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Factors affecting consumers' participation in consumption tax evasion

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Abstract

Purpose – This study aims to investigate the extent to which consumers recognize participation in consumption tax evasion (CTE) as an ethical issue and the impact of moral recognition on consumer intention to participate. It also explores the role of religiosity and attitude toward government in the ethical decision-making process of consumers.

Design/methodology/approach – The model was tested using the structural equation modeling approach over 128 responses collected through the mail survey.

Findings – The results of the study suggest that attitude towards government and religiosity influences the consumers' intention to participate in CTE. The negative attitude toward government enhances the intention to participate in CTE. Religiosity negatively influences the intention to participate in CTE and makes people recognize participation in CTE as a moral issue.

Research limitations/implications – There is a need to explore the impact of other factors such as social norms and personality traits on the consumer decision-making to participate in CTE.

Practical implications – This study indicates that the even when people recognize participation in CTE as morally wrong, they do not have intentions to avoid such behavior because of their attitude toward government. Governments need to improve their image among consumers to reduce CTE. Also, there is a need to launch social marketing campaigns to move consumers from just recognizing moral issues in CTE to forming intentions to resolve those issues.

Originality/value – Earlier studies have explored the moral issue related to tax evasion in a context where an individual has directly participated in such an act, whereas this study explores the ethical aspect in the situation where consumers play an indirect role in tax evasion, i.e. CTE. In the context of participation in CTE, this study points out that the consumers recognize their indirect participation in CTE as a moral issue, but they lack the intention to curb such behavior. Further, no earlier study has explored the impact of religiosity and attitude toward government in such indirect participation in tax evasion.

Keywords Religiosity, Attitude towards government, Consumption tax evasion, Moral recognition

Paper type Research paper

1. Introduction

Mr X had a wonderful vacation at a resort, and at the time of checkout, the cashier offered that if he does not take bill the amount to be paid would be much lesser. Mr X agreed happily and helped resort owner in evading tax.

Mr Y purchased chocolates from a confectionary store. He paid in cash without asking for a bill. The store owner evades tax on such sales made in cash by hiding his actual sales.

The above-mentioned cases are examples of consumption activities (e.g. property deals, maintenance services, household services and much more) that happen on a regular basis in the life of a consumer. These situations signify consumers' participation in



consumption tax evasion (CTE). CTE is a subcategory of informal economy or shadow economy. Australian Taxation Office (2013) defines CTE as “when people in business deliberately use cash transactions to hide income and evade tax obligations”. Consumers participate in CTE knowingly or unknowingly when they pay for goods or services in cash without receiving a bill. In the first case, the consumer was offered the benefits of this participation in CTE by the service provider. In the second case, the consumer unknowingly participates in tax evasion by the seller. Both cases clearly involve ethical and legal issues. The consumers can participate in CTE either knowingly for benefits or unknowingly. Both the situations may have different antecedents and consequences. But, in this paper, we do not differentiate between both the situations for participation in CTE.

Shadow economy is a widely prevalent phenomenon across the globe. The contribution of shadow economy has reached at huge 34.5 per cent of the official gross domestic product of the world (Schneider *et al.*, 2010 in Culiberg and Bajde, 2014). CTE, which is a subcategory of the shadow economy, contributes one-third of the overall value of the shadow economy (Schneider *et al.*, 2010 in Culiberg and Bajde, 2014). Shadow economy is a widely prevalent phenomenon across the globe, including India. Indian Income Tax Department detected a service tax evasion of INR 7,537 crore during the financial year 2014-15. In totality, India loses INR 14tn (\$314bn) annually from tax evasion (Dhara and Thomas, 2011).

Tax evasion leads to many other problems for the economy and society. On the one hand, tax evasion provides some businesses with an unfair economic advantage over the others who comply with taxation laws. On the other hand, it leads to reduced revenue for a government, which in turn negatively impacts the benefits offered by the government to the public at large. Considering the potential negative impact of tax evasion or non-compliance on the society at large, several streams of research tried to explore the phenomenon of tax evasion. Moreover, tax evasion has been identified as a moral issue in the literature (Alm and Torgler, 2011; Culiberg and Bajde, 2014). So, the decision to participate in CTE presents an ethical dilemma before the consumers. This paper intends to elaborate on the effect of ethics on the decision-making process of a consumer when his behavior determines the happening of tax evasion. This study is conducted in India, which provides a suitable context as CTE is rampant across India. We also look at the impacts of consumer attitude toward government and consumer religiosity on the ethical decision-making process.

