

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

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Abstract

The purpose of this study is to understand the underlying causes of tax noncompliance among the microbusiness sector. This research looks at the influence of tax culture on microbusinesses in Pakistan that do not file their tax returns. To obtain data, the study used a structured questionnaire disseminated via the snowball sampling approach. For analysis, partial least squares (PLS) software was utilised. PLS is a statistical approach that is frequently used in the social sciences to describe complicated interactions between variables. The study found a significant direct relationship between all factors except attitude towards compliance, tax morale, and intention to comply. The study's key result is that tax culture functions as a mediating factor, impacting the link between the independent factors and the dependent variable of tax noncompliance. This shows that the larger cultural environment in which microbusinesses operate has a significant impact on their tax-related behaviours. The study concludes by demonstrating its limitations, recognising that the technique of snowball sampling may have introduced certain biases and that the findings may not be applicable to all microbusinesses in Pakistan. The researchers also propose future study paths, advising that more studies investigate the relevance of other potential mediating factors and evaluate the effectiveness of various policy measures targeted at boosting tax compliance among microbusinesses.

Keywords: Tax Culture, Pakistan, Microbusiness, Intention to Comply, Attitude toward Compliance, Intention to comply.

1. Introduction

Taxation serves as a crucial revenue source for both developing and developed nations. In developing countries, however, tax evasion poses a severe challenge compared to developed countries. According to Bame-Aldred et al., (2013) taxes are essential for government income, which funds social services and infrastructure development. Picur and Riahi-Belkaoui (2006) noted that low tax compliance results in diminished public revenues. In developing countries, factors such as taxation culture and systemic weaknesses contribute significantly to tax evasion. Although the concept of taxation culture is often discussed in social science literature, its importance in tax systems is evident. Tax evasion remains a major issue in

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

Pakistan, a country classified as underdeveloped.

The Express Tribune reported that as of 2024, approximately 4.3 million people in Pakistan submit tax returns. This number reflects a significant improvement from previous years, driven by initiatives from the Federal Board of Revenue (FBR), such as linking tax compliance to mobile connectivity and implementing stricter penalties for non-filers. Despite this progress, the number of taxpayers remains low relative to Pakistan's population, which is now around 240 million. The government's efforts to increase the tax base are ongoing, as they aim to enhance revenue collection to support the country's fiscal needs (Pkrevenue.com). This situation underscores the broader issue of the country's weak "taxation culture," which refers to the habitual practice of paying taxes to the state. Although there has been some improvement in the number of tax filers, the tax base is still far too narrow. Like many other developing nations, Pakistan continues to suffer from a lack of a robust tax culture, which significantly hampers its ability to generate sufficient revenue for public services and development.

The concept of taxation culture is deeply intertwined with the attitudes and behaviours shaped by the broader cultural context. Sihombing and Pongtuluran (2013) emphasized that cultural influences play a crucial role in shaping people's attitudes and behaviours, including their approach to tax compliance. In Pakistan, this influence is evident in what Azhar (1996) described as an "anti-tax culture," where there is a widespread reluctance to pay taxes. This resistance to taxation is further complicated by the presence of a large underground economy and a small business sector that is difficult to tax, as highlighted by Chaudhry and Munir (2010). These factors contribute significantly to the country's low tax revenues.

Moreover, the impact of national culture on individual behaviour is not limited to Pakistan. Bame-Aldred et al. (2013) pointed out that national culture can influence individual behaviour in both positive and negative ways, affecting how citizens perceive and engage with tax obligations. In Pakistan's case, the prevailing cultural attitudes have negatively influenced tax compliance, leading to a situation where the state struggles to mobilize the necessary resources for its population's needs. Addressing this issue requires not only policy reforms but also a cultural shift towards a more positive and responsible approach to taxation.

In developing countries, there is limited research regarding national culture and evasion of taxation. The main objective of the study is to assess how tax culture influences the tax return filing behaviour of non-filers within Pakistan's micro-business sector. This is often performed by combining Ajzen's Theory of Planned Behaviour (1991) with additional factors such as culture. According to the literature on tax compliance studies, the focus is mostly on Small and Medium Enterprises rather than the microbusiness sector. This study focuses on tax culture influence on the behaviour of micro-business sector of Pakistan or not. TPB use to examine the behaviour of an individual. Ajzen (1991) introduced the Theory of Planned Behavior (TPB), which has since become a foundational framework for understanding and predicting human behavior across various domains. Madden (1992) supported this by asserting that the "behavioral model established by this theory has been effective in clarifying human behavior in numerous fields." The TPB has been widely used to explain a range of behaviors, from health-related actions to consumer choices, due to its emphasis on the role

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

of attitudes, subjective norms, and perceived behavioral control in shaping intentions and actions.

