

**DETERMINANTS OF TAX MORALE OF C2C E-  
COMMERCE OPERATORS IN DIGITAL ECONOMY:  
EVIDENCE FROM CHINA**

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DETERMINANTS OF TAX MORALE OF C2C E-COMMERCE  
OPERATORS IN DIGITAL ECONOMY: EVIDENCE FROM CHINA

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# **DETERMINANTS OF TAX MORALE OF C2C E-COMMERCE OPERATORS IN DIGITAL ECONOMY: EVIDENCE FROM CHINA**

## **ABSTRACT**

This research investigates the tax morale of C2C(Customer-to-Customer) e-commerce operators in China. Due to the rapid development of the C2C e-commerce economy, the current Chinese tax supervision cannot be matched in time, resulting in a large amount of tax loss in the process of C2C e-commerce operations. Based on the slippery slope theory, this paper determines four variables Trust in the Government (TG), Trust In the legal system (TLS), National Pride (NP) and Perception of Sanctions (POS). The aim is to study the impact of these four variables on Tax Morale of C2C e-commerce operators (TM). This research employed quantitative approach. The sample procedure utilised provincial-level stratification, as the extent of e-commerce development varies by province. A sample of 500 was selected from ten provinces. From 500 questionnaires distributed in the form of links and QR codes on the web, 448 responses were usable for analysis. Along with the quantitative approach, questionnaires were distributed to obtain relevant data. The pre-test and pilot study were conducted to ensure the validity and credibility of the questionnaire. The data was analysed in this study using SPSS version 22.0 and AMOS version 24.0. SPSS 22.0 was used to perform frequency analysis, descriptive analysis, correlation analysis and analysis of variance which involved downscaling several dimensional indicators. AMOS 24.0 is used to demonstrate confirmatory factor analysis, reliability analysis, and regression analysis. Survey data show that TG, TLS, NP and POS both had a significant positive effect on the TM. This

suggests that the more trust citizens have in their government, the better tax morale; the more taxpayers trust the legal system, the more they have an inherent willingness to pay their taxes; the strength of the country makes people prouder of it, and they are more likely to agree with the national system and be willing to support its policies and pay taxes; the greater the likelihood that C2C E-commerce operators may face a tax evasion examination, the more ready they are to pay tax. Factors suggested as influencing tax morale and the taxpayers' decision to pay tax emerge. Improving the transparency of the government, legal justice and the supervision of the tax authorities are suggested to improve the willingness to pay tax and the ability of the taxpayers to execute their willingness. Schools can add national pride as well as patriotic education to their curriculum.

**Keywords:** C2C E-Commerce, Tax Morale, The Slippery Slope Theory, E-Commerce Law, China

# **PENENTU MORAL CUKAI PENGENDALI E-DAGANG C2C DALAM EKONOMI DIGITAL: BUKTI DARI CHINA**

## **ABSTRAK**

Penyelidikan ini menyiasat moral cukai pengendali e-dagang C2C (Pelanggan-ke-Pelanggan) di China. Disebabkan perkembangan pesat ekonomi e-dagang C2C, penyeliaan cukai China semasa tidak dapat dipadankan dalam masa, mengakibatkan besarnya jumlah kerugian cukai dalam proses operasi e-dagang C2C. Berdasarkan teori cerun licin, kertas kerja ini menentukan empat pembolehubah Kepercayaan dalam Kerajaan (TG), Kepercayaan dalam sistem perundangan (TLS), Kebanggaan Negara (NP) dan Persepsi Sekatan (POS). Tujuannya adalah untuk mengkaji kesan empat pembolehubah ini terhadap Moral Cukai pengendali e-dagang (TM) C2C. Penyelidikan ini menggunakan pendekatan kuantitatif. Prosedur sampel menggunakan stratifikasi peringkat wilayah, setakat pembangunan e-dagang berbeza mengikut wilayah. Satu sampel 500 telah dipilih daripada sepuluh wilayah. Daripada 500 soal selidik yang diedarkan dalam bentuk pautan dan kod QR di web, 448 respons boleh digunakan untuk analisis. Bersama-sama dengan pendekatan kuantitatif, soal selidik kami diedarkan semula untuk mendapatkan data yang berkaitan. Ujian pra dan kajian rintis dijalankan untuk memastikan kesahan dan kredibiliti soal selidik. Data dianalisis dalam kajian ini menggunakan SPSS versi 22.0 dan AMOS versi 24.0. SPSS 22.0 digunakan untuk melakukan analisis, analisis deskriptif, analisis korelasi dan analisis varians yang melibatkan penurunan skala beberapa penunjuk dimensi. AMOS 24.0 digunakan untuk menunjukkan analisis faktor pengesahan, analisis kebolehpercayaan dan analisis regresi. Data tinjauan menunjukkan bahawa TG, TLS, NP dan POS kedua-duanya mempunyai

positif yang signifikan. Ini menunjukkan bahawa semakin banyak kepercayaan rakyat terhadap kerajaan mereka, semangat cukai yang lebih baik; semakin banyak pembayar cukai mempercayai sistem perundangan, semakin mereka mempunyai kesanggupan untuk membayar cukai mereka; daripadanya, dan mereka lebih berkemungkinan untuk bersetuju dengan sistem negara dan bersedia untuk menyokong dasar dan membayar cukai; semakin besar kemungkinannya bahawa pengendali E-dagang C2C mungkin menghadapi pemeriksaan pengelakan cukai, semakin bersedia mereka untuk membayar cukai. Faktor-faktor yang dicadangkan sebagai mempengaruhi semangat cukai dan keputusan pembayar cukai untuk membayar cukai muncul. Meningkatkan ketelusan kerajaan, hakim undang-undang dan penyeliaan pihak berkuasa cukai dicadangkan untuk meningkatkan kesanggupan membayar cukai dan keupayaan pembayar cukai untuk melaksanakan kesanggupan mereka. Sekolah boleh menambahkan kebanggaan negara serta pendidikan patriotik kepada kurikulum mereka.

**Kata kunci:** C2C E-Dagang, Moral Cukai, Teori Cerun Licin, Undang-undang E-Dagang, China

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## **LIST OF SYMBOLS AND ABBREVIATIONS**

B2B: Business to Business

B2C: Business to Consumer

C2C: Consumer to Consumer

B2G: Business to Government

C2G: Consumer to Government

GDP: Gross Domestic Product

NPC: The National People's Congress

OECD: The Organisation for Economic Co-Operation and Development

TG: Trust in the Government

TLS: Trust In the legal system

NP: National Pride

POS: Perception of Sanctions

TM: Tax Morale

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background**

In recent years, the rapid development of the digital economy has become a new engine for China's economic growth. The China Academy of Information and Communications Technology (2020) stated that the scale of Chinese digital economy in 2019 reached 35.8 trillion Yuan, accounting for up to 36.2% of Gross Domestic Product (GDP). The digital economy is a new type of economy that has gradually developed along with the information technology revolution. The digital economy in China is basically divided into three periods: the first period of infancy (Year 1994-2002), when China began to be formally integrated into the international internet and the number of users of the internet grew exponentially. At the same time, the number of companies engaged in the internet industry was also increasing. The second period was the period of rapid development (Year 2003-2013), which was characterised by the e-commerce platforms represented by Taobao and Jingdong, the third-party payment platforms mainly represented by Alipay and instant messaging software such as QQ and WeChat. The diversity of Internet forms has greatly increased the number of internet users. With the popularity of smartphones, the number of people using mobile phones to access the internet exceeded the number of people using desktop computers for the first time. The third period, known as the boom period (Year 2013 to present), was mainly characterised by the development of blockchain technology and cloud computing technology, which gave rise to a large number of new business and economic models such as application storage, online advertising, sharing economy and digital currency.

The conventional definition of e-commerce is "combining commercial activities such as

purchase and sale, products and services via computer networks and then modifying the basis and form of transactions" (Cai, 2017). E-commerce is a commercial and trade activity conducted globally via the Internet, which is an effective exploration against the backdrop of the growth of emerging industries and modern logistics. E-commerce is constructed on the electronic transaction system, which digitizes the traditional capital flow and logistics and develops them into information flow. The definition of e-commerce can be divided into a narrow sense and a broad sense. In a narrow sense, e-commerce refers to commercial activities with data processing and transmission through information transaction systems; in a broad sense, e-commerce is defined as a new business operation mode that links demanders and suppliers through the form of network, and e-commerce will not replace traditional physical commercial activities, but will strengthen and promote these commercial activities (Ren, 2014).

In China, e-commerce appeared for the first time in 2004, and the national e-commerce transaction volume in that year was 929.3 billion Yuan. In 2020, the national e-commerce transaction volume will reach 37.2 trillion Yuan, an increase of more than 40 times compared with 2004; The national online retail sales in 2020 will also be as high as 11.8 trillion Yuan, an increase of more than 2,000 times compared with 5.490 billion Yuan in 2004 (Hou & Han, 2021). As a new mode of business operation, e-commerce has gradually penetrated into every corner of social life with its advantages of convenience, paperlessness and data, changing people's traditional trade methods and making the "cake" of e-commerce transactions bigger and bigger in the development of global economic integration. There are five classifications of e-commerce according to the subject of the transaction, which include Business to Business(B2B), Business to



Consumer(B2C), Consumer to Consumer(C2C), Business to Government(B2G) and Consumer to Government(C2G).

This paper studies personal tax morale, so it focuses on the C2C e-commerce model. The C2C e-commerce model is an e-commerce activity between consumers and consumers. The C2C e-commerce model is to use professional business websites to provide buyers and sellers with an online transaction e-commerce platform as a third party at a small cost or even free of charge. The e-commerce platform does not participate in the transaction between buyers and sellers, nor does it guarantee the quality of the traded goods. Sellers can display the products to be sold on this platform through photos and text descriptions. At the same time, consumers can use the Internet to understand the product information on the entire platform, and choose high-quality and low-cost products by "shopping around" (Huang, Chen & Peng, 2013). The main competitive advantage of C2C e-commerce is that merchants sell goods at low prices, and their operation methods are relatively flexible. People of any occupation can complete the sales of goods at their residence or any place through the C2C e-commerce platform. C2C e-commerce is favoured by the market for its flexibility and lower transaction costs, and is growing rapidly.

In 2020, China's national tax revenue amounted 15,431.229 billion Yuan, accounting for 15.2% of GDP (National Bureau of Statistics of China, 2021). The tax collection is generated mostly from value added tax, corporate income tax, consumption tax and personal income tax. Taxation supports China's fiscal revenue. With the rapid development and maturity of e-commerce, more and more transactions have been moved to online operations. As a result, on the one hand, the transaction volume of

traditional trade methods has been continuously reduced and the current tax base has been eroded; on the other hand, due to E-commerce is a new business model, and there is a time-lag effect in tax collection and management by tax authorities. In addition, the application of the Internet and big data technology in the taxation field still needs a process of continuous improvement. To some extent, e-commerce transaction activities have become a "taxation blind spot" for taxation authorities, resulting in a certain degree of tax loss. Taobao, the largest e-commerce platform in China, reached 811 million annual active consumers in the Chinese market in 2021(Taobao, 2021). Cai (2017) survey shows that Taobao is mainly based on the C2C business model. Most of the sellers are unincorporated individual merchants. Only a few individual merchants choose to provide invoices voluntarily. 67.62% of individual merchants do not issue invoices, and 13.81% of individual merchants will issue invoices on the condition that consumers bear the tax. From 2012 to 2016, the tax loss of e-commerce C2C model transactions showed a trend of increasing year by year, and the growth rate of tax loss was basically the same as the growth rate of C2C e-commerce transactions.

With the continuous advancement of the reform of China's tax system, the collection and administration model dominated by tax authorities in the past has gradually transformed into a collection and administration model based on taxpayers' self-declaration. The transformation of the management model raises a new question: how can we constrain taxpayers to pay taxes in good faith, thereby improving tax compliance? Existing research generally believes that the influencing factors of tax compliance are divided into two aspects: external and internal. is an important factor

affecting tax compliance (Allingham & Sandmo, 1972). Henderson and Kaplan (2005) reviewed the empirical studies related to tax ethics and found that the test results of the existing literature generally prove that taxpayers' tax ethics have a significant impact on tax compliance. Moreover, tax ethics not only directly affects taxpayer compliance, but also affects the relationship between sanctions activity and tax compliance, since whether noncompliance is considered ethical depends on perceptions of sanctions. Tax morale, defined as the 'intrinsic motivation to pay tax' (Mohdali & Pope, 2010) or 'willingness to pay tax' (Tekeli, 2011), is particularly relevant in China's administration system. Personal Income Tax System (hereafter the PITS) published by the State Taxation Administration of China (hereafter the STA) in 2018, in which taxpayers are responsible for calculating and paying their own tax, as well as filing tax reports with the tax office.

With the development of the digital economy, the government and STA are particularly concerned about the tax morale of e-commerce operators. Tax policy has always been an important policy tool for the government to guide industrial development and optimize resource allocation. Therefore, the Standing Committee of the National People's Congress (2018) (hereafter the NPC) convened the first drafting group meeting of the E-Commerce Law of the People's Republic of China (hereafter the E-Commerce Law), which officially launched the legislative process of the E-Commerce Law. On 31<sup>st</sup> August, 2018, the E-Commerce Law was passed by the NPC after four considerations of amendments. The e-commerce law's purpose is to clarify the subjects of taxation and the methods of paying tax in e-commerce business. It enables tax authorities to tax taxpayers engaged in e-commerce in

conformity with the law.

## **1.2 Problem Statement**

The steady development of C2C e-commerce has gradually become a new growth point of tax revenue. However, the possible virtuality of online transactions and relatively lagging tax collection and management have induced some high-income C2C e-commerce operators to adopt various methods to avoid normal tax obligations. This makes the industry in the tax "grey area" for a long time, causing a serious problem of tax loss. Cheng and Tian (2022) use the average tax burden method to calculate tax leakage. China's e-commerce transaction volume increases from 10.4 trillion Yuan in 2013 to 37.21 trillion Yuan in 2020, an increase of about 2.6 times, with an average annual growth rate of 36.8%; while the tax loss measured by the average tax burden increases from 0.78 trillion Yuan in 2013 to 2.94 trillion Yuan in 2020, an increase of 2.76 times, with an average annual growth rate of 39.4%. The average annual growth rate is 39.4%. At the same time, the share of e-commerce tax loss in total tax revenue increased rapidly from 7.02% in 2013 to 21.35% in 2017, and remained at around 20% in subsequent years. The seriousness of the tax leakage problem in the digital economy can be inferred from the e-commerce tax leakage situation. In particular, the digital economy will flourish in the future and if the phenomenon of tax loss cannot be circumvented through effective tax governance, it will not only result in a reduction of tax revenue but also create an unfair tax burden compared to other industries. The digital economy will flourish in the future, and if it is not governed effectively to avoid tax loss, it will not only lead to a reduction in tax revenue, but also create an unfair tax

burden compared to other industries with an average growth rate of 39.4%. At the same time, the share of e-commerce tax leakage in total tax revenue increased rapidly from 7.02% in 2013 to 21.35% in 2017, and remained at around 20% in subsequent years.

There are three types of taxes involved in C2C e-commerce transactions, personal income tax, value added tax and customs duties. In C2C electronic transactions, these three taxes are prone to leakage due to initial regulatory issues. In terms of the principles of taxation, value added tax is a tax on the value added to the production, sale and services of goods. or the added value of the goods is levied as a turnover tax. In the e-commerce sector, all transactions take place virtually, which makes it more difficult for the tax authorities to measure the value added for tax purposes. C2C e-commerce involves individuals, therefore for personal income tax, income tax is generally calculated and paid according to the individual's current taxable income and the applicable tax rate. The sales and collections of C2C e-commerce in the context of e-commerce are conducted through the internet, making it much more difficult for the tax authorities to collect tax for this part, and it is still difficult for the tax authorities to track their tax payments as they need to consume more time and effort. Meanwhile, C2C e-commerce operators importing goods from overseas involve customs duties. Part of the C2C e-commerce operators bring back goods from overseas and sell them to their customers, losing customs duties as they do not exceed the approved scope of customs duty collection. Due to the global application and development of e-commerce, it provides more space for survival and profitability. This article will elaborate on the targets of these three taxes and their starting points in a subsequent literature review.

