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Understanding tax morale of SMEs: A qualitative study

Recep Yücedoğru¹ and John Hasseldine²

Abstract

This article investigates the factors that influence Small and Medium-Sized enterprises' (SMEs) tax morale and focuses on the factors that stem from concerns of SME owner-managers about their company's wellbeing that may influence tax morale. Prior literature suggests that there are six relevant factors/constructs that influence SMEs' tax morale, namely: compliance costs, professionalism, tax advisors' effect, company structure, size of economic obligation and risk aversion. Drawing on a conceptual model of tax morale, we utilise an exploratory qualitative methodology and provide findings based on a thematic analysis of twenty semi-structured interviews with SMEs owners-managers in Turkey. Our study contributes to the literature by explaining the six constructs and by being one of the very few research studies of tax morale in SMEs in a non-western country.

Keywords: tax morale, SMEs, risk aversion, compliance costs, qualitative analysis, interview analysis

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1. INTRODUCTION

Identifying and understanding the causal variables of voluntary tax compliance has been an interest of many tax scholars over the last several decades. The extant literature discusses many independent variables of taxpaying behaviour, including: those derived from expected utility models of tax evasion such as tax audits and the fear of being caught and penalised (Allingham & Sandmo, 1972; Andreoni et al., 1998; McKerchar & Evans, 2009), compliance costs (Hasseldine, 2001), and equity and fairness of the tax system (Spicer & Becker, 1980). Nevertheless, moral and cultural motivations of taxpaying behaviour which can play an effective role on taxpayers' compliance are relatively underexplored (McGee, 2006; Torgler, 2007). Specifically, in the tax morale literature, nearly all prior research has focused on the tax morale of individuals (Pope & McKerchar, 2011). There are only very few exceptions to our knowledge such as the studies of Alm and McClellan, (2012), Ahmed and Braithwaite (2005), Abdixhiku, (2013) and Mickiewicz et al., (2012) which investigated the tax morale in the firm level. Despite very few exceptions in the literature (Ahmed & Braithwaite, 2005), there are no studies which have especially focused on SMEs tax morale and its effect on their taxpaying behaviour.

Given this literature gap, our study addresses tax morale at the firm level. Specifically, we target SMEs, due to their importance and overall economic contribution in many OECD countries (OECD, 2014). For instance, in Australia, UK, and Turkey, 67 per cent, 60 per cent and 73 per cent of the labour force, respectively, is employed by SMEs, and SMEs account for more than 95 per cent of all businesses in these countries (OECD, 2014).

In contrast, the contribution of SMEs to total tax revenues is much smaller than their share of the work force. The Pay As You Earn (PAYE) contribution of SMEs in the UK was only 21 per cent in 2011 (Ward & Rhodes, 2014). Similarly, SMEs' contribution to Turkey's corporation taxes was just 29 per cent in 2014 (OECD, 2014).

Tax compliance research has neglected SME taxpaying behaviour as a research topic and an analysis of the factors that affect SME tax compliance and tax morale could prove useful for policy development and tax research. Additionally, this study aims to contribute to tax morale research by examining an unexplored culture: Turkey. According to Torgler (2003), culture has a significant effect on individuals' tax morale and as the majority of current tax morale research has been conducted on Western societies, which have mainly Christian backgrounds (Pope & Mohdali, 2010), there is a gap in the literature for Muslim societies. Hence, in this respect Turkey represents a different cultural context with a majority Muslim population.

This study analyses qualitative data gathered from interviews with twenty SME owner-managers in Turkey in order to investigate the factors that influence tax morale at the SME level. Although there are some factors highlighted in the literature as drivers of tax morale of individual taxpayers such as religiosity (Boone et al., 2013; Torgler, 2006), fairness (Gerbing, 1988; Hartner et al., 2011) and patriotism (Konrad & Qari, 2012; MacGregor & Wilkinson, 2012), we discuss tax morale from a firm perspective by focusing on the factors that affect the corporate tax morale of SMEs.

Corporate constructs/factors that influence SMEs' tax morale have not, hitherto, been addressed in prior literature, with the exception of a few studies such as Alm and

McClellan (2012) and Yucedogru (2013). Particularly, the latter study identified corporate factors as normative beliefs of owner-managers of SMEs about their company and its wellbeing. Hence, the factors that stem from the concerns of a company's wellbeing can influence the SME tax morale. The factors were identified from the extant tax literature were listed as compliance costs, professionalism, tax advisors' effect, company structure, size of economic obligation and risk aversion. Hence, this study is an investigation of these six factors through qualitative analysis in a primarily Muslim population, which is rarely discussed in the tax literature.

This article is structured as follows. Section 2 outlines prior literature on tax morale from a SME perspective. Section 3 explains details methodological considerations and analysis of our interviews. Section 4 presents our results supplemented with narrative quotes and the last section contains our concluding remarks.

2. TAX MORALE LITERATURE

2.1 Background research

Tax morale research stems from the tax compliance literature. One of the first definitions of tax compliance was framed by Jackson and Milliron (1986, p.128) who defined a compliant taxpayer as a person who files an 'accurate, timely and fully paid return without Internal Revenue Service enforcement efforts'. This broadly represents the definition provided by the US Internal Revenue Service (IRS) in relation to the reporting obligations of taxpayers:

Compliance with reporting requirements means that the taxpayer files all required tax returns at the proper time and that returns accurately report tax liability in accordance with the Internal Revenue Code, regulations and court decisions applicable at the time. (Roth et al., 1989, p.43.)

Although tax compliance is commonly acknowledged as meeting with requirements, non-compliance is more nuanced and relates to failures in meeting the obligations of tax law regardless of whether these behaviours are intentional. Therefore, some scholars define tax compliance on the basis of tax non-compliance (Torgler, 2007). Nevertheless it can be argued that both definitions fail to incorporate taxpayers' motivation and social conditions towards taxpaying behaviour that may cause non-compliance or over-compliance, and non-compliance. Hence, the motivation of tax compliance has gained prominence in the literature.

2.2 Development of tax morale literature

Tax morale as a term, was coined in the 1960s by Schmolders (1960) and Strümpel (1966) and demonstrated in the work of the Cologne School of Tax Psychology. They emphasised that tax morale is a crucial factor to explain tax compliance (Alm & McClellan, 2012). While it was first stressed in the 1960s, it was not until criticisms of economic deterrence models of tax compliance surfaced (for example, Frey & Feld, 2002), that published studies of tax morale became more widespread (Torgler, 2007). Consensus in the literature defines tax morale as an *intrinsic motivation* to pay taxes (Frey, 1994; 1997; Torgler, 2007). Nevertheless, 'willingness' does not refer to *intention* behind the taxpaying behaviour. Therefore the literature links tax morale

with other constructs such as ‘social norms’ (Alm et al., 1999), perceptions of ‘power’ and ‘trust’ (Kirchler et al., 2008) and ‘fiscal exchange’ (Feld & Frey, 2002).

Tax morale and related constructs, such as social and moral aspects of taxpaying behaviour, are not widely discussed in the literature (Frey & Torgler, 2007; Kornhauser, 2006; Alm & McClellan, 2012). Further, as most prior work has taken place within Western economies, a gap in the literature to study tax morale in a non-western society, such as Turkey, became more apparent as some of the literature already suggests (McGee et al., 2011; Tekeli, 2013).

Ahmed and Braithwaite (2005) were one of the first to investigate tax morale in a small business context. They used survey data on Australian small firms to test tax morale with other constructs such as procedural fairness. They found that tax morale did not differ from any other group of taxpayers however they found evidence that small firms viewed interventionist tax policies as an obstacle. Alm and McClellan (2012) analysed firm tax morale using the Business Environment and Enterprise Performance Survey and the World Enterprise Survey for 8500 companies in 34 countries. They tested whether factors closely related to the corporate perspective were obstacles to firms’ tax morale. They found that the tax morale of firms corresponds with the findings of prior research conducted on individuals, when they tested for: tax complexity, government trust and tax inspection effects on tax morale. They noted that tax inspection had no significant effect while all other factors significantly correlated with tax morale which they measured as sympathy towards taxpaying.