Literature in tax evasion suggests that attitude toward the social institution and government also influence the participation in non-compliance of tax (McGee, 2012; McGee *et al.*, 2008; Torgler and Schneider, 2007), but most of these studies have been conducted in a context where an individual is directly responsible for tax compliance. As consumers are not directly linked to the government in this triadic relationship of consumer, seller and tax authorities/government, it would be interesting to see whether a similar pattern exists in the case of consumers' participation in CTE.

Similarly, religion is also believed to mold the behavior of an individual and society at large (Hirschman, 1983; Michell and Al-Mossawi, 1999; Waller and Fam, 2000). Religiosity has been studied extensively in consumer behavior context (Harrell, 1986; Wilkes *et al.*, 1986; Czinkota and Ronkainen, 2013). Vitell *et al.* (2005), in their study, found that intrinsic religiousness determines consumers' ethical beliefs in various situations involving ethical issues. To the best of our knowledge, none of the earlier studies have investigated the influence of religiosity in a context where an individual plays an indirect role in the act of tax evasion. We explored the influence of consumers' religiosity on their ability to recognize the

moral content when they participate in CTE. We also investigate the impact of religiosity on intention to participate in CTE.

This study attempts to understand the CTE-related consumer decision-making process and the impact of consumer attitude toward government and consumer religiosity on this process. This paper is expected to contribute by exploring the role played by consumers as a third party in tax evasion by traders.

2. Theoretical background

2.1 Consumption tax evasion

CTE usually occurs when people deliberately use cash transactions to evade the tax (Culiberg and Bajde, 2014). The cash transaction helps them in under-reporting their incomes and paying lower taxes than actually required. The pervasiveness of this phenomenon across the globe makes it an interesting topic for researchers. When consumers do not ask for the receipt of the transaction for product or services availed, they participate in CTE knowingly or unknowingly.

Various streams of research have explored the phenomenon of tax evasion from different theoretical lenses. Economics mainly looked at tax evasion from the expected utility theory perspective (Alm and Torgler, 2011; Maciejovsky *et al.*, 2012), whereas a number of studies tried to study tax evasion from an ethical and moral perspective (Alm and Torgler, 2011; Doyle *et al.*, 2009; Maciejovsky *et al.*, 2012; Molero and Pujol, 2012). A literature review of tax evasion by Jackson and Milliron (1986) (cited in Richardson, 2006) revealed that determinants for tax evasion could be categorized into three broad categories, namely, demographic determinants, economic determinants and behavioral determinants.

All studies, except that by Culiberg and Bajde (2014), have investigated the tax evasion either from the perspective of the tax collector (government) or from the side of the taxpayer (businesses), but none has examined the participation of consumers in the CTE. Culiberg and Bajde (2014) investigated the role of consumers' moral characteristics in the ethical decision-making of participation in CTE. We extend their work by exploring other factors influencing the moral decision-making process of a consumer. There are different psychographic factors influencing the ethical decisions of customers. We explore the factors (attitude toward government and religiosity) that impact consumers' decision to participate or not to participate in CTE.

2.2 Tax ethics

To understand CTE from an ethical perspective, we have to dive into the history and see the connection between ethics and (non)compliance behavior. Taxpayers tend to show different ethically questionable behaviors, and the most common of them can be evading tax and avoiding tax. Tax avoidance can be defined as to reduce the amount of tax by searching the tax loopholes, whereas tax evasion is defined as illegal escaping of tax by hiding or misrepresenting the transactions (Kirchler *et al.*, 2008).

Most of the researchers, with some exceptions (McGee, 2006; Torgler and Schneider, 2009), focused on the economic factors of the non-compliance behavior and ignored the moral dimension involved. Tax non-compliance was explained through expected utility theory, which essentially argues that a person follows the cost-benefit (risk of being caught and punished vs the benefit of non-compliance) analysis route to decide on his/her tax behavior (Alm and Torgler, 2011; Maciejovsky *et al.*, 2012). Recently, some scholars have tried to address the tax non-compliance from an ethical perspective (Alm and Torgler, 2006; Cummings *et al.*, 2009; McGee, 2006; Torgler and Schneider, 2009; Torgler *et al.*, 2010).