In the context of this study, Partial Least Squares (PLS) software has been utilized to analyze the data. This is particularly noteworthy as PLS, a powerful statistical tool known for its ability to handle complex models and small sample sizes, has not been previously applied extensively in tax compliance research. The use of PLS in this study represents an innovative approach to examining the factors that influence tax compliance behavior, offering new insights and potentially more accurate predictions. By applying PLS, this research contributes to the growing body of literature on tax compliance, demonstrating the utility of advanced statistical methods in exploring behavioral models like TPB in a new context. This approach not only enhances the robustness of the findings but also opens up new avenues for future research in the field of tax compliance. In this study, ATC, SN, MP, and TM are independent variables, whereas IC is the dependent variable. The variable of TC usage serves as a mediator.

2. Literature Review

According to Roth et al., (1989), many cultural contexts might influence an individual's view of events, thereby convincing him or her to evade taxes. They stated that culture is expressed in varying degrees of universal ideals as well as specific social norms. These principles and conventions are constantly presented and misinterpreted in an individual's daily society interactions, which may encourage or diminish tax evasion. Coleman and Freeman (1997) proposed that in Australia, voluntary tax compliance is shaped by the cultural environment. Chan et al. (2000) found that the distinct cultural environments of Hong Kong and the United States have a profound influence on tax evasion behaviors. These findings highlight the role that cultural context plays in shaping individuals' attitudes toward taxation and compliance. Ethical judgments, which are deeply embedded within cultural frameworks, play a crucial role in influencing social norms and behaviors. As Crane and Matten (2007) and Beauchamp et al. (2009) observed, ethical standards are transmitted through generations, forming a key part of the social fabric that guides behavior. Hofstede (1980) offered a comprehensive definition of culture, describing it as the set of learned patterns that govern our daily lives. This cultural conditioning begins within the family, extends to broader societal institutions such as schools, and ultimately influences behavior in professional settings. According to Hofstede, culture shapes how individuals interpret their experiences and respond to various situations, including ethical dilemmas. As a result, people's actions are often a reflection of the values and norms they have internalized through their upbringing and life experiences. In the context of tax compliance, these cultural influences are particularly significant. The way individuals perceive their obligation to pay taxes and their likelihood of engaging in tax evasion is closely tied to the cultural norms and ethical standards they have been exposed to throughout their lives. For instance, in societies where tax evasion is commonly frowned upon and seen as unethical, individuals may be more inclined to comply with tax regulations. Conversely, in environments where tax evasion is more tolerated or even normalized, people might be more likely to engage in such behavior. This underscores the importance of considering cultural factors when developing strategies to improve tax compliance and reduce evasion, as these factors can profoundly impact individuals' attitudes and behaviors.

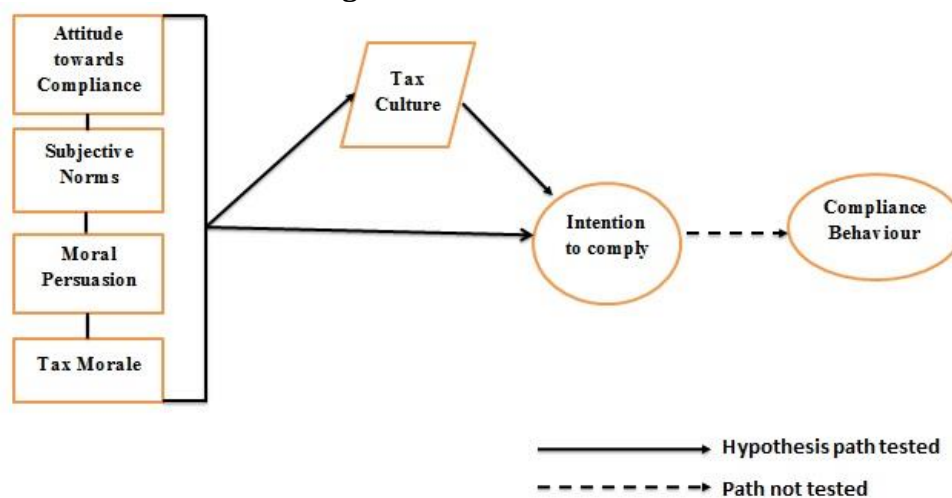
The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

regarding taxation.