Mickiewicz et al. (2012) use Latvian small business owners to examine tax morale as a dependent variable while testing for the effects of trust in formal institutions, tax system fairness, national identity, social norms and perceptible deterrence. They found that all constructs are positively correlated with tax morale except the likelihood of being caught from unreported income.

Although prior literature examines concepts related to tax morale at a corporate level, such as tax evasion (Alm et al., 2014; Crocker & Slemrod, 2005; Marrelli & Martina, 1988; Slemrod, 2003; Yusof et al., 2014), apart from the three examples cited above, literature that investigates tax morale at a corporate level is very rare, which is a motivation for the present study.

2.3 Tax morale factors

A comprehensive understanding of how tax morale is shaped and what factors are influential on shaping it is an important task for tax researchers. However, the literature is limited (Alm & McClellan, 2012; Torgler, 2012). Feld and Frey (2002) discuss this gap in the literature:

[M]ost studies treat ‘tax morale’ as a black box without discussing or even considering how it might arise or how it might be maintained. It is usually perceived as being part of the meta-preferences of taxpayers and used as the residuum in the analysis capturing unknown influences to tax evasion. The more interesting question then is which factors shape the emergence and maintenance of tax morale. (Feld & Frey, 2002, pp. 88–89.)

Kornhauser (2006) correctly points to the direction of tax morale through ‘carrot’ factors rather than ‘sticks’ for encouraging tax compliance. Accordingly, tax morale correlates with tax compliance in many studies (Ahmed & Braithwaite, 2005; Alm & McClellan, 2012; Babu & Chariye, 2015; Frey, 1997; Frey & Torgler, 2007; Halla, 2010; Kornhauser, 2006; Lewis, 1979; McKerchar et al., 2013; Pope & McKerchar, 2011; Riahi-Belkaoui, 2004; Strümpel, 1966; Torgler, 2002; Torgler et al., 2008b, 2009; Vogel, 1974; Yew et al., 2015).

There are, however, some studies that show the relationship between tax morale and the particular factors/constructs that affect it, such as characteristics of taxpayers that are found to influence tax morale (Daude et al., 2012; Torgler, 2005). Aside from individual characteristics, prior literature discusses different key factors that may influence tax morale. Torgler (2007) highlights three key factors, namely: moral rules and sentiment, fairness and the relationship between government and taxpayer. The literature also discusses the effect of religiosity and finds it to affect tax morale (Boone et al., 2013; Stack & Kposowa, 2006; Torgler, 2006). In addition to religiosity, cultural differences are also found to influence tax morale (Alm & Torgler, 2006; Ashby & Webley, 2008; Coleman & Freeman, 1997). Furthermore, the literature shows that a high level of trust towards government motivates taxpayers and increases their tax morale, hence lifting voluntary compliance (Aguirre & Rocha, 2010; Feld & Frey, 2002; Torgler, 2003). Similarly, satisfaction with the government and received service from the tax authority also positively encourages taxpayers to comply with tax regulations (Adams et al., 1996; Mulenga, 2004; Vigoda-Gadot, 2007).

With some notable exceptions, prior literature has generally not offered a wide range of conceptualisation on how tax morale is shaped. One of the first frameworks was introduced by Pope and Mohdali (2010) who divided factors that can affect tax morale into external and individual categories. According to their model, the external environment consists of government (tax administration, legislation) and society (culture, traditions) which influence individual attitudes of taxpayers. Individual attitudes are considered as moral and religious beliefs. However in the model, the difference between moral and religious beliefs is not clearly delineated and relevant elements of intrinsic payment of taxes such as fairness perceptions (Torgler, 2007), patriotism, and ideological perceptions of government are ignored.

Pope and McKerchar (2012) then developed a conceptual model of tax morale which addresses tax morale as a phenomena that can reveal taxpayer over-compliance which economic deterrence models fail to explicate. Their model of tax morale comprises six variables; individual attitudes, family and friends, religious beliefs, society, tax administration and government tax policies. The model does not explain whether the six variables influence tax morale positively or negatively (presumably this would be determined through empirical testing).

The tax morale of SMEs is relevant to the compliance decisions of corporate taxpayers’ concerns which may be different to those of individual taxpayers. Consequently, a different set of constructs/factors is more likely to be effective on their tax morale. This different set of constructs/factors can be defined as company related concerns which company owner-managers take into account while they are managing their company.

Yucedogru (2013) models SME tax morale based on Ajzen's (1991) theory of planned behaviour. The main rationale of the model is to explain SMEs' tax morale as a result of the decision-making process of owner-managers by highlighting the two different roles of SME decision makers as a manager and an individual.

As an individual, SME owner-managers make their managerial decisions under the influence of their personal beliefs, norms and social positioning (personal norms). However, in parallel to personal norms, SMEs bring them the responsibility and accountability of a firm. Therefore, alongside personal norms, owner-managers feel the pressure of additional factors essential to SMEs' survival. Consequently, the model (see Appendix 4) presents these factors as 'corporate norms' and identifies these as compliance costs, professionalism, tax advisors' effect and company structure. Additionally, perceived behavioural control factors that are explained as SMEs' ability to exhibit tax morale in their taxpaying decisions is also incorporated under these corporate factors because the size of economic tax obligations and risk preferences are related with SMEs rather than the personal stance of owner-managers.

The focus of this study is the six factors posited to influence SMEs' tax morale:

1. *Compliance costs* refer to the level of cost that the SME manager thinks his/her company has to bear to meet with the regulations of the tax law
2. *Professionalism* refers to an ability of the SME to employ capable staff and resources to comply with the tax system
3. *Tax advisors' effect* explains the influence of the company's tax advisor on SME tax morale and compliance decisions
4. *Company structure* is the management structure and culture in the SME that affects how it reaches its decisions (for example, through its departments or via a family structure model heavily influenced by a small number of individuals)
5. *Size of economic obligation* is defined as the perceived size of tax burden that the SME has to afford
6. *Risk aversion* refers to the manager's perceived possibility of being caught evading tax on unreported income

In light of the literature above, this study aims to investigate the six factors on the tax morale of SMEs to shed light on the corporate side of the 'black box'. Specifically, it uses an exploratory qualitative approach to address the literature gap on the corporate factors influencing tax morale.

3. METHODOLOGY

The sample was selected from the database of Turkey's Small and Medium Enterprises Development Agency (KOSGEB) and the lead researcher selected fifty SMEs aiming to achieve wide coverage of the target population of this research. Therefore, SMEs were selected from three different cities in Turkey: Bursa, Istanbul and Ankara. In addition, sample representativeness was considered by selecting participants with different educational backgrounds, business experience and sectors.

Saunders et al. (2003) state that a structured interview is more appropriate for a descriptive or explanatory based study while a semi-structured interview is more suitable for exploratory based studies. They further argue that the in-depth interview is more useful for studies which are exploratory in nature and one of the most common qualitative approaches. This is probably due to its flexibility (Bryman & Bell, 2011) since even though the researchers has a list of questions and themes to be covered these may vary from one interview to the other (Saunders et al., 2003). It also has the ability to disclose important aspects of human behaviour (Qu & Dumay, 2011) because a semi-structured interview could reveal not only the 'what' and 'how' but also the 'why' (Saunders et al., 2003).

Selected SMEs who participated in semi-structured interviews were contacted by telephone based on the particulars provided by the agency. The details provided for fifty SME owner-managers were their name, telephone number, sector and number of employees. Participants were contacted in advance to explain the nature and process of the interview and to obtain their agreement to take part in the qualitative study. Thirty-two SMEs were contacted by phone and 29 agreed to be interviewed. Two pilot interviews were initially conducted to improve the interview guide before recorded interviews were conducted. Between 10 July 2013 and 31 August 2013, 20 interviews were conducted in Turkey. After these interviews were conducted, the researchers decided that the collected data was satisfactory and the saturation rule was applied (Glaser & Strauss, 1967). The saturation rule is described as the process in which the researcher continues interviewing new participants until there are no new theoretical insights derived from the additional data (Baker & Edwards, 2012). Hence, the remaining 18 participants were not contacted once the saturation rule was satisfied.

