The relationship between tax justice and tax compliance: A brief review of the literature

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Abstract: This study aimed to review recent literature investigating the relationship between tax justice and tax compliance, which is considered one of the most important determinants of good tax governance in different parts of the world. The descriptive analytical approach is used to review seminal work related to the topic, where focus is brought about Arab countries and how they have managed to try and maintain tax compliance rates as these have decreased drastically in the past few years. the current review found important results related to problems associated with decreased rates of tax compliance, where many emphasized the importance of tax justice (fairness) as one of the main factors that can help stop this deterioration among taxpayers. The research also focused on presenting some recommendations to apply in order to increase tax compliance rates, and can serve as input for different tax reforms in the future.

Keywords: Tax compliance, tax justice, taxpayers, tax governance

1. Introduction

For most developing countries, tax is considered one of the main sources of government income. It is also a major factor of economic growth and overall country well-being. The tax regulations highly impact on citizens of any country and their satisfaction with tax regulations is highly dependent on the way tax is calculated and collected as well as how it is going to be spend (Rawaba, 2019). Governments have to consider how to use such taxes in an effective way to motivate its citizens to pay taxes instead of enforcing such payments and the use of public force to collect tax payments (Gobena, 2017). The literature suggest that tax compliance is related to both ability and willingness of individuals to pay tax by declaring and reporting correct income each year and at the stated dates (Herman, 2019, and Faizal et al, 2017). Tax incompliance is considered a global phenomenon, where studies showed higher level of incompliance in less developed countries and tax injustice towards their citizens (Herman, 2019). These studies also highlighted the need for tax justice to increase tax compliance, which is directly related to improved tax services and better-qualified staff to serve citizens best (Wilson, 2019).

Thus, tax reforms that do not lead to tax justice are usually seen as additional regulations that lead to lower rather than higher rates of tax compliance (Prichard, 2010). The studies focused on the relationship between tax compliance, tax justice, and overall economic growth, where trust in the tax system is the cornerstone of the relationship between government and citizens (Wislon, 2019).

Another study by Dabit, (2021) explained that tax burdens which are too much and unclear for citizens lead to lack of trust in the taxing system which also impact of collected taxes and overall government spending, especially in poor countries. For example; African countries demonstrated lower levels of trust in taxing system where less than half of the population comply with tax reports and requirements as they do not trust the system. Some other Middle East countries see even lower rates of not exceeding 30% compliance, Latin American countries with less than 26%, and even in Brazil its less than 17% (Retnaningtyas and Wilson, 2019)

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All this lead to the need to further investigate the taxing system in different parts of the world, and how tax justice can help improve tax compliance, and how governments can promote tax compliance as a tool for economic growth through focusing on justice, trust, and suitable tax reforms. The current study attempts to analyse this by summarizing and discussing recent literature about the topic from different parts of the world and to focus on whether tax justice affects tax compliance in the same way in different countries around the globe.

The next sections summarize the discussion as follows: the following section highlights the research problem, objectives, questions, and methodology. Then the study moves to discussing the related literature related to tax compliance, tax justice, and tax reforms. Finally, the study presents some findings, conclusions, and recommendations for future research.

2. Problem statement:

The current study investigates the effect of tax justice on tax compliance by reviewing seminal work in this field from different parts of the world. The study main problem is related to the fact that although governments have the right and power to impose taxes on their citizens, still, they need to make sure that financial and other documents presented to tax authorities are reflecting actual performance of their business and different activities. The problem is also evident in the fact that tax compliance is mandatory to a certain level, while at the same time governments are trying to provide tax exemptions to encourage tax compliance among both businesses and individuals. The main problem statement is: The impact of tax justice on tax compliance.

3. Objectives, significance, and hypothesis:

The current study aims to investigate the impact of tax justice on tax compliance, which would lead to increase tax income for government as a main source for financing different government expenditures. The study also investigates the role of training employees on increasing tax compliance as managers would be able to balance tax compliance with tax laws and regulations and integrity of their human resources. The significance of this study is evident in the fact that it helps gather and summarize recent literature about the topic and provide practical recommendations for tax agencies to increase compliance and how it could improve its image among citizens through establishing and image of justice, integrity, and professionalism in the society. This study focuses on examining one hypothesis which is:

H0: **There is no impact of tax justice on tax compliance for taxpayers.**

4. Methodology:

In order to achieve the study objectives, the researchers used a descriptive analytical procedure by compiling recent literature about the topic and analyzing and summarizing the discussion related to questions, objectives and hypothesis of the study. The literature is gathered from journals, online websites, published thesis, as well as other publications and reports on tax compliance from different parts of the world. The study utilized these sources to get a better understanding of the topic and how tax justice impact on tax payers, thus increasing their compliance with tax regulations. Integrity, justice, satisfaction of citizens all affect level of compliance. Still, the current study focuses on justice as most literature expanded on this factor and emphasized its importance as the main reason for improving tax compliance levels in different parts of the world.