Literature found that different culture effects differently on tax compliance behaviour. Culture is a significant factor which impacts on person's behaviour, but it can vary according to context. If the culture of tax compliance is positive in a country then individual behave positively and file a tax return and on the other hand if the culture of tax compliance is negative in a country then evasion of the tax rate increases. Culture of any country significantly impacts on an individual behaviour of tax compliance. As reported by William (1961) culture is a concept that might disturb the entire method of life.

James and Alley (2002) characterized tax compliance as individuals' readiness to follow tax regulations, irrespective of challenges or enforcement measures. The Theory of Planned Behavior (TPB), an extension of the Theory of Reasoned Action, posits that an individual's motivation to perform specific behaviors is shaped by subjective norms and attitudes. According to Manstead (2004), attitude toward behavior reflects an individual's assessment of the importance of carrying out a particular action. Subjective norms involve the perceived social pressures that affect behavior. Ullah et al. (2021) identified a significant and positive link between attitudes toward compliance and the intention to comply. Ullah (2019) also noted that attitudes towards compliance affect the intention to comply. This study examines how attitude towards compliance impacts the intention to comply within Pakistan's micro-business sector. Subjective norms significantly affect on intention to comply (Ullah, 2023). According to the author (Ullah et al., 2021), moral persuasion and intention to obey have a positive and significant link. Ullah (2019) said that moral persuasion significant factor that impacts on intention to comply. According to Ullah (2019), there is a significant relationship between tax morale and the intention to comply. Developing countries like Pakistan are working to transform a culture of non-compliance into one of compliance, focusing on behavioural change. This research on tax culture addresses gaps in previous studies by illustrating an ideal scenario for tax culture. This research analyses the tax culture effect on tax evasion behaviour in micro-business sector of Pakistan because in previous studies researcher ignored the micro-business sector and focused on small and medium business.

Figure 1: Research Model



The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

3. Methodology

For data collection, a questionnaire adapted from prior research was utilized. The questionnaire was segmented into two parts: Part A collected demographic details about the respondents, while Part B focused on gathering data related to the independent, mediator, and dependent variables relevant to the study. The research treated micro-businesses in Pakistan as the target population. To identify valuable respondents, the study employed a snowball sampling technique, which involves leveraging initial contacts to recruit additional participants for the investigation. In this research only, those respondents were selected whose income was Rs. 300,000 and above as per tax return rule of govt of Pakistan. Like for example, income tax ordinance, 2001 a business man whose income exceeds rupees three hundred thousand is bound to file tax return. Total number of questionnaires distributed were 350 out of which the response rate was 78% (275 questionnaires). The ratio of male respondents is 95%, and female is 5%, the highest response rate regarding age group 20-30 is 39%. SPSS software was used for data entry, while Partial Least Squares (PLS) software was employed to analyze the responses. The study utilized a five-point Likert scale ranging from strongly disagree to highly agree, with the intermediate options being disagree, neutral, and agree.

4. Reliability and Validity Analysis

4.1 Construct Reliability

Table 1 displays the construct reliability results for each variable, with Cronbach's alpha used to evaluate the reliability of the instrument. According to Gliem et al. (2003), a construct's reliability should exceed a value of 0.70. The data in Table 1 indicate that all constructs are statistically significant.

4.2 Composite Reliability:

Internal consistency for a variable can be assessed using its composite reliability, which should be above 0.70 to ensure adequate consistency. Table 1 demonstrates that all constructs meet this criterion and are statistically significant.

4.3 Average Variance Extracted (AVE):

To assess convergent validity, experts should evaluate the Average Variance Extracted (AVE). According to guidelines, AVE values should be above 0.50 to be considered acceptable. Table 1 indicates that all constructs meet this requirement and are statistically significant.