C2C e-commerce has the following three characteristics. Firstly, e-commerce is notable

for the fact that transactions can only take place over the internet. Secondly, C2C e-commerce transactions do not have written contracts and other supporting materials other than order information and chat logs with the seller. Finally, it is easily modified transaction information. Due to these characteristics of e-commerce, it is extremely important to study C2C taxpayers' compliance when the regulatory instruments of the Chinese tax authorities are still inadequate. In particular, taxpayer compliance is not only driven by audit risk and the fear of being penalised by tax authorities (Murphy, 2008). There are other aspects that encourage individuals to comply with their tax obligations. Previous research has shown that various factors have an impact, including 'intrinsic motivation to pay taxes' or tax morale (Torgler, 2007).

There are three broad types of models of tax compliance: economic deterrence, psychosocial and fiscal psychological models (McKerchar & Evans, 2009; Pope & McKerchar, 2011). Tax morale, often defined as "the intrinsic motivation to pay taxes" (Mohdali and Pope, 2010) and "willingness to pay taxes" (Braithwaite & Ahmed, 2005; Tekeli, 2011), is considered to play an important role in tax compliance (Pope and McKerchar 2011). Kornhauser (2007) refers to tax morale as "a collective term for irrational factors and motivations". Tax morale is therefore a factor outside the economic deterrence model and can be included in the psychosocial or fiscal psychology model.

The theoretical model in this thesis is based on the slippery slope theory in fiscal psychology model. Kirchler, Hoelzl, and Wahl (2008) proposed the slippery slope framework, which includes the power of tax authorities and trust in the tax authorities as relevant dimensions for understanding tax compliance. Factors such as trust in the

government, trust in the legal system, national pride, and perception of sanction are explored using the framework as a conceptual tool (Togler, 2004). This article discusses trust in the tax authorities in three dimensions, which are government, justice and nation. Trust in the tax authorities refers to society's perception of whether the tax authorities are serving the public interest. For perception of sanction, within the slippery slope framework, it is argued that it is not the objective probability of an audit that matters, but rather the subjective perceived probability and its interpretation. A review of tax compliance and audit probability suggests that objective audit probability has little effect on compliance and concludes that subjective perceived probability may be moderated by psychological variables (Andreoni, Erard & Feinstein, 1998). Perception of sanction would be an indicator of the power of authorities.

### **1.3 Research Gap**

Based on the issues presented in the problem statement, the first research gap is the lack of literature research on tax morale of C2C Ecommerce operators. Although there have been many previous literatures exploring tax morale, there are still constraints on reaching conclusions. In the past five years, the digital economy era has flourished, and almost no research has focused on the factors affecting tax morale in this digital economy era. A related paper was recently published by Md Fadzil and Che Azmi (2021), who studied the factors affecting tax morale in the gig economy. However, the paper is focusing the study on the area of e-commerce business. For digital economy taxation, most scholars focus on the governance of the digital economy. Mitchell, Voon and Hepburn (2019) proposed that Australia should consider taxing digital services in

an attempt to capture more revenue from digital businesses in order to adapt to the digitization of the global economy. Tambunan and Rosdiana (2020) believe that the rapid development of technology in the digital economy has brought an impact on Indonesian taxation, which should be dealt with by promulgating appropriate taxation regulations and measures. Geringer (2021) elaborates on a new proposed and implemented national digital tax in Europe and its tax policy recommendations. Yang and Han (2017) aimed at the division of tax jurisdiction under the digital economy, and proposed that the premise of the division of international tax jurisdiction is digital value and its role in value creation. Wang, Qiu and Zhang (2019) analyzed the impact of the digital economy on international tax collection and management based on the identification of permanent establishments, and proposed to revise the definition of permanent establishments and the method of profit distribution. Based on the problem of Base Erosion and Profit Shifting (BEPS), He and Ju (2020) analyzed the "global anti-base erosion" proposed by the Organisation for Economic Co-operation and Development (OECD) under the digital economy and evaluated the policy effects. Therefore, it is necessary to investigate the influencing factors of tax morale of C2C Ecommerce operators to provide an important reference for taxation in the digital economy era.

The second research gap is the lack of literature on tax morale in China. The majority of studies in this field focus on tax compliance and tax regulation in China, with little consideration given to tax morale. Liang and Fan (2021) findings present that blockchain technology has implications for tax compliance. The technical characteristics of the basic layer, functional layer and application layer of the blockchain



are deeply integrated with the intelligent application scenarios of tax management. Blockchain optimizes the technical environment for taxpayer tax compliance and promotes taxpayer tax compliance. Moreover, Fan and Du (2021) highlight the importance of mandatory tax compliance through big data. Although the Chinese government has integrated big data into the tax collection and administration process to improve compliance, there are still a significant number of tax-related infractions, resulting in a significant amount of tax revenue leakage. The main reason for this is that the relationship between big data and government coercion has not yet been thoroughly integrated. Therefore, in order to fill the geographical gap, this study focuses on the tax morale of individual taxpayers in China.

The third gap is that the research approach to taxation issues in China is dominated by theoretical analysis and lacks empirical analysis. The actual research is relatively homogeneous, such as tax compliance, tax regulation and other issues. As a result, there is a lack of empirical research, especially since the raw data collected through questionnaire analysis is precisely the most accurate information that is difficult to obtain from database information. This paper conducts a quantitative research methodology in order to collect timely and accurate data on the tax morale of C2C Ecommerce operators in China.

#### **1.4 Research Questions**

**The research questions of this study are as follows:**

**RQ1:** Does trust in government have an effect on C2C operators' tax morale in China?

**RQ2:** Does trust in legal system have an effect on C2C operators' tax morale in China?

**RQ3:** Does national pride have an effect on C2C operators' tax morale in China?

**RQ4:** Does perception of sanctions have an effect on C2C operators' tax morale in China?

### **1.5 Research Objectives**

**According to the research questions, this study has 4 research objectives:**

**RO1:** To investigate whether trust in government have an effect on C2C operators' tax morale in China.

**RO2:** To investigate whether trust in legal system have an effect on C2C operators' tax morale in China.

**RO3:** To investigate whether national pride have an effect on C2C operators' tax morale in China.

**RO4:** To investigate whether perception of sanctions have an effect on C2C operators' tax morale in China.

## 1.6 Significance of the Research

This study provides several contributions to the achievement of the above research goals in practice. This research can improve our understanding of the factors that affect the tax morale of China's C2C E-commerce operators, so as to analyze the problems existing in the government's tax collection, especially in C2C e-commerce, and provide some suggestions and reasonable solution. In 2020, China has a population of 1.41 billion people, with over 780 million in the labour force. Individual income tax collections total 115.68 billion Yuan, accounting for 7.5 percent of overall tax revenue (National Bureau of Statistics of China, 2021). Given the little contribution of individual taxpayers to tax revenue, it is important to execute a tax morale study in order to establish policies that will improve individual taxpayers' morale and hence voluntary tax compliance. In the background of the emergence of e-commerce models and the digitisation of tax regulation, the findings on tax morale may differ from previous studies. To summarize, this research contributes the following to the body of knowledge and practice of taxation, as well as to taxation research.

A fundamental assumption in economic analysis is the assumption of rational economic man, where people act with the goal of maximising their own interests. Whether the taxpayer's taxation behaviour is also in line with this setting is the first question to be considered. Taxes are compulsory, gratuitous and fixed in nature. In the view of taxpayers, this compulsory levy is in fact a way to reduce their personal benefits, and under the potential psychological implication of the supremacy of benefits, the incentive to evade tax is inevitable (Cheng & Tian, 2022). This paper examines tax morale with the realisation that it is the inner psychological activity of taxpayers that guides their tax

behaviour. The study of the factors that influence tax morale also supports the development of government policies accordingly.

Stronger tax morale among taxpayers contributes to the growth of fiscal revenue. Conversely, lower tax morale affects the government's ability to organise revenue, and lower revenue affects the quality and effectiveness of fiscal spending. Exacerbating the irrational and imperfect supply of government public goods will have a negative effect on the dynamic development of the national economy that cannot be ignored. At the same time, taxation reduces the function of regulating income distribution, which will directly bring about the phenomenon of unfair social distribution (Tan, 2021). From a social perspective, taxation, as an important tool for the state to organise its revenue, is an important financial guarantee for the provision of public goods and services and the improvement of the people's livelihood, involving all areas of social life. On the one hand, the quality and level of social public goods and services are closely related to natural persons, and public goods and services are subject to the timely and full collection of tax revenue, which is then realised through the efficient allocation and use of fiscal funds.

Taxes are taken from the people and used by the people, not only to meet public needs and achieve the public interest of society, but also to better protect the needs of individuals (Liu & Xiong, 2004). On the other hand, the degree of satisfaction of natural persons with social public goods and services affects their tax morale. In particular, as the gap between the rich and the poor continues to widen; the Gini coefficient has been increasing year after year; the share of residents' income is relatively low; the educational resources of citizens are uneven; and a series of social problems of unequal

development opportunities are gaining attention. Against the background of the realities of the pursuit, whether the total amount of public goods and services provided by the government is sufficient, whether the quality is satisfactory, whether the manner and results are efficient, and whether the rights and interests of natural persons can be well maintained, realised and developed, largely determine their willingness to pay taxes. This paper therefore incorporates trust in the government, trust in the legal system, national pride, perception of sanctions, and demographic variables into the framework to analyse the impact on tax morale. Through data analysis, provide government and tax authorities with information about China's tax morale in order for them to design more effective regulations and enhance compliance for individual taxpayers. Government is also taking tax morale seriously in China. This study is important for the government and STA to understand the motivation of C2C e-commerce operators.

### **1.7 Summary**

In this era of rapid Internet development, the Internet-based e-commerce sector has also seen bright prospects and rapid growth, but the problem of tax loss arising from the industry's rapid development and the country's imperfect tax rule has also gradually become apparent. In the context of e-commerce tax loss, this study analyses trust in the government, trust in the legal system, national pride and perception of sanctions from the perspective of tax morale of C2C e-commerce taxpayers. Chapter 1 outlines the background, problem statement, and objectives of the current study. Contributions and significance of the current study is highlighted before a summary of the chapter is provided. Next, Chapter 2 reviews the related literature that is relevant in the context of the current study.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.0 Introduction**

This chapter reviews literature related to the research topic. Firstly, a brief notion of tax morale and tax morale determinants is described in Section 2.1 and section 2.2, followed by a more detailed review on C2C taxation status in China and notion of the slippery slope theory in Section 2.3 and Section 2.4. The detail of the research framework is provided in Section 2.5, before a summary of the overall reviews concludes the chapter in Section 2.6.

### **2.1 Tax Morale**

Under the wave of government reform, based on their own reflection on the traditional management model, tax agencies have paid great attention to service-oriented management measures. The traditional deterrence paradigm of tax administration treats taxpayers as potential criminals, advocating frequent audits and harsh penalties to curb illegal behavior. This paradigm not only fails to fully explain the compliance behavior of taxpayers, but also easily leads to negative attitudes towards taxpayers. Therefore, many scholars have begun to re-examine the deterrence model. For example, Alm and Torgler (2011) pointed out that the deterrence model is only a starting point rather than an end point, and it is naive to hope that tax revenue can be increased simply by strengthening tax collection and management. Kirchler (2007) pointed out that coercive measures limited to economic means ignore non-economic factors such as taxpayers' motivations, attitudes, values, moral sense, trust in government, and the quality of interactions with tax authorities. Therefore, rather than guaranteeing compliance, audits

and penalties have the potential to negatively impact the trust environment, thereby eroding voluntary compliance.

Academia generally analyzes tax morale from two perspectives, moral and psychological. As far as morality is concerned, some scholars regard tax morale as the attitude of taxpayer groups or all towards fulfilling or ignoring tax obligations. It is rooted in citizens' tax psychology and civic consciousness, and is the basis for taxpayers to accept tax obligations and recognize national sovereignty (Williams & Krasniqi, 2017). Braithwaite and Ahmed (2005) define tax morale as an internalized tax obligation, while other researchers link it to civic duty (Orviska & Hudson, 2003) or tax ethics (Murphy & Torgler, 2004), arguing that tax Morale is the product of voluntary compliance by taxpayers out of a belief in contributing to society. If taxpayers do not comply, they may feel guilty or ashamed for it. At the psychological level, most studies regard tax morale as one of the various motives for citizens to pay taxes, the difference being that tax morality is an active, intrinsic and non-monetary tax motive (Luttmer & Singhal, 2014). In essence, tax morale covers both moral and psychological connotations, showing the honesty and integrity of taxpayers, believing that tax payment is a social obligation to the public's well-being, and that tax evasion is morally wrong.

Most studies define tax morale as 'intrinsic motivation to pay tax' or 'willingness to pay tax' (Mohdali & Pope, 2010; Alm & Torgler, 2004; Tekeli, 2011). Civic consciousness is the basis for citizens' inner acceptance of tax obligations and recognition of national sovereignty. In addition, Murphy and Torgler (2004) define tax morale as the 'moral principles or values held by individuals about paying their taxes'. Although tax

ethics is mostly regarded as an intrinsic motivation for voluntary tax payment, researchers have found that voluntary motivation and tax ethics are not the same. Gangl, Hofmann and Kirchler (2015) pointed out that voluntary motivation is not a real intrinsic motivation, but an expedient measure adopted by taxpayers forced by external norms. Voluntary motives suggest that taxpayers choose to pay taxes as opposed to tax evasion. Voluntary tax payment is a relatively easy and effortless act, which does not mean that taxpayers accept tax payment as an obligation. Therefore, in the absence of external constraints and pressures, taxpayers still have the will or behavior to evade tax. Tax ethics is not the case. It is the internalized obligation of citizens to pay taxes. When external constraints are lifted, for example, in the absence of inspection and punishment, taxpayers still choose to comply. Chinese scholars Ma and Ma (2019) believe that the willingness to pay taxes refers to citizens' desire to contribute to society through active tax payment, which is an element of tax payment culture and reflects the public's attitude to support the political system.

Torgler (2007) argues that it can be generally said that no one wants to pay taxes and that governments 'force' people to pay taxes through deterrence policies. Kirchler (2007) points out that coercive incentives are based on the theory that taxpayers comply with tax laws and generally feel negatively about paying taxes due to the presence of fines and audits. However, tax compliance is one of the factors that affects government tax revenues. When a country has a high level of tax compliance, the country also receives high tax revenues (Andini & Rahmiati, 2020). Feld and Frey (2002) argue that tax morale, seen as an intrinsic motivation to pay taxes, other than their legal obligation to do, can help explain high levels of tax compliance. There is overwhelming evidence that



tax compliance behaviour cannot be fully explained by traditional economic analysis, which focuses mainly on deterrent factors. Instead, there are other factors that help explain why many people comply, particularly 'tax morale' (Alm & Torgler, 2004). Kornhauser (2007) demonstrates that there is a causal relationship between tax morale and actual tax compliance behaviour. Since the link between tax morale and tax compliance has been verified, studying the factors that influence tax morale provides a positive contribution to the study of tax compliance' willingness to pay taxes. In this paper the study of tax morale will also be conducted through this definition.

In China, Gu and Huang (2017) use the World Values Survey data as a basis for measuring residents' tax morale using respondents' 'acceptance of tax evasion'. The analysis found that residents' tax morale was mainly influenced by income, area of residence, trust in government and national pride. Zhao and Li (2014) examine the impact of tax enforcement factors (detection and penalty rates) and incentive systems (including tax rebates, lotteries and good faith treatment) under the rational person assumption. Fu (2001) has analysed the causes of tax evasion in China using the A-S and its extension model, arguing that improving the level of tax audits and increasing penalties are the main means to stop tax leakage. In contrast, Li (2005) points out the limitations of penalty deterrence, arguing that the use of severe penalties in situations where the detection rate is very low would mean that tax evasion is detected. This would mean a very different tax treatment between those caught and those not caught, which would not only be ineffective in deterring non-compliance, but would also potentially worsen social equity.