Extant literature talks about two similar concepts: tax ethics and tax morale. Tax morale is defined as “the moral principles or values that individuals hold about paying their tax” (Alm and Torgler, 2006, p. 228). Tax ethics/morale suggests that it depends on an individual’s intrinsic motivation to behave ethically with respect to the tax compliance that essentially means that if tax ethics/morale increases, tax compliance would also increase (Wenzel, 2005a).

Tax morale has been investigated from various perspectives such as demographic factors that include age, gender, marital status, education and income (Alm and Torgler, 2006; Alm *et al.*, 2006). It has been found in various studies that older individuals are more compliant than their younger counterpart (Dubin and Wilde, 1988; Hanno and Violette, 1996). The relationship between gender and tax has also been studied and claimed that women are more compliant than men (Brooks and Doob, 1990; Collins *et al.*, 1992; Jackson and Milliron, 1986).

McGee (2006) discussed the three views on the ethics of tax evasion, namely, it is never ethical, it is never unethical and it may be ethical depending on the facts and circumstances. The justification for the first view (tax evasion is never ethical) says that there is a “duty towards God, state or some segment of the community” (McGee, 2006, p. 17). Scholars following the second view (tax evasion is never unethical) argue that all the governments are illegitimate and unworthy of receiving the tax.

There are several studies that investigated the tax morale in different cultural settings and countries (Alm and Torgler, 2006; Alm *et al.*, 2006; Torgler, 2003; Torgler, 2006). These cross-cultural studies attributed the differences in the tax morale to the differences in the social and institutional factors such as a trust for social institutions and national pride.

Some other researchers also explored the psychographic factors to explain the tax (non) compliance behavior. Ghosh and Crain (1995) found that the non-compliance is negatively related to the ethical standard and risk averseness of taxpayer, which means that higher the ethical standard and risk averseness, less would be the intention for noncompliance. Trivedi *et al.* (2003), in their study, explored the relationship between a tax (non)compliance behavior and moral reasoning, value orientation and risk preference and found these three variables to impact significantly the tax (non)compliance behavior. Maciejovsky *et al.* (2012) claimed that individuals who rely on cognition are less sensitive to tax fines as compared to individuals who rely on affect. Many scholars explored the social factors that can be used to explain tax ethics. Bobek *et al.* (2013) identified four distinct social norms constructs (personal norms, subjective norms, injunctive norms and descriptive norms) that affect the tax compliance behavior. All these social norm constructs were found significantly correlated to the tax compliance behavior, but only personal norms and subjective norms directly affected the tax compliance intentions, whereas injunctive and descriptive norms affect the tax compliance behavior indirectly. Wenzel (2005a), in their cross-legged panel study, tried to investigate the causal role of ethics and norms in tax paying behavior. He found that both ethics and social norms affect tax compliance.

Apart from these, several other studies used various ethics-related construct to explain the tax (non)compliance behavior, such as ethical standards (Ghosh and Crain, 1995), ethical orientations and evaluations (Henderson and Kaplan, 2005), justice (Braithwaite, 2003; Taylor, 2003; Wenzel, 2003), moral reasoning (Trivedi *et al.*, 2003) and sense of duty (Molero and Pujol, 2012).

The above literature related to tax ethics and tax morale supports the important role of ethics in tax-related decision-making. It also lends support to our discussion on the role played by ethics in consumers’ decision to participate in CTE. But with the exception of few (Bobek and Hatfield, 2003; Culiberg and Bajde, 2014), most studies have taken a partial view

of the role played by ethics in tax (non)compliance. They have either looked at ethical concepts as outputs or as antecedents. In this paper, we intend to understand the psychological process leading to the tax (non)compliance decision.

3. Conceptual model

As most of the studies have looked at the tax evasion either from reporter's perspective or from collector's perspective, they simply overlooked the role a consumer plays in CTE by paying in cash and not taking receipts. The involvement of the consumer makes this dyadic relation between the seller and state a triadic one. The involvement of a consumer decides whether CTE happens. If the consumers are aware-enough to ask for bills during their purchase, then the sellers will have to compulsively abide by the tax rules and regulations. In such situations, the role of government will be limited to make people aware of the harmful effects of CTE. There will be no requirement of monitoring the businesses for possible evasion of tax. The process of collecting the tax will work smoothly without any government intervention.

