

Tax Evasion in Pakistan's Digital Era: An Analysis of Drivers from World Value Survey

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ABSTRACT

The tax-to-GDP ratio of Pakistan has remained stagnant over the last decade and is far below the tipping point. The lower tax not only hinders the potential for economic growth but also restricts the ability to enhance public service delivery. The lower tax can be attributed to an informal sector within the economy and the prevailing attitudes of individuals towards engaging in tax evasion practices in the digital era in Pakistan. The present study endeavours to scrutinise and analyse the factors that contribute to the tax evasion motives exhibited by individuals. The current investigation employed data from the World Value Survey 2021, which consisted of a sample size of 1,995 individuals from Pakistan. The results of this study indicate that various demographic and socio-economic factors play a significant role in influencing the tax evasion motive of individuals. The phenomenon of tax evasion is influenced by multiple factors, including an individual's well-being, trust in public institutes, beliefs and values, pro-democratic considerations, corruption perception and the extent of corruption in public authorities. These drivers play a significant role in shaping individuals' decisions to engage in tax evasion activities. The study's findings carry important implications regarding the factors that can soften tax evasion. The results of this study offer valuable insights to policymakers and fiscal analysts, enabling them to effectively identify and analyse the factors influential in the expansion of tax revenue.

KEYWORDS: Tax Evasion, Well-being, Beliefs and Values, World Value Survey, Pakistan's Digital Era.

1. INTRODUCTION

The importance of taxes in contemporary society cannot be overstated. Taxes are pivotal in facilitating essential services such as healthcare and education and sustaining law enforcement and public utilities. Additionally, they contribute to developing infrastructure projects, including road construction, and support initiatives aimed at environmental protection. The utilisation of tax revenue serves as an essential basis for supporting developmental activities within developing economies (Richard, 2013). It is essential for developing nations to enhance their fiscal space to mobilise resources to effectively address sustainable development goals (Fjeldstad, 2014; Mawdsley, 2018). The expansion of fiscal space continues to be a prominent consideration on the country's planning horizon as it attempts to advance its developmental agenda. The enhancement of tax collection has consistently maintained its status as a prominent subject matter on the policy agenda of various government entities.

The improving tax revenue in developing economies has been attributed to various factors. These factors encompass the mounting need for financial resources to fulfil development objectives, concerns regarding debt sustainability due to ongoing and expanding

fiscal deficits, and a growing acknowledgement of the significance of taxation in fostering economic growth and equitable distribution (Mawejje & Sebudde, 2019). Tax evasion in Pakistan's digital era significantly impacts countries' budgets worldwide, substantially reducing funds allocated for various government projects (Guldana, 2013). Tax evasion undermines the ability of governments to collect the tax revenue that is certainly owed to them. The consequences of tax evasion can be observed as the global average tax potential stands at 39 per cent, whereas the current tax level remains stagnant at 18.1 per cent (Mawejje & Sebudde, 2019). This discrepancy between the actual tax revenue and the potential tax capacity is attributed to tax evasion in Pakistan's digital era.

In the context of Pakistan, it is observed that the tax-to-GDP ratio has exhibited a dynamic pattern, characterised by a stagnation within the range of 9 to 11 per cent, as illustrated in Figure 1. The present tax-to-GDP ratio falls short of the Asia-Pacific region, which typically ranges between 19 to 20 per cent, and the OECD average of 33 per cent. It is of utmost significance to acknowledge that tax revenues exceeding 15 per cent of a nation's GDP play a pivotal role in fostering economic growth and mitigating poverty (Gaspar et al., 2016). Pakistan

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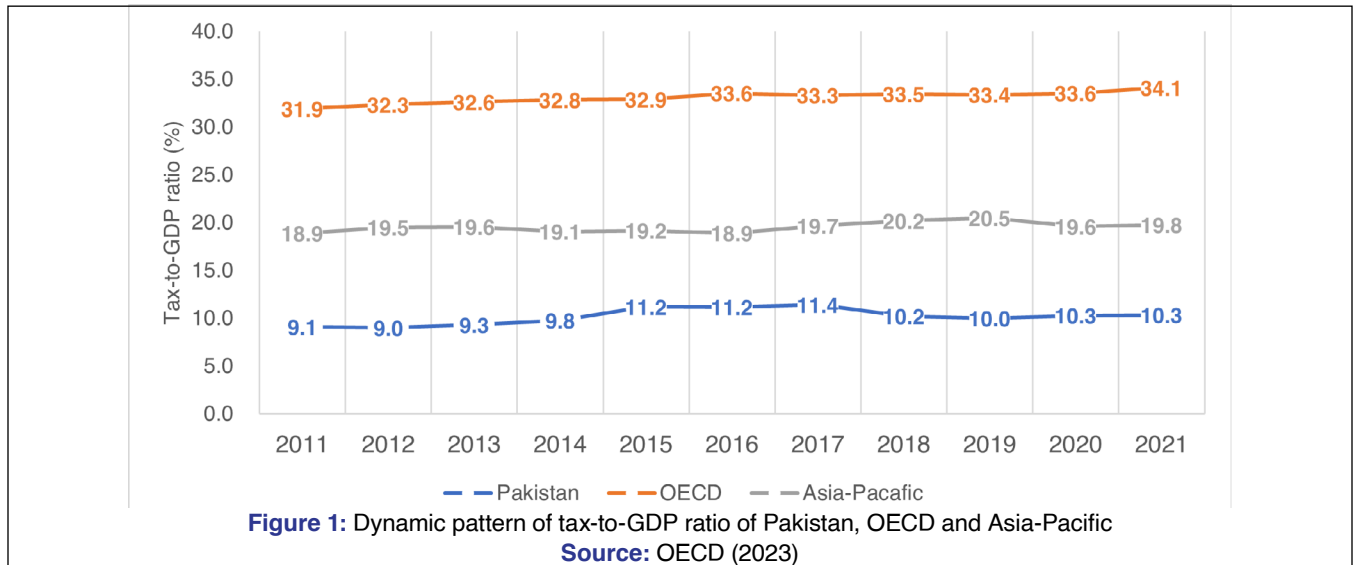
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continues to face a tax-revenue gap of 6.69 per cent, the difference between the current tax-to-GDP ratio and the 'tipping point' of 15 per cent. This places Pakistan in the sixth position among 49 countries with a higher gap to the 'tipping point', as [Junquera-Varela and Haven \(2018\)](#) reported. Achieving a minimum threshold of 15 per cent enables nations to generate substantial domestic resources, which can be allocated towards crucial sectors such as healthcare, education, and infrastructure development.

