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The Taxpayer Demographics' Influence on Tax Compliance: Case Study of Khulna Tax Region in Jashore District, Bangladesh

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Abstract

Tax revenue is a powerful resource in the world to finance the public expenditures of developed, developing and underdeveloped countries. It is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands of years ago. Tax is defined as 'a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return (Lymer and Oats, 2009) ^[11]. The taxpayers are classified according to the type of taxes that are required to be paid and the expected amount of revenues determined in the budget estimates. This classification is practical and realistic yet there arises the issue of tax payment compliance. A descriptive study was undertaken at the Tax Revenue Authority (TRA), Khulna

Tax Region in jashore district Bangladesh, whereby semi-structured questionnaires were used in collection of quantitative data from a total of 50 respondents, i.e., taxpayers. The main findings indicated that there is a relationship between age and sex of the respondent and the tendency towards tax compliance in terms of ability to pay and amount of money payable as tax. Basing on the findings, we recommend that the demographic characteristics of taxpayers be accorded due attention when planning campaigning and implementing the actual revenue collection in term of content and techniques to be deployed. The paper is unique as it introduces demographic characteristics as a component for taxation systems, a new theoretical component. In practice, demographics have to be considered when planning tax education packages and training approaches.

Keywords: Tax, Demographic Characteristics, Revenue, Tax Payment, Tax Compliance

1. Introduction

Bangladesh is one of the world's fastest growing economies and one of the fastest growing middle-income countries. Her per-capita income is US\$1906 with a GDP of \$317 billion (IMF-2019). Taxes are the major source of revenue for any government. Income taxes are important source of revenue for government in both developing and developed countries (Teera and Hudson 2004). The main purpose of taxation is to provide a source of government revenue to finance social economic development including education, health, infrastructure, security and other essential services. In least developed countries (LDCs), taxation contributes close to 80% of the total government revenue. Since taxes are compulsory levies or payments imposed by the sovereign states on citizens and non-citizens alike, usually payable in monetary form and there exists no quid pro quo relationship between the taxpayer and the government, paid without expecting direct benefit or return by the tax payer. Save for the appropriate authorities such as the parliament a taxpayer is in no position to demand for an account as to how the taxes paid were put to use. Governments impose and collect taxes for and on behalf of the public for public welfare services. This responsibility is made possible only if the government involves its citizens and other members of the business community to contribute to the government coffers. Such collected revenue enables facilitation of government operations through taxes, levies, duties and various licenses payments. Such revenues from taxes and other charges are normally paid by individuals and companies and cover the costs of providing social services to the community and the running of the government. Despite the importance of tax to development in most of the LDCs only a small proportion of taxpayers comply with tax laws. This is generally attributed to both tax evasion tendencies and lack of tax education and awareness among the taxpayers. Introduction of taxpayer services, offered through publication of manuals on taxation procedures; specifying taxpayers rights and obligations, creation of an information systems including a website and telephone center, persuasion, organization of awards to taxpayers were observed in some countries. The services went hand in hand with classification of taxpayers according to their levels of compliance and fulfillment of their civic responsibility. Simplification of tax procedures; and taxpayer education

provision in order to increase voluntary tax compliance [4]. In this regard little or no attention was put on demographic characteristics of taxpayers, the inert quality which may influence decision to comply to tax payment or not. These mainly arise from equity considerations, i.e., their ability to pay, the associated collection and billing methods, the quality of the services provided and persistent resistance to pay. The inert taxpayers' characteristics appear to be set aside hence raise the possibility for continuous non-compliance in the unforeseeable future. Therefore, dealing with the tax payer services and revenue enhancement without an understanding of the factors underlying the individuals' decision, i.e., whether to pay or evade paying taxes demonstrates a missing link for the development of a „water tight“, if not „air tight“ national revenue collection system. The main thesis underlying this paper purports that as human beings, taxpayers' demographic characteristics need to be taken on-board when analyzing tax compliance or noncompliance among the taxpayers. The analysis of the paper posits the taxpayers' qualities at the center of analysis of his/her behavior towards tax payment, an aspect which remains largely uncharted.

2. Conceptual framework

The study postulates that demographic characteristics of taxpayers have an influence on the respective taxpayers' compliance to tax payment. Age groups and sex composition of the respondents have an influence as they constitute inert qualities of a person, hence likely to influence one's decision to pay or not to pay tax. This is the issue of "ability to pay", which is not only to be considered a financial decision. The amount of tax to be paid may, as well, influence individual's decision to pay tax, i.e., in case the amount is high, it may deter one from compliance. Therefore, the variables articulated to the analysis, in this paper, are age and sex of the respondents that stand for demographic characteristics; and ability to pay and amount of tax paid are variables that stand for tax compliance.

3. Objectives of the study

The major objective of this study is the taxpayer demographics' influence on tax compliance attitude of taxpayers with tax system in Khulna Zone. In line with above general objective, the specific objectives of the study are: (i) To test whether the demographic factors such as gender, age and education level have impact on tax compliance attitude of taxpayers. (ii) To examine effect of individual factors such tax knowledge and awareness on penalty on compliance attitude of taxpayers.