The first big challenge for researchers is to understand the extent to which consumers realize that their purchase behavior is contributing to CTE. If the consumers are not aware of the ethical content of their decisions, then there is a huge problem. Customers' ethical awareness is the first step required to curb CTE. The second challenge is to identify the linkage between moral recognition and intention. Researchers need to understand whether the moral recognition of participation in CTE actually leads to consumer intention to avoid participation in CTE.

So, the literature gap we intend to address is twofold. First, we focus our research on the role played by consumers in CTE. Unlike earlier studies, which have investigated the role of tax reporters and tax collectors, we focus on the important role of consumers. Second, our research focuses on understanding the ethical decision-making process of a consumer. The ethical decision-making process includes two important parts. One is the recognition of the ethical content, and other is the intention to act as per belief. It is important to know whether consumers perceive participation in CTE as a moral issue. Their recognition of moral issue with respect to CTE will decide their future behavior. If consumers treat participation in CTE to be a moral issue, then it is very important to understand whether consumers' recognition leads to moral intention.

We will be looking at the extent to which consumers identify participation in CTE as a moral issue. We will also be investigating the impact of consumers' attitude toward the government and their religiosity on ethical decision-making, i.e. their participation in CTE. By doing that, the proposed study will extend the model proposed by [Culiberg and Bajde \(2014\)](#) by incorporating the religiosity and attitude toward government as determinants for consumers participation in CTE, which to the best of our knowledge has not been tested till date.

We are drawing on the cues from differential association theory to propose a conceptual model for our study. Differential association theory proposes that people learn negative behavior during interaction with others ([Church et al., 2012](#)). Others can influence a person's interpretation of acceptable and unacceptable behavior through cultural and social mediums ([Kadic-Maglajlic et al., 2017](#); [Sutherland and Cressey, 1970](#)). Based on this proposition, we argue that when an individual observes wide acceptability of certain unethical behavior in the society, then the likelihood of that individual's participation in that unethical act increases. In our case, we propose that general attitude toward government and religious belief of consumers will have an impact on consumers' moral recognition and intention to

engage in CTE in the form of a cultural and social vehicle. Figure 1 represents the conceptual model of the study.

Following section of the paper deals with the hypothesis development.

4. Hypothesis

4.1 Religiosity and tax compliance behavior

A number of studies have discussed the ethics from the religion perspective (Elçi *et al.*, 2011; Parboteeah *et al.*, 2008; Putrevu and Swimberghek, 2013; Schneider *et al.*, 2011; Torgler, 2006; Vitell, 2009). Religion shapes an individual’s behavior by prescribing the acceptable behavior within a boundary. Religion often provides a code of conduct derived from religious scriptures such as Bible and Koran. These scriptures give a general understanding of what is wrong and what is right. However, the relationship between religion and ethical behavior is still non-conclusive (Tittle and Welch, 1983; Weaver and Agle, 2002). Some studies have found that there was no difference in ethical behavior of a religious and non-religious person (Hood *et al.*, 2009; Smith *et al.*, 1975). Similarly, the results were contradictory for business ethics context. Kidwell *et al.* (1987) concluded that there is no relationship between religiosity and ethical judgments of managers, whereas Agle and Van Buren (1999) reported a positive relationship between religiosity and corporate social responsibility. Vitell and Paolillo (2003) found indirect support for the claim that religiousness determines consumers’ ethical beliefs. These variations in findings led Hood *et al.* (2009, p. 341) to comment that research between religion and ethics is “something of a roller coaster ride”.

There are several studies which have investigated the role of religion in tax paying behavior (e.g. McGee, 2006; McGee and Tyler, 2006). Although the consumers are not taxpayers, they have an important role that indirectly impacts the tax payment by businesses. So, we argue that it is important to understand the effect of the religious affiliation of a consumer on his decision to participate in CTE.

