

Data di pubblicazione: 24 giugno 2022

KARMA EMILJAN<sup>1</sup>

### *Evaluating Tax Morale in Albania*

SUMMARY: 1. Introduction – 2. Concept of Tax Morale – 3. Estimations Results – 4. Conclusions – 5. References

#### **1. Introduction**

Tax compliance has been extensively researched and yet, the question of why people pay taxes remains only partially answered. Tax non-compliance continues to represent a core issue for many governments around the world (even in the most virtuous countries).

On this topic the principal research is based on constraint models in the collection of taxes (neoclassical theory). As a result, the governments sought to ensure that the utility of non-compliance is outweighed by the cost of non-compliance and increased the penalties and the perceived probability of detection of the non-compliant taxpayers. The effectiveness of this theory does not go hand in hand with its simplicity as the discourse is not only of a pecuniary nature.

---

<sup>1</sup>Emilian Karma is Researcher at Research Centre on Developing Economies, Catholic University “Our Lady of Good Counsel”, Rruga Dritan Hoxha, Tirana (Albania), Faculty of Economic, Political and Social Sciences. [e.karma@unizkm.al](mailto:e.karma@unizkm.al).

Consequently, since the 90s, empirical research has been carried out, highlighting some social, institutional, and cultural factors, which complement or contradict the results of the neoclassical theory.

Even in Albania, with the change of regimes (from centralized to liberal market), the discourse of tax compliance has been asserted with increasing attention (Kandri and Mamuti, 2015; Salé et.al., 2021). Tax evasion / avoidance, as well as the informal economy, undeclared work, etc. are still pervasive elements of the Albanian economy.

Albanian governments have continually tried to set up and/or modify fiscal policies mainly considering the conclusions of the neoclassical / economic theory, fighting informality and evasion through repressive and coercive measures. In addition, attempts have been made to modernize and computerize the tax system in order to simplify the tax payment process. Despite this, the results continue to demonstrate a problematic situation (albeit slightly improved over time), not giving the desired outcome (Karma, 2019).

Why don't people pay taxes? Why is there a strong informality in the Albanian labor market? Are there other reasons beyond those indicated by the main neoclassical theory?

Faced with these questions and the recognized difficulties considering neoclassical theory, many researchers have demonstrated (through empirical studies) that there is an intrinsic and individual motivation to pay taxes - recognized as a "TAX MORALE" - which differs from one person to another and from one country to another.

This study attempts to identify some factors that impact intrinsic motivation by studying "TAX MORALE" over time and considering demographic, social, cultural, and geographical aspects in the Albanian context.

## **2. Concept of Tax Morale**

TAX MORALE was introduced for the first time during the 1960s by “Cologne school of tax psychology” (Schmölders, 1970; Strümpel, 1969) but received little attention from tax researchers for several decades (Alm and Torgler, 2004). Starting in the 1990s, TAX MORALE increasingly attracted attention and has become a central issue in empirical research on tax compliance (Alm and Torgler, 2011). TAX MORALE is defined most often as the intrinsic motivation to pay taxes (Torgler, 2002; Torgler and Schneider, 2007). Luttmer and Singhal (2014) define Tax Morale as the totality of non-pecuniary motivations and factors for tax compliance which fall outside the expected utility maximization (neoclassical theory).

The more interesting question is which factors shape the presence and maintenance of Tax Morale?

This paper attempts to identify different factors that have an impact on Tax Morale in Albania. In this paper are used survey data from The World Values Survey (WVS) and European Values Survey (EVS) to observe the evolution of Tax Morale in Albania at three benchmark

years:2002 (WVS); 2008 (EVS); 2017 (EVS). The survey is a worldwide investigation of sociocultural and political change collecting comparative data on values and belief systems among people around the world. It is based on representative national samples of at least 1,000 individuals in a country, and has been conducted somewhat erratically over time in more than 80 countries worldwide. All surveys are done via face-to-face interviews at the respondents' homes and in their respective national languages. The sampling design consists of a multistage, random selection of sampling points with a number of points being drawn from all administrative regional units, after stratification by region and by degree of urbanization. The survey results can be weighted variables to represent national population parameters. For a comprehensive discussion of the WVS and the EVS, see Inglehart et al. (2000). Because WVS and EVS ask the identical question of respondents in the various countries, the survey allows cross-country (and cross-year) comparisons of societal attitudes toward religion, culture, and, especially for tax compliance. The general question to assess the level of Tax Morale from the WVS and EVS is:

Please tell me for each of the following statements whether you think it can always be justified, never be justified, or something in between: . . . *Cheating on tax if you have the chance* (% "never justified"- code 1 from a ten-point scale where 1=never and 10=always).