In response to the changes of times, China has been focusing on building service-

oriented taxation authorities since the 1990s, and has put forward the principle of taxation services starting from taxpayers' needs, based on taxpayers' satisfaction and ending with taxpayers' compliance. Moreover, tax services have been identified as one of the core businesses of taxation authorities. Through years of continuous efforts such as building high-level service departments, promoting information-based network platforms, improving service attitudes and standards, holding tax promotion month activities and deepening the "administrative and service" reform, the service quality and effectiveness of tax authorities have been greatly improved, and taxpayers' satisfaction has increased annually. In the World Bank's Doing Business 2020 report, China's ranking in tax indicators improved by nine places compared to the previous year (Ma, 2021).

## **2.2 C2C Tax Status in China**

### **2.2.1 E-Commerce Tax Loss**

In the calculation of tax loss, the commonly used methods include "underground economic method", "average tax burden method" and "modified cash ratio method". However, the conditions of the "underground economic method" and the "modified cash ratio method" are difficult to meet, and the accuracy of the calculation of the scale of tax leakage cannot be guaranteed. Regarding the tax loss problem in the development of e-commerce in China, many scholars have studied the issues. Xu and Kong (2015) used the tax revenue capacity method to estimate the amount of e-commerce tax losses in China from 2007 to 2012, and the result was 0.85 trillion Yuan, accounting for 8.45% of the total tax revenue; In particular, the loss of personal income tax in e-commerce is serious. Cai (2017) used a sample survey and the average tax burden method to

calculate the loss of Taobao's value-added tax and personal income tax, and concluded that the total loss of the two taxes in 2016 will not be less than 50 billion Yuan- 70 billion Yuan, and the predicted value of the total loss of C2C value-added tax and personal income tax is 53.153 billion Yuan to 74.792 billion Yuan, which will reach 100 billion Yuan in 2018.

Guan (2017) argues that the inadequacy and imperfection of the taxation system in the e-commerce sector is a major factor in the loss of tax revenue from e-commerce, and that updating the system is still not feasible based on traditional taxation theory and needs to be adapted to the actual situation. Zhang (2016) pointed out that the concealment and randomness of e-commerce is a major factor in the problem of tax loss. Although the flexibility of online transactions provides convenience for the public, it is difficult to verify the taxable income of enterprises, which increases the difficulty of tax audit. According to the data released by the State Administration of Taxation in China, during the "13th Five-Year Plan" period, a total of 58.74 million new tax-related market entities will be established, and a total of 47.52 million will still exist by the end of 2020, accounting for 66% of the national taxable market entities. Emerging industries account for a prominent proportion of tax-paying entities. Combined with the current tax management mechanism, the problem of large-scale tax loss in China needs to be solved urgently.

The loss of tax revenue will directly shrink China's tax revenue and affect the spending of fiscal revenue on public goods and services. At the same time, it will reduce the residents' sense of access. In particular, it will create an image of government inaction in the minds of taxpayers, further creating a psychological reluctance to pay taxes. In

addition, China has strengthened its macro-control efforts in recent years to achieve a reasonable secondary and tertiary distribution of residents' income through taxation. However, the rapid economic development has given rise to a variety of new industrial models, and the lagging tax collection and management system has resulted in various forms of tax leakage. In particular, the loss of personal income tax for e-commerce workers in recent years has further widened the inequitable distribution of personal income (Cheng& Tian, 2022).

### **2.2.2 The Characteristics of C2C E-Commerce**

In early 2020, the Covid-19 virus spread across the world. Since the Chinese government advises people to minimize the frequency of going out, most Chinese choose to shop online. During this period, the taxation issues of Chinese e-commerce were clearly exposed. E-commerce offers unprecedented convenience and provides consumers with more choices. Specifically, customer-to-customer (C2C) e-commerce refers to Internet-based purchases and sales of goods and services between consumers (Leonard & Jones, 2019). Taobao is the market leader in China for online C2C auctions, with over 70% of the market share (Li et al., 2008). The tax issues that arise as a result of the peculiarities of the C2C e-commerce model are discussed in further detail below.

C2C e-commerce has the following three characteristics. Firstly, e-commerce is notable for the fact that transactions can only take place over the internet. On the e-commerce platform, the buyer can use online shop information and online chat tools to understand their needs and pass this information to the seller. For the seller, the seller can apply for a domain name and edit the homepage to display their product information. Payment for

goods can be made through a third-party payment platform. Delivery of goods is provided by a third-party courier company. After-sales service can also be settled directly on the Internet. There is no need for buyers and sellers to meet during the entire transaction process. Although buyers can view information on the internet, the authenticity and reliability of goods and services is not always certain. There may be discrepancies in the goods, damage in transit and poor after-sales service. Therefore, C2C e-commerce is virtually invisible (Xie & Xu, 2020).

Anyone can post content online or take part in C2C e-commerce transactions by making a payment or registering for free. Moreover, the subject of the transaction is highly anonymous and flexible, so it is often difficult to identify the taxpayers of C2C e-commerce transactions under the tax system based on traditional trading methods. The tax authorities require powerful technologies to monitor C2C e-commerce transactions since it is difficult to identify the subject of the tax and the exact amount. At present, the Chinese government conducts initial tax audits through big data technology. Internal information registered by individual online shops in the electronic tax system is checked by the tax authorities. External information processed by the Big Data information collection and analysis sharing platform, which is provided by a third party, is also checked. Moreover, the taxpayers' credit rating is assessed based on the risk prediction of the taxpayers based on the verification results. The taxation department conducts corresponding tax audits based on the credit rating of taxpayers (Yang & Liang, 2022).

Secondly, C2C e-commerce transactions do not have written contracts and other supporting materials other than order information and chat logs with the seller. Usually, sellers do not initiate invoicing when selling goods or providing services. If a buyer

wants an invoice, he or she has to communicate with the seller again. As a result, most buyers in China do not request invoices from sellers, and it seems to have become industry practice not to invoice for online purchases. Many small shops are not in the habit of keeping accounts. Finally, it is easily modified transaction information. In the C2C e-commerce industry, all transaction information and logistics information are electronic. This information is disseminated via the Internet. However, electronic information has the disadvantage that it can be easily modified and the traces of modification are not easily detectable. Therefore, it is not easily traceable during tax audits and it is difficult to ensure the authenticity of the data (Huang et al., 2018). The paperless operation of e-commerce and the frequent changes of business premises make the transaction activities leave no trace that can be used by the tax authorities to determine the basis for taxation. It deprives the traditional tax administration of direct evidence for tax calculation. It is difficult for the tax administration to grasp real information such as the sales revenue of the real trading activities of e-commerce enterprises and the sales revenue or income of small e-commerce operators, which increases the difficulty of confirming the tax basis of e-commerce enterprises. Therefore, the characteristics of C2C e-commerce led to ambiguity of tax subject and difficulty of tax supervision in the era of digital economy. However, in China, Business to Business (B2B) and Business to Customer (B2C) taxing subjects are relatively clear, and companies transacting on the internet are simply changing to a new sales platform. The service provider will carry out the relevant audits on its business licenses and corporate accounts. Therefore, it is not difficult for the Chinese industry and taxation authorities to tax and regulate them. However, in the case of the C2C model, the virtualization of the

seller and the paperlessness of the transaction process make taxation difficult (Deng & Tian, 2001). The regulators do not have a paper basis for taxation, which makes it difficult to identify most transactions.

### **2.2.3 Development of E-commerce Law in China**

The imbalance between the tax burden of e-commerce and traditional commerce due to the non-taxation of e-commerce in the C2C sector has led to a frenzy of e-commerce squeezing traditional commerce out of existence. As a result, offline traditional businesses are forced to increase their online operations, which results in the conversion of normal taxable offline operations to tax-free online operations (Zhang, 2021). On January 5, 2015, the Legislative Affairs Office of the State Council of the People's Republic of China issued the "Draft Amendment to the Tax Collection and Administration Law of the People's Republic of China (Draft for Comment)", which clearly stipulates that online transactions are subject to tax obligations. In May of the same year, the State Administration of Taxation implemented the Measures for the Administration of Online Invoices, which provided legal support and basis for taxation of e-commerce. In 2016, the Legislative Affairs Office of the State Council issued the "Revised Draft of the Tax Collection and Administration Law of the People's Republic of China (Draft for Comment)", which proposed that the country will implement a unified taxpayer identification number system and push the topic of "tax collection for personal online stores" to a heated discussion. In order to control this situation, On August 31, 2018, the E-Commerce Law was passed by the NPC after four

considerations of amendments (Wang et al., 2019).

Pursuant to Article 11 of the Chinese E-Commerce Law (2018), E-commerce operators shall fulfil their tax obligations in accordance with the law and enjoy tax incentives. E-commerce operators must register as market entities and register their business premises in accordance with the law. In the past, the threshold for e-commerce operators was extremely low, requiring only a simple online registration on an e-commerce platform to operate, and no registration with the local market supervision department was required. With the enactment of the E-commerce Law, this provision explicitly requires all e-commerce operators who fall under the above-mentioned category to register with the local market regulator in accordance with the law (Sun, 2020). E-commerce operators should be required to register their entities, establish a social credit code and publicize it. Therefore, tax authorities have clear and unambiguous basic information about e-commerce operators and regulate them for tax purposes. At the same time, the law also specifies the confirmation of identity and tax information when e-commerce operators report to the tax authorities. Because according to the tax law, to levy tax on the taxpayer, the taxpayer must first confirm the taxpayer. The identity and qualification of the entity, confirm who is the subject of taxation and who should be taxed. Therefore, from this point of view, such a provision of a registration procedure also provides a basic precondition for taxation and taxation according to law. Yi and Zhang (2018) point out the e-commerce law provides detailed regulations on the taxation of merchants. Prior to the introduction of the E-commerce law, merchants were not concerned with the amount of tax they had to pay but rather the unfairness of taxation in the wider context. Many merchants did not have to pay tax or were protected by their platforms from tax



evasion, and if individual legitimate merchants paid full tax and competed with non-taxed merchants, there would be no competition at all in terms of business costs. The fairness of taxation will level the playing field for merchants, which is of course an inevitable trend in business brought about by the new e-commerce law.

Feng (2021) point out the main purpose of the e-commerce law is to solve the following problems: (1) The issue of website platform construction; (2) The issue of market access; (3) The issue of transaction subjects; (4) The issue of electronic contracts; (5) Business activities issues; (6) Logistics activities issues. Although, the e-commerce law can solve the problem of ambiguity of tax subject and difficulty of tax supervision of C2C e-commerce taxation, the taxation department needs to gradually strengthen the supervision in practice. Therefore, it is important to analyse tax morale from the perspective of e-commerce.

The E-commerce Law in China provides regulated institutional arrangements for the relevant operators. E-commerce platform operators and operators within the platform can regulate their operations in accordance with the corresponding provisions. The rights and obligations between the platform and the seller will be confirmed and regulated in legal form. In particular, the e-commerce law provides the regulatory authorities with an institutional basis for administration in accordance with the law. The regulators will be able to work together with market players in accordance with the law to carry out scientific, precise and effective supervision and reduce the scope for rent-seeking. The enactment of the E-commerce Law has given e-commerce operators the status of legal market entities and the right to access their legitimate rights in the course of business in accordance with the law. However, Wang and Chen (2019) point out that

after the enactment of the e-commerce law, there are still problems in terms of taxation. Firstly, e-commerce operators have little awareness of business tax registration and taxation. Since the implementation of the E-commerce law, there have been no strong measures to encourage e-commerce operators to actively participate in the market registration process. At the same time, the relevant departments have not mandated the closure of e-commerce shops without market registration, so there are still some operators have a fluke mentality. According to the survey, the popularity of e-commerce law is not high among some micro-businesses, and they have not considered the issue of business licences, nor taxation. As a personal online shop, e-commerce, micro-business and shopping on behalf of the legal awareness and tax awareness needs to be improved. Second, the massive registration and tax collection work. The e-commerce law requires that e-commerce operators should register for the market in accordance with the law, obtaining a business license, operating legally and paying the taxes due in accordance with the law. The number of individual operators is huge in scale and their operations cover a wide range. Market supervision and taxation authorities are unable to cope with the demand for business and taxation registration of so many C2C e-commerce operators at the first time, which is too time-consuming. In addition, the offline model does not allow for efficient management of market registration and tax collection for individual operators. Thirdly, the regulatory model of the regulator cannot keep up with the requirements of legal regulation. The e-commerce law comprehensively constrains the various behaviours of e-commerce operators and puts forward many binding regulations. But for the relevant departments now means of enforcement, in accordance with the law to regulate the requirements of e-commerce operators. In particular, it is

difficult for the current regulatory model and technology of the regulatory authorities to keep up with the legal requirements within a short period of time. Therefore, the lax regulatory mechanism will result in the tax authorities not having accurate information and hinder the tax collection work.

#### **2.2.4 C2C Taxation Objects and Tax Types in China**

The E-commerce Law divides tax objects into three categories: (1) Physical goods, which are also the main products of traditional offline sales, and the main differences with traditional offline purchase methods are in several aspects such as communication, payment and logistics, so it is easier to define the tax objects; (2) Digital products: mainly cultural products, which can be recorded through digital technology, and still belong to tangible goods in essence, only that they are reproduced through electronic technology, which reduces production costs; and (3) Digital services: with the development of information technology, the form of services has also changed dramatically and digital services have become more common, including information services (providing information consultation), online games, and others.

The first two categories are relatively tangible and easier to define, but the third category is difficult to distinguish due to its diversity, and the related taxation is defined in a more general way, and there are no uniform regulations internationally (Feng, 2021).

The types of taxes levied on C2C e-commerce can be identified in terms of the various business segments. In the sourcing process, C2C e-merchants may be subject to Value-added tax (VAT), excise duty (on a limited number of items, including high-end jewellery and wine), stamp duty and customs duty. In the sales chain, C2C e-merchants

may be subject to value added tax and personal income tax (Yao, 2019). Currently, the taxation of e-commerce in China is still in accordance with the norms of the real economy, and no strong and clear measures have been taken for the taxation of C2C (Xie & Xu, 2020). Currently based on e-commerce tax leakage, this paper will provide a literature review of value added tax, personal income tax and customs duties. This is because these three are responsible for a large amount of tax leakage in the e-commerce sector. The objective is to understand the current government regulation of these three taxes and the tax morale of taxpayers, and to explore the adaptation of the reform of these three taxes to the e-commerce economy.

#### **2.2.4.1 Value Added Tax**

This section will introduce the major tax reform in China in recent years, the conversion of business tax to value added tax. This section of the literature review focuses on understanding the content of the change from business tax to value added tax and the impact on e-commerce. Along with the new trend in China's socio-economic development, the original parallel taxation system of business tax and value added tax has revealed significant drawbacks. In particular, the problem of double taxation has led to an increased tax burden on enterprises and raised production costs. As a result, it is not conducive to the prosperous development of small and medium-sized enterprises and hinders the development of social and economic progress. Therefore, the parallel system of business tax and value added tax can no longer be adapted to the development of the existing economic system. Therefore, China needs to implement a more scientific

and reasonable taxation system to promote economic development and optimise the industrial structure. This is why China has introduced the conversion of business tax to value added tax. The conversion of business tax to value added tax means that items previously subject to business tax will be subject to value added tax. The value-added tax only increases the tax on the value added achieved by the product or service, and the input tax can be deducted, reducing the duplication of taxation links and reducing the burden on enterprises to a large extent (Tian, 2018).