In literature, religion has been studied in two different aspects, namely, religious affiliation and religious belief (religiosity). Many researchers argue that as religious affiliation does not provide a stable measure of the influence of religion on consumer behavior, other forms of religious identity such as the psychological and behavioral aspect of individuals with specific historical religious movements should be used in measuring the effect of religion. To address these challenges of measurement, researchers introduced the concept of religiosity. They argue that effects of religion on consumer behavior depend on the level of religious intensity placed by an individual in his life rather than just religious affiliation. Religiosity is defined as “the degree to which a person adheres to his or her

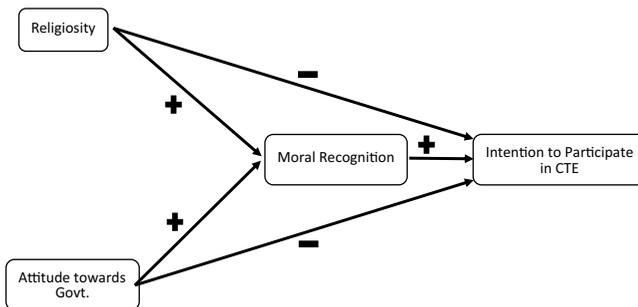


Figure 1.
Conceptual model

religious values, beliefs, and practices, and uses them in daily living” (Worthington *et al.*, 2003, p. 85).

It was found that religiosity has a positive correlation with ethical behavior (Vitell and Paolillo, 2003; Sarwono and Armstrong, 2001). Religiosity has also been studied in tax evasion context by many researchers (Richardson, 2008; Torgler, 2003, 2006), but in the case of CTE, the role of religiosity is yet to be explored. It was found that a highly religious person tends to follow doctrines and teaching of his/her religion more closely and also obey the rules and codes of conducts set by the religious doctrines (Swimberghe *et al.*, 2011), which would positively influence the taxpaying behavior. Hence, we hypothesize that a person having a high affinity for his/her religious belief would have an intention to refrain from participating in CTE.

The moral intentions of a person are subject to the existence of moral recognition of an issue. The religiosity of a consumer can have an impact on his intention only if he recognizes that his participation in CTE is morally wrong. The religiosity will help consumers identify ethical content involved in CTE and will motivate him to avoid such unethical behavior. We argue that the moral recognition will act as a mediator between religiosity and intention to participate in CTE.

H1a. Religiosity will negatively influence consumers’ intention to participate in consumption tax evasion (CTE).

H1b. The relationship between religiosity and intention to participate in CTE will be mediated by moral recognition.

4.2 Attitude toward government and tax compliance behavior

In the CTE context, this research expands our scope from dyadic to triadic. We bring in consumers into the dyad of government and business. Here, the consumer is not directly related to the government and also not legally obliged to pay taxes; it is the seller who is responsible for paying taxes. Nevertheless, consumer participates in this tax evasion by not taking the receipts for his cash purchase knowingly or unknowingly. In this manner, the consumer is equally responsible for tax evasion. As we are exploring the relationship between consumer and business, on the similar ground, we also intend to explore the effect of the relationship between government and consumer.

The relationship between the consumer and government may influence the tax morale. Trust and attitude toward the government are found to be the key determinants of taxpaying behavior (Torgler, 2007). Many other studies have found a positive impact of trust in tax administration and government on tax compliance behavior (Feld and Frey, 2007; Torgler, 2003). Kirchler *et al.* (2008) found that a higher level of trust held by taxpayers leads to a higher level of voluntary tax compliance.

In the context of our study, we are interested in knowing the impact of consumers’ attitude toward government. If the consumer attitude toward government is positive, we hypothesize that the consumer will avoid participating in the CTE. Positive attitude toward government will increase consumer intentions of involvement in a tax compliant behavior.

The moral recognition of an ethical issue involved in a situation is required before taking any decision. The consumer should identify the moral issue involved in CTE to take an ethical decision. Only when a consumer has a positive attitude toward government, he will think about supporting the government in the collection of taxes. Consumers should first realize that participation in CTE is unethical before taking any corrective action. On these

lines, we argue that moral recognition will mediate the relationship between consumer attitude toward government and intention to participate in CTE.

H2a. Attitude toward the government will negatively influence consumers' intention to participate in CTE.

H2b. The relationship between attitude toward government and consumers' intention to participate in CTE will be mediated by the recognition of ethical issues involved in CTE.

H2c. Recognition of the ethical issue will negatively influence consumers' intention to participate in CTE.

5. Methodology

We tested the conceptual model in the Indian context. An initial qualitative study was done to adapt the existing scales in the current setting. In total, 12 respondents were interviewed for understanding their perception about the CTE, which helps in ascertaining whether CTE exists in the current context of the study. Following the in-depth interview, a survey was designed to administer through email. The questionnaire was mailed to 300 respondents, and 128 participants responded to the mail with a filled questionnaire. A qualifier question was added to the start of the survey for ensuring responses only from the individuals who encountered the phenomenon in past six months. Respondents were aged between 18 and 45, and 79 were men.