Table 1: Construct Reliability and Validity

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
ATC	0.883	0.927	0.810
IC	0.925	0.952	0.869
MP	0.737	0.847	0.660
SN	0.905	0.941	0.841

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

TC	0.882	0.910	0.629
TM	0.714	0.820	0.535

4.4 Discriminant Validity:

Discriminant validity is evaluated using the Heterotrait-Monotrait (HTMT) ratio. A ratio below 0.90 indicates that the variables have good discriminant validity. Table 2 shows that all constructs meet this criterion and are statistically significant.

Table 2: Discriminant Validity

	ATC	IC	MP	SN	TC	TM
ATC						
IC	0.676					
MP	0.469	0.599				
SN	0.493	0.517	0.176			
TC	0.738	0.950	0.457	0.902		
TM	0.207	0.312	0.277	0.148	0.291	

5. Model Evaluation: Structural Model Findings:

In this part of the research firstly checked the collinearity issue then model fitness and at the end path analysis of the proposed model. Path analysis examined with or without a mediator, for instance, direct and indirect relationship of variables along with testing the developed hypothesis of the research.

5.1 Evaluation of Collinearity Issue:

The main focus is on examining collinearity within the structural model. Table 3 shows the inner Variance Inflation Factor (VIF) values for the variables. According to PLS-SEM problem of collinearity exists among variable when the value of VIF is equal to 5 or >5. Though, the table 3 shows that the values of all variables is <5, which claims there is no collinearity problem exists in the data.

Table 3: Inner VIF Values

	Intention to Comply	Tax Culture
ATC	1.836	1.452
IC		
MP	1.359	1.211
SN	2.802	1.243
TC	4.261	
TM	1.087	1.056

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

5.2 Model Fitness Assessment:

To assess model fit, Smart PLS evaluates the value of the standardized root mean square residuals. The standardized root mean square residuals value is 0.108 demonstrating model is fit because the value of SRMR falls between 0 to 1 as suggested.

Table 4: Model Fitness

	Saturated Model	Estimated Model
SRMR	0.108	0.108
d_ULS	2.975	2.975
d_G	4.150	4.150
Chi-Square	3,653.158	3,653.158
NFI	0.498	0.498

5.3 Assessment of Outer Loadings:

The outer loading of the model is evaluated using t-values. According to established standards, outer loading values should be above 0.70 and should not drop below 0.60. Based on these criteria, Table 5 shows that all measurement model loadings are statistically significant, with the exception of MP3.

Table 5: Outer loadings

	ATC	IC	MP	SN	TC	TM
ATC1	0.879					
ATC2	0.900					
ATC3	0.920					
IC1		0.941				
IC2		0.933				
IC3		0.922				
MP1			0.916			
MP2			0.930			
MP3			0.526			
SN1				0.936		
SN2				0.917		
SN3				0.898		
TC1					0.829	
TC2					0.840	

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

TC3					0.826	
TC4					0.768	
TC5					0.737	
TC6					0.751	
TM1						0.623
TM2						0.814
TM3						0.802
TM4						0.669

5.4 PLS Path Model Analysis:

Figure 2 depicts the structural research model, where attitude toward compliance, subjective norms, moral persuasion, and tax morale are the independent variables, tax culture acts as the mediating variable, and intention to comply is the dependent variable. The arrows in the figure indicate the connections between these variables. The R-square value shown in Figure 2 represents the proportion of variance explained by the model for the dependent and predicted latent variables. For PLS model analysis, the initial focus is on the R-square values for each dependent variable. In this study, attitude toward compliance, subjective norms, moral persuasion, and tax morale are independent variables and are not predicted by others. R-square values range from 0 to 1, with values closer to 1 indicating a better fit. Values approaching 0, such as 0.11, 0.21, or 0.56, are considered weak. An R-square value of at least 0.25 is generally recommended. As shown in the figure, the R-square values for tax culture and intention to comply are 0.765 and 0.907, respectively, both exceeding the recommended threshold of 0.25.