An interview protocol consisting of a list of questions based on the six constructs in the model was used as a guideline for each interview to ensure it was systematic and focused (Hunter, 2006; Patton, 2002; Qu & Dumay, 2011). Since the lack of standardisation in a semi-structured interview-based study may result in lack of reliability in its findings, interview protocols are helpful in improving reliability (Saunders et al., 2003). Despite the themes being determined a priori in the interview protocol, the nature of a semi-structured interview is flexible (Bryman & Bell, 2011), and allows some freedom for other themes to emerge during the interview which is relevant to understanding the taxpaying behaviour of SMEs. The interview protocol used in this study is provided in Appendix 1.

This article presents an analysis of 20 interviews conducted with SME owner-managers. The qualitative, semi-structured interviews were conducted with owner-managers from 11 different sectors, all with more than 10 employees. Interview length ranged from 36 minutes to 1 hour 25 minutes and all interviews were recorded following consent from the participants. Transcriptions were thematically analysed using NVivo 10 software. To preserve the anonymity, participants were assigned a case number from 1 to 20 and these numbers are used to refer to the participants in subsequent discussion. Interviews were conducted in Turkish because English is not commonly used in commerce, especially by SMEs. Demographic details of the participants and the length of the interviews are shown in Appendix 2.

Data was analysed using the steps suggested by Braun and Clarke (2006, p.87). First, the researchers transcribed the recording into written text. The second phase was the

process of coding the data according to the described framework, and third, finding related themes and analysing the themes to check for consistency.

The process of transcribing the recording is important because it reflects how the researchers interprets the data (Bailey, 2008). On average, it took approximately six to eight hours for the first author to transcribe the recording of each interview. This is because, as suggested by Bailey (2008), transcription involves close observation of the data through repeated careful listening to the audiotape. Since all interviews were conducted in Turkish, all analyses were run in the same language and the results of the analyses have been translated into English.

Validity in qualitative research is defined according to how accurate the data represents the realities of the interview participants toward understanding social phenomena (Creswell & Miller, 2000; Patton, 2002). One common method to determine validity in a qualitative study is to use the 'member checking procedure' (Creswell, 2009; Creswell & Miller, 2000; King & Horrocks, 2010). Member checking involves requesting the interview participants to confirm the credibility of the information by asking the participants to check the data, whether the themes are correct and the overall information is accurate (Creswell & Miller, 2000). Although the literature does not suggest a rule of thumb for the number of participants for member checking procedures, Creswell (2009) argues that a minimum of two members is preferred. In order to determine participants for the member checking procedure, the researchers emailed the interview participants with the information about the research aims and how the analysis is carried out and asked them about their participation. Three participants agreed to participate. Following the suggestion by Creswell (2009), the researchers requested those participants to check the transcripts, identified themes and their feedback as a procedure to determine the validity of the findings. The feedback confirmed validity and the feedback were used to increase the validity of the interview analysis. Lastly, expert feedback was used to determine the coding validity of the interview analysis. Expert feedback is highlighted in the literature as a quality checking procedure (King & Horrocks, 2010). Therefore the researcher preferred a tax academic to critically review the thematic analysis. The received feedback from the expert helped the researchers to develop thematic consistency. The expert evaluation provided positive feedback overall. In addition, the same expert was asked to check for the accuracy of the translation of the quotes that are used and suggested changes were made.

4. FINDINGS

In this section, the interview analyses based on six corporate factors of SMEs are provided. A common method that is as suggested by King and Horrocks (2010) was obtained for writing up results of the analysis. For each factor/construct, a brief literature review is provided at the beginning of each sub-section and thematic analysis of each factor follows. Quotes have been selected to illustrate and aid understanding of the thematic analysis.

4.1 Compliance costs

Scholars (for example, Hasseldine, 2001) often stress compliance costs as an influential factor for tax compliance and tax morale. Coleman and Evans (2003)

suggest that a heavy compliance burden negatively affects tax compliance and tax morale of small firms. Moreover, Alm (1988) notes that compliance costs might lead to tax evasion.

According to the OECD (2005), the general awareness of compliance costs in Turkey is considerably lower than the majority of OECD countries. Moreover, neither Turkish tax literature nor the Turkish revenue administration has quantified the compliance costs for small businesses.

The interview analysis revealed, consistent with the OECD's (2005) findings, that participants' awareness of compliance costs seemed to be low. In particular, 12 participants suggested that they did not acknowledge/identify the compliance costs that they have, rather they saw them as operational costs of their company. Furthermore, some admitted they have not previously considered these costs might be directly related with tax compliance. In this case, the researchers explained compliance costs as the level of cost that an SME owner-manager thinks his/her company has to bear to satisfy the tax law requirements. The following quotes were enlightening about the unidentified perception of compliance costs by the participants.

I have never thought these costs (Tax advisor cost) in that way before. (Participant 10)

We were not thinking tax advisor cost; bookkeeping costs and so on in that way (compliance costs), but we realised compliance cost recently as the requirements of the state have increased. (Participant 19)

The participants who were not aware of their compliance costs suggested that the approximate volume of these costs was lower than 1 per cent of their turnover after the interviewer briefly explained compliance costs. Thus, the awareness level of compliance costs might be correlated with the level of compliance costs. In other words, unawareness of tax compliance costs might be the result of inconspicuously low compliance costs for SMEs. Nevertheless, these participants did not show that their perception of compliance costs was influential in their tax morale/tax compliance.

During the interview analysis, seven participants insisted that compliance costs should not be understood as an additional burden because of their managerial benefits. They suggested that the cost that they have to bear in order to meet tax regulations, such as book keeping or consulting a tax advisor, is beneficial for them, not only for tax related purposes, but also for managing their firms.

Tax also helps us with knowing our business. For instance, am I keeping my books just for paying taxes? No, I want to see my position. Even if state tells me that he is no longer taxing my company, I would still bear these costs in order to get the benefits. (Participant 15)

I do not see them as harmful costs (meaning compliance costs). My staff, who are obligated to keep my books and arrange my tax duties, are also benefitting me on many other occasions. They are increasing my company's efficiency and quality. Thus, I see the money that I pay to them as useful costs and it does not bother me. (Participant 9)

Analysis also showed different approaches to compliance costs that are not strongly stressed in the literature. Participants 1, 5 and 9 mentioned that financing taxes heavily affects their compliance cost burden rather than other compliance costs. Financing taxes mainly referred to paying VAT which is due on the 26th of the following month after the invoice date of their sales. However, the average due date of invoices varies between two and four months in many sectors. Consequently, small companies that lack working capital find it difficult to pay their taxes on time because their taxes are due before their debtors pay.

Additionally, procedural difficulties to solve tax problems with the Turkish Revenue Administration (TRAD) were also mentioned as generating unforeseen compliance costs by participants 4 and 9, such as reaching authorised tax officers on duty, solving problems without dealing with further paperwork etc.

They (TRAD) flagged my 100 Turkish Liras (TL) tax debt into enforcement. For some reason, I had forgotten it. I had not remembered, nobody reminded me. I went there to pay the amount. I realised they put an enforcement annotation on three of my cars that is worth 90 000 TL in total. They sent me to two different enforcement offices to release the commitment first. I paid 90 TL to each. Then I came back and paid my overdue tax. It cost me half a day, which means more than ten times the amount I owe. I understand they can run enforcement but why not on one car, but three? Although, one single reminder would suffice to make me pay happily, they chose to make me spend half of my day. (Participant 4)

Participants were asked to assess the approximate percentage of their compliance costs relative to turnover. A majority (13) of the participants commented that their compliance costs were lower than 1 per cent of their annual turnover but not lower than 0.1 per cent. While three others claimed that their compliance costs were more than 1 per cent of their annual turnover but less than 5 per cent. Only four suggested their compliance costs were lower than 0.1 per cent of their annual turnover. Hence, lack of awareness might also be an indicator of the low level of the compliance costs in Turkish SMEs.

Overall, participants highlighted different perspectives on compliance costs, despite their low level of awareness. Some participants perceived managerial benefits of compliance costs for their firm, which might suggest that compliance costs can have an indirect positive influence on tax compliance. In addition, a few participants also highlighted issues of procedural difficulties and financing VAT payments as an obstacle to their tax compliance and tax morale. In short, although the majority of the sample shows compliance costs are not significant related to tax morale, analysis revealed some differential impact on tax compliance intentions.