The tax morale within a particular nation is influenced by the people's expectations regarding the quality of service provision ([Ali et al., 2014](#)). Pakistan's efforts to broaden its tax base have yielded limited results, with only 0.6 per cent of its population contributing to tax revenues ([Akhtar & Jamil, 2021](#)). In comparison, India boasts a tax-paying population of 4.7 per cent, while France and Canada exhibit significantly higher tax compliance rates, with 58 per cent and 80 per cent of their respective populations fulfilling their tax obligations ([Akhtar & Jamil, 2021](#)). The primary reason for the lower taxpayer penetration is the high prevalence of informal sector employment, which constitutes approximately 72.5% of non-agricultural employment, as reported by the LFS

(2021). The informal sector also substantially contributes to the economy, accounting for approximately 37.75% of Pakistan's GDP ([Hayat & Rashid, 2020](#)). It has been observed that Pakistan has a significant informal economy, which provides employment opportunities and generates income for a substantial portion of the population. Acknowledging that the informal sector poses a significant challenge to the country's overall economic growth, primarily because it lacks tax contributions.

Considering the widespread occurrence of elevated employment levels in the informal sector and the informal economy, it is important to ascertain the public's viewpoint on tax evasion. Taxes, as explained by [Paler \(2013\)](#), play a crucial role in establishing an important social contract between the government and its citizens. This contract serves not only to amplify the citizens' vested interest in the actions carried out by their respective governments but also to instil in them a heightened drive to actively pursue accountability. The government faces several obstacles in its endeavour to broaden the taxpayer base. These challenges include informal sectors, generous tax incentives, difficulties in governance, structural limitations, and tax policy and administration ([Moore, 2013](#); [Baum et al., 2017](#)).



Several studies have been conducted, utilising various theoretical frameworks, to elucidate the factors that impact individuals' intentions to either comply with or evade taxes. The seminal paper on tax compliance, authored by [Allingham and Sandmo \(1972\)](#), examined the application of Becker's expected utility model of crime to tax evasion. Numerous well-established theories, such as [Kahneman and Tversky's \(1979\)](#) prospect theory, [Bernoulli's \(1954\)](#) expected utility theory, and [Traxler's \(2014\)](#) deterrence theory, have garnered considerable recognition within the field of decision-making research. The theory of planned behaviour, as proposed by Ajzen in 1985, encompasses various dimensions that play a crucial role in shaping individuals' behaviour towards tax compliance. These dimensions include attitudes, which pertain to individuals' perspectives on satisfaction with public services and the level of trust tax collectors place in the government. Subjective norms are also significant, reflecting individuals' moral obligations concerning tax compliance. Perceived behavioural control is a key dimension, as it signifies individuals' level of tax awareness and their perceived ability to control their tax-related actions ([Kaulu,](#)

[2022](#)). When these dimensions converge, they form intentions, which indicate actual behavioural outcomes towards tax compliance.

The significance of the theory of psychological egoism cannot be overstated. This theory posits that individuals driven by self-interest are not concerned with the potential societal and economic advantages that may arise ([McConnell, 1978](#)). Taxpayers motivated by personal interests tend to engage in tax evasion, which refers to the deliberate act of evading or avoiding tax obligations. Likewise, the theory on tax evasion by [Sandmo \(2005\)](#) states that individuals fulfil their tax obligations by engaging in practises that result in the deliberate avoidance of a certain portion of their tax liabilities. Individuals perceive Paying taxes as obligatory conduct, as they believe non-compliance with tax obligations will result in punitive measures imposed by the governing authorities. The prevailing theory on tax evasion posits that individuals engage in the deliberate act of evading their income tax obligations primarily driven by egoistic motives. Hence, driven by their inclinations, individuals tend to engage in tax evasion when the anticipated financial gains



outweigh the associated cost.

The existing body of empirical literature presents substantial evidence that various economic, social, demographic, and institutional factors influence tax compliance. The variables examined in previous studies include the age of the individual (Hug & Sporry, 2011), the gender of the person (Torgler & Valev, 2010), the labour market outcome (Lamaj, 2023), religiosity (Daude & Melguizo, 2010), as well as education, marital status, employment status, interest in politics, trust in the legal system, and national pride of the person (Torgler & Valev, 2010). According to Torgler (2005), the empirical literature indicates several factors shape individuals' tax compliance attitudes. The factors encompass confidence in the government, compliance with the rule of law, a favourable attitude towards democracy, participation in informal employment, and knowledge of tax evasion practices. In contrast, it is worth noting that corruption, an inequitable tax system, and a deficiency in the equitable provision of public goods exhibit diminished compliance.