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

Figure2: Path analysis

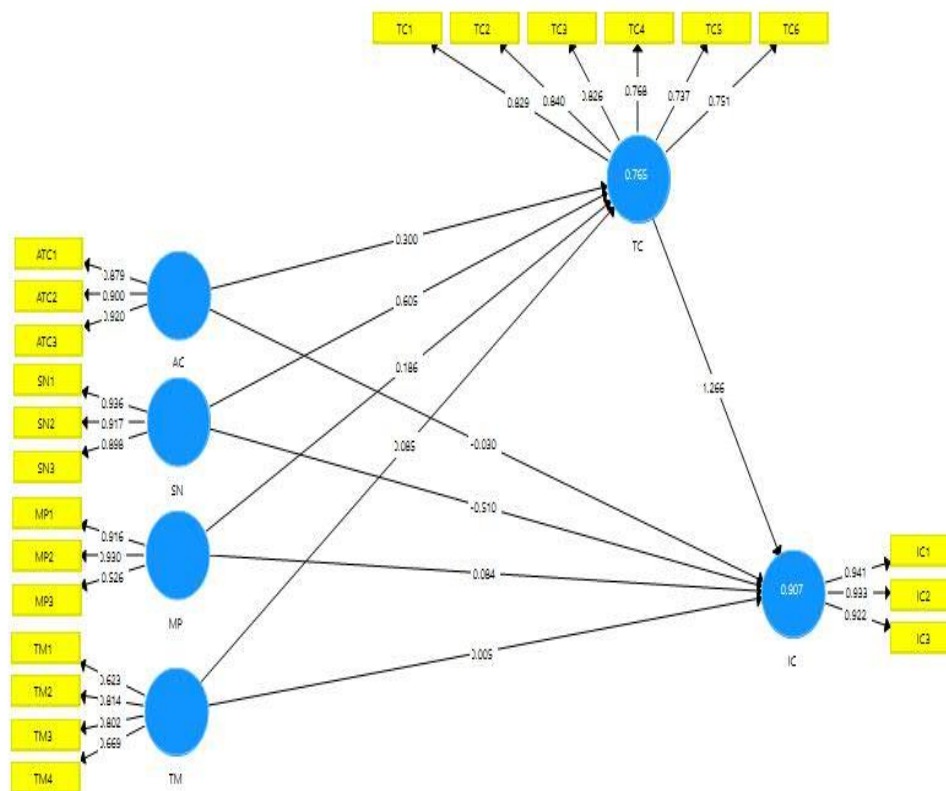


Table 6 reveals the following results: Attitude toward Compliance (ATC) has a positive effect on Tax Culture (TC) of 30%, with a significant p-value of 0.000, supporting H2. Moral Persuasion (MP) positively influences Intention to Comply (IC) by 8.4%, with a significant p-value of 0.006, thus supporting H3. MP also positively affects TC by 18.6%, with a significant p-value of 0.000, supporting H4. Subjective Norms (SN) have a negative effect on IC of 51%, yet the p-value is significant at 0.000, supporting H5. Conversely, SN positively affects TC by 60.5%, with a significant p-value of 0.010, thereby supporting H6. TC significantly impacts IC with a positive effect of 126.6% and a p-value of 0.000, supporting H7. Tax Morale (TM) positively affects TC by 8.5%, with a significant p-value of 0.006, supporting H9. However, the effects of TM on IC and ATC on IC are not significant, leading to the rejection of H8 and H1.

Table 6: Direct Relationship for Hypothesis Testing

		Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T- Value s	P- Value s	Decision

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

)			
H1	Attitude toward Compliance - > Intention to Comply	-0.030	-0.029	0.028	1.072	0.284	Rejecte d
H2	Attitude toward Compliance - > Tax Culture	0.300	0.300	0.043	6.998	0.000	Accepte d
H3	Moral Persuasion - > Intention to Comply	0.084	0.082	0.031	2.734	0.006	Accepte d
H4	Moral Persuasion - > Tax Culture	0.186	0.189	0.036	5.184	0.000	Accepte d
H5	Subjective Norms -> Intention to Comply	-0.510	-0.510	0.031	16.67 9	0.000	Accepte d
H6	Subjective Norms -> Tax Culture	0.605	0.603	0.034	17.92 2	0.000	Accepte d
H7	Tax Culture - > Intention to Comply	1.266	1.264	0.039	32.07 3	0.000	Accepte d
H8	Tax Morale - > Intention to Comply	0.005	0.004	0.021	0.225	0.822	Rejecte d
H9	Tax Morale - > Tax Culture	0.085	0.088	0.031	2.738	0.006	Accepte d