4.2 Professionalism

Professionalism is defined as embracing staff and resources with a claim of specialised knowledge or practice in companies (Fournier, 1999). Tax literature commonly agrees that a lack of professional staff and resources negatively affects tax compliance (Alm and McClellan, 2012; Torgler, 2007). McLisky (2011) found evidence that taxpayers who suffer from a shortage of available resources are more likely to face tax

penalties. In support, Marrelli and Martina (1988) claim that staff capability in companies is negatively correlated with tax evasion.

Participants were asked about their understanding of professionalism and whether they would define their company as a professional one. In the sample, projections of professionalism vary amongst the participants. The majority of participants underlined similar aspects of professionalism such as carefully recording every transaction (14 participants), convenient traceability of assets (11 participants), professional management (eight participants), obtaining and implementing professional accounting standards (seven participants), employing highly skilled workers (13 participants), teamwork and having an ERP system that helps the organizational capacity of the company (12 participants).

I do understand professional company as a company that has certain rules and records. It also has determined borders of staff responsibilities. (Participant 12)

In professional companies, you can track every stock and every sale is recorded. Emotions generally come second. I do not think my company is like that. We are trying to get there. However, as I said, we are a family business and it is harder to get there in family businesses. (Participant 13)

Considering the wide definition/perception that appears from the interviews, it is not surprising to see eighteen participants not defining their companies as a professional one. Hence, a majority of the participants were critical of their companies' professionalism.

I cannot define this company as a professional one. Hence, 80 to 90 per cent of all companies in Turkey are not professional for me. They are all person-(manager) dependent companies or family businesses. I think this is related with our traditional family structure. Father gives the company to his son and it goes on. For my company, I can say we are 60 per cent professional [Laughs]. After all I am the key decision-maker and my employees cannot sell anything without [asking] my advice. (Participant 20)

I cannot say we are a professional company, because we are a family business. (Participant 9)

Considering the wide definition/perception apparent from the interviews, it is not surprising to see that 18 participants did not consider their companies to be a professional one.

Nevertheless, although 11 participants admitted their companies' lack of professional attitude, they declared their major goal was improving their company to meet the professional standards. Moreover, they see this goal as a way of developing the company and making it sustainable for future generations. Seven participants narrowly defined being a professional company as avoiding operating in the shadow economy and having a reliable bookkeeping system. Some stressed their intentions of being a professional company starts with recent inspection, probability of increased inspection of their sectors and institutional changes in Turkish revenue administration. Although they commonly frame professionalism as only keeping true records and declaring them when it comes to tax compliance related concerns, this might be

evidence of the influence of the state on SMEs' behaviour to encourage them to comply and improve their managerial ability.

I understood the need for professionalism after my tax advisor told me about its importance and I saw the change in seriousness of the state. After then, I started to change my mind. In the past, nobody told me anything about it, maybe they do not know the importance either. I have reshaped my company since then. Everything is under my control now, invoices, stocks etc. To be honest, I felt relaxed. I might be paying more but I am at ease now. (Participant 19)

Another participant stressed that being a professional company is one way to be in charge of the company and some others agreed that becoming professional by avoiding the shadow economy might increase their tax bill but they are pleased to be fully in charge of their company. Considering this fact, being a professional company can also be understood as a tax compliance process therefore professionalism costs might be considered as SME compliance costs.

Your business is pulling you to be a professional one. You should be professional and pay your taxes otherwise you will be swindled by your employee, or someone will steal from you, so you cannot be 100 per cent in charge of your company. Result: you will be bankrupted. It is like enjoying the uncontrolled power. If I knew that professionalisation is a good thing, I would have been trying to be a professional ten years ago. I did not have that conscience and understanding before. Nobody advised it to us. They told me, "Are you crazy, you cannot afford to pay that tax bill if you declare everything". I had thought recording everything would bankrupt me. That is why I postponed it. But now, if I pay 5 per cent extra to the state, I have prevented to spend on hidden expenses up to 10 per cent of my turnover. Good, isn't it? (Participant 19)

Controversially, two participants explained professionalism beyond keeping records robustly and acknowledged it as employing a professional executive manager who targets increasing profit levels. Moreover, they claimed that professionalism might damage their amateur spirit that gives them entrepreneurial flexibility. That is why they found professionalism rather harmful to their companies. Although, they accept developing their systems will provide them with a better ability to control the company, they acknowledge that this will also increase their tax bill. Additionally, they emphasised the importance of being professional in their production processes.

Overall, the participants highlighted different perspectives of professionalism such as traceability, ability and capability of their staff and utilising the resources of the company. A majority agreed that the combined understanding of the professionalism construct is effective on their tax morale and tax compliance. Moreover, they admit that improvements to meet the needs of professionalism might increase their willingness to comply with the tax system. In short, the analysis showed that combined understanding of the professionalism construct affects tax morale and they view professionalism as a way to improve tax compliance.

4.3 Tax advisors' effect

Roth et al. (1989) defined tax advisors as professionals with whom taxpayers discuss tax matters and from whom they receive advice about actual risks and rewards of the tax compliance. Tax advisors provide three sorts of services: return preparation, tax advice and risk advice. Each of these advice types has potential effects on tax compliance and tax morale of taxpayers (Hasseldine et al., 2007). The importance of tax advisors on the tax compliance decisions of taxpayers is widely discussed in the tax literature (Hasseldine et al., 2007; Marshall et al., 1998; Roth et al., 1989; Sakurai & Braithwaite, 2003; Torgler, 2005). Hite and McGill (1992) suggest that small businesses need tax advisors because they want assurance that they are correctly fulfilling their tax obligations. Additionally, they found that small business owners commonly follow the recommendations of tax advisors.

In Turkey, the accounting books of every company must be kept by a tax advisor (Certified Public Accountant [CPA]) or by someone under their supervision. Some corporate taxpayers might seek advice from a Sworn-in CPA to get their books audited and clear their position under Turkish tax law. In some cases a Sworn-in CPA might be compulsory, for example, if a declaration of an export tax rebate is needed. Therefore, it can be assumed that understanding the effect of tax advisors is vital to understand SME tax morale.

Participants were first asked about their trust in their tax advisors. Thirteen participants expressed confidence and trust. Moreover, some participants (1, 6, 13 and 17) underlined the importance of their tax advisor in their corporate lives as their confidants. Interestingly, Participant 9 expressed the importance of the trust for the relationship, saying that he had decided to work with his tax advisor even before he started his company. During the interviews, it was noted that participants with many years of experience commonly expressed their trust in their CPAs compared to other participants. Twelve participants acknowledged working with the same tax advisors from the starting date of their company (or for more than ten years). Demographics of participants' relationship with their tax advisors are provided in Appendix 3.

Participants explained their reasons for confidence and trust mainly as a result of having developed a personal as well as professional relationship. Although in some cases (Participants 3 and 11) it was suggested that the tax advisors were employed because they had a pre-existing relationship with the owner-managers, the remainder of the participants' confidence was understood as having developed through the professional relationship. The SME/tax advisor relationship can extend to a very personal level that may even involve family bonds thereby indicating a significant level of trust in Turkish culture.

Of course, I trust him. We gave our sister to him. (SME owner-manager's sister married to the tax advisor.) (Participant 6)

In addition to personal relationships, seven participants added that they chose their tax advisers following a referral from trusted colleagues or friends. Thus, the primary criteria while employing the tax advisor appeared to be trust rather than any formal qualifications of the advisor. Participants 14 and 15 underscored the necessity of trust as a condition because of the risk that comes with the unique access of tax advisors to company records and awareness of its activities within the shadow economy.

Nobody changes an accountant (CPA) because of his poor service. Change can only be exceptional as a result of a major mistake or very big harm that is caused to the company. I did not seek a high quality accountant when I started my company. I asked my trusted friends' reference about their accountants. It [decision to employ an accountant] must be made through advice or reference otherwise it will not work. Because he will know everything about you; your system, off-record activities, everything! (Participant 15)

It is clear that the trust factor creates interdependency between SMEs and tax advisors, leading to long-standing relationships. Considering the fact that CPAs are not mutually responsible for the company's tax penalties, the possible risk of sharing knowledge about a company's activities with third parties might be one reason for these long-standing relationships. In addition, it appears that tax advisors who were ex-civil servants (experts or inspectors) in TRAD established trust and confidence with SME owner-managers more than other tax advisors. Two participants highlighted that CPAs with former civil servant experience are preferable because they know the 'inner circle' of tax offices better than others.