On 1 January 2012, business tax was first introduced in Shanghai on a pilot basis in the transport sector and some modern service industries. In the years since, the scope of the reform has been continuously expanded and the intensity of the reform has been increased. Since 1 August 2013, China will fully implement the pilot conversion of business tax to value-added tax, and the trend of business tax to value-added tax has swept across the country, with the financial, real estate, construction and domestic service sectors all being included in the pilot conversion of business tax to value-added tax (Huang, 2016). The pilot conversion of business tax to value-added tax has been extended nationwide since 1 August 2013. The third phase is the nationwide implementation of value-added tax in all sectors. Since 1 May 2016, the construction, real estate and financial life services sectors have been included in the pilot and enterprises are allowed to deduct input tax on new real estate. At this point, all industries across the country no longer pay business tax and the promotion of the business tax to value-added tax policy is complete. The reform of business tax to value-added tax is also the largest and most extensive tax reform in China since 1994, and is an important initiative and method to implement structural tax reduction in China. As of

2016, the overall tax reduction from business tax to value-added tax has totaled 210.7 billion Yuan, which has greatly reduced the tax burden of enterprises. More importantly, the conversion of business tax to value-added tax has changed the price system in market economic interactions, turning the "in-price tax" of business tax into an "out-of-price tax" of the value-added tax, and forming a deductive relationship between the input and output of the value-added tax. The internal organization of businesses and the restructuring of industries will both be significantly impacted by this (Tian, 2018). There are relatively more studies in the pilot phase of business tax to value-added tax conversion, but there is no consensus among academics on whether business tax conversion has reduced the tax burden of enterprises, and there are mainly three different views: one is that business tax to value-added tax has reduced the tax burden of enterprises, the economic and social benefits are obvious, and there is a negative correlation between tax burden and economic growth (Xia & Guan, 2012). At the same time, the change from business tax to value-added tax has lengthened the value-added tax credit chain. The problem of double taxation has been improved to a certain extent, and the overall tax burden of taxpayers has decreased, and the effect of tax reduction has exceeded expectations (Cui, 2013). And the change from business tax to value-added tax has reduced the tax burden of most enterprises. Secondly, the change of business tax to value-added tax neither significantly reduced the tax burden rate of large and medium-sized enterprises nor significantly increased the tax burden rate of large and medium-sized enterprises (Dong, 2016). Thirdly, because the credit chain is not complete, the change from business tax to value-added tax did not significantly reduce the tax burden of enterprises in general, and even increased the tax burden of some

enterprises (Fan & Peng, 2017).

The E-Commerce Law, which was officially implemented on 1 January 2019, has effectively regulated the e-commerce market and promoted the healthy development of the industry. However, although its law has clear provisions on e-commerce taxation issues, there are no detailed regulations on its tax types and related tax rates. In this part of the study, it is important to examine the impact of the change in business tax to value added tax on the e-commerce industry. In terms of the positive impact, firstly, many C2C merchants, such as self-employed businesses operating clothing, department stores, catering and entertainment through e-commerce channels, mostly have annual sales of less than 5 million Yuan and, according to the regulations, these merchants can be included in the category of small-scale taxpayers. Firstly, many C2C merchants, such as self-employed entrepreneurs operating businesses such as clothing, department stores, catering and entertainment through e-commerce channels, mostly have annual sales of less than 5 million Yuan. Under the regulations, these businesses could be classified as small-scale taxpayers. Before the conversion of business tax to value-added tax, the turnover was taxed and the number of transfers led to the repetitive payment of business tax and a heavy tax burden. However, after the conversion of business tax to value-added tax, the double taxation of business tax was avoided and value-added tax was levied at a simple rate of 3%, which was lower than the original business tax burden and greatly reduced the tax burden (Wang, 2019). Second, corporate profits have increased. Entering the era of change in business tax to value-added tax, coupled with the low threshold of e-commerce has led to a sharp increase in e-commerce enterprises, and in the long run, the change in business tax to value-added tax has directly affected the

price structure. 2011-2017 e-commerce transactions are growing in size but at a slower pace, which shows that China's e-commerce has entered a stable growth stage of development. As China's supply-side structural transformation continues, e-commerce services will also continue to deepen around meeting the demand for consumer upgrading and livelihood services. This demonstrates that China's domestic demand has been growing and the presence of domestic demand will drive production. Thus, achieving a virtuous cycle of enterprises gaining profits and thus improving people's lives. Thirdly, in the context of the new tax reform, the overall competitive environment has been regulated to achieve fair competition, which also leads to some enterprises to continuously innovate and improve their overall capacity for competitiveness. The new tax policy, in order to create a relatively fair competitive environment, proposes that the import tax levied by cross-border retail e-commerce enterprises on imported goods is calculated at 70% of value-added tax. For some new industries, there is a platform for fair competition with traditional industries and other industries around the world, which effectively realises a level playing field in the market and further promotes market dynamics (Li, 2022). Fourthly, e-commerce transactions have given birth to digital goods. Digital goods are goods or services that can be digitally represented and transmitted through computer networks, such as music, pictures, e-books and movies. In particular, it allows information to be disseminated and traded more quickly, easily and inexpensively. However physical media such as books and magazines, tapes and CDs are diminishing or even disappearing. The Implementing Rules of China's Provisional Regulations on Value Added Tax stipulate that units and individuals who sell goods or provide processing, repair and fitting services as well as import goods within China



shall be value added taxpayers. It also provides for the taxation of sales of e-commerce enterprises providing intangible goods and services, which are subject to preferential value-added tax rates (Wang, 2019).

#### **2.2.4.2 Personal Income Tax**

This section examines the impact of the personal income tax reform and the establishment of the e-commerce law on the taxation of C2C e-commerce operators. The purpose is to understand the legal basis for the payment of personal income tax by e-commerce operators and the issues faced in paying personal income tax. In 2013, China's National People's Congress discussed the establishment of a tax registration system for e-commerce. At the same time, China's Ministry of Commerce and Ministry of Finance issued legislative proposals on taxation of e-commerce. The tax obligations of individual online merchants on C2C platforms were clarified in the "Policy on Value-Added Tax and Business Tax for Supporting Small and Micro Enterprises", which was approved by the State Council in 2014. The issue of C2C taxation arises mainly in the course of the transaction. In particular, the impact on the collection of turnover taxes such as value-added tax is significant, but the impact on income tax is relatively weak. For the C2C e-commerce model, personal income tax is the main tax levied, which depends on the transaction characteristics of C2C e-commerce.

Rao (2014) points out that taxability is analysed from the perspective of tax law, "an object or act satisfies the conditions stipulated in tax law with the nature of being suitable for taxation and its regulation; whether the conditions stipulated in tax law are satisfied is the core element to measure whether an object is taxable or not". According

to the provisions of Chinese tax law, as long as there is a transaction, it should be taxed.

C2C e-commerce is essentially a trading activity. Compared to traditional trade based on fixed shops and tangible goods, C2C e-commerce trade is only in the background of the information age. Although there are changes in the way it is transacted, paid for and delivered, the objects of its transactions are still primarily goods and services. Personal income can only be generated in relation to the national income component and the income tax law is only levied on the "newly produced wealth" component. Income is based on market transactions and is taxable because it is socially obligatory. Therefore, from this point of view, C2C e-commerce does not fall within the scope of tax exemption in the sense of the tax law. China's Individual Income Tax Law also specifies that 11 types of personal income are subject to individual income tax, including the production and business income and labour remuneration income of individual entrepreneurs, for example, personal income from C2C e-commerce activities should also be subject to individual income tax if it meets the relevant regulations (Han, 2015).

For C2C e-commerce, personal income tax is a relatively easy tax to achieve. Firstly, the C2C model is an e-commerce transaction between individuals and individuals. The main subjects of their transactions are individuals and micro enterprises. Given the high mobility of such taxable subjects, it is difficult to choose the location of the establishment or the place where the taxable services are performed as the place of taxation. Individual income tax, on the other hand, is taxed on the basis of resident and non-resident criteria and is more easily implemented in terms of tax collection links compared to taxes such as value added tax. This avoids the blind spot in tax collection caused by unclear tax jurisdiction in some areas (Wang et al., 2019). Secondly, personal

income tax is a tax that is taxed on all incomes obtained by individuals during the tax period, including income from wages and salaries and income from labor remuneration. Since this tax is based on the taxpayer's total income in the current tax period, the tax object is the final economic benefits of the seller's trading activities. In particular, while embodying the principle of substantive taxation, it also simplifies the impact of intermediate links on taxable objects. At the same time, it avoids the situation that the tax basis may be unclear and difficult to confirm when the cash flow from trading activities such as sales is used as the tax basis. Therefore, the difficulty of tax collection by the competent tax authorities is simplified. While reducing the cost of tax collection and administration, it also increases the feasibility of tax collection (Han, 2015). Finally, in order to promote tax fairness, the personal income tax is graded according to the amount of income and graded tax rates are applied to regulate income differences. Under the current initial development of the C2C model, the use of personal income tax as the main tax on C2C merchants can strengthen the tax administration of the C2C e-commerce market. In addition, it would also allow for a better grasp of the intensity of taxation and avoid the consequences of a shrinking C2C industry and market due to an excessive tax burden. At the same time, given that e-commerce is not essentially different from offline transactions. The choice of this tax is in the same vein as the current personal taxation of offline individual entrepreneurs, which truly achieves tax equity between online and offline (Wu, 2015).

In order to achieve precise collection of personal income tax for e-commerce, the Chinese government has made the following three initiatives. Firstly, e-commerce tax registration. the C2C model only registers individuals in their real names and individual

entrepreneurs in the business register, but not in the tax register. Therefore, the Chinese tax bureau has established a robust e-commerce tax registration system. As e-commerce is a product of the development of the Internet, the taxation bureau can also use the Internet platform to realize the network of taxation management. Therefore, online merchant registration and online information registration are conducted for e-commerce taxation. In particular, the Chinese tax bureau issues electronic personal tax registration certificates and each person has a taxpayer identification number on the tax registration certificate. Online processing is not restricted by time and space, and has the advantages of simplifying tax processing procedures and improving tax office efficiency, which could make the system easier to promote (Wang et al., 2019). Secondly, with the growing awareness of environmental protection, paper-based offices will be gradually replaced by electronic offices in the future. In particular, for invoices, paper invoices are difficult to keep for a long time and are easily tampered with, so electronic invoices will be the trend. In the increasingly developed and mature e-commerce industry, electronic invoices will certainly assume the role of a bridge between consumers, sellers and tax authorities. Therefore, improving the electronic invoice system is a key step in improving taxation issues under the C2C model. For taxpayers, issuing paper invoices requires printers and printing paper, which is a financial expense, while adopting electronic invoices will greatly reduce this expense. At the same time, improving the e-invoicing system will also improve e-taxation. This is because the prevalence of electronic invoices will promote the development of computerised accounting, which in turn will lead to the computerisation of tax processing. In particular, the establishment of the electronic accounting data platform is conducive to the tax authorities' reasonable

and accurate approval of the taxable income of the tax subject. Tax issues are gradually moving away from invoices as a physical form and tend to rely on invoice information as evidence. The payment of taxes and the enquiry of tax issues are handled through the electronic platform (Fu, 2019). Finally, in order to form a socially sound and autonomous tax environment, the Chinese taxation bureau guides and encourages individual e-commerce business owners to file their own tax returns. In other words, it adds the option mode of e-commerce individual income to the Personal Income Tax System (PITS) under the current conditions. In particular, this requires self-employed e-merchants to file tax returns on their own under the condition that they have a strong awareness of taxation and tax morale. In addition, certain compulsory measures will be taken for individual households with a lack of tax awareness. And, depending on the actual situation, different levels of punitive tax penalties are applied to tax evasion found, which also has a deterrent effect on the individual households with a strong tax awareness. In addition, any business that involves personal taxation issues also becomes a personal credit report scoring criterion. Therefore, if a self-employed e-commerce business owner, who is not tax conscious, commits tax evasion, this will become a 'stain' on the personal credit report (Wu, 2015).

#### **2.2.4.3 Customs Duties**

This section reviews the customs duties policies involved in C2C e-commerce and the content of the customs duties reform following the introduction of the E-Commerce Law. The aim is to understand how the customs duties issues involved in cross-border C2C e-commerce have affected e-commerce. According to the 2016-2017 China Cross-Border E-Commerce Market Research Report, the transaction scale of cross-border e-

commerce in China is estimated to reach 8.7 trillion Yuan for the whole year of 2018, and the number of users engaged in cross-border shopping is expected to reach 73 million. The main countries for these cross-border transactions are Japan, the United States, South Korea, Australia and Germany. In particular, overseas shopping under the C2C model has become an important channel for people to buy goods from abroad. According to the China E-Commerce Research Centre, from 2008 to 2012, the scale of overseas shopping on behalf of China grew by 19 times, with the transaction amount reaching over 47 billion Yuan. By 2017, the transaction amount of C2C overseas proxy shopping in China had exceeded 1.2 trillion Yuan (Zhang, 2019). Guo, Li and Zhang (2018) analyse the necessity of taxing C2C overseas purchases from the basic theory of taxation. It is also pointed out that the taxation of C2C e-commerce is a requirement of the basic principles of taxation law, and that the C2C model is only different from the traditional offline transaction model in that the medium of transaction has changed, and there is no difference in essence. Cao (2003) also emphasizes the basic principles of tax law, pointing out that strengthening customs duties regulation of C2C overseas purchases is a basic requirement of the basic principles of tax law. Guo (2013) analyzes three subjects in the C2C overseas purchase business, of which the transaction behavior constitutes three legal relationships. Zhao (2018) in the interpretation of the new "Electronic Commerce Law" proposed for the definition of the scope of the tax obligation reflects the principle of tax collection in China, which is the principle of equal taxation between online and offline. Overseas purchase is a legal act in which domestic consumers buy foreign goods through third-party e-commerce platforms or individuals who frequently enter and exit the country, and then carry them back to the

buyer through overseas express transit or personal entry luggage. In the beginning, the main groups of buyers were overseas students, flight attendants and overseas tour guides who helped their friends and relatives to buy goods from abroad through their professional advantages. As overseas consumer goods became more and more popular with the Chinese people, a large number of professional buyers were born, and an overseas buying industry chain was gradually created. In particular, in C2C overseas shopping, both parties to the transaction are individuals, and the transaction is between individuals. The seller registers with a third-party e-commerce platform, becomes an operator within the platform, uploads the product information to the online shop, and the consumer browses the web to obtain the product information and places the order and payment through the platform, such as Taobao (Guo, Li & Zhang, 2018).

The taxation of c2c overseas purchases is a requirement of the tax equity principle and the tax statutory principle. The principle of tax fairness means that the government should ensure fairness and follow the principle of equity in the establishment of the tax system and the application of tax policies. Furthermore, it is the primary principle of taxation that participants in economic activities are taxed at the same standard and enjoy the same tax treatment. C2C overseas purchases are generally transacted through the internet, only the transaction vehicle changes. The essence of the commodity transaction is not fundamentally different from traditional transactions or B2B and B2C, in that both sell goods or services. However, the characteristics of C2C overseas purchases make it difficult to determine the subject of taxation, and the amount and quantity of the transaction is difficult to determine. Meanwhile, most of the goods purchased on behalf of the buyer enter the country in the form of travel mail, and the customs duties

collection and management of such goods are mostly paid by the taxpayers themselves, which makes it difficult to supervise the customs duties at a later stage. Commodities from various countries are mostly tax-free in the export process, and even have export tax rebates, but when they enter China, they need to bear customs duties and turnover taxes (Zhang, 2019). According to data published by the Customs duties Department of the Ministry of Finance of the People's Republic of China, China's total customs duties level in 2018 was 7.5 per cent. At the same time, China uses differential customs duties rates, ranging from 0 to 270 per cent for the general rate and from 0 to 65 per cent for the most favoured nation rate. In the turnover tax segment, the value added tax rate is generally 17 per cent and the consumption tax rate varies from 4 to 120 per cent. Some businesses also set up online shops in their personal names in order to evade tax. Either by conducting transactions through social networks and acquiring goods from outside the country through ant-moving methods in order to avoid paying customs duties and other taxes due on transactions. the evasion of taxes by C2C overseas buyers tends to create unfair competition in economic trade, so strengthening the regulation of customs duties on C2C overseas buyers is a requirement of the principle of tax fairness.