Previous research has demonstrated that various factors influence individuals' intentions towards tax compliance. Among them, the government's implementation of financial penalties (Kamal, 2019) and the level of satisfaction individuals experience with the government and public services significantly influence intentions to comply with tax obligations (Daude & Melguizo, 2010). In addition, Levi and Sacks (2009) have identified the government's effectiveness and the perception of procedural justice as influential factors. The perceived level of political corruption has also been shown to impact individuals' tax compliance intentions (Torgler & Valev, 2010; Litina & Palivos, 2016). Trust in government administrative institutions has been found to play a role in shaping tax compliance intentions (Andika et al., 2023).

Moreover, the relationship between corruption, social values, and tax compliance intentions has been investigated by Litina and Palivos (2016). Engagement in informal economic activity has been identified as a factor that can influence individuals' tax compliance intentions (Lamaj, 2023). The significance of psychological egoism, tax education and technology cannot be overstated when examining an individual's attitude towards tax evasion (Mu et al., 2023).

The significance of tax revenues has been acknowledged by global communities by prompting efforts to identify the factors that

impede individuals' tax compliance. Within the specific context of Pakistan, it is worth noting that there is a limited body of research that delves into the topic of individuals' intentions towards tax evasion. Based on the available literature, we have identified several studies conducted in the context of Pakistan. These studies include the study of Cyan et al. (2016), Kamal (2019), Madni et al. (2019), and Akhtar and Jamil (2021). These studies have been conducted utilising either primary data or have overlooked crucial factors influencing tax evasion attitudes. Furthermore, these studies have relied on earlier version of the World Value Survey. The present study aims to make a valuable contribution to the existing body of literature on tax evasion. Specifically, it seeks to enhance understanding by examining the impact of various factors, such as social, economic, demographic, and others, that are closely associated with wellbeing, corruption, and trust in institutions, democratic political system as well as beliefs and values. The study's findings provides valuable insights for researchers and fiscal analysts seeking to improve the tax-to-GDP ratio and address the revenue gap, ultimately reaching a 'tipping point' of tax-to-GDP ratio.

2. METHODOLOGY

The selection of an appropriate econometric model for estimating the impact of explanatory variables on the outcome variable is contingent upon the traits of the dependent variable in the microdata analysis. The present investigation focuses on the dependent variable of tax evasion in Pakistan's digital era, measured on a scale of 1 to 10. The observed phenomenon exhibits characteristics that suggest a discrete nature yet lacks the properties typically associated with a count variable. In previous studies, researchers have regarded the variable in question as a continuous variable and have employed the Ordinary Least Square (OLS) model to analyse it (see Bruni & Stanca, 2006; BrundiLitina & Palivos, 2016; Kaulu, 2022). The following econometric model is utilised in this study.

$$Y_i = \alpha_0 + Z_i\Gamma + X_i\Lambda + U_i \quad (1)$$

The variable represents the measure of justifiability of tax evasion in Pakistan's digital era, while Z_i and X_i are vectors denoting the control variables and key variables of interest, respectively. While Γ and Λ represent the vectors coefficient associated with the control variable and the key variable of interest, respectively. The description of the variables utilised in the analysis is provided in Table 1.

Table 1. Definition of Variables.

Variable	Description
Tax evasion	Cheating on taxes if you have a chance. Ranges never justified 1 scale to 10 scale always justified.
Age	Age in year old.
Education	Education comprises three categories on lower, middle and higher education.
Male	Male is equal to 1, 0 otherwise.
Married	Married person is equal to 1, 0 otherwise.
Income	Income ranges on a scale of 1 lowest income group to 10 highest income group.
Urban	Person from urban area is equal to 1, 0 otherwise.
Happiness	Happiness comprises 1 for not at all happy, 2 for not very happy, 3 for rather happy, 4 for very happy
Assessed freedom	Assessed freedom of choice ranges from 1 no choice at all to 10 a great deal of choice.
Life satisfaction	Life satisfaction ranges from 1 completely dissatisfied to 10 completely satisfied.
Financial satisfaction	Financial satisfaction ranges from 1 completely dissatisfied to 10 completely satisfied.
Police	Trust in police comprises 1 none at all, 2 not very much, 3 quite a lot, 4 a great deal.
Courts	Trust in courts comprises 1 none at all, 2 not very much, 3 quite a lot, 4 a great deal.
Government	Trust in government comprises 1 none at all, 2 not very much, 3 quite a lot, 4 a great deal.
Democracy importance	Importance of democratic governance ranges 1 not at all important to 10 absolutely important.
Democratic system	Having a democratic political system comprises 1 for very bad, 2 fairly bad, 3 fairly good, 4 very good.
Nationality pride	Nationality pride comprises 1 not at all proud, 2 not very proud, 3 quite proud, 4 very proud.
God importance	Importance of God in daily life ranges 1 not at all important to 10 very important.
Bribe justify	Individual's response on someone accepting a bribe in the course of their duties ranges 1 never justifiable to 10 always justifiable.
Social worker	Work is a duty towards society ranges 1 strongly disagree, 2 disagree, 3 neither agree nor disagree, 4 agree, 5 strongly agree.
Corruption	Corruption ranges on a scale 1 there is no corruption in my country to 10 abundant corruption in my country.
Corruption state authorities	Involvement of state authorities in corruption comprises 1 none of them, 2 few of them, 3 most of them, 4 all of them.
Corruption local authorities	Involvement of local authorities in corruption comprises 1 none of them, 2 few of them, 3 most of them, 4 all of them.

