will be carried on for other non-Western jurisdictions to assess if these and other tax fairness dimensions exist, and how these dimensions affect tax compliance behavior. Finally, our sample size was 180, which was statistically acceptable, however, at the same time should be interpreted with caution. Therefore, more studies with wider samples are called in.

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