It should be noted that Tax Morale variable is not free of biases: a taxpayer who has engaged in some illegal behavior in the past may tend

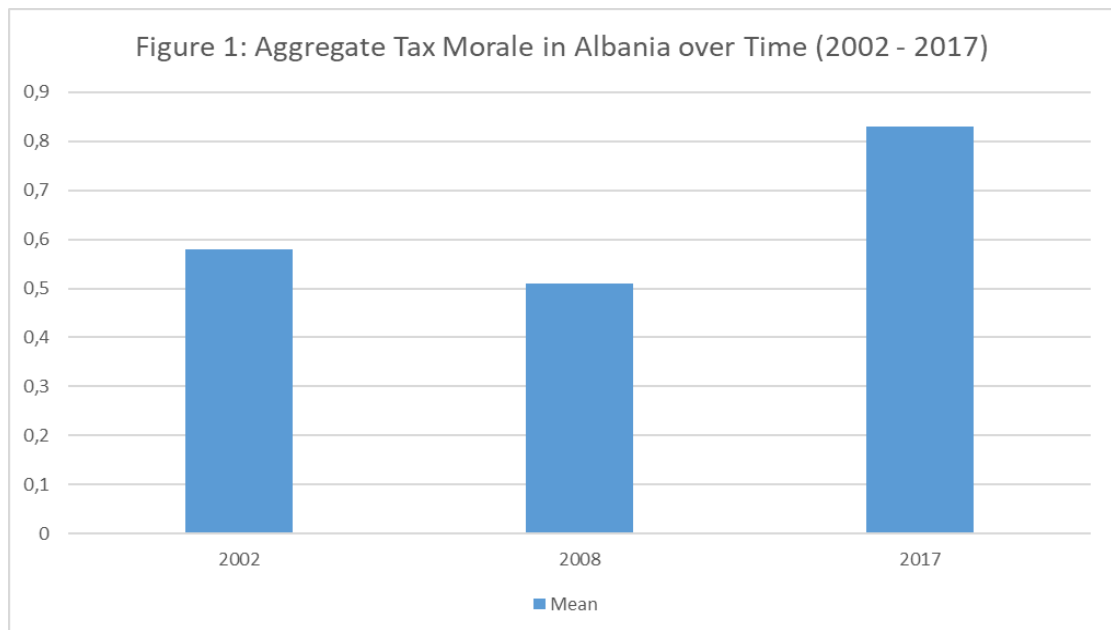
to justify this kind of behavior and so declare a high Tax Morale; individuals may be reluctant to respond honestly, given the delicate nature of tax compliance. No objective or observable measure of Tax Morale is available because it is very difficult to ask a person directly “HAVE YOU EVADED TAXES”?

### **3. Estimations Results**

To estimate the explanatory factors of the dependent variable “TAX MORALE” will be used a multiple regression model. The dependent variable Tax Morale is developed by recoding the ten-point scale into a two-point scale (0 to 1), with the value 1 standing for "never justified". The value of 0 “otherwise” is an aggregation of the rest 9 scale points. To obtain the quantitative impacts for each of the explanatory (independent) variables, it is calculated the marginal effects corresponding to each of the variables. One final issue with the data is that “I don’t know” answers and missing values were omitted in all estimations.

## Evaluating Tax Morale in Albania

Figure 1 presents the mean values in these three periods, calculated as the simple average across all individuals in the data sets: many respondents declare that cheating on taxes is never justifiable.



We observe a strong increase in declared Tax Morale in Albania from 2008 to 2017 and a decrease observable between 2002 and 2008.

Supposing that Tax Morale is an explanation of the tax compliance level, in the case of Albania:

- What are the forces that shapes Tax Morale?
- What may have changed over time in Albania that can explain the declared level of Tax Morale from 2002 to 2017?

The explanatory variable chosen can be grouped in four categories: First, personal and family characteristics. Second, social capital such as trust in parliament, national pride, religiosity. Third, human capital such as income status and fourth, regional differences.