3. DATA AND DESCRIPTIVE ANALYSIS

3.1 DATA SOURCE

The present study utilized individual-level data extracted from the World Value Survey (WVS), specifically focusing on the 7th wave of data (Haerpfer et al., 2022). The WVS 7th wave has been conducted over the 64 countries. The majority of nations have opted for a sample size of 1200, whereas countries with larger populations and greater diversity tend to employ sample sizes ranging from 1500 to 5000. For the case of Pakistan, the sample size comprises 2000 participants. However, after adjusting the missing values, the sample size for the regression analysis varies from 1589 to 1793. The data and accompanying survey documentation have been made accessible to the public via the World Values Survey (WVS) website.

The survey encompasses a broad spectrum of subjects pertaining to socioeconomic factors, demographic characteristics, cultural influences, social dynamics, political environments, moral principles, accountability measures, corruption levels, national security concerns, risk assessment, migration patterns, and global governance structures.

3.2 DESCRIPTIVE ANALYSIS

The descriptive statistics are presented in Table 2. The average value of the dependent variable, tax evasion in Pakistan's digital era, is approximately two scale units, with the scale ranging from one to ten. The statistical measures of the mean value and minimum value indicate that the distribution of the justifiability of tax evasion exhibits positive skewness, suggesting a higher proportion of responses towards the lower bound of the distribution. The statistics suggest that individual responses regarding the justifiability of tax evasion indicate that most participants, specifically 7 out of 10, disagreed with tax evasion (see Figure 2). In contrast, it is noteworthy that 3 out of 10 of the participant declared their perspectives on the justifiability of tax evasion on a scale ranging from 2 to 10.

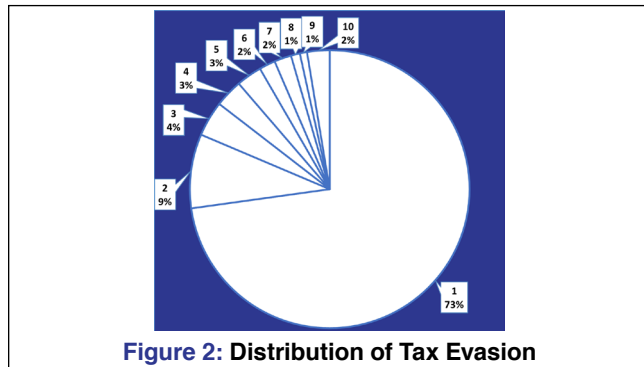


Figure 2: Distribution of Tax Evasion

The mean age of the participants in this study is 35 years. It has been observed that 5 out of 10 individuals possess a lower level of education, while the remaining respondents possess either a middle or higher level of education. The sample consists of 54 per cent male respondents. According to the data, it has been observed that a large number, specifically 83 per cent, of the individuals under study are currently married. It has been observed that 34 per cent of the individuals are residents of urban areas. The mean income of the individuals falls within the range of 4 on a scale that spans from 1, representing the lowest income group, to 10, representing the highest income group.

Among the various indicators used to measure overall well-being, happiness emerges as a prominent factor, as evidenced by a significant proportion of individuals reporting a state of 'rather

happy'. This is established by the mean value of 3.4, which indicates a relative level of happiness among the respondents. The analysis reveals that a higher proportion of respondents tend to exhibit scores towards the upper end of the scale, ranging from 1 to 10, for the mean values of freedom of choice, life satisfaction, and financial satisfaction. Individuals' confidence level towards institutions such as the police, courts, and government is characterised by a relatively modest degree of trust, with a range of values spanning from 2.75 to 2.77. The participants expressed a higher relevance attributed to democracy in their lives, as evidenced by an average score of 8.4 out of 10. Furthermore, the average value (3.15 out of 4) of the democratic political system suggests that individuals generally perceive it as being quite favourable. The data analysis reveals that the average score for nationality pride indicates a predominantly high level of pride among most individuals surveyed.

In the provided sample, the majority of participants indicated a mean score of 9.6 on a scale of 1 to 10 when assessing the importance of God in their lives. The data collected indicates that the average response regarding the justifiability of the bribe falls at a score of 1.65 on a scale ranging from 1 to 10. The lower value on the scale suggests a tendency towards never justifying, while the higher value indicates an inclination towards always justifying on a scale ranging from 1 to 10. The data shows many individuals agreed with the statement that work is a duty towards society. This is evident from the variable's mean value, which stands at 4.4 out of 5. The data collected from the sample indicates a significant prevalence of corruption, as evidenced by the individuals' responses on a scale of 8.7 out of 10. The observations made by individuals indicate that the extent of corruption is more pronounced among state authorities than local authorities.

Table 2. Descriptive Statistics.

Variable	Obs.	Mean	Std. dev.	Min	Max
Tax evasion	1,926	1.97	2.1	1	10
Age	1,918	35.61	11.47	18	85
Education:					
Lower	1,924	0.53	0.5	0	1
Middle	1,924	0.36	0.48	0	1
Higher	1,924	0.11	0.31	0	1
Male	1,926	0.54	0.5	0	1
Married	1,926	0.83	0.38	0	1
Income	1,821	4.36	2.3	1	10
Urban	1,926	0.34	0.47	0	1
Wellbeing:					
Happiness	1,924	3.37	0.73	1	4
Assessed freedom	1,920	7.65	2.62	1	10
Life satisfaction	1,915	7.66	2.43	1	10
Financial satisfaction	1,919	7.3	2.57	1	10
Trust:					
Police	1,883	2.77	1.12	1	4
Courts	1,875	2.76	1.07	1	4
Government	1,888	2.75	1.07	1	4
Political factors:					
Democracy importance	1,897	8.4	2.24	1	10
Democratic system	1,813	3.15	0.96	1	4
Nationality pride	1,908	3.82	0.52	1	4
Values:					
God importance	1,911	9.59	1.32	1	10
Bribe justify	1,917	1.65	1.65	1	10
Social worker	1,915	4.44	0.92	1	5
Corruption:					
Corruption	1,886	8.69	2.06	1	10
Corruption state authorities	1,762	2.73	0.81	1	4
Corruption local authorities	1,734	2.62	0.84	1	4