4. Methodology

The present has been involved in the collection of data both from primary and secondary sources. The paper has been based on mostly descriptive in nature. To complete the study in the light of research objectives, primary data have been collected through personal interview of selected people. The secondary data have been obtained from college library, journal, published report, various books and internal article.

5. Presentation and discussion of findings

5.1 Demographic characteristics of respondents

5.1.1 Age groups of the respondents

The data in table 1 indicate that the majority of the

respondents, i.e., about 70% were in the younger age group, i.e., aged between 25 and 45. The fact that the proportion of taxpayers had a tendency to decrease with an increase in age underlines the same factual information. The presence of younger age taxpayers indicates the existence of long-term stability in revenue collection and the possibility for rapid and sustainable national development.

Table 1: Distribution of Respondents by Age Groups

Age group	No. Respondents	Percentage
25-35	20	40%
36-45	15	30%
46-55	09	18%
56-65	06	12%
Total	50	100

Source: Field Study

5.1.2 Respondents' Sex categories

Field data in table 2 indicate sex categories of the respondents, whereby about 62% of were males and 38% females. This does not, however, mean that the majority of the taxpayers are males. It implies that male taxpayers were more likely to be the frequent visitors of the TRA office for the purpose of tax payment. This habit increases chances of them to pay taxes as opposed to females. The reality that data were collected from respondents as they visited the Khulna Tax Region office justifies the same. However, the very information is, hereby, critical for analysis of taxpayer's behavior towards payment by their demographic characteristics, the essence of this paper. It implies that males were more likely to be the frequent visitors at the tax office for the actual purpose of tax payment.

Table 2: Distribution of Respondents by Sex Categories

Sex Categories	No. Respondents	Percentage
Male	31	62%
Female	19	38%
Total	50	100

Source: Field Study

5.1.3 Respondents' levels of education

Respondent's levels of education demonstrate knowledge and skills a person possess; hence likely to influence one's decisions and behavior. The decisions and behavior towards tax payment are likely to be influenced by this factor. The field data in table 3 demonstrate that about 10% of the respondents had attained primary education, about 16% reached diploma level, 26% had master degree, 16% had post-secondary certificate, about 34% graduated at degree level or equivalent, while about 14% attained secondary education. Since the sample consisted of respondents with various levels of education, it therefore, raised the possibility for generating undisputable results.

Table 3: Distribution of Respondents by Levels of Education

Levels of Education	No. Respondents	Percentage
Primary	05	10%
Secondary	07	14%
Diploma	08	16%
Degree	17	34%
Master	13	26%
Total	50	100

Source: Field Study

5.2 The Influence of Tax Payers' Age on Tax Compliance

Tax payers' age was related to „ability to pay“ and „the amount of tax to be paid“ so as to establish the influence of Age group on tax compliance. Results were as explained below:

5.2.1 The Influence between Tax payers' Age and the Ability to Pay Tax

The survey data on respondents' ability to pay tax, in table 4, indicated that the influence between age of respondents and their ability to pay requisite taxes. Those in the younger age groups, i.e., 25 to 45 were the majority of taxpayers, thus they had greater propensity to pay tax than their old age counterparts.

The above cited national statistics implicate the presence of a huge group of potential tax compliant population, in case it receives requisite treatment. Those in age groups 46 to 55 were the lowest respondents in tax payment. The number decreased significantly from age group 56 -65. Being in the best tax payers' age bracket, the younger taxpayers, not necessarily being owner's new businesses, are the ones who have to be approached for getting feedback on issues of tax compliance. In this case, those in the older age groups have to be targeted for tax education and training since they are the ones who lag behind in actual tax payment.

Table 4: Distribution of Respondents by Age Groups and Ability to Pay Requisite Tax

Age group	Ability to pay Requisite Tax		
	Yes	No	Total
25-35	15	05	20
36-45	12	03	15
46-55	04	04	08
56-65	05	02	07
Total	36	14	50

Source: Field Study

5.2.2 The Influence between Tax payers' Age groups and the Amount of Tax Paid

The study wanted to establish whether age groups had any relationship with the amount of tax payable. Survey data in table 5 indicated that a larger proportion of interviewed taxpayers, i.e., 86% were those with small businesses with annual revenue of between Tk. 4,00,001 and 7,00,000, hence the same were to pay tax which was set at Tk. 50,000. These taxpayers were found in literary all 4 age groups. About 70% of the respondents were in the younger age groups, i.e., 25-45 and actively paid the lower tax rate of Tk. 100,000. A further decrease in proportion was observed the same tax bracket, involving those aged 56 to 65. The number of the „oldest“ members was observed to have mainly been contributed by the limitless upper side. The oldest age group was marked by having a significant proportion of those who paid higher tax rate, meaning that they had big investments, paying the tax at 3. 00,000 of the annual revenue, which is more than Tk. 14, 00,000/- as stipulated in TRA Guideline on Taxes and Levies. One sees the trends towards aged taxpayers owning larger businesses, hence raising the business revenue which accumulates higher tax. The bigger size businesses tended to attract higher taxes and in turn result into possibility for higher ability to pay the same. In this case, the higher the age

groups of the taxpayer, the higher the amount of tax payable, the greater the ability to pay the stipulated amount of tax.