It is important and interesting to establish whether the time factor remains significant in each scenario analyzed.

The regression results are presented in Table 1. In the basic specification, it is inserted as control variables age, gender, marital status, and employment status. In addition, are included the dummy variables to investigate time effects (with 2017 as the reference period): Time 2002, Time 2008, Time 2017.

The results are in line with those found in other studies about Tax Morale: a higher age is correlated with higher Tax Morale, although the marginal effects are small (0,2%). On the other side it can be observed a significant effect for gender in all scenarios: higher Tax Morale for FEMALE as for MALE with a marginal effect about 7,0%. No differences in the level of Tax Morale are observable in the relationship with MARITAL STATUS OR EMPLOYMENT STATUS.

For the time effects, all coefficients are statistically significant, which indicates that Tax Morale was at the highest level in 2017 and in the lowest level in 2008. The marginal effect is high, especially relatively with 2008 (- 29%).

In the second scenario, other variables (related to social capital) are added in order to see if social capital affects the level of Tax Morale

## Evaluating Tax Morale in Albania

(Bobek, et.al., 2007). Added variables are TRUST IN PARLIAMENT, NATIONAL PRIDE and RELIGIOUS BELIEF.

It is assumed that the greater the trust in parliament (state), the more the persons will fulfill their financial obligations to the state. Likewise, one might think that the greater the national pride, the more people will feel involved and consequently the propensity to fulfill the obligations will be



Evaluating moral tax in Albania

Table 1: Determination of TAX MORALE in Albania

Independent variables	Coefficient 1 - scenario	Z - statistic	Marginal Effects (%)	Coefficient 2 - scenario	Z - statistic	Marginal Effects (%)	Coefficient 3 - scenario	Z - statistic	Marginal Effects (%)	Coefficient 4 - scenario	Z - statistic	Marginal Effects (%)
<b>DEMOGRAPHIC</b>												
Age	0,011***	2,64	<b>0,2</b>	0,011**	2,39	<b>0,2</b>	0,008*	1,7	0,2	0,006	1,36	0,1
Female	0,329***	3,65	<b>7</b>	0,310***	3,13	<b>6,1</b>	0,259***	2,56	<b>5</b>	0,237**	2,32	<b>4,6</b>
<b>MARITAL</b>												
Cohabit	0,068	0,14	1,4	0,006	0,01	1	0,233	0,41	4	0,341	0,58	6
Divorced	-0,977	-1,54	-21	-0,571	-0,82	-12	-0,910	-1,19	-18	-0,847	-1,07	-17
Separated	0,703	1,29	13	0,643	1,17	11	0,592	1,07	10	0,567	1,02	10
Widowed	-0,480**	-2,09	<b>10</b>	-0,581**	-2,32	<b>-12</b>	-0,534**	-2,09	<b>-11</b>	-0,550**	-2,11	<b>-11</b>
Single	-0,391**	-2,98	<b>-8</b>	-0,350**	-2,46	<b>-7</b>	-0,379**	-2,56	<b>-8</b>	-0,393***	-2,62	<b>-8</b>
<b>EMPLOYMENT</b>												
Part Time	-0,220	-1,07	-5	-0,207	-0,94	-4	-0,183	-0,81	-4	-0,205	-0,90	-4
Self Employed	0,154	1,22	3	0,107	0,78	2	0,112	0,80	2	-0,019	-0,13	-0,4
Military service	-0,007	-0,02	-0,1	-0,104	-0,33	-2	-0,045	-0,14	-0,8	-0,100	-0,31	-2
At Home	-0,213	-1,24	-4	-0,301*	-1,65	<b>-6</b>	-0,291	-1,55	-6	-0,337**	-1,78	<b>-6,6</b>
Retired	-0,028	-0,18	-0,5	-0,117	-0,71	-2	-0,134	-0,78	-3	-0,133	-0,77	-2,5
Unemployed	0,080	0,58	2	-0,047	-0,30	-0,8	-0,059	-0,37	-1	-0,065	-0,40	-1
Student	-0,114	-0,73	-2	-0,187	-1,11	-4	-0,125	-0,69	-2	-0,115	-0,63	-2
Other	0,756	1,64	14	0,762	1,52	13	0,751	1,49	13	0,590	1,16	10
<b>RELIGIOUS</b>												
No				-0,292**	-2,33	<b>-6</b>	-0,290**	-2,26	<b>6</b>	-0,351***	-2,71	<b>-7</b>
Other				0,248	0,99	-5	0,251	0,99	5	0,194	0,75	3,6
<b>NATION PRIDE</b>												
Pride				-0,563***	-5,41	<b>-11</b>	-0,555***	-5,19	<b>-11</b>	-0,560***	-5,16	<b>-11</b>
Partially				-0,798***	-3,92	<b>-17</b>	-0,789***	-3,72	<b>-17</b>	-0,803***	-3,69	<b>-16</b>
Not Pride				-0,784***	-2,80	<b>-16</b>	-0,843***	-2,95	<b>-17</b>	-0,796***	-2,76	<b>-16</b>
<b>PARL. TRUST</b>												
Confident				-0,755***	-3,74	<b>-15</b>	-0,742***	-3,67	<b>-14</b>	-0,666	-3,24	-13
Partially				-0,515***	-2,60	<b>-10</b>	-0,502	-2,53	-9	-0,440	-2,17	-8
Not Confident				-0,289	-1,42	-5	-0,276	-1,34	-5	-0,254	-1,21	-5