This study divides the whole sample into two distinct samples: individuals who do not justify tax evasion and those who do justify tax evasion. The study observed that approximately 70 per cent of the participants expressed a stance of never justifying tax evasion (see Figure 2). Conversely, the remaining respondents indicated varying degrees of justifiability for tax evasion, as measured on a scale of two or higher. The sample of individuals in our study is constructed to assess their attitudes towards tax evasion. Specifically, we categorised individuals as responded 'never justify tax evasion' by assigning a code of 1 if their tax evasion scale variable equals one and zero otherwise (i.e. if it is two or above). The study involved conducting an exercise to assess and compare the average values of the covariates between two distinct groups: individuals who never justified tax evasion and individuals who justified tax evasion. The results of this analysis are displayed in Table 4, where the t-test is employed to compare the average values between the two categories.

The justifiability of tax evasion in Pakistan's digital era, cannot be determined by the difference in age, as the age difference observed within the sample is minimal, and the corresponding p-value indicates a lack of statistically significant difference. The unclear nature of the role of education is evident both within and across the sample. The observed disparity in the proportions of individuals with lower and higher education levels does not follow statistical significance. However, a higher proportion of individuals with a middle level of education may provide some justification for engaging in tax evasion. The observed increase in the proportion of male individuals from 52 to 57 per cent suggests that a greater proportion of males expressed agreement

with the justifiability of tax evasion compared to females. The influence of marital status on tax evasion is negligible. The significance of income in the context of tax evasion cannot be overstated, as empirical evidence suggests that individuals with higher incomes are more likely to justify engaging in tax evasion compared to those with lower incomes. The observed disparity between urban and rural areas cannot be attributed to the tax evasion behaviour of individuals. The potential influence of individual differences in well-being on a person's tendency to engage in tax evasion is a topic of interest and investigation. Higher happiness levels, increased freedom of choice, enhanced life satisfaction, and greater financial satisfaction undermine the justifiability of engaging in tax evasion.

The level of trust in the police varies across the two samples, but the difference is statistically insignificant. Individuals who strongly disapprove of tax evasion also exhibit higher trust in both the courts and the government. In examining the various factors associated with individuals' beliefs and values, it is noteworthy that those who place more importance on their belief in God tend to exhibit less inclination towards engaging in tax evasion. The presence of lower levels of justification for engaging in bribery and a higher inclination towards engaging in social work show lack of tax evasion activities. Contrary to expectations, it is observed that individuals who perceive higher levels of corruption and witness a greater extent of corruption within state authorities are attributed to the lack of justifiability of tax evasion. On the contrary, individuals who express a lesser perception of corruption within local authorities exhibit a lack of engaging in tax evasion in Pakistan's digital era.

Table 3. Mean Comparison of Tax Evasion for Justifiable and not Justifiable Sample.

Variable	Tax Evasion not Justifiable (Mean)	Tax Evasion Justifiable (Mean)	Difference	t-stat	p-value
Age	35.7	35.35	-0.35	-0.6	0.55
Education:					
Lower	0.54	0.52	0.53	-0.87	0.39
Middle	0.35	0.39	0.36	1.9	0.06
Higher	0.11	0.09	-0.02	-1.55	0.12
Male	0.52	0.57	0.04	1.74	0.08
Married	0.82	0.83	0.01	0.63	0.53
Income	4.13	5.02	0.9	7.47	0.00
Urban	0.35	0.32	-0.03	-1.2	0.23
Wellbeing:					
Happiness	3.4	3.27	-0.13	-3.58	0.00
Assessed freedom	7.84	7.13	-0.71	-5.32	0.00
Life satisfaction	7.82	7.23	-0.59	-4.78	0.00
Financial satisfaction	7.4	7.02	-0.37	-2.83	0.00
Trust:					
Police	2.78	2.74	-0.05	-0.81	0.42
Courts	2.82	2.61	-0.21	-3.81	0.00
Government	2.8	2.61	-0.19	-3.46	0.00
Political factors:					
Democracy importance	8.65	7.73	-0.92	-8.11	0.00
Democratic system	3.28	2.83	-0.45	-9.05	0.00
Nationality pride	3.88	3.67	-0.22	-8.37	0.00
Values:					
God importance	9.78	9.05	-0.73	-11.1	0.00
Bribe justify	1.14	3.03	1.65	25.93	0.00
Social worker	4.61	3.98	-0.63	-14.06	0.00
Corruption:					
Corruption	8.87	8.21	-0.66	-6.26	0.00
Corruption state authorities	2.76	2.66	-0.09	-2.17	0.03
Corruption local authorities	2.58	2.73	0.15	3.43	0.00