5.1 Measures

Existing scales were adopted to measure the constructs mentioned in the conceptual model. Intention to participate in CTE was measured through the scale used by [Culiberg and Bajde \(2014\)](#). Moral recognition was measured by single item scale developed by [Singhapakdi et al. \(1996\)](#). Religiosity was measured by the ten-item scale developed by [Worthington et al. \(2003\)](#). A modified four-item scale was used for measuring the attitude toward government developed by [Frey and Weck-Hanneman \(1984\)](#) (cited in [Alm and Torgler, 2006](#)).

An initial qualitative descriptive analysis revealed that more than 85 per cent respondents took part in CTE by paying without receipts. After this preliminary descriptive analysis, structural equation modeling was used with SmartPLS 3 software package. Structural equation modeling provides the opportunity to test the model as a whole and puts fewer restrictions in terms of sample size and assumptions about the data properties.

Measurement model was tested at first to ascertain the relationship between the latent variables and their indicators. After that, the structural model was tested for a relationship between latent variables in the conceptual model.

6. Results

6.1 Measurement model

Confirmatory factor analysis (CFA) was conducted using PLS. CFA helps in assessing the reliability, convergent validity and discriminant validity of the constructs in the measurement model. We followed the guidelines from previous studies for measurement model analysis ([Fornell and Larcker, 1981](#); [Gefen et al., 2000](#)). [Table I](#) gives the measurement model properties.

In measurement model, the reliability was assessed through Cronbach's α and composite reliability. Both composite reliability and Cronbach's α were above the recommended cut-off of 0.70 (Fornell and Larcker, 1981; Nunnally and Bernstein, 1994).

The factor loadings and average variance extracted (AVE) were used to assess the convergent validity. Fornell and Larcker (1981) suggested that for convergent validity, factor loadings need to be greater than 0.70 and AVE should be more than 0.50. After performing CFA, we dropped three items in religiosity and one item in attitude toward the government because their factor loadings were below the recommended cut-off value of 0.70. Final factor loadings and AVE are reported in Table I.

For assessing the discriminant validity, we followed the Fornell and Larcker (1981) recommendation, which says that higher AVE of the individual construct than shared variances reflects convergent validity (Fornell and Larcker, 1981). Results in Table II indicate adequate discriminant validity.

6.2 Structural model

Structural model assessment gives the path loadings and the significance of paths between the latent variables within the conceptual model. Figures 2 and 3 present the path coefficients and *t*-statistics, respectively. It is evident that religiosity influences consumers' intention to participate in CTE negatively. Thus, *H1a* is supported. Although we found a significant relationship between religiosity and moral recognition, there is no relationship between moral recognition and intention to participate in CTE. To test *H1b*, which is mediation of moral recognition between religiosity and intention to participate in CTE through moral recognition, we look for the significance of indirect path; it turns out to be insignificant. Thus, *H1b* is not supported. Similarly, *H2b*, which was mediation of moral recognition between attitude toward government and intention to participate in CTE, got rejected because of the insignificant indirect effects. Values of both indirect paths have been reported in Table III. We found that there is a significant relationship between attitude

Table I.
Reliability and validity

Construct	Reliability and validity	Items	Loading
Religiosity	AVE = 0.593 Composite reliability = 0.910 Cronbach's α = 0.887	Rinter1	0.807
		Rinter2	0.734
		Rinter3	0.810
		Rinter4	0.805
		Rintra3	0.751
		Rintra4	0.769
Attitude toward government	AVE = 0.711 Composite reliability = 0.880 Cronbach's α = 0.799	Rintra5	0.707
		ATG2	0.837
		ATG3	0.825
		ATG4	0.866

Table II.
Discriminant validity

Fornell-Larcker criterion	Attitude toward government	Intention to participate in CTE	Moral recognition	Religiosity
Attitude toward government	0.843			
Intention to participate in CTE	0.176	1.000		
Moral recognition	0.252	0.031	1.000	
Religiosity	0.348	-0.131	0.256	0.770