In 2016, China Customs promulgated General Administration of Customs Notice No. 26 of 2016 "Notice on Regulatory Matters Relating to Cross-border E-commerce Retail Import and Export Commodities". At the same time, China's Ministry of Finance, General Administration of Customs and State Administration of Taxation issued the Notice on Taxation Policies for Cross-border E-commerce Retail Imports. These two documents are referred to as the "New Deal", and their main purpose is to regulate the entry declaration requirements for goods imported at retail, the types of goods to be



taxed and the adjustment of tax types. In terms of collection and control procedures, the New Deal defines the scope of commodities to which it applies. At the same time, e-commerce enterprises and logistics platforms are required to submit the "three documents" (the "three documents" refer to the customs declaration provided by the e-commerce enterprise, the payment list provided by the payment enterprise and the logistics waybill provided by the logistics enterprise) or electronic information of the goods as the basis for taxation. In terms of taxation elements, it is defined that the taxable person is an individual who purchases goods outside China through e-commerce platforms and sells them back in China. In addition, the attribute of the overseas goods sold within the country is goods, the tax items are adjusted to customs duty and import link value-added tax and consumption tax, and the single transaction limit is raised to 2,000 Yuan and the annual transaction limit for individuals is raised to 20,000 Yuan. At the same time, zero customs duties is temporarily applied to goods within the limits. The exemption amount will be abolished and levied at 70% of the taxable amount on imports. However, goods exceeding the limit are taxed at the full amount according to the nature of general trade (Wei, 2017).

Among the several announcements issued by the General Administration of Customs in 2018, one of them is the Announcement of the General Administration of Customs of China No. 164 of 2018 - "Announcement on Matters Relating to the Activation of the Information Management System for Inbound and Outbound Postal Items", which stipulates that postal enterprises are responsible for collecting electronic data of postal face slips and transmitting them to the customs information system. The information on the face slip includes the name of the recipient, the country (region) and specific address

of the recipient, the name, quantity, weight and price (including currency) of the contents. It also stipulates that the owner of inbound and outbound postal items shall bear the responsibility of declaring the inbound and outbound items by post. The new announcement indicates that the General Administration of Customs has strengthened its supervision of articles sent by post. The General Administration of Customs Notice No. 194 in 2018 stipulates that consumers are not allowed to re-sell the goods they have purchased for cross-border e-commerce retail import. This therefore places strict restrictions on the flow of imported goods purchased on behalf of overseas buyers. As the scale of C2C overseas purchases continues to grow, the State and the General Administration of Customs have been constantly updating regulatory documents and announcements not only at the legislative level in recent years. While not only directly targeting C2C buying businesses, changes have been made to strengthen the regulation of such business transactions and in terms of administrative supervision. In addition, the intensity of random checks on inbound and outbound parcels, mail and inbound passenger luggage is also a prerequisite for improving the subsequent regulation of C2C surrogate shopping businesses (Zhang, 2019).

### **2.2.5 E-Commerce Tax Standard**

China's E-commerce Law stipulates that C2C E-commerce has the same tax liability as offline brick-and-mortar stores. There are four taxpayers on Taobao:

Personal ID card to open Taobao shop, can withdraw to personal bank card; with individual business license to open Taobao shop, can withdraw to personal bank card; with company business license to open Taobao shop, can withdraw to corporate Alipay or online business bank, and then transfer to personal bank card; with company business

license to open T-mall shop(B2C online shop of Taobao), can withdraw to corporate Alipay or online business bank, and then transfer to personal bank card; C2C E-commerce studied in this paper involves the first two tax subjects.

#### **2.2.5.1 Value-added Tax**

Value-added tax is a kind of turnover tax levied on the basis of tax calculation based on the value-added amount generated during the circulation of goods (including taxable labor services). From the perspective of China's tax calculation principle, value-added tax is a kind of turnover tax levied on the added value of multiple links in the production, circulation, and labor services of commodities or on the added value of commodities. Ex-price tax is implemented, that is, it is borne by consumers, and tax is levied only if there is value added. In China, the online transactions of individual e-commerce companies are mainly commodity sales. Therefore, according to the provisional regulations on value-added tax, value-added tax should be paid in e-commerce activities. From July 1, 2014, the value-added Tax collection rate for small-scale taxpayers has been adjusted to 3%. For small-scale taxpayers selling goods or taxable labor services, the simple method of calculating the tax payable according to the sales amount and the collection rate shall be implemented, and the input tax shall not be deducted. China implemented a new value-added tax threshold on January 1, 2019, significantly increasing the value-added tax standard for small-scale taxpayers from 30,000 to 100,000. Therefore, small-scale value-added tax taxpayers with monthly sales of less than 100,000 Yuan (including this number, one quarter is a tax period, and quarterly sales of less than 300,000 Yuan) are exempt from value-added tax. On February 28, 2020, the State Administration for Market Regulation, the National

Development and Reform Commission, and the Ministry of Finance jointly issued the "Guiding Opinions on Responding to the Impact of the Epidemic and Increasing Support for Individual Industrial and Commercial Households", which stipulates that starting from March 1, 2020, small-scale tax payment the value-added tax rate was reduced from 3% to 1% (Zhang, 2022).

#### **2.2.5.2 Personal Income Tax**

In China's current tax structure, direct taxes represented by income tax account for a relatively small proportion, while indirect taxes represented by value-added tax account for a relatively large proportion, which is exactly the opposite of the situation in some developed countries. The finance and taxation departments are also aware of this phenomenon. From 2011 to 2020, through a series of tax system reforms, the tax structure has been optimized to a certain extent, and the proportion of direct tax has gradually increased from 28.4% to 34.9%. In its interpretation of the "14th Five-Year Plan" promulgated by the Chinese government, the Ministry of Finance mentioned in the deployment of the construction of the modern fiscal and taxation system that it is essential to enhance the direct tax system, which primarily consists of income and property taxes, and progressively raise the percentage of tax collection. (Zhang, 2022).

China has made great efforts to average social wealth, and in particular has reformed the collection of personal income tax. Personal income tax is a tax based on the amount of each taxable income obtained by an individual, and is levied according to the source and amount of income. It is levied according to different categories and classes, as a means of regulating the gap between rich and poor arising from individual social income. The

Provisional Regulations of the People's Republic of China on Individual Income Adjustment Tax were promulgated in 1986. It stipulates that an individual who has a domicile in China, or who has no domicile and has resided in China for a total of 183 days in a tax year, is a resident individual. Individuals who have no residence in China and do not reside in China, or who have no residence and have resided in China for a total of less than 183 days in a tax year, are non-resident individuals. With the continuous growth of China's economy, the threshold for personal tax is constantly being adjusted. The annual rate is adjusted to 2,000 Yuan/month, 3,500 Yuan/month, and 5,000 Yuan/month respectively. In addition, in China's current income tax system, a tax system structure combining classified and comprehensive income tax is implemented. The classified income tax system refers to a tax system in which the income obtained by the taxpayer is classified according to the nature and source of the income, and after deducting the respective expenses, the different income is levied at the respective tax rate. The classified income tax system usually adopts the enumeration method to classify and tax the income of the taxpayer according to the standard, and the tax rates applicable to different forms of income are quite different. Comprehensive income tax system refers to a tax system in which taxpayers incorporate all forms of income into their taxation scope and apply excess progressive tax rates for comprehensive taxation (Gu, 2022) . The mixed tax system of personal income tax has the characteristics of both comprehensive and classified tax systems, and has set up a comprehensive collection item. The four items of wages, author's remuneration, labor remuneration and royalties are incorporated into the comprehensive income item, and the cumulative withholding and pre-payment tax system is implemented. Taxation of business income,

interest, dividends, bonus income, property transfer income and occasional income in the levy projects is subject to a classified taxation system. Through the coordination of the advantages of the combination model, different types of income are treated differently, which fully considers the taxpayer's ability to actually bear the tax burden. At the same time, it is also more conducive to the daily management of personal income tax, prompting tax authorities to strengthen the calculation and collection of personal income tax on comprehensive income items (Chen, 2011) .

Based on the 5th meeting of the Standing Committee of the 13th National People's Congress on August 31, 2018 - the seventh amendment of the "Decision on Amending the Individual Income Tax Law of the People's Republic of China", this article presents the individual and self-employed businesses make different levels of tax rates for households. At the same time, personal income tax is taxed on personal income, which means that Taobao, a third-party platform for C2C E-commerce, does not need to pay tax. In addition, the tax is based on the total annual personal income or self-employment income. The threshold for personal income tax is that the annual personal comprehensive income exceeds 36,000 Yuan.

#### **2.2.5.3 Customs Duties**

Tax laws around the world set limits on what individuals are allowed to bring in and out of the country, contributing to the scope for some to profit, with some e-commerce operators collecting the wishes of their customers by way of social software and bringing goods back from overseas to sell to them. However, customs duties are lost as they are not exceeded by the approved customs duties. The global use and development of e-commerce has provided more space for them to survive and make a profit.

According to the China E-Commerce Report (2021) published by the Ministry of Commerce, China's cross-border e-commerce continues to lead the world and maintain a rapid growth trend, with global trade being significantly affected by the New Crown Pneumonia epidemic in 2020 and 2021. However, China's cross-border e-commerce has flourished amidst the crisis, ushering in unprecedented growth opportunities and becoming a major force in stabilising global trade. The total import and export of cross-border e-commerce in China reaches 1.98 trillion Yuan in 2021, up 17.16% from 1.69 trillion Yuan in 2020. the total import and export of cross-border e-commerce in China in 2020 can still reach 31.3% growth in a comparable caliber. Therefore, the average growth rate of total imports and exports reaching scale in the last three years has reached 28.83% (Wang, 2022). Cross-border C2C started late in China and is mainly a sales practice between individuals, typically represented by proxy shopping, for which no effective regulatory mechanism has yet been developed. Taobao has many e-commerce operators who purchase items abroad to return to China and then ship them to buyers from inland China. These sellers usually travel abroad 2-3 times a month to make their purchases. In April 2016, China reformed its taxes on travel and postage, stipulating a comprehensive import tax on cross-border e-commerce retail practices. It is the imposition of import duties, value-added tax and consumption tax, although of course no duties are levied on smaller imports such as single transactions of less than 2,000 Yuan or individual annual transactions of less than 20,000 Yuan, and import-related value-added tax and consumption tax are levied at 70% of the statutory taxable amount (Hou, 2020).

## **2.3 Determinants of Tax Morale**

### **2.3.1 Trust in the Government**

We link the tax morale of C2C operators to trust in the government and the judicial system. Trust in government is defined as "the normative belief that government operates in accordance with how people expect government should operate" (Miller, 1974), is a constituent element of diffuse political support, constituting a reservoir of goodwill or goodwill towards the political system by members of the political community. It helps people to recognise or tolerate outputs that they oppose or believe will undermine their aspirations, providing a more 'durable' and 'grounded' political support for the political system (Easton, 1975). The role of government trust in political support has been described as a heuristic, whereby when people trust government more, they are more likely to support government action (Hetherington, 2005). The state has a monopoly on both the legitimate use of violence and the provision of public services. Thus, there is essentially a long-term contractual relationship between government and citizens, which we can think of as a tax relations contract. In particular, in a tax contract, taxes are a price paid for public goods and services, which the government is expected to spend on their provision, and in order for this contract to be maintained, incentives such as rewards and penalties need to be provided. Furthermore, the relationship contract is influenced by the actions of the government, the actions of the tax authorities, the actions of other citizens and the institutions of the state, and therefore the intrinsic willingness to pay taxes is to a large extent embedded in the interaction between citizens and government, citizens and tax authorities and citizens and citizens (Kuang & Yang, 2008). Paying taxes is an obligation that society owes to the state. At the same time,



citizens pay taxes to support the government in order to receive benefits; however, governments are expected to act in a trustworthy and fair manner, which is a logical label for 'conditional cooperation' (Frey & Torgler, 2007). In the absence of adequate resources, a government's capacity is severely weakened and it faces considerable difficulties in providing essential public goods. At the same time, these lack of government capacity, and the consequent undersupply of public goods, affects the tax morale of citizens. If the state cannot provide basic services, why should citizens pay taxes? (Hug & Spörri, 2011). Therefore, it is important to examine the variable of government trust.

At the same time, trust in government constitutes "a reservoir of friendly attitudes or goodwill that helps members to acknowledge or tolerate outputs that they oppose or believe will undermine their aspirations". Boys and Hetherington (2008) refer to the role of government trust in political support as a trust heuristic, whereby when people trust government more, they are more likely to support government behaviour. The trust heuristic is activated when people need to evaluate the government's behaviour, helping them to make decisions about whether to support it or not. Ma and Ma (2019) suggest that distributive justice has a significant positive effect on trust in government, and that individuals who rate the distribution of wealth and opportunities as fair have higher trust in government. Based on international prior studies, trust in government has a significant positive effect on willingness to pay taxes, with those who trust the government more willing to file tax returns.

Trust in government is thought to affect tax morale - if taxpayers trust government, they are more willing to pay taxes (Togler, 2003). Togler (2003) indicates that trust in

government is positively related to tax morale in studies conducted in a wide range of countries including European countries (Belgium, Poland, Spain and Switzerland), transition countries (Russia, Estonia, Latvia, Lithuania, Belarus and Bulgaria) and Asian countries. Trust in government officials encourages a positive attitude, taxpayer honesty and greater compliance. The Government should therefore take positive action to win the trust of taxpayers (Togler, 2003). In a study in Botswana and South Africa, Cummings et al. (2009) found that tax morale improved tax compliance, and in particular that the quality of governance had a positive impact on tax compliance. Governance is considered good if it includes a fair tax system, a functional government that provides public goods and a clean political system. In Botswana, respondents scored higher on tax morale and had higher levels of trust in government (Cummings et al., 2009). Alm, Martinez-Vazque and Torgler (2006) argue that when taxpayers trust government and government officials, they tend to pay their taxes more honestly and see the relationship as a form of exchange. A Switzerland study shows that taxpayers are more compliant in declaring their income and property when they have trust in the government - even to a greater extent than economists would predict (Kucher & Götte, 1998).

In the context of China, Chinese academics started their research on government trust late, but have actively carried out localised theoretical and empirical research. The analysis has been carried out in terms of the connotation and extension of government trust and the factors affecting government trust. Meanwhile, Zhu and Mao (2017) found that Chinese residents' trust in different levels of government differs significantly, showing a "differential government trust", which is basically characterised by higher

trust in higher administrative levels of government than in lower administrative levels. This pattern of trust in government plays an important role in maintaining the institutional structure of a unitary system (Zhang & Tao, 2022). In addition to this, Zou (2022) focus on Chinese youth's trust in government. In terms of social justice perceptions and their impact on government trust differences, the youth group has higher social justice perceptions than the national average, and there are no intergenerational differences.

In China, there is literature on the relationship between tax compliance and government trust, which provides intellectual support for this paper. In China, the higher the taxpayer's trust in the government, the stronger the taxpayer's awareness of tax policy compliance; and in terms of the relationship between the trust in the government and the awareness of tax compliance, taxpayers, regardless of size, type, and employment time, will show absolute consistency. This is in line with a normal logical relationship, because taxpayers have a certain contractual relationship with the government itself. When taxpayers pay taxes in accordance with the law, they must expect the government to be clean and honest, and that the government can efficiently provide taxpayers with public goods and services. Moreover, when the government is corrupt, the transparency of government expenditures is low, and even a large number of government workers enrich the taxpayer's money for themselves, then the taxpayer will have great doubts or even resistance to the tax expenditure. In the normal relationship between the government and taxpayers, taxpayers' awareness of tax policy compliance is more closely related to public goods and services (Yang, 2015). At the same time, the influence of government trust on the willingness to pay taxes mainly stems from the

political support role of trust: trust, as an emotion for political authorities, can be transformed into a deeper social identity, which can encourage members of society to support the goals, rules and objectives of the regime structure. If tax-paying behavior is conceptualized as citizens' support for the government, then government trust will have a positive impact on willingness to pay taxes (Ma & Ma, 2019). Based on the findings of prior studies, **H<sub>1</sub>** is postulated as follow:

**H<sub>1</sub>: Trust in Government (TG) has a significant positive influence upon C2C e-commerce operators' Tax Morale (TM).**

### **2.3.2 Trust in the Legal System**

Legal trust refers to the recognition by social subjects of the fair and just values carried by the law, such as the protection of human rights and the limitation of power. On the basis of their previous knowledge and familiarity with the effectiveness of the operation of the law. The reasonable expectation that the existing legal system will give them the institutional commitment to protect their rights. And under the guidance of this expectation, it is believed that other social subjects also share the legal value norms and interact with them under the legal behavior model to form a series of social actions in the rule of law order (Liu & Gong, 2012). The law provides a temporary solution to the conflict that arises in the process of interaction between people who are too unfamiliar with a living person to trust and who must be trusted. People clarify the rights and obligations of both parties through a contract, and the law provides a guarantee for the contract. Regardless of the interpersonal and moral character of the signatory, the interests of the contract are protected by its establishment. It is also because the boundaries of the subject's rights are clear and the penalties for violating the rules are

defined and explicit that people can expand their half of the relationship without fear .