However, three participants admitted they could not develop a trustworthy relationship with their CPAs. Although they are not the majority in the sample, motives of mistrust were associated with negative experiences of former CPAs and their disorganised services. Therefore, these participants indicated that they are hesitant to follow the advice of their CPAs, although they encourage them to comply with the tax system. On the other hand, participants who trust their CPAs said they are inclined to follow their accountant's advice even if it involves paying more tax.

My accountant (CPA) is an old fox. He smells the air better than me especially when it comes to tax. (Participant 12)

He [his CPA] asked me to apply for the 2011 tax amnesty.³ Initially I thought there was no need to apply for it and pay more taxes. However, I decided that he had a better understanding of the tax office. Therefore, I applied and paid an additional eleven thousand liras just to avoid the risk of facing a tax penalty. (Participant 16)

Participants were asked about their tax advisors' intermediary position in tax compliance in order to understand their positions between small firms and the state. Interview analysis revealed that tax advisors adopted one of three positions of client advocacy, namely: predominantly advocating for the client, acting as an advocate for the government/state, or maintaining a neutral position. Among these groups, the CPAs taking a neutral intermediary stance appeared to be more common than those who favoured either side of the tax compliance relationship. Eleven participants agreed that their CPAs do not provide aggressive tax planning or advice on over-compliance. Five participants complained that their tax advisors usually favour the state and even consider over-compliance to avoid possible inspections or inconvenient interactions with the tax office. These participants suggested possible the reasons for

³ Briefly, the 2011 tax amnesty (Tax Code 6111) provided an opportunity to companies to increase and pay their declared tax in the last five years and, in return, the government provided an exemption for those periods of time from tax inspection.

over-compliance as fear of making mistakes, uncertainty of meeting required bookkeeping criteria, and/or uncertainty about tax procedures. Either way, participants reported that tax advisors should aim for minimal interactions with the tax office.

My accountant (CPA) is statist (meaning he favours the state first). He thinks paying a few more liras is better than to be called in. For a long time, he did not even record my own car (used for business) in the company accounts while others are writing (claiming) their son's car expenses in their books. (Participant 3)

Conversely, four participants admitted that their accountants advise them to utilise legal loopholes and get involved in suggested tax avoidance schemes. However, the quality of received tax service towards utilising legal loopholes was found to be unsatisfactory by these participants, therefore three of them explained that they sought further advice from their colleagues in the sector before taking any steps. In short, the influence of CPAs on participants was found to be effective, although advice on tax compliance or tax avoidance varied.

Participants were asked about their tax advisors' ability to arrange their tax bills to understand the influence of advisors in planning or avoidance schemes. A majority admitted they are capable of arranging a payable amount of tax with their CPAs. However, some did believe that their CPAs could only increase the tax bill rather than decrease it.

I think he might reduce my tax bill up to 10 per cent. Not more than that. Otherwise it can be illegal [immoral]. (Participant 12)

We are arranging our tax bill (Corporation Tax) according to our financial situation with my CPA. (Participant 15)

Participants were asked about how they would benefit from better tax advice. Responses differed between participants who had CPAs as opposed to Sworn-in CPAs. Participants with a Sworn-in CPA declared that they were confident with their tax advisors. This may be due to increased liability and responsibility of Sworn-in CPAs under Turkish tax legislation. Additionally, the Sworn-in CPAs provide advanced tax advice, therefore, these tax advisors are more likely to comply with legislation and satisfy their clients. Consequently these participants were happy with their tax advice. Some indicated that better tax advice would be more costly and unnecessary at this stage of their company.

On the other hand, participants who were working with CPAs were concerned that the cost of better tax advice might outweigh its benefits, and is therefore illogical to obtain. Surprisingly, their expectation of better tax advice did not refer to tax avoidance. However, they would expect organised and tidy records that would provide them with a better performance profile of their firms. Some participants said they could afford a better tax advisor, however trusting a new professional was an obstacle for them. A majority stressed that they would be more informed about incentives and legal opportunities with a better tax advisor.

Apart from tax advisors, some participants also sought advice from trusted colleagues who were generally older and more experienced. This advice tended to be more concerned with processes and relationships rather than tax legislation or technicalities.

Overall, the analysis suggests that the influence of a tax advisor on tax compliance decisions has several different dimensions such as trust and the capability of CPAs to influence a tax bill. Certainly, there is clear evidence of the effect of tax advisors on tax compliance of SMEs.

4.4 Company structure

Prior literature suggests that the structure of small firms has an effect on their tax compliance behaviour (Hanlon et al., 2005; Rice, 1992). Although empirical studies concerning tax morale are limited, (Alm & McClellan, 2012), a few studies document the effect of company structure on tax compliance (for example, Hanlon et al., 2005). Company or organisational structure is defined as levels of management and division responsibilities within a business (Child, 1972) with the organisational structure literature suggesting that better structure leads to improved organizational behaviour (Ouchi, 1977). Hence, understanding the company structure of SMEs might uncover the dynamics of decision making processes. Hence, participants were asked to briefly describe their companies and their backgrounds so as to understand the main structural factors of the company that might influence SME tax morale.

Fifteen participants described their company as a 'family business'. Considering the majority of the sample stressed the notion of family business, it is necessary to define this term and to assess whether participants' intention when defining their enterprise is similar with the description of family business in the literature. Poza (2007) defines a family business as a unique synthesis of ownership control (at least 15 per cent) by two or more members of a family or a partnership of families, strategic influence by family members on the management of the firm, a concern for family relationships, and a dream or possibility of continuity across generations. He states that family businesses need to hold onto the owner's dream of having a successful business in the family and ensuring its continuity across generations. Some participants' comments support Poza's (2007) definition, which suggests that they are running their business to satisfy and sustain their family success and to make their family pride. Consequently, any decision that is taken by the SMEs, including tax-related ones, should be seen in light of their family values.

For us, for second generations, it is very important to protect and improve our company's name as it was inherited from our father and uncles. Preserving and improving capital, credibility and unstained name of the company are vital for us. Our father taught us in this way. I would rather die than to hear people say "these sons could not sustain their father's job".
(Participant 10)

A majority of participants made it clear that a family-owned business limits their intentions. Another structural feature that participants mentioned were the motivational visions of the SMEs. Eight participants stressed their entrepreneurial spirit was their most valuable asset. In addition, some participants complained that entrepreneurial spirit is attenuating in today's business environment for many reasons and shouldering a high tax burden is more likely to accelerate this decline. Moreover,

facing the psychological pressure of meeting with tax regulations and high tax bills was stressed as a fear in starting a business or increasing investment within their companies by Participants 17 and 20.

Many participants underlined their passion to their businesses and described their role of being a company owner as source of pride. Attributed reasons emerging from the interviews included: job creation, being useful to society and contributing to the country, acquiring merit in God's side and developing the business.

Of course, I am not doing this job just for the money. I have money for all my family to the rest of my life. More important thing is to commit a good deed. Conduce someone to earn his bread money and being useful to our family, neighbourhood, and all Muslims. (Participant 17)

Neither earning much money, nor having yachts or houses motivates me. I am with my forty employees personally pedalling this business. I believe we are servicing to the people of this city very well. (Participant 19)

The motives mentioned above spanned all backgrounds and religious affiliations. This may be linked to the values of some participants, who had referred to themselves as 'Anatolians'. Anatolia refers to a peninsula that is now in Turkey and surrounded by the Black Sea and Mediterranean and which was a homeland for Turkish society for centuries. Being Anatolian and having emigrated from Anatolian rural areas is likely to associate with different cultural values than those possessed by urban residents of large cities such as Istanbul. It is important for many entrepreneurs to retain the value of being Anatolian because this means protecting their own honesty and humility within their businesses.