5.5 Bootstrap Analysis:

Bootstrapping is employed to assess the robustness and reliability of path coefficients within the model. This nonparametric technique enhances the accuracy of the analysis by generating multiple subsamples from the original data, allowing for a more precise estimation of statistical significance. The model under examination is divided into two key components: the outer model and the inner model. The outer model focuses on evaluating the measurement aspects of the model, presenting t-values that indicate the strength and reliability of the individual indicators used to assess each construct. In contrast, the inner

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

model addresses the structural relationships between constructs, displaying path coefficients that represent the strength and direction of these relationships, as well as significance p-values that indicate the statistical significance of the observed effects. By analyzing both models, bootstrapping provides a comprehensive view of how well the proposed relationships and measurements perform, ensuring a robust and reliable analysis of the data. The bootstrapping procedure involves 1,000 subsamples and a significance level of 0.05 to assess the indirect effects among the model variables. Table 7 highlights the indirect relationships between variables. The results demonstrate that tax culture mediates the relationships between Attitude toward Compliance (ATC), Subjective Norms (SN), Moral Persuasion (MP), Tax Morale (TM), and Intention to Comply (IC). The indirect effect of ATC on IC is significant at 0.000, confirming that tax culture mediates this relationship. Likewise, the indirect effects of MP, SN, and TM on IC are significant at 0.000, 0.000, and 0.009, respectively, further validating the mediating role of tax culture. As a result, all mediation hypotheses are supported.

Figure3: Path Analysis-Bootstrap

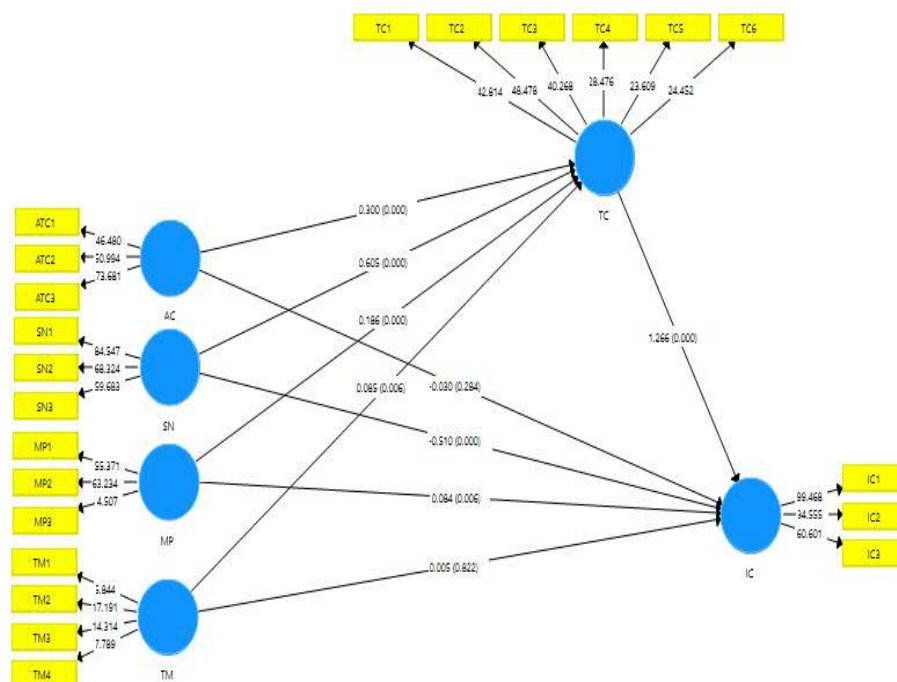


Table 7: Indirect Relationship for Hypothesis Testing

		Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Values	P-Values	Decision
H10	Attitude Compliance -> Tax	0.380	0.379	0.053	7.155	0.000	Mediation

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

	Culture -> Intention to Comply						
H11	Moral Persuasion -> Tax Culture -> Intention to Comply	0.236	0.238	0.043	5.450	0.000	Mediation
H12	Subjective Norms -> Tax Culture -> Intention to Comply	0.766	0.763	0.057	13.348	0.000	Mediation
H13	Tax Morale -> Tax Culture -> Intention to Comply	0.108	0.111	0.040	2.682	0.007	Mediation

6. Discussion

A review of the literature consistently highlights the strong connection between attitude toward behavior and the intention to comply. For instance, Ullah et al. (2023) emphasized that "attitude towards behavior has a significant and positive impact on the intention to comply." This is further supported by Ullah (2021), who asserted a significant and positive relationship between attitude toward compliance and the intention to comply. Previous studies specifically examined the self-employed and employed populations, revealing a positive relationship between attitude toward compliance (ATC) and intention to comply (IC). The findings suggested that individuals with a favorable attitude towards tax compliance are more likely to adhere to tax regulations. Our research, which focuses on the micro-business sector, has yielded similar results, indicating that this relationship holds true across different sectors in Pakistan. The impact of ATC on IC is evident not only among self-employed and employed individuals but also within the micro-business sector. This suggests a broader applicability of the positive relationship between attitude towards compliance and tax compliance behavior across various economic segments in Pakistan.