Having a strong legal system is also important, and confidence in the legal system is only important if the system is effective and fair (Uslaner, 2007). The political system shapes the perception of procedural fairness. Thus, the fairness of the legal system is more closely related to tax compliance than mere confidence in the legal system (Hug & Spörri, 2011). Generally, most prior studies found a positive relationship between information about government and the justice system and tax morale. Further, this positive relationship is supported by institution theory (Mickiewicz et al., 2019).

The relationship between the taxpayer and the legal system also has a decisive influence. Torgler (2007) identifies the legal system as one of the institutional determinants of tax morale - a well-functioning legal system accompanied by positive institutional action will result in higher taxpayer tax morale. Trust in a nation's legal system develops collaboration and a psychological contract between the government and its taxpayers (Torgler, 2003). Perceptions of the political, institutional, governmental or national are additional drivers of tax morale, which are personal beliefs, including confidence in political parties, confidence in the legal system, confidence in national government, national pride (Crnogorac & Lago-Peñas, 2020). Crnogorac and Lago-Peñas (2020) concluded their findings based on Kirchler, Hoelzl, and Wahl's (2008) study of personal, social and national norms. A person may not pay taxes due to personal beliefs or the perception of widespread non-compliance in the frame of reference. So far, voluntary tax compliance may be achieved if favorable state norms are created, such as trust in political leadership and administration. Togler (2003) analyses tax morale at the state, government and legal levels and finds that direct democratic rights, local autonomy, and

trust in government, courts and the legal system have a significant positive impact on tax morale. taxpayers experiencing an improvement in their economic standards have a more positive attitude about the tax system's fairness and are more likely to cooperate with it (McKerchar et al., 2013). Roberts and Hite (1994) find that fairness is closely related to an appreciation of an improved tax system. Moreover, taxpayers would be more willing to collaborate with their tax obligations if taxpayers trust their governments (Alm & Torgler, 2011). Feld and Frey (2002) argue that tax morale is not a value that exists instinctively in individuals, but is influenced by the interaction of "tax authorities, the legal framework and the constitutional environment". They argue that the trust between taxpayers and the tax authorities, or what they call the "psychological contract", must be established and maintained in order for taxpayers to comply with the rules in place. An investigation of the relationship between the shadow economy, tax morale, and institutional quality revealed that there is a statistically significant correlation between institutional quality and tax morale (Torgler & Schneider, 2009). Crnogorac and Lago-Peñas (2020) conclude that the higher the trust in institutions such as the judicial system, government, parliament, the greater the impact on tax morale.

China is currently building the socialist rule of law. Under the premise that the socialist legal system and legal system have been basically completed, it is also urgent to cultivate the public's trust in the law. Berman's famous saying "the law must be believed, otherwise it will become a falsehood", although it has been questioned in various aspects, it reveals that in addition to the role of the state's coercive force, a citizen's recognition of the state's law and the importance of trust in shaping law-abiding citizens. Wei (2006) studied Chinese taxpayers' sense of trust in the legal system,

arguing that the trust in the tax law is based on the fairness of the tax system. Fair tax burden is also the basic requirement and inevitable trend of market economy development. Because the market economy requires all economic behaviors to enter the market, fair trade and fair competition under the influence of the market. As an economic means, taxation can regulate the economic behavior of various stakeholders through the signal of changes in market interests, and can affect the competitiveness of taxpayers through the severity of the tax burden. Therefore, the tax system itself must be fair and reasonable. In addition, the implementation of tax supervision in accordance with the law is also a major factor affecting taxpayers' trust in the tax law. The key to administering tax by law is to enforce the law earnestly, strictly and impartially to realize the legislative intent. In particular, the law enforcement authority of tax authorities is generated by the functions conferred by the state; second, the power conferred by laws and regulations; and third, the strength, effectiveness, influence and credibility of tax law enforcement. However, the author's research found that the power of the collection and inspection model is still relatively concentrated. In this way, individuals replace the law with their own words and deeds, and the leniency and severity of law enforcement vary, and the severity of punishment varies. At the same time, it will also affect the image of tax law enforcement and cause resentment and dissatisfaction among taxpayers. Therefore, it is not conducive to strengthening the law-based tax administration and optimizing the tax environment.

China has made efforts to improve people's trust in the law. in 2013, President Xi Jinping of the People's Republic of China proposed a comprehensive deepening of the reform of the judicial system at the Third Plenary Session of the 18th National Congress.

It is a reform that is personally directed by General Secretary Xi Jinping and specifically led by the Central Committee of Political and Legal Affairs. General Secretary Xi Jinping has repeatedly stressed that a comprehensive rule of law must be closely focused on safeguarding and promoting social justice. If the judicial line of defence lacks credibility, social justice will be universally questioned, and at the same time, social harmony and stability will be difficult to guarantee". The judicial reform focuses on the difficulties in filing cases, litigation and enforcement, strongly reflected by the people. In addition to this, reforms have been carried out on the registration system for filing cases, the litigation service mechanism and the enforcement work system. The mechanism for the operation of judicial power was also set up in accordance with the laws governing the operation of judicial power. To ensure that the fundamental requirements of the judicial accountability system of allowing those who hear the cases to adjudicate and those who are responsible for the adjudication are realised and the judicial credibility is enhanced (Hu, 2017). At the same time, the judiciary should improve the transparency of judicial implementation, and disclose the basis, procedures, processes, results and adjudication documents of law enforcement and justice in a timely manner in accordance with the law. Corrupt practices, especially judicial corruption, are essentially a serious breach of the contract of relationship reached between the government and the citizens. It is bound to seriously undermine taxpayers' confidence in those in power, especially in the law, and citizens' willingness to consciously obey the law will be reduced as a result. Conversely, a clean judicial system can promote higher levels of intrinsic willingness to pay taxes (Kuang & Yang, 2008). On the basis of this reform, this paper investigates taxpayers' trust in the judiciary



through a questionnaire that will be compared with Wei's (2006) findings.

Based on the findings of prior studies, **H<sub>2</sub>** is postulated as follow:

**H<sub>2</sub>: Trust in Legal System (TLS) has a significant positive influence upon C2C e-commerce operators' Tax Morale (TM).**

### **2.3.3 National Pride**

As an important part of patriotic education, national pride refers to a high degree of identification, confidence and optimism in the history, culture, traditional spirit, values, reality and future development of a nation. Whether a nation has sufficient self-confidence and pride to support and love the nation is an important basis for judging whether the nation is strong or not, and the strength of a nation's national pride directly affects people's sense of identity and belonging to the nation (Zhang & Deng, 2022). Individuals who have a strong sense of social identity perceive themselves as members of a larger social group and adopt that group's perspective in their behaviour (Stets & Burke, 2000). In general, social norms reduce tax evasion when the relevant social identity is taken into account. If individuals do not identify with groups or social categories where tax norms exist, these norms are unlikely to influence their tax behaviour (Tajfel et al., 1979).

National pride positively affects tax morale (Strielkowski & Čábelková, 2015; Ibrahim et al., 2015). Lago-Peñas and Lago-Peñas (2010) discovers that in 17 European nations, democracy has a significant favorable impact on tax compliance. Similar intuitions about national pride imply that people who are proud of their own country are more likely to be prepared to pay taxes. Patriotism plays an important role in public finances.

Especially in times of war, politicians appeal strongly to patriotism and national pride of citizens in an attempt to increase their tax compliance or to implement tax reforms. Based on a cross-country analysis of several European countries, strong evidence was found that patriotism does have a positive impact on tax morale. In addition to this, nationalism is similar to patriotism, but while the former excludes external groups, the latter is more inclusive (Konrad & Qari, 2012). Taxes may be influenced by the owner's or manager's social identity, particularly the owner's or manager's affiliation with the nation in which they pay taxes. (Mickiewicz et al., 2019). Martinez-Vazquez and Torgler (2009) studied tax morale in Spain in 1981, 1990, 1995 and 1999/2000 based on the World Values Survey and the European Values Survey. Finally came to the conclusion trust in parliament and national pride increase tax morale. Tyler (2000) explains why taxpayers with high national pride have higher tax morale and are more willing to pay their taxes voluntarily the sense of group identity generated by national pride encourages cooperative behavior, thereby influencing civic behavior in groups, organizations, and societies (Tyler, 2000). In slippery slope theory, national pride belongs to the dimension of trust in authority.

Contemporary China emphasizes cultivating an individual's sense of national pride. In 2017, President Xi Jinping stated in the report of the 19th National Congress of the Communist Party of China that today's China is closer and more confident and capable of realizing the grand goal of the great rejuvenation of the Chinese nation than ever before. To realize the great dream, the Chinese should more consciously strengthen the self-confidence of the road, the theory, the system, and the culture. At the same time, President Xi Jinping put forward the theory of the Chinese Dream. It represents the

common vision of the Chinese people and advocates the concepts of peace, development, cooperation and win-win, which in turn constitutes an important driving force for national development and progress. The Chinese Dream is "the great rejuvenation of the Chinese nation". There are two goals: by 2021, the 100th anniversary of the founding of the Communist Party of China, China will build a moderately prosperous society in an all-round way; The "modernization" here specifically refers to China's leading position in the world in various fields such as economy, science and technology, and military. Peaceful rise and active participation in various human undertakings (Zou, 2022).

In order to achieve the first goal, in November 2015, the Central Committee of the Communist Party of China and the State Council issued the "Decision on Winning the Battle of Poverty Alleviation", clearly proposing a strategy for targeted poverty alleviation. It is required on the basis of accurate identification and file establishment of the poor population. At the same time, according to the work requirements of accurate support objects, accurate project arrangement, accurate use of funds, accurate measures to households, accurate dispatch of people due to villages, and accurate poverty alleviation results, various forms of poverty alleviation goals are achieved. Since 2016, fiscal expenditure on poverty alleviation has increased significantly, reaching 486.4 billion Yuan in 2018. Since 2016, fiscal expenditure on poverty alleviation has increased significantly, and the budget for 2019 is 126.1 billion Yuan. In the financial sector, poverty alleviation work is supported through loans and discounted interest rates (Zhao, 2020). On December 23, 2020, all 832 impoverished villages in China were lifted out of poverty. This means that poor villages have reached the poverty alleviation standard.

The per capita income reaches 4,000 Yuan; people do not worry about food and clothing; and people have compulsory education, basic medical care and housing security (Huang & Huang, 2021). This move by the government has brought great pride to the Chinese people. Based on this fact, this paper will study the national pride and tax morale of taxpayers under the national conditions and policies of contemporary China.

Based on the findings of prior studies, **H<sub>3</sub>** is postulated as follow:

**H<sub>3</sub>: National Pride (NP) has a significant positive influence upon C2C e-commerce operators' Tax Morale (TM).**

#### **2.3.4 Perception of Sanctions**

E-government regulation raises the cost of tax evasion. This perspective focuses on understanding the role of institutional regulation, in other words, the role of formal institutions in forming effective, clear constraints on human behaviour. Meanwhile, taxpayers comply with laws and rules because they want to receive the appropriate rewards while also wanting to avoid sanctions. This is the motivation within taxpayers (Mickiewicz et al., 2019). Therefore, the strength of institutional regulation can discipline the behaviour of taxpayers. E-government regulation is a product of the digital economy. Governments around the world have begun to use the Internet to connect with their citizens. This is because they have realized that Internet technology can streamline government services and make them more efficient. In response to the speedy pace of globalization, the proliferation of information and communication technology, and the knowledge revolution, governments with a long-term perspective and foresight have initiated the implementation of e-government principles (Bounabat,

2017). From an efficiency perspective, most scholars believe that e-government simplifies tax procedures, tax return systems and payment of taxes through e-services, increasing the level of tax compliance (Tjen & Evans, 2017; Night & Bananuka, 2019). From a regulatory perspective, E-Government can capture tax implications through the use of big data and cloud technology. Such high-tech regulatory tools can address the hidden, complex and diverse characteristics of e-commerce itself. Furthermore, the digitization of government services has played an important role in reducing tax evasion. The relationship between the digitization of government services and tax evasion is positively moderated by the adoption of Information and communication technology (ICTs) by society and citizens; that is, the digitization of government services has a greater impact on reducing tax evasion in countries with a higher adoption of ICTs (Uyar et al., 2021).

From the taxpayer's perspective, the higher cost of tax evasion means a greater chance of being punished. Electronic monitoring tools are able to identify tax evasion in a precise manner. Electronic tax audits and strong penalties make tax evasion more costly and thus increase the willingness to pay taxes (Xiao & Fu, 2015). A field experiment by Schwartz and Orleans (1967) with U.S. taxpayers showed that, while the threat of punishment can improve compliance, "an appeal to conscience is better than the threat of sanctions"; nonetheless, the threat of sanctions can deter people from breaking the law, perhaps in an important way by inducing a moral attitude towards compliance. This finding justifies the inclusion of taxpayers' attitudes towards penalties as a determinant of tax morale in this study. In general, penalties are thought to deter tax evasion, especially the possibility of audits (Fischer, Wartick, & Mark, 1992). Several papers

focus on the impact of audit probability on taxation. Specifically for specific percentage information on audit probability rather than expressing high, medium, and low probabilities, laboratory trials with varying audit probabilities have demonstrated no detrimental influence of audit rates on tax evasion (Spicer & Thomas, 1982). Within the framework of slippery slope theory, it has been argued that it is not objective audit probabilities that matter, but subjectively perceived probabilities and their interpretation. A review of tax compliance and audit probabilities (Andreoni, Erard, & Feinstein, 1998). In China, few papers have investigated the link between tax willingness and perception of punishment. Most papers examine the relationship between tax compliance and perceptions of punishment. Chinese scholar, Cai (2020) research shows that the threat of punishment (tax audits, fines and tax rates) is considered as a positive strategy to influence taxpayer behavior, that is, to encourage taxpayers to comply with regulations. In particular, a high tax audit probability and penalty level can strengthen tax compliance. At the same time, the probability of tax evasion being detected and the severity of penalties are proportional to the willingness to comply with taxation. The study also examines the level of collection and administration by tax authorities and the extent to which tax laws address tax evasion, as well as the impact on tax compliance in the reporting collection and tax auditing process. Taxpayers have a stronger psychological perception of the penalty for tax evasion. This is the power of rights as shown in the slippery slope theory. When taxpayers are made aware of the power of rights to punish tax evasion more severely, they will choose to pay their taxes voluntarily. The results of the study show that the authority of the tax law can be enhanced by strengthening the collection and management, intensifying the crackdown

on illegal acts. In addition, it helps to reduce the risk of non-compliance and improve socially optimal compliance. Therefore, in this paper, tax perception is regarded as one of the variables affecting tax morale. Based on the findings of prior studies, **H<sub>4</sub>** is postulated as follow:

**H<sub>4</sub>: Perception of Sanctions (POS) has a significant positive influence upon C2C e-commerce operators' Tax Morale (TM).**

### **2.3.5 Demographic Variables**

When analysing tax morale from an individual perspective, there are some demographic determinants for tax morale that include age, gender, employment status, marital status, level of education, disposable income level, and working experience in e-commerce business. Tax morale increases with age, married and widowed people are more likely to pay tax, and tax morale weaker with individual who living together, divorced or separated (Torgler, 2003a; Torgler, 2004; Torgler, 2006; Williams & Krasniqi, 2017). Torgler and Valev (2010) found evidence of strong gender differences. They found that women are significantly less likely to agree that corruption and tax evasion are justified. However, in contrast, Lago-Peñas and Lago-Peñas (2010) argue that men have higher tax morale. Agger, Goldstein, and Pearl (1961) confirm that those with higher levels of education are more likely to trust others than those with lower scores, while higher income leads to an increase in the proportion of people who trust others politically, although the increase is not significant. The level of income will influence the intention of an individual to behave.