Structural population change in Turkey has been impressive with a shift from 20 per cent urban and 80 per cent rural to 80 per cent urban and 20 per cent rural since 1980 (Kaya & Sahin, 2007). The effect of this emigration can be felt in many parts of Turkish society and it marks a cultural difference for many entrepreneurs to maintain the values related to being Anatolian. However, being Anatolian can also refer to being inexperienced in the business environment and unaware of necessary procedures due to a lack of education.

I am a craftsman who emigrated from Anatolia. I do not know what are my advantages and disadvantages [in the tax area]. (Participant 18)

They [his father and uncles] emigrated from Konya to this city in 1958. So to say, they come to this position by digging with their nails from apprenticeship. (Participant 13)

Overall, the interview analysis for company structure highlights the perceived importance of family business, entrepreneurial motivations and satisfaction, and social values that are described as Anatolian, as being influential on participants' attitudes and behaviours. The findings for this construct suggest that additional influences on tax morale and corporate tax compliance include company structure and organisational culture.

4.5 Size of economic obligation

Taxes are economic obligations and consequently the tax burden that taxpayers face has been the subject of many studies (Andreoni et al., 1998; Roth et al., 1989). The literature is unanimous that the perceived size of tax burden significantly affects tax compliance and tax morale (Andreoni et al., 1998; Bernasconi et al., 2014; Kirchler, 2007; Strümpel, 1966; Tanzi & Shome, 1993). Torgler (2007) documented a negative correlation between the size of economic obligation and voluntary tax compliance.

Fifteen participants reported that tax burdens were high for their companies. Six participants even admitted that the scale of their tax burden forced them to investigate tax avoidance/evasion possibilities in the last year.

Our bigger shareholder is the state. He takes his share regardless of what we earn. He does not care whether you actually earn any money or you actually sell anything. The only thing he cares [about] is his slice (share) in my cake. (Participant 17)

I paid more [taxes] than I earned last year. You might think [do] how I compensate [for] the difference. I accepted the fact that I have to work for my company within the working hours, I have to work at evenings, and Saturdays for [the] state only. That is how I managed it. (Participant 19)

Thirteen participants complained that they constantly struggle to comply with the monthly payment of VAT. The collection of VAT in Turkey is organised monthly from the previous month's sales. However, the majority of sectors operate on an average of two to six months' maturity terms for their sales. Hence, some participants described postponing sales and in some cases just issuing the invoice of the transaction in the following month to avoid immediate VAT cost. Additionally, the normal rate of VAT (18 per cent) is criticised for being very high.

VAT payments are a nightmare for me. I am sometimes postponing my sales to the next month if I think I might struggle for the next payment. (Participant 7)

I feel the burden of VAT very much. Eighteen per cent is one fifth of my sales. I believe it is cruel. (Participant 11)

Six participants stressed they have to pay disproportionate amounts of tax as a company, increasing their tax burden. Four participants mentioned that the current tax burden is harming their business and pushing them to search for financing opportunities to pay their tax bill. Therefore, even if they want to pay their taxes they struggle to manage their finances under pressure from the current tax burden. Some participants indicate that the personal taxes they pay are high and make them feel double-taxed. Participants 4, 13 and 15 stressed that the income tax they pay annually for receipt of bonuses or premiums and corporation tax are levied on the same source of income.

Overall, the participants highlight different perspectives of the size of the economic obligation. They suggest that the tax burden, especially VAT, is high and a high tax burden negatively affects their willingness to pay taxes. Additionally, the number of taxes and their unjust due dates before the maturity of their payments discourages

them from complying with their tax obligations. Consequently, a majority of participants suggest that the perceived size of their economic obligation influences their tax morale.

4.6 Risk aversion

SME risk aversion is considered a factor that shapes corporate behaviour towards voluntary tax compliance and tax morale. In the early literature, risk aversion was viewed as an influential factor of tax compliance—defined as the probability of being caught under-reporting income (Allingham & Sandmo, 1972). Related concepts include audit probability (Cronshaw & Alm, 1995) and the probability of detection (Andreoni, 1996). In this research, participants were asked about their risk aversion to understand their prediction of the possibility of a tax inspection of their companies. Moreover, their understanding of the inspection process was also investigated so as to understand possible motivations behind risk aversion behaviour.

The frequency of the participants' previous inspections was assessed primarily to understand their experiences and expectations about tax inspection and their perception of risk of being caught by TRAD. Fourteen participants said they have not been inspected in the last three years. Eight declared they have never experienced a tax inspection. Four participants were inspected in the last three years and the remaining participants were inspected but not during the last three years. Considering the audit rate is 2.42 per cent amongst all active taxpayers in 2013 according to TRAD's annual report (Gelir İdaresi Başkanlığı, 2014), the sample mean was above average.

Participants were asked about their perceptions on possibly facing a tax audit in the next three years. Over half admitted that it might happen any time. Moreover, they assessed next year's probability as higher than previous years because of improvements in TRAD's policy on tax inspection. This indicates that their awareness of audit possibility is high.

Inspection mechanisms are improved spectacularly. They used to come and check our accounts in person. Now they are using any devices and opportunities that they can find. (Participant 18)

Despite high expectations of inspection, Participants 1, 3, 12 and 16 were confident that their companies would not be inspected if they increase their declared amount of tax gradually. They feel that if they declare more taxes compared to previous years, a small amount of excess paid can prevent them from the attention of TRAD when selecting candidates for inspection.

I do not think we will be inspected. We are paying a reasonable amount of extra money every year. (Participant 16)

When I look at [the] tax inspection issue, I understood it as apple farming. If the government and I were happy with the amount of the apples that I give to them, this would bring 'détente'. We have always been careful to satisfy our government and we believe tax should be paid. In order to keep the peace, we have our measures and we are careful about not falling below that limit even though we went in to the red. Hence, we can set our own standards. (Participant 1)

Five participants mentioned that they agreed to increase their declared tax to reduce their inspection probability because their tax advisors advised them to do so even when they made a loss during the declaration period.

Even if our profit decreased, we tend to keep our tax at least the same level as last year and may be a little higher if possible. There is a belief among bosses (SME owner-managers) that if you start with one (referred to paid tax amount) and increase it to three for the second year, for the third year you should keep it at least three again and do not go down to two. That might attract attention. (Participant 4)

My accountant advised me to stand below. I tend to increase tax a little just to stay in the grey zone. (Participant 13)

Participants 2, 5 and 7 suggested that the motivation behind the unnecessary tax bill increase is not only avoiding cost of inspection, but also preventing distractions from the inspection process such as demoralisation, 'red tape' and, in some rare cases, even corruption.

Interestingly, on the other hand, two participants admitted that they did not declare their unexpected profit in past years to avoid unwanted attention from the TRAD. Considering these facts, it is reasonable to suggest that participants are trying to avoid being an outlier within their sectors or neighbourhood and like to show a slightly increasing trend of their yearly declarations to avoid being 'spotted by TRAD' regardless of changes in their income. Consequently, risk aversion might lead not only to over-compliance but also, in some cases, encourage tax avoidance and even tax evasion.

At the time that I started my business, I earned very much from one project. However, it was a one-off thing. I asked my accountant whether to declare it or not. He said, "Leave it, next year if you cannot declare same amount, they will come over you. Be logical, stay in the middle lane". (Participant 14)

The psychology of tax inspections appears to be another major concern of the participants. The majority of participants (seventeen participants) were convinced that all inspections certainly conclude with a tax penalty. The apprehension of participants influenced their views on tax inspectors. Two dominant perceptions about tax inspectors were detected during analysis. The first view suggests that tax inspectors can impose tax penalties even if they cannot find any faults in the company's books. In other words, they believe that tax law is flexible if deemed necessary by inspectors. The TRAD's annual report states that 98 per cent of taxpayers who were targeted on suspicion of tax evasion also received a penalty (Gelir İdaresi Başkanlığı, 2014), which shows that this viewpoint has valid grounds.

Once a tax inspector visited you, he or she will definitely impose a tax penalty. Even if you do not have anything wrong in your books, he can issue a penalty notification if he wanted. (Participant 13)

The second view suggests that it is not possible to produce a perfect record in the eyes of inspectors because of complex legislation; therefore, a tax inspector is more likely to act according to his or her ethical stance when it comes to issuing a tax penalty.