5. Discussion of literature review:

Non-compliance with tax is considered one of the major problems governments face around the world. Recent literature suggest that it is not easy to convince taxpayers to fully comply with tax regulations (Prichard, 2019). The studies explain that tax compliance is highly dependent on the ability of tax agencies to motivate taxpayers to respect laws and regulations as well as the willingness of taxpayers to abide by regulations imposed by tax agencies (Alzaqiba, et al, 2018, and Retnaningtyas and Wilson, 2019). The literature about tax compliance shifted during the past few years where it expanded to discuss how taxes can help economic development. Governments are aware that paying taxes help paying government expenditures and that, while maintaining suitable debt ratio, can help fund additional projects and other activities that lead to improved welfare rather than paying for government debts only (Dabit, 2019 and Prichard, 2019). The studies highlight the fact that due to such shift in government mentality, citizens might be motivated to pay taxes and even accept imposing additional taxes that would lead to better living conditions (Casal et al, 2016). Based on this, a new definition for tax compliance emerged in the literature, where governments impose certain procedures to help taxpayers and limit tax noncompliance. Tax compliance now shifted to a new area where taxes are paid on time and in accordance to tax regulations (Alzaqiba, et al, 2018). Wilson (2019) explained that tax compliance is related to declaring all tax obligations by declaring all sources and amounts of taxed income by each individual; which is now known as tax transparency. Governments of poor and less developed countries suffer tax incompliance, thus lack income to fund its different expenses (Brodzka, 2012). This led to imposing additional taxes on taxpayers, even those who are already complying with tax regulations, which meant additional financial claims against their income. This has negatively affected tax compliance rates, and led to even lower levels of tax revenues for governments (Mustapha, 2010). Most taxpayers do not disclose all their income, whereas some companies manipulate taxable income; which ultimately show injustice tax system. The literature suggests that people do not want to pay taxes in general, whichever the use of it or the benefits they might receive in the future; this is the reason behind reporting losses for many companies, and even for disclaimer audit opinion (Brodzka, 2012 and Dabit, 2021).

Tax justice and efficiency are considered major cornerstones for any tax system. The majority of taxpayers, although abiding by tax regulations, fear that the system might be biased in favor of some large firms and market sharks who are able to manipulate the system for their own self-interest. Recent studies explain that tax justice lead to continuous tax reforms, which are a sign of government awareness and care for taxpayers' opinions (Abdullah and Suliman, 2023). The system integrity and transparency play a vital role in convincing tax payers to comply with tax regulations. Trust in the tax system lead to higher levels of tax compliance, thus additional income for the governments (Alzaqiba, et al, 2018, and Aldaabiti, 2021).

Trust is also related to how taxpayers perceive tax justice, where they feel that both punishment and reward for complying with regulations are applied to all citizens in the same way. Trust in the tax system lead to more powerful financial contracts, as taxpayers believe in a just system that would help them gain the most out of any opportunities in the market. This also empowers corporate governance through one of the following three ways:

Firstly, tax reforms are a sign of a good tax system, which reflects in additional trust in the government and the overall tax reforming process (Brodzka, 2012).

Secondly, investing in trust through both transparency and additional political pressure lead to empowering taxpayers to be able to ask for additional public service from governments. Lastly, investing in tax reforms including justice, transparency, and compliance all lead to improved administrative performance within tax agencies, which would eventually lead to improved overall public service to citizens (Prichard, 2019).

Tax justice is also highly related to awareness about the tax system including the people and the systems, and overall respect of taxpayers in terms of how they are treated and the way they are taxed (Alali, 2020).

The literature also highlighted some problems related to lower levels of tax compliance including: small amount of taxable activities due to narrow tax base imposed by governments, where many governments still lag behind in terms of including additional economic activities within the same country. Also, the cost of no-compliance with tax is much lower than paying taxes (Aldaabiti, 2021). Another problem is related to tax injustice among taxpayers, where some are taxed at higher rates than others (Jimenez and Iyer, 2016). A final problem is related to tax regulations which contain many holes and are applied by employees who lack experience and knowledge of the taxing system and regulatory framework (Alshira, 2017, Abdullah and Suliman, 2023).

On the other hand, lack of trust in the tax system is related to several reasons including: lack of trust in the policies and procedures of tax calculation and collection, where any problems related to objections related to paying taxes are not dealt with in a professional manner (Aldaabiti, 2021, and Alali, 2020). And finally, the collecting mentality with which tax agencies work that do not reflect justice, integrity, and transparency.

On the other hand, a justice taxing system, as envisioned by the literature; features the following: different taxes for different sources of taxable income, a reforming system which is done on a time-based and uses input from taxpayers, continuous training for tax employees, professional system for dealing with citizens inquiries and objections, a more practical role of external accountants and auditors in calculation of taxes, and finally; more trust in taxpayers and their ability to calculate taxes accurately (Abdullah and Suliman, 2023).

6. Summary of discussion:

This study aimed to briefly discuss recent literature about the impact of tax justice on tax compliance. The data used is related to secondary data which is sourced through different local and international publications about the topic. The results emphasize the positive impact of tax justice on tax compliance, where trusting the governmental taxing system plays a major role in increasing tax compliance rates in different countries. Perception of taxpayers highly impact on their willingness to pay tax, and the overall benefits they receive through public service agencies positively impacts on compliance levels. Trust is a result of tax justice and is based on continuous reforms of the regulatory framework governing the taxing system. Also, results indicate that taxpayers comply with timeframe for reporting and paying their income taxes if they feel the system is righteous and transparent. The results also suggest that trust is formed before justice, where taxpayers evaluate the fairness of the system through the trust they have in government. Overall, and based on all the above discussion and summary it can be concluded that the current study hypothesis is rejected, and the alternate hypothesis about the impact of tax justice on tax compliance is supported by the current discussion.

The study highlights the importance of increasing efforts by governments to improve justice, transparency and trust in the taxing system, especially by improving tax services, developing less complex taxing system. Future research can look into differences between rich and poor countries, investigate the public awareness and level of satisfaction about the taxing system and reforms done in different parts of the world. Finally, investigating the topic using additional variables such as level of taxpayer's income and tax exemptions for taxpayers among others.

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