4. RESULTS AND DISCUSSION

The Ordinary Least Square (OLS) model estimates are presented in Table 4. The observed coefficient of age indicates a negative association with tax evasion justifiability, implying that as age increases, the incidence of engaging in tax evasion decreases. The older person is relatively more motivated to actively participate in the development process by fulfilling their tax obligations (see figure 3). The findings of this study suggest that there is no significant difference in the intention of tax evasion between individuals with lower or middle levels of education, as indicated by the coefficient of education. However, individuals with higher levels of education exhibit a lower propensity for engaging in tax evasion compared to those with lower levels of education. Individuals with a higher level of education possess a greater understanding of the significance of tax liability in facilitating the provision of public goods and enhancing the delivery of public services. There is a higher propensity for tax evasion among males compared to females. The propensity for engaging in tax evasion does not differ between individuals who are married and those who are unmarried. The level of justifiability of tax evasion did not differ significantly between individuals residing in urban areas and those residing in rural areas. A positive relationship exists between the individual's income level and the justifiability of tax evasion. Due to the increase in the marginal tax rate, the higher income level is subject to a higher tax burden and distortion for the individual. This distortion arises primarily from changes in income brackets, which subsequently contribute to the propensity for tax evasion in Pakistan's digital era.

The significance of individual well-being concerning the incidence of tax evasion must be considered. Individual well-being encompasses various dimensions, including happiness, freedom of choice, life satisfaction, and financial satisfaction (see figure 4). One of the factors that contribute to overall well-being is the level of happiness experienced by individuals. Interestingly, a significant relationship exists between an increase in happiness and a decrease in the propensity to engage in tax evasion. Specifically, for every unitary increase in the happiness scale, there is a corresponding decrease in the intention of tax evasion by approximately 0.17 on the same scale. According to Singh (2023), happiness can be influenced by various factors, including physical well-being, mental health, psychological factors, community engagement, religious beliefs, and environmental conditions. An individual's subjective well-being plays a significant role in shaping their decision-making process regarding tax evasion, influencing their inclination to avoid potential negative consequences stemming from a lack of tax liability.

The relationship between the level of freedom of choice and individuals' attitudes towards tax evasion is negative. It is observed that a one-unit increase in the assessed level of freedom of choice resulted in a decrease of 0.05 units on the attitude scale towards tax evasion. The higher freedom of choice is subject to enhanced opportunity and autonomy of individuals, which fosters a greater inclination towards diligently evaluating tax obligations. There exists a negative correlation between life satisfaction and tax evasion attitude. Specifically, for every unit increase in life satisfaction, the attitude towards tax evasion decreases by a factor of 0.053 on the scale. An individual's life satisfaction is influenced by various factors, including psychological considerations. These considerations

are particularly significant when making decisions regarding tax liability, as individuals strive to avoid psychological pressure associated with non-compliance. The analysis did not yield any significant findings regarding the impact of financial satisfaction on an individual's attitude towards tax evasion.

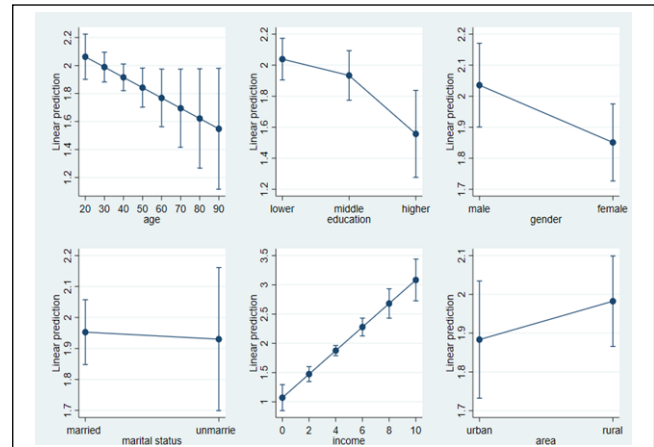


Figure 3: Margin Plot of Socioeconomic Factors.

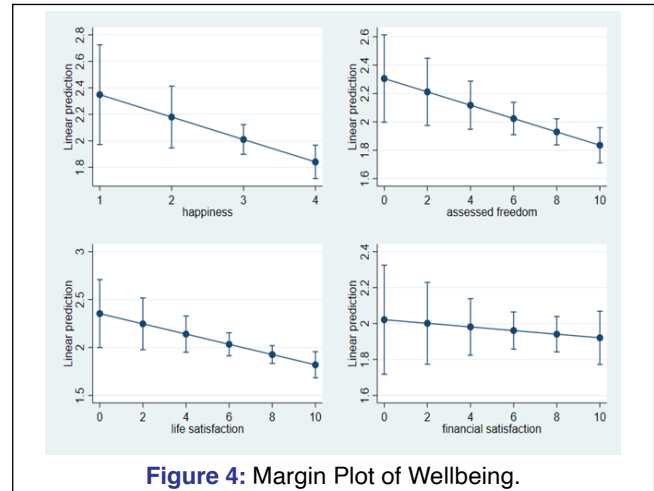


Figure 4: Margin Plot of Wellbeing.

The relationship between an individual's trust in an organisation, such as the police and government, and their incidence of engaging in tax evasion has been examined (see figure 5). It has been observed that a higher level of trust in these entities is inversely related to the propensity to evade taxes. The findings suggest that individuals who exhibit a high level of trust in both the police and government are more inclined to fulfil their tax obligations, thereby potentially enhancing the overall quality of public service delivery. In contrast, our observations did not yield evidence of a significant relationship between trust in courts and tax evasion.

The presence of pro-democratic factors, such as the importance of democracy in an individual's life and having a positive perception of the democratic political system, exhibits a negative relationship with the incidence of engaging in tax evasion (see figure 6). Individuals who place a greater emphasis on democracy tend to advocate for increased representation of the general populace in political leadership positions. This tendency arises from their desire to ensure that the interests of common people should be adequately addressed. Consequently, these individuals believe that including common people in decision-making will contribute to establishing robust public institutions, including formulating tax policies that effectively reinforce the functioning of these offices.