Table 5: Distribution of Respondents by Age Groups and Amount of Tax Paid

Age group	Amount of Tax to be paid				Total	Percentage
	Below 50,000	1,00,000	2,00,000	3,00,000 and above		
25-35	16	00	01	03	20	40%
36-45	12	01	01	01	15	30%
46-55	03	00	02	03	08	16%
56-65	04	00	02	01	07	14%
Total	35	04	06	05	50	100

Source: Field Study

5.3 The Influence of Taxpayers Sex Category on Ability

5.3.1 Sex Category of the Respondent and the Demonstrated Ability to Pay Tax

The paper investigated the existing relationship between respondent's sex categories and their ability to pay tax. When analyzing the field data in table 6, it was found that males demonstrated relatively greater ability to pay tax than their female counterparts, since 48% of the respondents indicated that they could pay taxes as compared to 22% who were females. Moreover, a relatively greater proportion of females, i.e., 16% indicated that they could not pay requisite taxes as compared to 14% male taxpayers who would, as well not pay. The reasons for such a dispersion were out of scope of this paper, thus demonstrating the need for more detailed studies on the same. Basing on the field data it can profoundly be said that females have demonstrated less compliance to tax payment compared to their male counterparts.

Table 6: Distribution of Respondents by Sex Categories and Ability to Pay Requisite Tax

Sex Categories	Ability to Pay Requisite Tax				Total
	Yes	%	No	%	
Male	24	48%	07	14%	31
Female	11	22%	08	16%	19
Total	35	70%	15	30%	50

Source: Field Study

5.3.2 The Sex Category of the Respondent and the Amount of Tax to be paid

The study appreciated the necessity to establish the relationship between the sex category of the respondent and the respective amount they pay as tax. Data in table 7 demonstrate that among the two categories, there was a tendency among respondents to congregate on the lower tax amount of Tk. 50,000. Moreover, for the same tax bracket, females appeared to be more effective in paying taxes than their male counterparts. The striking feature for this instance, is that there were more female taxpayers than their male counterparts. Males were found dominating the higher tax bracket, 3, 00,000 and above, though in relatively lower actual numbers. The findings demonstrate that efforts towards enhancing tax payment through dispensation of tax education and other packages should place a focus on males, for small businesses and for females owning larger businesses. These are the problematic age groups with relatively lower levels of tax compliance.

Table 7: Distribution of Respondent's by Sex Categories by Amount of Tax Paid

Sex Categories	Amount of Tax to be paid				Total
	Below 50,000	1,00,000	2,00,000	3,00,000 and above	
Male	24	0	02	05	31
Female	14	01	01	03	19
Total	38	01	03	08	50

Source: Field Study

6. Conclusions and recommendations

6.1 Conclusions

From the above discussions it is evident that the age of the respondents had a positive relationship with tax compliance, particularly when taking into account the ability to pay tax. It was further noted that those in the younger age groups tended to lead in terms of tax compliance. Therefore, tax compliance was observed to decrease with an increase in taxpayer's age mainly for those operating small businesses with the exception was to those with larger business organizations whereby demonstrating relatively higher tax compliance levels. With regards to the influence of sex category on the ability for tax payment, it can categorically be stated that males had a tendency to be more tax compliant than their female counterparts, though a considerable proportion of female taxpayers indicated their willingness to pay tax. When establishing the influence of age groups on amount of tax paid, it was noted that among small income taxpayers, females depicted a tendency to dominate. Males were observed to be relatively dominant in the high tax bracket, i.e., Tk. 3.00,000 and above. Therefore, while female taxpayers were more compliant on small businesses, males demonstrated the same characteristic for relatively big businesses. Field data indicated that sex categories of the respondents had an influence on the ability to pay tax. Despite the fact that respondents of both sexes indicated that they could afford pay respective taxes, males had a tendency to dominate in terms of both numbers and proportions.

6.2 Recommendations

1. The Tax Revenue Authority and other revenue authorities operating elsewhere are urged to plan its tax education awareness sessions and training packages to favour those taxpayers in the older age bracket.
2. The type of messages, content, form and technology used should be tailor made to groups that require more awareness.
3. Training methods should be friendly to adult learners with advanced age. Such tax educational packages need to focus and target on female taxpayers who tended to lag behind in tax payment, hence emerged to be less tax compliant.
4. The language and messages of tax training packages be well articulated for the same sub-population group. However, this does not mean that male non-compliant taxpayers should be left un-abated from such tax extension educational programmes.
5. Women are urged to start and operate large businesses so that they pay taxes and contribute towards national income.
6. The study noted the possibility that women contributed less to the tax payment compared to the men. These observations call for concerted efforts to increase their ability raise the position of women in higher income

brackets to be able to pay tax, a fact that appears to be relatively wanting.

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