Moreover, four participants suggest their education and experience do not help them to understand tax liabilities comprehensively, therefore they cannot check the work of their tax advisors and accountants for mistakes which may result in a fine. Consequently, they admitted that they found themselves passive and powerless.

The first view is more dominant among participants who have experienced a tax inspection. They found tax inspections to be an annoying process particularly because of inspectors' attitudes. Some participants believe tax inspectors are prejudiced and see taxpayers as tax evaders in advance.

The mentality of tax inspectors is different. They see you as thieves at the moment they knock on your door. (Participant 18)

Tax man, tax inspector etc., they are all searching for excuse to impose tax penalty ... This deters me from complying, even paying taxes. (Participant 12)

Five participants found the tax inspectors' behaviours more irritating than tax inspection itself. Interestingly, Participant 20 admitted that he was so irritated by an inspector during a tax inspection in 1995 that he thought about shutting down his business permanently. He took action however, and other inspectors realised the situation and convinced him to continue in business. This is a remarkable effect of risk aversion and inspection on tax compliance and tax morale that requires further research to look into the effects of harsh tax inspection policies.

Participants feel that tax inspectors do not understand the nature of their businesses and sectors. Participants 12 and 20 suggest that in recent years, tax inspection was used as a threat to companies thereby exerting political pressure on various political classes. Since then, the reputation of a fair tax inspection and inspector has been damaged. In addition, participants stressed that tax penalties are intimidating and some suggest they faced tax penalties that they could hardly shoulder.

Four participants said decisions about the amount of tax penalty were predominantly influenced by the tax inspector, although tax inspection process and penalties are enacted by Turkish tax law (Nas, 2012). In other words, they suggested that set rules of tax inspection could be misused.

I heard from one of my friend's phone while he was on the phone with an inspector. He said, "I can write whatever amount on this (tax penalty) paper that I wish without coming to your company. I have the authority". We used to fear the police, but now tax inspectors have replaced them. (Participant 2)

Despite negative perceptions of the tax inspection process, the majority of participants agreed that tax inspection processes are improving and the prejudice of the tax authority is easing. However, they admitted that progress is slow. Four participants suggest that tax inspection could even be an opportunity to find mistakes in their records and make them see a clearer picture of their companies. Hence, they welcomed constructive and corrective inspection that could make them more efficient if organised with positive attitude that is similar to other inspections, such as quality certificate audits.

Overall, the analysis provided different perspectives of risk aversion of SMEs on audit probability and inspection processes. SMEs perceive inspection probability as a manageable risk and the possibility of being caught seems to be low for them. Although, risk aversion is not necessarily increasing their tax morale, it is influential on their taxpaying behaviour. Considering the findings of the analysis, the researchers argue that this construct influences SMEs' tax morale.

5. CONCLUDING REMARKS

Understanding taxpaying behaviour and its motivational factors is a complex problem. Although tax research has provided many answers for the motivations of tax morale of individuals, it is evident that companies' tax morale is yet to be thoroughly researched (Alm & McClellan, 2012). Little research has focused on SMEs, which constitute a majority of firms in most economies. Therefore, SME's tax morale and the factors that influence it are considered an appropriate focus of this study. Additionally, this study is one of the few to adopt a qualitative method to explore corporate influences on tax morale in SMEs in a non-western country.

Qualitative research is particularly important because it provides rich and elaborative data that is appropriate when exploring new areas. Moreover, this study provides evidence on six key factors affecting tax morale and thus provides a 'snapshot' of attitudes to tax compliance amongst Turkish SMEs. Turkey, as a predominantly Muslim country, has not been studied anywhere near as extensively as western countries such as Australia, Canada, the UK or the US. Based on a conceptual model presented by Yucedogru (2013), this study provides evidence on the corporate constructs that potentially influence SMEs' tax morale, namely: compliance costs, professionalism, tax advisors' effect, company structure, size of economic obligation and risk aversion.

The first factor explored in the study was compliance costs. Despite the common agreement in the literature that the compliance costs were an obstacle to taxpayer compliance, our analysis suggested a different perspective, in that the awareness of these costs is also an influential factor. Participants seemed to accept these costs in a different category and did not relate them to the tax burden because of their side benefits. It might also be a result of the relative amount of SME compliance costs being estimated at less than 1 per cent of SMEs' turnover by a majority of participants; therefore they are perceived as relatively harmless.

Professionalism was referred to amongst the participants in terms of traceability, organisational capacity, ability and capability of their staff and utilising the resources of the company. Most participants acknowledged their firms as unprofessional and a majority mentioned their efforts to improve their company. They agreed that a professional company should be traceable and transparent; therefore, the company should be fully compliant with the requirements of law. Interestingly, there was common agreement among the participants that their efforts in becoming a professional company were also likely to increase their company's tax compliance. Although this increases their tax bills at the same time, they perceived this as a bearable cost because of the managerial benefits of a professional company, such as traceability that allows them better managerial control over their SMEs. Therefore, it seems that professionalism influences tax morale, and policymakers should benefit

from the new perspective of professionalism if the benefits of it are introduced to more SMEs.

Analysis of the effect of tax advisors mapped a different dimension for SMEs. There are two roles played by tax advisors: first, being a confidant; and second, being an intermediary. A confidant role suggests that trust between two sides is vital for the relationship. In some cases the trust bond is more likely to create a better relationship, however it also brings interdependency for the SMEs as they think that their tax advisors are aware of all of their off-the-record activities. Hence tax advisors are intricately involved in SMEs' tax morale and tax compliance decisions. Secondly, participants accept that their tax advisors have an ability to manipulate their tax bill and they can encourage them to comply in order to avoid inspection and tax penalties. Both tax advisor roles show that the advisor is a critical determinant of SMEs' tax morale, a finding which requires more research in the field.

The company structure construct showed that cultural roots of SMEs are influential. Participants highlighted that avoiding shameful acts to protect their personal values such as their family name and identity is extremely important for them. Especially for the family businesses, preserving their inherited values is a source of pride for some participants. This finding sheds light on a novel issue in tax morale research because no prior studies have documented a link between corporate culture and tax morale.

The size of economic tax obligation was found to decrease tax morale. Some of the participants complained that the tax burden that they have to shoulder is very high. Excessive regulations can demoralize SMEs and strain the trust bond between the state and SMEs.

Lastly, the findings on risk aversion reveal a very interesting perspective for SMEs. Strangely enough, the SMEs believe that their future audit possibility is a 'manageable risk' although they believe the possibility of being audited is increasing. A majority believe that reporting an increasing trend of declared income may prevent unwanted attention from the tax authority. Such a view may be simultaneously positive and negative for the SMEs. Nevertheless, to our knowledge, this is an original finding in the tax morale literature.

Although this study provides rich and detailed insights from uncharted factors of SMEs' tax morale, it is subject to the usual limitations of qualitative research. First, the interview method requires close interaction with participants and a common criticism about this method relates to a researcher's objectivity (Punch, 2013). To reduce this concern, a detailed analytical procedure for qualitative data analysis was adopted. Secondly, the participants were limited by those who were willing to participate in the study, therefore those who were unwilling to discuss tax matters represent another limitation of the study. This limitation however is common in tax research (Kirchler, 2007; McKerchar, 2010; Trivedi et al., 2005). As the majority of the participants provided both positive and negative perceptions about taxes during the interviews, it is believed that this limitation had only a limited effect on the findings. Lastly and more importantly, these qualitative findings do not allow for generalisations and statistical inferences. Nevertheless, our study provides a new perspective for further research on the determinants of SMEs' tax morale.

Overall, the findings of this study provide a basis for future research. This study investigates the corporate factors of tax morale using a qualitative approach, and is valuable for documenting evidence of the six factors in a relatively unexplored area of tax research. Further research might explore any or all of these factors in more detail. In addition, we hope this study will be followed by a more extensive survey-based empirical study. The results of a large-scale survey of Turkish (or other countries') SME owner-managers on this topic would provide a 'baseline' which could then act as a benchmark for future studies, and even potentially be used in international comparisons, which might provide useful evidence for governments' tax and business policies.