The influence of national pride on tax obligations is inescapable. As a topic of interest, individuals who possess a greater national pride may exhibit a greater inclination to fulfil tax obligations. This can be attributed to the belief that individual with higher levels of national pride anticipates an increase in their country's goodwill within the global community. For this purpose, tax compliance is an avenue to contribute to the nation's development.

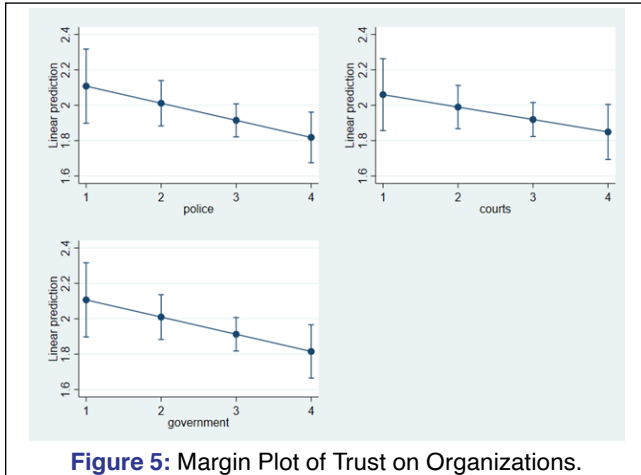


Figure 5: Margin Plot of Trust on Organizations.

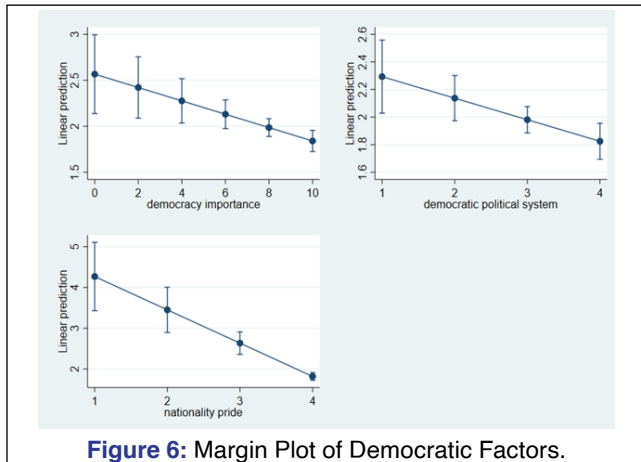


Figure 6: Margin Plot of Democratic Factors.

Amongst the factors of an individual's beliefs and values, it is important to note that belief in the importance of God in life is negatively associated with the attitude towards engaging in tax evasion activities (see figure 7). It implies that individuals with a stronger belief in God are less inclined to engage in tax evasion. This phenomenon is caused by the influence of spiritual factors, which encourage virtuous behaviour and discourage individuals from engaging in unlawful activities like tax evasion. The justification for bribery is positively associated with the propensity for tax evasion. In traditional societies, bribery is often recognised as a form of gift-giving used to acquire undeserved advantages. This practice significantly impacts individuals' ethical values, influencing their decision-making processes regarding tax evasion.

This study also investigates the influence of egoism on tax evasion by incorporating a variable that measures the importance of social work in this context. The findings show the relationship between the growing significance of social work and a decline in the incidence of tax evasion. The tax system generates social capital by accomplishing the provision of public goods that are accessible to all segments of society. In this context, any contribution to fulfilling tax obligations can be viewed as a direct contribution

to society. This is especially true for individuals involved in social work, as their tax obligations can be seen as a way to contribute to the progress of society.

Table 4. Regression Analysis of Determinants of Tax Evasion.

Variables	(1)	(2)	(3)	(4)	(5)
Age	-0.007* (0.004)	-0.004 (0.004)	-0.004 (0.004)	-0.0007 (0.003)	-0.006 (0.004)
Education:					
Lower (base)					
Middle	-0.105 (0.108)	-0.114 (0.108)	-0.0191 (0.107)	-0.00143 (0.0864)	-0.108 (0.114)
Higher	-0.482*** (0.165)	-0.371** (0.171)	-0.422** (0.164)	-0.0657 (0.139)	-0.486*** (0.173)
Male	0.185** (0.093)	0.128 (0.094)	0.067 (0.093)	0.159** (0.077)	0.095 (0.01)
Married	0.023 (0.133)	-0.048 (0.136)	0.004 (0.138)	-0.06 (0.119)	-0.058 (0.147)
Income	0.201*** (0.028)	0.187*** (0.028)	0.154*** (0.028)	0.045** (0.018)	0.197*** (0.03)
Urban	-0.099 (0.098)	-0.107 (0.100)	-0.098 (0.101)	-0.026 (0.082)	-0.038 (0.105)
Wellbeing:					
Happiness	-0.169** (0.077)				
Assessed freedom	-0.047** (0.019)				
Life satisfaction	-0.053** (0.023)				
Financial satisfaction	-0.01 (0.021)				
Trust:					
Police		-0.097* (0.05)			
Courts		-0.07 (0.052)			
Government		-0.097* (0.052)			
Political Factors:					
Democracy importance			-0.073*** (0.025)		
Democratic political system			-0.156*** (0.058)		
Nationality Pride			-0.817*** (0.146)		
Values:					
Importance of God				-0.123*** (0.037)	
Bribe justify				0.681*** (0.042)	
Social work				-0.181*** (0.054)	
Corruption:					
Corruption					-0.137*** (0.029)
Corruption state					-0.167** (0.078)
Corruption local					0.173** (0.07)
Constant	2.743*** (0.346)	2.082*** (0.331)	5.694*** (0.610)	2.619*** (0.472)	2.635*** (0.328)
Observations	1,793	1,723	1,692	1,783	1,589
R-squared	0.170	0.153	0.115	0.371	0.180