The consistency of these findings across different sectors reinforces the importance of fostering a positive attitude toward tax compliance as a key factor in improving overall tax adherence in the country. Subjective norms significantly effect on intention to comply (Ullah et al., 2023). Moral persuasion significantly impacts on intention to comply. Ullah et al. (2021) noted a significant relationship between tax morale and the intention to comply. Several studies have explored the link between tax culture and tax evasion; for instance, Uadiale (2010) found a positive association between cultural factors and personal income tax evasion. There are handful studies that have paid attention on association among culture and

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

tax evasion “(Andreoni, Erard & Feinstein 1998, Richardson, 2006, Tsakumis, Curatola & Porcano 2007, Richardson, 2008).”

7. Conclusion

The aim of the research is to examine how subjective norms, attitude toward compliance, moral persuasion, and tax morale affect the intention to comply within the micro-business sector in Pakistan. The major purpose is to check the mediation of tax culture between them. Previous studies suggested that culture and some other factors impact on behaviour such as Sihombing and Pongtuluran (2013) said that attitude and behaviour are affected by the culture. Azhar (1996) argued that anti-tax culture is prevailing in Pakistan. Ullah (2019) claimed that tax morale, subjective norms, moral persuasion and attitude impacts on intention to comply. The abovementioned theoretical recommendations are conceptually demonstrated in a framework. Data was collected using a well-structured questionnaire adapted from previous studies. The study employed a primary data collection method through this questionnaire. To select relevant respondents, the snowball sampling technique was utilized. The responses were analyzed using Partial Least Squares (PLS) software.

The results of this research report that there is significant direct association among ATC and TC, MP and IC, MP and TC, SN and IC, SN and TC, TC and IC including TM and TC. There is insignificant direct association between ATC and IC as well as in TM and IC. There is significant indirect association concerned with the existence of tax culture. Outcomes shows that TC mediates between ATC and IC, MP and IC, SN and IC as well as TM and IC.

This research investigates the influence of tax culture on non-filing behaviour within Pakistan's micro-business sector. The findings indicate that a culture of tax evasion significantly affects tax return filing behaviour, while subjective norms, tax morale, and moral persuasion also impact the intention to comply in this sector. The study demonstrates that Partial Least Squares Structural Equation Modeling (PLS-SEM) is a suitable method for this analysis. There is strong evidence suggesting that the government should develop strategies and provisions to assist micro-business sector personnel in properly and accurately filing their tax returns. It is recommended that the government take action to provide support and facilities aimed at enhancing tax revenue from this sector. According to the researcher, this study adds valuable insights to the understanding of tax culture and compliance within business sectors in Pakistan.

8. Limitations & Future Recommendations

The data for this study was exclusively gathered from micro-business sectors in the Punjab province of Pakistan. To broaden the scope and enhance the generalizability of the findings, future research could extend this investigation to include micro-businesses in other regions and cities across Pakistan. Such an approach would provide a more comprehensive understanding of tax compliance behavior within the micro-business sector nationwide. While this study adopted a quantitative methodology using PLS-SEM software for data analysis, future research could benefit from integrating qualitative methods. These methods, such as in-depth interviews or focus groups, would provide richer insights into the motivations, challenges, and perspectives of micro-business owners regarding tax compliance. Additionally, subsequent research could consider using alternative software

The Role of Tax Culture in Tax Return Non-Filing Behaviour. Reflections from Micro-Business Sector of Pakistan by Utilizing the Theory of Planned Behaviour

tools for data analysis, such as AMOS, STATA, or R, to explore different analytical techniques or validate the findings through comparative analysis. This would not only diversify the methodological approaches but also enhance the robustness and reliability of the research outcomes.

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