Torgler (2003a) confirmed that tax morale is lower among freelancers, unemployed,

and students. However, the employment status of the C2C e-commerce operator is identified and therefore employment status is not considered as a variable in this paper. Meanwhile, Torgler (2006) found strong evidence that religious belief factors have a systematic effect on tax morale. Because religious people are concerned with right and wrong, they may believe that people should perform certain duties, of which tax morale is positively related to religion (Lago-Peñas & Lago-Peñas, 2010). However, the Chinese government is trying to maintain political control and legal restrictions on religious activities. Therefore, religious factors are not used as research determinants in this article.

#### **2.4 Theoretical Framework - The Slippery Slope Theory**

In the slippery slope framework proposed by Kirchler, Hoelzl and Wahl (2008), taxpayers respond to the prevailing enforcement and tax environment, which is a 'confrontational climate' and a 'synergistic climate' between the two ends of the spectrum. In a hostile climate, the relationship between tax authorities and taxpayers is that of 'cops and robbers' (Kirchler, Hoelzl & Wahl, 2008). Tax authorities regard taxpayers as requiring surveillance because they believe they are always attempting to avoid their duties. As a result of this treatment, taxpayers feel oppressed by the tax officials, and this is reflected in their "motivated pasture" toward the tax authorities (Braithwaite, 2003). In contrast, in a synergistic environment, tax authorities are seen as caring for and providing services to the community, and the relationship between tax authorities and taxpayers is one of 'service and customer' (Kirchler, Hoelzl & Wahl, 2008). A climate of synergy refers to a relationship of respect and trust between the



authorities and the citizens. Tax authorities work similarly to provide a customer-oriented service that assists and supports taxpayers in fulfilling their duties. Feld and Frey (2005) attribute the comparatively high tax morale of Swiss taxpayers to the country's prevalent synergistic cooperation. Mutual trust is the signal variable for synergistic factors. On the other side, a hostile environment may result in a 'cops and robbers' scenario if tax officials presume citizens are fundamentally motivated to cheat taxes and approach them accordingly. In the meanwhile, taxpayers will equally believe that the government's objective is to seek out, prosecute, and punish taxpayers, regardless of whether or not they committed the crime. One indication of the climate of confrontation is the extent of coercive powers allocated to the tax authorities. Strict controls and penalties force taxpayers to comply, but they can also generate negative attitudes towards taxation. Tax compliance can be achieved in two ways, by encouraging voluntary action or by enforcing compliance (Muehlbacher, Kirchler & Schwarzenberger, 2011). The 'slippery slope effect' framework therefore distinguishes voluntary compliance from mandatory compliance. Whereas voluntary compliance is considered to rely on trust in the authorities, mandatory compliance is considered to rely on the (perceived) power of the authorities. Therefore, a high level of trust and/or power can lead to the greatest degree of tax compliance, whether voluntary or mandatory.

Several incentives can lead to the same behavior: (a) people can comply because they believe the penalty of noncompliance is too severe, or (b) citizens can comply because they feel obligated to do so as community members. From this current perspective, the framework continues to consider tax compliance in terms of two primary dimensions: the power of the tax authority and trust in the tax authority. These factors and their

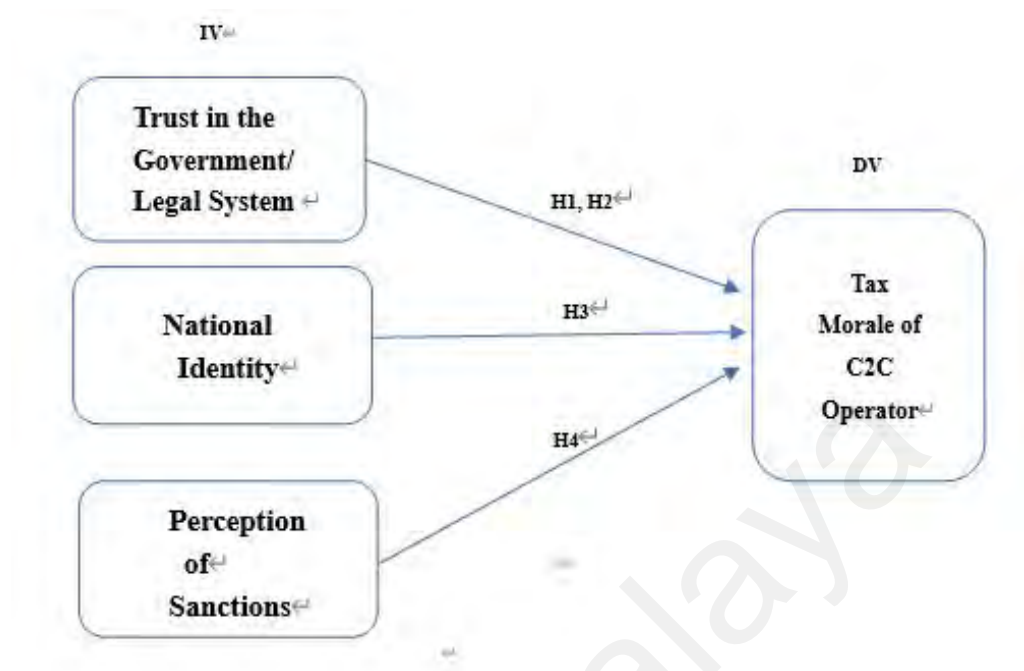
interplay collectively impact tax compliance. (Kirchler, 2007). Tyler (2006) follows a similar argument line in his conclusion, distinguishing between two different ways of how authorities can gain cooperation from the public. The first approach argues that the threat of punishment can encourage compliance. However, incentives for compliance and coercion for non-compliance are not always effective mechanisms for creating and maintaining compliant behaviour. The second approach argues that people's competence in managing problems may motivate citizens to help the authorities. The perception that authorities have legitimacy can lead to citizens feeling obliged to comply with decisions, policies and rules (Tyler, 2006). With low trust in the authorities and weak authority powers, citizens are likely to seek to maximise personal gains and minimise compliance by evading taxes. Under low trust conditions, compliance increases as authorities increase the probability of audits and detection and the power to impose stiff fines. Taxpayers have less and less incentive to evade tax because the expected outcome of non-compliance is lower than the expected outcome of compliance. The increased powers of the authorities may lead to enforced compliance. Under low-power situations, the amount of trust enhances compliance. Trust increases may result in voluntary compliance. The premise is that declining returns exist. Preferably, both authority's power and credibility are strong, resulting in low levels of avoidance and high levels of voluntary compliance (Kirchler, Hoelzl & Wahl, 2008).

The above study uses the slippery slope theory to examine the issue of tax compliance. According to the definitions of "intrinsic incentive to pay taxes" and "willingness to pay taxes," tax morale is directly tied to voluntary compliance, which is the "conceptual" part of tax compliance, while "operational" compliance is the other component (Rosid,

Evans and Tran-Nam, 2016). The higher the level of tax morale of an individual, the more likely it is that the individual intends to pay taxes. Taxpayer compliance is the ultimate goal of tax authorities in managing and administering taxpayers. This paper therefore follows the slippery slope theory for the analysis of tax morale. And the variables are identified in terms of two dimensions: the power of the tax authority and trust in the tax authority. Firstly, the trust dimension is analysed at three levels: government, legal system and nation. Secondly, the power dimension is elaborated in terms of the variable perception of sanction.

## **2.5 Research Framework**

This study proposes the framework based on the slippery slope theory. Meanwhile, the demographic variable has been added to the paper in order to increase the completeness of the study, taking into account the previous studies. This study examines the relationship between trust in the government, trust in the legal system, national pride, and perceived of sanctions and tax morale based on a combination of foreign and Chinese scholarship. Demographic variables also have an effect on tax morale, but as this paper is based on slippery slope theory. Therefore, the demographic variables were analysed for variance and were not included in the research model. In Toglar's (2004) research model, religion is also an important research variable. However, the Chinese government is trying to maintain political control and legal restrictions on religion activities (Overmyer, 2003). Therefore, religious factors are not considered as research determinant in this thesis. The research framework is presented in Figure 2.2.



**Figure 2.2 Research Framework**

## 2.6 Summary

With the advent of internet technology, many C2C e-commerce businesses have emerged in China. The difficulty in identifying the subject of taxation and the difficulty in reflecting the transaction behaviour of e-merchants has resulted in significant tax losses. In order to better understand the tax morale of C2C e-merchants, Chapter 2 introduces the concept of tax morale and the four factors that influence tax morale (Trust in The Government, Trust in The Legal System, National Pride and Perception of Sanctions). This is followed by a review on the development of e-commerce law, the taxation objects of e-commerce, and the reform of the three main tax types (value-added tax, personal income tax and customs duties) involved in e-commerce. Before wrapping up this chapter, it focuses on the slippery slope theory used in the existing literature. Meanwhile, the research framework of this paper is summarized based on the literature review. Next, the third chapter elaborates the research method used in this study.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.0 Introduction**

This chapter explains the research design and methodology used in this study. Firstly, Section 3.1 explains the research design in this study. Then, Section 3.2 and 3.3 discusses the research instruments and sample design involved in this study. Section 3.4 introduces Sample Characteristics and Data Collection. Section 3.5 provides the measurements of all research variables (independent, dependent) used in this study. Section 3.6 introduces the data analysis technique. Then 3.7 summaries this chapter.

### **3.1 Research Design**

Research design is the framework of methods and techniques used by researchers, which effectively solves the research problem through combining the various components of a research in reasonable methods. Quantitative study aims to precisely quantify the composition of objects or the hierarchy, degree, magnitude, and range of quantitatively represented attributes. The beginning point is to comprehend the quantitative character of things and to infer the basic connections between educational activities and the internal rules governing their growth and change from quantitative relationships. Therefore, this study uses quantitative research methods to explore the factors that affect tax morale. Quantitative research is suitable for this research because the use of statistical data can often free researchers from emotional and subjective biases that are more common in qualitative research that relies on “real life” scenarios. Basic numbers can be used to explain information and data without affecting the neutrality of participants (Mccusker & Gunaydin, 2015).

In management, sociology, and other fields, questionnaire surveys are often employed

as an empirical research approach. The questionnaire method is a quantitative research tool used to comprehend and evaluate social phenomena and social issues from a macrocosmic research viewpoint, based on objective data verification. This research adopts an empirical paradigm and a quantitative design, using survey data from Taobao C2C e-commerce operators in China collected through online questionnaires in WenJuanNet Platform.

### **3.2 Research Instruments**

The questionnaire was divided into two parts. The first part includes the basic demographic information, including gender, city of residence, age, employment status, education level, and marital status. The second section contains 19 items, to which the responder was allowed to select an attitude on a Likert scale in response. For each statement, there were five options: 1 for 'Strongly Disagree,' 2 for 'Disagree,' 3 for 'Neutral,' 4 for 'Agree,' and 5 for 'Strongly Agree.' The statements were supposed to include aspects including trust in the government, trust in legal system, perception of sanction, national identity, and tax morale.

These statements are based on prior studies on tax compliance and tax morale. The statements for this study were designed to gather the views and experiences of the respondents in order to analyse their tax morale and the impact of factors on their tax morale in order to meet the objectives of the study and to answer the research questions in Chapter 1. Questions related to trust in government, perceptions of the justice system, national pride, perceived penalties for tax evasion and tax morale. In order to eliminate respondents' concerns and capture their true motivations as much as possible, the survey was conducted anonymously and the results were only described in general and not

presented individually. In order to ensure that this is the maximum extent possible, the survey is able to effectively reflect the true intentions of the respondents.

### 3.3 Sampling Design

To ensure the credibility of the results, the sample size must be determined prior to the stratified sampling. In particular, in order to generalise from the sample and avoid sampling error or bias, the sample needs to be of sufficient size. What is adequate depends on several questions that often confuse those doing the survey. While the larger the sample, the less likely bias will be found, the returns fall off rapidly when the sample exceeds a particular size that needs to be balanced with the resources of the researcher (Johnson & Gill, 2010). Therefore, there is a need to scientifically rationalise the sample size for this study to meet valid expectations. This study chooses the sample size confirmation method developed by Taherdoost (2017), and the calculation formula is as follows:

$$n = \frac{p(100 - P)Z^2}{E^2}$$

n is the required sample size. P is the percentage occurrence of a state or condition. E is the percentage maximum error required. Z is the value corresponding to level of confidence required.

There are two essential components to this equation. First, there are issues about the researcher's evaluation of the accuracy and risk levels they are ready to tolerate. E represents the margin of error (level of accuracy) or the degree of risk the researcher is ready to assume. In the sociological study, a margin of error of up to 5 percent is allowed. Technically speaking, sampling error is inversely related to the square root of n,

therefore the lower the value of  $E$ , the larger the sample size necessary. However, a big sample cannot ensure accuracy (Bell, Bryman & Harley, 2022). The value of the statistic  $Z$  usually focuses on the confidence level, which is the reliability or confidence level. In other words, when estimating the overall population by sampling, the overall conclusion is uncertain due to the random nature of the sample. Therefore, in mathematical statistics, interval estimation methods are used to provide an allowable margin of error between the estimate and the overall parameter, and the probability of the overall parameter within that margin is called the confidence level. This refers to the degree to which we are certain that the sample survey successfully predicted the characteristics of the population. In management research, 95 percent (0.05:  $Z=1.96$ ) and 99 percent (0.01:  $Z=2.57$ ) are the average degrees of confidence. A confidence level of 95% indicates that 95 out of 100 samples will contain the real population value within the stated margin of error ( $E$ ) (Taherdoost, 2017).

The second essential component of a sample size calculation is the assessment of the population's variance or heterogeneity ( $P$ ). Concerned with calculating sample size for challenges requiring the estimate of population percentages or proportions, management researchers are often concerned with sample size determination. In the formula, the variance of a proportion or the frequency of a certain question being answered, for instance, is denoted by  $P \cdot (100-P)$ . Where  $P$  is the proportion of a sample possessing a characteristic, such as the forty percent of respondents who were unhappy with their salary, and  $(100-P)$  is the proportion (sixty percent) who lack the feature or belief (Taherdoost, 2017). In this study, the confidence level was set to 95% and the corresponding statistic  $Z$  was set to 1.96. The sample size was usually determined using



the conservative principle and therefore the maximum variance should be used.  $p$  is the probability value and  $P(100 - P)$  is maximum when  $P = 50\%$ . In this study, the permissible error is set at 5%, which means that  $E$  is 5%. After plugging the data into the formula, the sample size for this paper is greater than 384. The data for this study was collected through carefully designed questionnaires. These questionnaires were mainly sent to potential respondents in the form of links as well as QR. The survey was completed through the social networking software (Aliwangwang) of the Taobao online shopping platform. The Aliwangwang communication portal is accessed via the merchant's shop page on Taobao. Once on the exchange page, a link to the questionnaire or a QR was sent to potential respondents. A total of 500 questionnaires were distributed and 480 respondents were received. Of which, 8 questionnaires with the same rating were excluded, as well as 24 questionnaires with a response time of less than 90 seconds. The final 448 questionnaires will be used in the subsequent data analysis.

### **3.4 Sample Characteristics and Data Collection**

In China, C2C e-commerce operators do not have business licenses and business codes, and tax authorities do not have enough accurate sample information. Therefore, in order to reliably and effectively test hypothesis and examine the relationship between the variables, it is more accurate to obtain sample information through online trading platforms. As this study is about the tax morale of C2C e-commerce operators in China, the sample is drawn from the database of Taobao, the largest C2C e-commerce platform in China. Nearly 600 million people use Taobao. The Taobao platform is a large database of goods sold on this platform (Ding, 2020). Buyers can search for relevant shops based on shipping location, shop reputation, shop sales and the type of goods the

shop sells. This study selected the Taobao database and used the Taobao search engine to collect and filter the sample. This study identifies C2C shops to target the corresponding C2C e-commerce operators. For this paper the research is aimed at C2C e-commerce operators, a group of people with a complex working status. For the full-time category, they are operators who do C2C e-commerce trading exclusively. However, they may be operating a single C2C e-commerce shop on their own, or they may be operating multiple C2C e-commerce shops with other people at the same time. This is different from C2C e-commerce operators in the self-employed state. However, there are C2C e-commerce operators who are employed by other companies to do work outside of the C2C e-commerce trade, but who also run one or more C2C e-commerce shops on their own, which is a part-time status.

