

# Investigating the Impact of Prospect Theory on Tax Noncompliance with the Mediating Role of Feelings and Moral Disengagement<sup>1</sup>

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Research Paper

## INTRODUCTION

A full understanding of one's tax compliance decisions, or indeed, one's choices more broadly, is not possible without considering ethical dimensions. According to perspective theory and to explain ethical decision-making in the presence of risk, it can be argued that feelings have an important effect on decision-making, especially decisions in the presence of risk and uncertainty. According to prospect theory, being in a position of being profitable or unprofitable leads to arousing different feelings, and people try to make decisions using the process of moral disengagement to achieve their desired results while having the least internal damage. The purpose of this research is to achieve a better understanding of the impact of feelings and feelings in the process of ethical decisions in accounting and to investigate how feelings evoked by a situation under risk conditions affect ethical decision-making.

According to the review of the backgrounds, no research was found in the country that examines the effect of feelings and moral disengagement in the framework of perspective theory on tax non-compliance, which is considered an aspect of work innovation. In addition to that, in this research, in addition to the direct effect, the mediating effect between the variables and their final effect on the tax decisions of individuals has been investigated in the form of an experiment; Therefore, the main issue of the current research is whether

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there is a relationship between the perspective theory and tax non-compliance of individuals as an unethical decision? And can people's feelings and moral disengagement have a mediating effect on this relationship?

## **MATERIALS AND METHODS**

The current research is quantitative in terms of methodology and field in terms of data collection method and the data is obtained using experiments. The statistical sample of the research is 48 accounting students who are at least 20 years old have at least 3 years of professional work experience in accounting and have filled out at least 3 tax returns. The necessary data were collected using the experimental and scenario method of Austin et al (2021) and were analyzed using the t-test of two independent samples and with the help of structural equation modeling and PLS software. In general, the method of collecting theoretical foundations and backgrounds is a library using similar articles and research, and the method of collecting data is field and using scenarios and questionnaire questions.

First, the apparent validity of the scenario was confirmed by two university professors, and then it was designed in two different modes of profit and loss and randomly presented to the respondents. At the beginning of the scenario, explanations about the hypothetical person named Sam and his tax status were presented, and then the respondents were asked to show their opinion about Sam's feelings by answering the questions. Then, in connection with donating a car to charity, materials are presented. The scenario is completed, and the respondents are asked to express Sam's thoughts by answering the questions. These questions are to measure the level of moral engagement and finally, questions related to the individual's decision to tax compliance or non-compliance are presented. The respondents are asked to specify their level of confidence and the risk associated with choosing each option, and at the end, demographic questions are presented. Finally, the collected data is analyzed using a t-test and structural equation model and PLS and Excel software.

## **RESULTS AND DISCUSSION**

The obtained results show that there is no relationship between feelings and being in the profit and loss area with tax non-compliance, while the mediating role of moral disengagement has been confirmed.

The results indicated that being in the loss zone leads to arousing negative feelings, and since people are loss-averse, they try to get out of this situation. In other words, the negative feelings of people that arise as a result of their being in the area of loss, debt maturity, etc., strengthen the motivation of moral disengagement in them, to

justify their tax compliance or non-compliance. The emergence of moral disengagement in these conditions has made the inconsistency between the individual's inner beliefs and unfavorable decisions to be less, and people feel more favorable when they have done tax non-compliance. On the other hand, the positive feelings caused by being in a position of profit or receiving money or a discount causes less moral disengagement and more tax compliance is seen in these people.

## CONCLUSION

Feelings described through prospect theory do not influence, on their own, tax compliance decisions, but moral disengagement is a precursor to risky tax decisions.

The obtained results, in addition to adding theoretical foundations in the field of accounting, are also useful for tax legislators; Because the findings of this study as a scientific achievement can provide useful information to them to pay attention to internal variables (such as taxpayers' attitude towards taxation, personal values and behavioral and psychological aspects of people) in addition to economic variables and factors affecting tax compliance (such as tax rate, amount of taxpayer's taxable income, the possibility of tax audit and tax crimes).

According to the obtained results, moral disengagement affects the tax compliance of taxpayers, in this regard, it is recommended to academicians and professors of tax courses, besides teaching and training laws and solving tax problems, influencing topics such as the level of moral engagement of people and the characteristics and behavioral aspects of decision-making and the prospect theory process and their effects on people's tax decisions should also be taught. Also, it is recommended to hold in-service training courses to familiarize accountants and tax employees with the tax decision-making process of taxpayers. In addition to that, the factors affecting moral engagements (such as feelings and their control) should also be taught in the provincial tax process; Because the familiarity of accountants and tax officials with the perspective theory and its effect on the feelings and moral engagement of taxpayers has made the audit process or tax investigations to be carried out with higher quality and accuracy.

**Keywords:** Prospect Theory, Tax Noncompliance, Feelings, Moral Disengagement.

**JEL Classification:** D81, H26, G41.

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