Table 1 (cont.): Determinants of TAX MORALE in Albania

<b>INCOME LEVEL</b>												
Lower Middle												
Upper Middle												
Upper												
<b>REGION</b>												
North										0,1747	1,27	4
South										0,747***	5,53	<b>14</b>
Tirana										-0,225	-1,10	-4
<b>TIME</b>												
2002	-1,139***	-9,19	<b>-23</b>	-1,046***	-7,28	<b>-20</b>	-1,035***	-6,85	<b>-20</b>	-1,057***	-6,66	<b>-20</b>
2008	-1,431***	-11,58	<b>-29</b>	-1,253***	-8,63	<b>-24</b>	-1,347***	-8,35	<b>-26</b>	-1,524***	-8,67	<b>-29</b>
Wald-Test: Joint for Time Factors	161,27***			86,19***			83,06***			78,75***		
Wald-Test: Joint for social capital				74,59***			27,56***			64,67***		
Wald-Test: Joint for Income							2,72			1,23		
Wald-Test: Joint for Region										52,53***		
Number of observations	2945			2657			2538			2538		
P > chi2	0,000			0,000			0,000			0,000		
Pseudo R2	0,087			0,115			0,113			0,1284		

*Notes:* Dependent variable: TAX MORALE on a two-point scale. In the reference group are Man, Married, Full Time Employed, yes – Religious, Very Proud - Nation, Very Confident – Parliament, Lowest Income, Central Albania, Albania 2017. Significance levels:  $0,05 < p^* < 0,10$ ;  $0,01 < p^{**} < 0,05$ ;  $p^{***} < 0,01$

greater (Horodnic, 2018). As far as religion is concerned, it can be supposed that religious belief affects the norms and behavior of people in the community, therefore it is a deterrent process of tax evasion (Stack and Kposowa, 2006). The data of this study show that BELIEF IN PARLIAMENT AND NATIONAL PRIDE have a significant effect on Tax Morale while RELIGIOUS BELIEF does not have the effect of the other two factors, although people who believe in religion seem more inclined to avoid evasion. The time effect also continues to be evident in the presence of social capital, although this effect falls compared to the first scenario.

In the third scenario, an economic variable is added, such as INCOME LEVEL. Based on this scenario, it does not seem that the income level (at any level) plays any role in determining the Tax Morale. Even the WALDT TEST does not give any significant effect on the income level in Tax Morale. However, even in this scenario the time effect continues to play a significant role at the level of Tax Morale:

Finally, the fourth scenario attempts to provide a regional picture of the Tax Morale level. It is interesting to note that South Albania, compared to other provinces (North, Center, Tirana) expresses a higher level of Tax Morale with a significant marginal effect of 14% (which is confirmed by the WALD TEST). Even in this scenario, the time effect continues to be significant.

#### 4. Conclusions

In this paper it is analyzed Tax Morale in Albania during the period 2002 - 2018. Since various studies highlight the importance of Tax Morale in the level of tax evasion, this article analyzes the trend and reasons of the change over time of Tax Morale in Albania. Referring to the database, it results that from 2002 to 2018 there is a very positive development at the level of Tax Morale and although tax evasion has decreased over time, does not have the same positive development as TAX MORALE.