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7. APPENDICES

Appendix 1: Interview Protocol

Thank you for agreeing to be interviewed. I am carrying out a number of interviews to understand tax morale effect on taxpaying (compliance behaviour). I have a number of questions to ask you that will generally take 45 to 60 minutes. Please feel free to just talk. If you are comfortable, I would like to record the interview, so that I can concentrate on listening to you and asking questions rather than taking notes. Your talk records (Voice or Type) will be kept anonymous and will be treated under protection of *Data Protection Act 1998* and *Turkish Data Protection Act 2007*. This is also a requirement of the University of Nottingham Code of Research Conduct and Research Ethics. Some quotes may be used, but these will not be attributable to you. My contact details will be provided after interview. Please indicate if you need any clarification for the process.

Are you happy for me to do the interview?

Demographics:

1. Could you please tell us about yourself?
2. What kind of business are you in and how long have you been in the business?

Corporate Behaviour:

1. Could you please tell me about your business in general?
2. Could you please tell me what is like to be a small business operator in Turkey?
3. Do you think that SMEs should be favoured by state? Why?
4. Can you define your company as a professional one? Why?
5. Do you think that are you going to be inspected in next three years?
6. How do you think that inspection probability is effecting your tax compliance decision?
7. Have you ever inspected or received tax penalty?
8. Do you think that you will receive a fine if you have an inspection? Or inspector can find anything from your book which can be counted as evasion?
9. Do you trust your tax advisor?
10. How long have you been working with your current tax advisor?
11. Have you ever experienced problems on tax issues with your accountant as result of miscommunication?
12. Do you think better quality tax advice will reduce your tax bill?
13. Do you believe that your accountant may increase or decrease you tax bill, if desired?

14. Do you think that you have an ability to arrange you tax bill?
15. What proportion of your turnover does your company spend for meeting tax obligations?
16. Have you ever heard of shadow economic transactions in your sector?
17. Have you ever sold or bought anything without recording it in your tax return?
18. Have you ever unintentionally made a mistake on your tax obligations? If so, what was the reason?
19. Do you think sizes of tax penalties are dissuasive?
20. How have tax amnesties affected your taxpaying behaviour so far?
21. Do you think the tax that you paid last year was fair for your company?

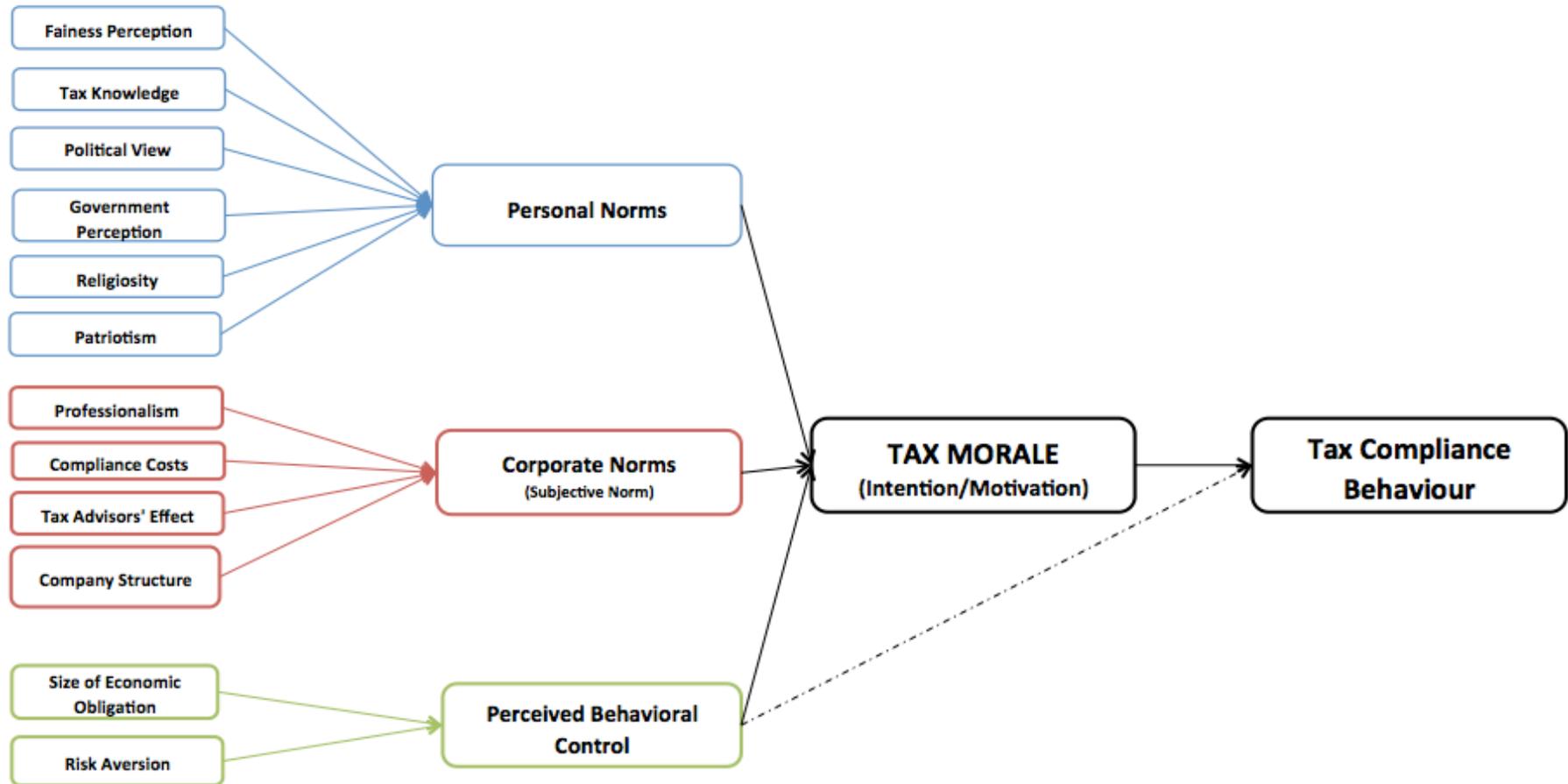
Appendix 2: Interview Participants

Interviewee number	Sector	Experience in sector (years)	Education status	Interview length
1	Automotive	11	University	00:56:17
2	Machinery	23	High School	01:15:29
3	Metal	16	University	00:36:11
4	Construction	11	University	01:09:20
5	Metal	13	High School	01:10:55
6	Publishing	17	University	00:47:20
7	Retailer	3	University	00:48:22
8	Construction	9	Masters	01:00:50
9	Metal	4	University	00:48:30
10	Furniture	20	High School	01:12:16
11	Textile	6	High School	01:17:39
12	Metal	16	University	01:31:33
13	Catering	34	Masters	01:11:58
14	Law	8	Master	01:13:01
15	Services	2	University	01:01:00
16	Textile	23	Masters	01:02:11
17	Textile	30	University	01:14:24
18	Services	6	High School	00:59:18
19	Publishing	17	High School	01:10:00
20	Construction	21	High School	01:25:38
				21:52:12

Appendix 3: Current Tax Advisors of the Participants

Interviewee Number	Sector	Experience in sector (years)	Trust in accountant	Years with current CPA	Sworn-in CPA
1	Automotive	11	Yes	From start	No
2	Machinery	23	Yes	10	No
3	Metal	16	Yes	From start	No
4	Construction	11	No	9	No
5	Metal	13	Neutral	6	No
6	Publishing	17	Yes	From start	No
7	Retailer	3	Neutral	2	No
8	Construction	9	Neutral	8	No
9	Metal	4	Yes	From start	No
10	Furniture	20	Yes	19	Yes
11	Textile	6	Yes	From start	Yes
12	Metal	16	Yes	From start	No
13	Catering	34	Yes	10	Yes
14	Law	8	No	6	No
15	Services	2	Yes	From start	No
16	Textile	23	Yes	17	Yes
17	Textile	30	Yes	12	Yes
18	Services	6	Neutral	2	No
19	Publishing	17	Neutral	5	No
20	Construction	21	Yes	8	Yes

Appendix 4: Model of Tax Morale of the SME and its Determinants



Source: Yucedogru, 2013