THE IMPACT OF TAX EDUCATION ON TAX COMPLIANCE

by

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STATEMENT OF ORIGINALITY AND DECLARATION

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(signed)

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ABSTRACT

Tax compliance has been a topic for academic research since the 1960s. The focus of the research has progressed from sanction-based (Deterrence Model) to non-sanction based (Fischer Model), and has reached out into five main streams. Sanction-based theories assume that taxpayers are motivated by self-interests and make rational choices not to comply when non-compliance benefit (tax savings) exceeds non-compliance risks (punishment cost and detection probability). Subsequent studies found that taxpayers could also be encouraged by compliance factors, and thus an effective tax compliance strategy should address both ends. Compliance is an ‘attitude’ which can be shaped by ‘belief’ and ‘knowledge’. Some previous researchers found that education encouraged tax compliance through raising tax awareness, but some others found that better tax knowledge could possibly drive non-compliance. Despite a vast pool of literature on the relationship between education and tax compliance, only a few were focused on ‘tax education’, as well as in the context of Hong Kong. This study aims at providing empirical evidence to prove the positive impact of tax education on tax compliance in Hong Kong. Public funding in Hong Kong mainly comes from tax revenue and thus taxpayers’ attitude toward accurate reporting is critical to the Hong Kong tax administrator. In this study, data was collected from undergraduate and postgraduate student samples via self-completed questionnaires, and was analysed by regression. Other than the direct impact of tax education on tax compliance, indirect impacts were also tested via three intermediate variables: ability/readiness to comply, perception of tax system fairness and moral reasoning. The findings supported that positive direct and indirect impacts existed except that these impacts were restricted to undergraduate level. For postgraduate level, these impacts were no longer supported. It seems to indicate that tax education’s impact on compliance tend to be worn off when taxpayers
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