To evaluate what affects the level of Tax Morale in Albania, this study has considered some control variables with the following features: a. individual; b. social; economic (family income); d. regional. This information was obtained using WVS (World Values Survey) and EVS (European Values Survey) questionnaire data.

From this empirical study, some conclusions can be drawn, which may or may not be common to findings in other countries:

1. even in Albania, as in many studies, it turns out that the GENDER factor is quite significant at the level of TAX MORALE: women are more inclined to pay taxes compared to men.
2. AGE factor, CIVIL STATUS and EMPLOYMENT do not play a role at the level of TAX MORALE.
3. BELIEF IN PARLIAMENT AND NATIONAL PRIDE have a significant and substantial effect on the level of TAX MORALE.

This means that the more trust in the State the more people is inclined to pay taxes. RELIGIOUS BELIEF on the other hand has a moderate role at the level of TAX MORALE TAX.

4. This empirical study highlights the fact that Income Level has no effect on the level of TAX MORALE, i.e., the increase of Income Level does not affect the level of TAX MORALE. This, in part, may explain why the substantial increase in the level of TAX MORALE does not match the trend in tax evasion.
5. Changes in the level of TAX MORALE are not accidental or momentary: in fact, the time factor indicates that changes in the level of TAX MORALE are significant and substantial throughout the study period 2002, 2008, 2017.
6. Some regional changes are noticed. South Albania has a higher level of TAX MORALE compared to the North, Center or Capital (Tirana).

Since there is no definitive definition of TAX MORALE, this study attempts to explain this phenomenon through some control variables, which are not exhaustive: there may be other variables that affect the level of TAX MORALE being part of further studies and analysis.

## References

- ALM J., TORGLER B., *Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association*, 2004, Vol. 97 (2004), pp. 269-274.

- ALM J., TORGLER B., *Do Ethics matter? Tax compliance and morality*, Journal of Business Ethics, Vol. 101 (2011), pp. 635 – 661.
- BOBEK D. D., ROBIN R. W., SWEENEY J. T., *The Social Norms of Tax Compliance: Evidence from Australia, Singapore, and the United States* Journal of Business Ethics, Vol. 74 (2007), pp. 49-64.
- HORODNIC I.A, *Tax morale and institutional theory: a systematic review*, International Journal of Sociology and Social Policy, Vol. 38 (2018) pp. 868-886.
- KANDRI E., MAMUTI A., *Ethics of Tax Evasion, The case of Albania*, International Conference on Management, Business and Economics, 2015, pp. 124-128.
- KARMA E., *Undeclared Work in Albania: dimension and consequences*, Euro-Balkan Law and Economics Review, N. 2(2019), pp. 15-40.
- INGLEHART R. et al., *Codebook for World Values Survey*. Ann Arbor, MI: Institute for Social Research, 2000.
- LUTTMER E., SINGHAL M., *Tax Morale*, Journal of Economic Perspectives, Vol. 28 (2014), pp. 149-168.
- SALE' M., MUHARREMI O., HOXHAIJ M., *Albanian Individual Taxpayers Perceptions and Determinants on Ethical Behavior Regarding Tax Compliance*, Business Ethics and Leadership, Vol. 5 (2021), pp. 66-80.
- SCHMÖLDERS G., *Survey Research in Public Finance: A Behavioral Approach to Fiscal Theory*. Public Finance Vol. 25 (1970), pp. 300-306.

- STACK S.,KPOSOWA A., *The Effect of Religiosity on Tax Fraud Acceptability*, Journal for the Scientific Study of Religion, Vol. 45 (2006), pp. 325-351.
- STRÜMPPEL B.,*The Contribution of Survey Research to Public Finance. In Alan T. Peacock, ed. Quantitative Analysis in Public Finance.* New York: Praeger Publishers, 1969, pp. 14-32.
- TORGLER B.,*Speaking to Theorists and Searching for Facts: Tax Morale and Tax Compliance in Experiments*, Journal of Economic Surveys Vol. 16 (2002), pp. 657 – 684.
- TORGLER B., SCHNEIDER F.,*Shadow Economy, Tax Morale, Governance, and Institutional Quality: A Panel Analysis*,Crema Working Paper Series, 2007-02. Center for Research in Economics, Management, and the Arts (CREMA), 2007.