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

The perception of corruption among individuals and the extent of corruption within public organisations are significant factors influencing tax evasion (see figure 8). The findings depict a trajectory of an increase in the perception of corruption and a decrease in individuals' attitudes towards tax evasion. Specifically, for every unitary increase in the perception of corruption, there is an associated decline in attitudes towards tax evasion by 0.14 on the scale. It implies that individuals who perceive a higher level of corruption are inclined to fulfil their tax obligations to improve institutional structures' overall quality and effectiveness. Additionally, it has been observed that individuals who perceive a greater extent of corruption within state authorities are also less inclined to engage in tax evasion. This can be attributed to the fact that tax revenue falls under the federal government's authority. Therefore, a greater degree of corruption within state authorities motivates individuals to fulfil their tax obligations, ultimately promoting higher levels of accountability. The accountability process can be resource-intensive (subject to human and financial resources), and individuals pay tax obligations to generate higher resources.

This study also investigates the relationship between the prevalence of corruption within local authorities and its potential influence on the propensity for tax evasion. It is worth noting that Pakistan currently needs a robust local government system. The lack of a local government has led to a notable deficiency in governance within the local authorities. The absence of local governance has substantial consequences for the quality of services, linked to bureaucratic delays. This potentially asserts a negative impact on individual satisfaction. Moreover, a decrease in satisfaction with local authorities can influence decision-making processes about tax evasion.

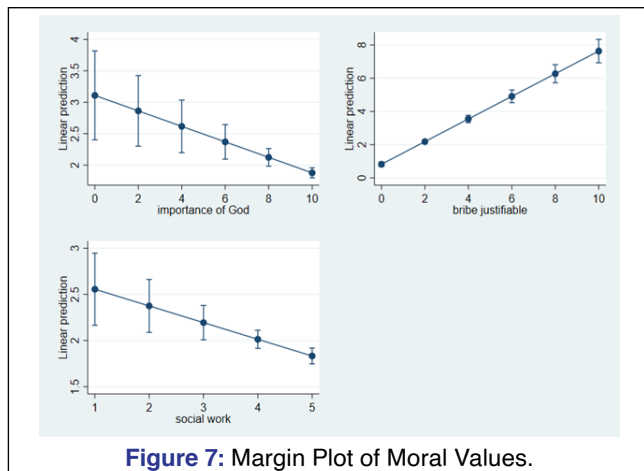


Figure 7: Margin Plot of Moral Values.

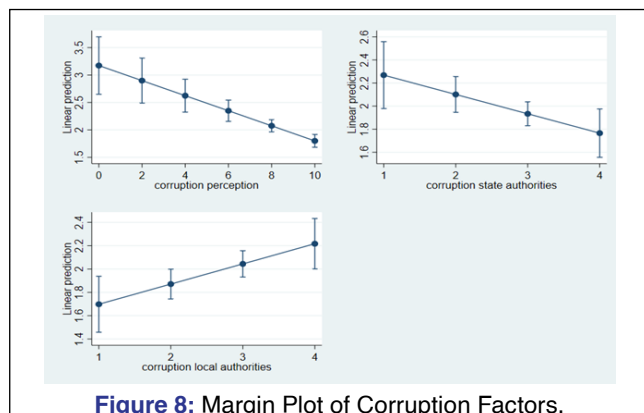


Figure 8: Margin Plot of Corruption Factors.

5. CONCLUSION

The current investigation aims to analyse the various factors that contribute to the tax evasion in Pakistan's digital era motives among individuals. The study results indicate that older individuals with higher education levels, who fall within the lower income distribution, are less inclined to engage in tax evasion. Individuals with greater well-being in happiness, freedom of choice, and life satisfaction tend to display a lower propensity towards engaging in tax evasion in Pakistan's digital era behaviours. Individuals who exhibit greater trust in both police and government tend to display a low inclination towards engaging in tax evasion activities. Individuals who exhibit pro-democratic consideration and strong national pride tend to display a lower propensity for engaging in tax evasion activities. The person with higher importance of God in life, the lack of justifiability of bribery, and the heightened emphasis on engaging in social work are associated with the lack of justifiability of tax evasion. The elevated levels of corruption within local authorities increased the prevalence of tax evasion.

The present study aims to shed light on the complex dynamics that may contribute to individuals' attitudes and behaviours towards tax evasion. The study's findings carry important implications regarding the factors that can soften tax evasion in Pakistan's digital era. There is a need for a raft of comprehensive set of long-term policy measures to augment moral values, foster patriotism, cultivate a social work attitude, and nurture religious values among individuals. Enhancing the trust in public organizations like police and government by improving the quality of services, better governance and accountability. This, in turn, positively contributes to expanding the tax net. The presence of the rule of law, the protection of human rights, the pursuit of social justice, and the preservation of civil liberties are indispensable elements for establishing a pro-democratic society. These factors are closely linked to a reduced level of justifiability of acts of tax evasion in Pakistan's digital era. The fiscal analyst is required to rationalize the tax base for the high-income bracket individuals, as findings indicate that individuals from the upper bound of the income distribution are more inclined to engage in tax evasion practices. The measures, as mentioned earlier, have the potential to contribute towards the augmentation of tax revenue, with the ultimate aim of attaining a tax-to-GDP ratio that is at least at the tipping point.

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