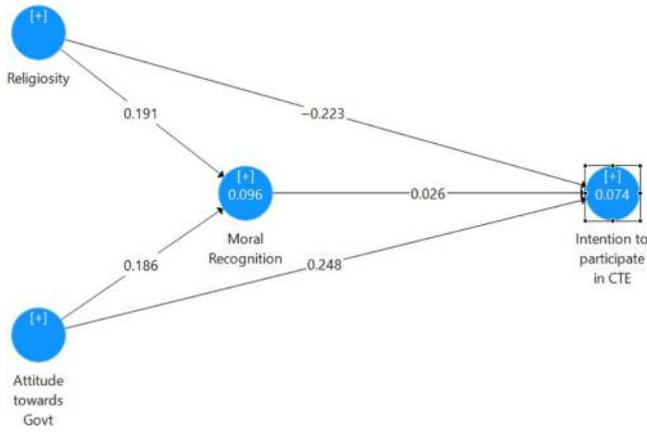


Figure 2. Path coefficients

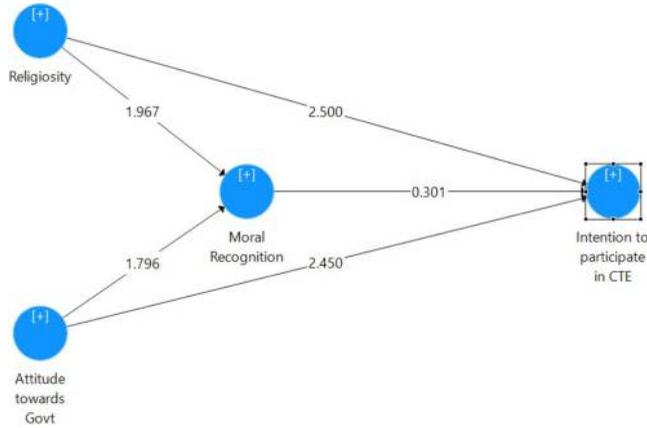


Figure 3. t-statistics

Path	Original sample (O)	Sample mean (M)	Standard error (STERR)	t-statistics (O/STERR)	p-value
Religiosity → intention to participate in CTE	0.005	0.005	0.019	0.247	0.805
Attitude toward government → intention to participate in CTE	0.005	0.004	0.020	0.245	0.806

Table III. Indirect effects

toward government and intention to participate in CTE, supporting *H2a*. However, *H2c* is not supported in our model.

7. Discussion

Shadow economy and CTE are ubiquitous across the globe. In times of economic downturns and instabilities, the detrimental effect of CTE increases many folds. Governments attempt

to reduce CTE, but achieve limited success. The existing rules and regulations were unable to control CTE. In research on taxation, little attention has been paid to all the parties involved in CTE. In this study, we explored the decision-making process of consumers in CTE. Consumers play a decisive role in the collection of consumption-related taxes. The cash payments without receipt by consumers provides businesses with an opportunity to evade taxes. The positive participation by consumers can easily eradicate this illegal practice. This paper extends the work done by previous studies on CTE by focusing on the consumer decision-making process and its antecedents. In India, the CTE is quite rampant, and it offers a suitable context to conduct this study. Moreover, India is an emerging economy and can offer some new insights in research on CTE.

We demonstrate that moral recognition is not a problem with Indian consumers participating in CTE. Consumers were able to recognize the ethical content in CTE. Moral recognition is an important step toward reducing consumers involvement in promoting CTE. The problem lies in the linkage between moral recognition and intention to participate in CTE. Although the consumers recognize participation in CTE as morally wrong, still they showcase intentions to continue participating in CTE. The results of our study are in contradiction with those reported by [Culiberg and Bajde \(2014\)](#), who found that moral recognition will decrease customer intention to participate in CTE. These findings are in line with the literature, which claims that moral recognition is a necessary but not sufficient condition for moral intentions or moral behavior.

The decision-making process of a consumer is affected by many other factors such as religiosity and attitude toward government. The religiosity of a consumer helps him in identifying the moral issues involved in his participation in CTE. Religious consumers easily realize that tax evasion is happening because of them and it is wrong on their behalf to be involved in such practices. We also found that religiosity negatively influences consumers' intention to participate in CTE, which means that consumers scoring high on religiosity construct will show lower intention to participate in CTE. This finding is in line with previous studies on religiosity and ethical decision-making.

Another factor which was found to be considerably affecting the consumer decision-making process is consumers' attitude toward government. The direct beneficiary of tax collection is the government. It was found that a consumer's attitude toward government decides his behavior toward tax collection. The negative attitude toward government increased the consumer intention to participate in CTE. But, we were unable to find the effect of negative attitude toward the government on recognition of participation in CTE as a moral issue. It indicates that the attitude of a consumer toward government does not obscure his recognition of moral issues. Even when the consumers do not have a good perception of the government, still they are able to identify the moral issues in their behavior directed toward harming the government.

In this paper, we were unable to find one linkage well established in the literature, that is, the effect of moral recognition on intention to participate in CTE. Consumers' negative attitude toward government may explain this inconsistency with existing literature. When a person has a negative perception of government, he will try to harm the government or will refuse to sacrifice anything for the sake of government. If a consumer is getting benefit by way of discounts for participation in CTE, he will not forego that benefit when his attitude toward government is negative. Even when consumers are not getting any benefit from participation in CTE, they will still continue doing so to harm the government. So, even when a consumer recognizes that the participation in CTE is unethical, he will continue doing so to harm the government. The moral recognition will not lead to intention to avoid participation because of negative attitude toward government. The attitude toward

government also plays an instrumental role in the nonsignificant relationship between religiosity and intention to participate in CTE. It is a typical case where the social norms prevail over personal norms. The effect of religiosity of a consumer is negated by the attitude toward the government. The attitude toward government may be one of the reasons for not finding any impact of moral recognition on intention to participate in CTE.

Our study highlights the decision-making process of consumers when they form intentions to participate or not to participate in CTE. We also came to know about other factors, such as religiosity and attitude toward a government, that impact the different parts of the decision-making process. The Indian context has thrown light upon the role played by the attitude toward government in obscuring the effect of religiosity and moral recognition on moral intention.

8. Implications

In this study, we contribute to the literature by exploring the indirect role played by a customer in a moral issue. We found that even when a customer recognizes the moral content involved in participation in CTE, the intention to continue the same practice remains. We further enrich the literature by exploring the effect of religiosity and attitude toward the government on customers' indirect participation in tax evasion. These two factors have important implications for the ethical decision-making process of a consumer.

Our findings also have many practical implications for governments. The policy-makers in government need to address different challenges for increasing tax collection. First, governments should include consumers as stakeholders in the collection of consumption tax. Consumers control a key position in the tax collection system. If the consumers have an intention to ask for a receipt for every cash transaction, it will become very difficult for businesses to evade tax. The consumer-initiated consumption tax collection is the most cost-effective option.

The ethical decision-making process is triggered by moral recognition. Consumers very well recognize the moral issues involved in CTE participation but fail to form an intention. The government should move a step further and make consumers realize the negative consequences of CTE by way of social marketing campaigns. The social consequences in the form of inadequate education and declining health benefits can motivate consumers to avoid participation in CTE.

Finally, the finding related to attitude toward government provides a roadmap to the government on how it can foster the trust among the citizens toward the government and make them understand the ill effects of their participation in CTE on society at large. The government needs to correct its own image in the mind of the public.

9. Limitations and future research

There are several limitations in our study which could result in some future research ideas. First, we used cross-sectional data in our study, which provide us results relevant to the particular point of time. It is difficult to track changes in the decision-making process over a period of time. Future research should use longitudinal data.

Second, we only tested the impact of two factors, namely, religiosity and attitude toward government, on the ethical decision-making process. There are many other factors, such as social norms and personality traits, that can influence consumer participation in CTE. Future studies should include more factors in the model. The factors not included in the model should be controlled for better results.

Third, we collected data from one country, so it is difficult to generalize the results. Future endeavors should conduct a cross-cultural study for more reliable results. The cross-cultural context may also bring some new insights to the model.

10. Conclusion

The ethically questionable behaviors of one stakeholder are impacted by the behaviors of other stakeholders. Sometimes, we fail to have a wholesome view of a situation, because we miss on the role played by some stakeholders. Consumers' ethical behavior indirectly plays a decisive role in determining the collection of taxes for the government. The consumers are facilitating the tax evasion by traders. Although consumers recognize moral issues involved in their participation in CTE, the recognition fails to impact their ethical intentions positively. We need to consider all the important factors, other than religiosity and attitude toward government, impacting consumers' ethical decision-making process to understand their intentions.

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