Firstly, the provinces where the e-commerce stores are located were chosen so as to increase the regional diversity of the sample and enhance the validity of the data. The Chinese Ministry of Commerce (MC) notes that China's national online sales reached 11.76 trillion Yuan in 2020, up 10.9% year-on-year. In terms of provinces, the top 10 provinces or municipalities in terms of e-tailing sales are Guangdong, Zhejiang, Shanghai, Beijing, Jiangsu, Fujian, Shandong, Anhui, Hebei and Henan. The proportion of e-tailing sales in the country is 87.46% (MC, 2020). Therefore, we filter out the e-commerce stores in the following provinces in the database. Moreover, as part of the stratified sample procedure, we picked 50 randomly selected e-commerce stores in each province from which to distribute the survey questionnaires. After identifying the e-commerce store, we send questionnaire with an online survey link and a description of the survey purpose (reviewed by the UM research institute) to the related operator. The

questionnaire was constructed for this study using the WenJuanNet online questionnaire platform. Link of questionnaire is distributed to the 500 operators through the shop's chat interface (Ali Wang Wang) in Taobao. By using the questionnaire of WenJuanNet online questionnaire tool, the results of the survey are easy to quantify, and this method is fast and economical to save time, money and labour. Study sample and respondents as shown in Table 3. 1

**Table 3.1 Questionnaire Collection**

<b>Descriptions</b>	<b>Sample</b>	<b>Usable Response Rate</b>
Distributed questionnaires	500	100%
Returned questionnaires	480	96%
Usable questionnaires for the data analyses for this report	448	93.3%

### **3.5 Measurement of Variables**

The measurement items used for each of the variables were derived from questions that have already been verified in previous literature. Statements in the questionnaire were adapted from previous tax morale studies, as presented in Table 3.2. In designing the content of each variable in the questionnaire, the dependent and independent variable measures validated in the previous literature were used. This approach ensures the reliability and validity of the questionnaire design. In addition, this questionnaire deals

with the psychological wishes of the respondents. The source of each variable in the questionnaire is based on the measurement of scholars in the existing literature, which to a certain extent improves the professionalism and acceptability of the content of the questionnaire in this study.

**Table 3.2 Measurement of Variables**

Variables	Questions	Sources
Trust in the government	5	Lubian & Zarri (2011)
Trust in the legal system	4	María-Dolores, Alarcón & Garre (2010)
National identity	3	Mickiewicz et al. (2019)
Perception of Sanctions	4	Kirchler, Hoelzl & Wahl(2008)
Tax Morale	4	Filippin et al. (2013); Lubian & Zarri (2011)

### 3.6 Data Analysis Technique

The data was analysed in this article using SPSS version 22.0 and AMOS version 24.0. SPSS version 22.0 was used to perform frequency analysis , reliability analysis, descriptive analysis, correlation analysis and variance analysis. In addition, AMOS version 24.0 was used to perform validity analysis and structural equation modelling (SEM) analysis. In contrast to the pilot study, the validity of this study was analysed using confirmatory factor analysis.

The data was further analyse using SEM. SEM, also known as covariance structural modelling (CSM) or linear structural equation (LSE), is a sophisticated statistical

technique derived from factor analysis and route analysis. When it comes to complicated issues, SEM is one of the most popular research approaches available today. Since the Swiss statistician and psychometrician Karl G. Joreskog proposed the initial algorithm in the early 1970s, the model has been continuously practiced in social sciences and other fields, and is still a research hotspot in applied statistics. It is typically regarded as a confirmatory rather than exploratory method. That is, rather than "discovering" an appropriate model, researchers are more likely to use SEM to establish the validity of a specific model (Swanson & Holton, 2005). SEM first arose in the field of psychology and allows for a combination of analytical methods such as multiple regression and path analysis. The results of structural equations allow for the relationship between latent and observed variables and the relationship between each latent variable. This is particularly true for survey data. Structural equations can be modelled for unobservable variables and at the same time can effectively avoid the problem of multicollinearity that occurs in regression. SEM was chosen for this paper based on its advantages as follows (Ju,2014).

1. dealing with multiple dependent variables at the same time, it should be noted that in path analysis, the regression coefficients or path coefficients are calculated for each dependent variable one by one. The dependent variables can all be treated as latent variables in the model. The independent variables are treated as observed variables in the model, and the relationship between multiple dependent and independent variables can be easily investigated.
2. Allowing for measurement error in the independent and dependent variables allows for a good fit to the model and optimisation of the model in the model building process.

3. Factor structure and factor relationships can be estimated simultaneously, which is to solve the previous measurement model equation and the structural model equation. The solution of the factor structure is to calculate the relationship between each latent variable, and the solution of the factor relationship is to calculate the relationship between each latent variable and each observed variable.

4. The degree of fit of the overall model to the data can be estimated. SEM will ultimately give the degree of fit of the whole model and is more concerned with the overall effect of the model.

AMOS is a potent SEM tool that aids research and theory by expanding basic multivariate analytic techniques, including as regression, factor analysis, correlation analysis, and analysis of variance. Utilize the intuitive graphical or programmatic user interface to create models of attitudes and behaviors that represent complicated interactions more accurately than conventional multivariate statistical approaches. Compared with other SEM analysis software, such as LISREL, PLS, RAMONA, and R language related packages. AMOS software has relatively low requirements for mastering statistical theory and programming. And AMOS is easy to get started based on window-based point-and-click operation. And it belongs to the SPSS family series, which is convenient for docking with the commonly used sav format data files, and provides data interfaces of VB, SAS and other software, which is convenient and practical (Fang et al., 2018). In addition, compared with the pilot study, the sample size of the study is larger, and the PLS analysis tool is not applicable. The sample size of this study is 448 and relevant to personal perceptions. The characteristics of SEM-AMOS as described above fit the requirements of the analytical techniques in this study. The

analysis was performed using the AMOS 24.0 software, which is a modelling package for SPSS.

### **3.7 Pre-Test and Pilot Study**

#### **3.7.1 Pre-Test**

A pre-test was conducted to ensure that the questionnaire's content was clear and straightforward to understand. The Pre-tested step will improve the substance and validity of the study by assessing the questions' relevance to the study's context. The questionnaire pre-tests were administered and collected, as well as reviewed by five experts. Five experts with different academic backgrounds at the University of Malaya (UM) were requested to answer to a questionnaire in order to gather their input. Therefore, the questionnaire was modified in response to their feedback.

The participants in the questionnaire had a hazy understanding of the concept of English. As a result, it was decided to translate the questionnaire into Chinese so that the respondents could understand it correctly. To address any differences, the two language versions of the questionnaire were compared. Furthermore, the researcher and other translators concurred that no substantial discrepancies existed between the translated and original texts.

#### **3.7.2 Pilot Study**

Both factor analysis and reliability test were required after the delivery of the pre-test questionnaire, and the results of these analyses will be utilized as the foundation for the development of the final questionnaire. Preliminary data analysis may be performed to

ensure that the questions are not unclear and that the questionnaire is accurate and consistent throughout the final analysis (Oksenberg & Kalton, 1991). The pilot study was distributed to 100 respondents by online questionnaire creating by WenJuanXing platform. 40 respondents refused to participate. The 100 respondents are randomly selected C2C e-commerce operators on the Taobao platform. At the end of the pilot study, removing invalid questionnaires, 55 completed questionnaires to be used for feedback for questionnaire finalization.

The demographic analysis in pilot study included the profile of respondents (Gender, Age, Education Level, Employment Status, Marital Status, Disposable Income Level and Working Experience in E-commerce Business). The frequency and percentage for each category for the demographic profile of respondents to show the description of the study sample, as shown in Table 3.3.



**Table 3.3 Summary of Demographic Profile of Respondents**

<b>Demographic Item</b>	<b>Categories</b>	<b>Frequency</b>	<b>Percentage</b>
Gender	Male	28	50.9%
	Female	27	49.1%
<b>Total</b>		<b>55</b>	<b>100%</b>
Age	20-25 years	21	38.2%
	26-35 years	12	21.8%
	36-45 years	18	32.7%
	46-55 years	4	7.3%
<b>Total</b>		<b>55</b>	<b>100%</b>
Education Level	Below Diploma	8	14.5%
	Diploma	17	30.9%
	Undergraduate	16	29.1%
	Master Degree	6	10.9%
	Doctoral Degree	8	14.5%
<b>Total</b>		<b>55</b>	<b>100%</b>
Employment Status	Part Time Employed	18	32.7%
	Full Time Employed	21	38.2%
	Self Employed	12	21.8%
	Unemployed	4	7.3%
<b>Total</b>		<b>55</b>	<b>100%</b>
Marital Status	Single	14	25.5%
	Married	34	61.8%
	Divorced	7	12.7%
<b>Total</b>		<b>55</b>	<b>100%</b>
Disposable Income Level (Annual)	Less than CNY 30,000	6	10.9%
	CNY 30,000- CNY 50,000	17	30.9%
	CNY 50,000- CNY 100,000	12	21.8%
	CNY 100,000- CNY 200,000	14	25.5%
	CNY 200,000- CNY 300,000	5	9.1%
	CNY 500,000- CNY 700,000	1	1.8%
<b>Total</b>		<b>55</b>	<b>100%</b>
Working Experience in E-commerce Business	Less than 5 years	28	50.9%
	5-10 years	19	34.5%
	11-15 years	8	14.5%
<b>Total</b>		<b>55</b>	<b>100%</b>

This pilot study makes use of SPSS 26.0 to conduct an exploratory factor analysis on the formal questionnaire in order to further assess the scale's quality and validity, as well as its reliability and validity. The underlying concept of factor analysis is to identify common components in order to make data collection more straightforward.

Exploratory factor analysis aims to identify the underlying structure of a large number of variables by determining the number of factors that impact the observed variables and the degree of correlation between each factor and each observed variable. When doing a study such as this, the researcher makes the assumption that each indicator variable is associated to a factor and that the factor structure of the data can only be discerned perceptually from the factor loading. During the course of a verified factor analysis, the primary objective was to determine how well the initial model with a priori established factors fit the actual data, in order to determine whether the number of factors and factor loading on observed variables matched pre-existing theoretical predictions. Component analysis was performed on the indicator variables in order to determine whether or not they behaved in the manner expected by the hypothesis. In order to make a priori assumptions about the number of factors in the model and, in some situations, predicting which variables are influenced by each factor, it is necessary to first establish that each factor corresponds to a subset of an indicator variable.

Using the pilot study data, an exploratory factor analysis was performed, and the construct validity of the scale could be assessed using the results of the factor analysis.

Experimenting with different types of factor analysis is a technique that is often employed in the examination of pilot data. The KMO statistic in this study was 0.783.

The scale used in this study had a KMO value of and a chi-square value of 171 degrees of freedom in Bartlett's test, which met the statistical significance threshold of 0.05, indicating the presence of common factors among the variables and allowing for factor analysis. As a result, a standardized questionnaire was developed. The goal of this research was to investigate the elements that influence the tax morale of C2C e-

commerce operators, as well as the relationships that exist between these factors.

In terms of the reliability analysis, the results of the pilot study were as expected. A further point to mention is that all of the Cronbach's alphas are more than 0.70, suggesting that each variable internal consistency is exceptional. In addition, the convergent validity results of the present study demonstrate that all of the constructs have an AVE greater than 0.50. The validity and reliability analyses of the pretests demonstrate the professionalism of the questionnaire in this study. It also demonstrates that a large sample size and more detailed survey can be conducted in this study.

### **3.8 Summary**

The current study is based on the slippery slope theory to study the tax morale of C2C e-commerce operators. The essence of slippery slope is to study the relationship between individual psychology to authority. Therefore, this paper uses questionnaires to collect data, and uses Likert scale to measure. At the same time, the questionnaire is sent online. This paper investigates using a quantitative approach, aiming to precisely quantify the composition of objects or the hierarchy, degree, magnitude, and range of quantitatively represented attributes. The current study examines this relationship using data from a sample of 448 C2C e-commerce operator. The sample size was confirmed using the calculation method of Taherdoost (2017). Due to the large sample size, this paper uses SPSS version 22.0 and AMOS version 24.0 for analysis. Next, chapter 4 will show data analysis.

## **CHAPTER FOUR: DATA ANALYSIS**

### **4.0 Introduction**

Data for this study were analysed using SPSS version 22.0 and AMOS version 24.0. The approach employed in this investigation is briefly explained in this chapter. An overview of the study strategy and methods will be provided in Section 4.1 and Section 4.2. Next, Section 4.3 and Section 4.4 describe frequency analysis and confirmatory factor analysis to measure reliability. In addition, the instruments' validity will be reviewed in Section 4.5. Finally, Section 4.6 ,4.7 and 4.8 describe the results of descriptive analysis, correlation analysis and regression analysis, respectively. Then, 4.8 summaries this chapter.

### **4.1 Data Cleaning**

A total of 480 questionnaires were collected for this study. In the first stage, 8 examples were found to have a standard deviation of zero, indicating that respondents provided the same rating for all questionnaire items (except for the demographic questions). These 8 examples were excluded from further analysis. The second stage of data cleaning involved the removal of incorrectly completed and omitted data, as well as those with response times of less than 90 seconds, and a total of 24 questionnaires were removed. In the end, 448 valid questionnaires were obtained, and the questionnaire validity rate was 93.3%. Following data cleansing, a file containing 448 valid replies was encrypted and kept for subsequent study.

## 4.2 Demographic Analysis

The demographic analysis included the profile of respondents (Gender, Age, Education Level, Employment Status, Marital Status, Disposable Income Level and Working Experience in E-commerce Business). The frequency and percentage for each category for the demographic profile of respondents to show the description of the study sample, as shown in Table 4.2. It should be clearly pointed out that there are regional problems in this article. Due to the Taobao platform, the address of the merchant provided to the author is the registered address of the merchant's C2C license. Therefore, this article sends questionnaires from merchants with C2C registration licenses in the following ten provinces (Guangdong, Zhejiang, Shanghai, Beijing, Jiangsu, Fujian, Shandong, Anhui, Hebei and Henan). However because the three provinces of Shandong, Hebei and Henan are located in the north of China, the logistics construction is relatively backward. Long delivery times and high shipping costs, this will lead to lower customer satisfaction in C2C stores. Compared with the southeastern coastal areas in China, in 2019, Shanghai, Zhejiang, and Jiangsu issued implementation opinions on promoting the coordinated development of e-commerce and express logistics, aiming at the integrated and coordinated goal of the Yangtze River Delta region, and implemented a series of new measures to promote the development of e-commerce and express logistics. Therefore, the sellers build their warehouses in the southeastern coastal areas of China. Therefore, the respondents to the questionnaire filled in the address of the e-commerce warehouse. As a result, only C2C e-commerce operators in seven provinces responded to the questionnaire.

**Table 4.1 Summary of Demographic Profile of Respondents**

Demographic Item	Categories	Frequency	Percentage
Gender	Male	213	47.5%
	Female	235	52.5
<b>Total</b>		<b>448</b>	<b>100%</b>
Age	20-25 years	47	10.5%
	26-35 years	179	40%
	36-45 years	170	37.9%
	46-55 years	52	11.6%
<b>Total</b>		<b>448</b>	<b>100%</b>
Province	Guangdong	68	15.2%
	Zhejiang	66	14.7%
	Shanghai	74	16.5%
	Beijing	59	13.2%
	Jiangsu	63	14.1%
	Fujian	61	13.6%
	Anhui	57	12.7%
<b>Total</b>		<b>448</b>	<b>100%</b>
Education Level	Below Diploma	48	10.7%
	Diploma	87	19.4%
	Undergraduate	177	39.5%
	Master Degree	94	21%
	Doctoral Degree	42	9.4%
<b>Total</b>		<b>448</b>	<b>100%</b>
Employment Status	Part Time Employed	93	20.8%
	Full Time Employed	265	59.2%
	Self Employed	90	20.1%
<b>Total</b>		<b>448</b>	<b>100%</b>
Marital Status	Single	127	28.3%
	Married	283	63.2%
	Divorced	38	8.5%
<b>Total</b>		<b>448</b>	<b>100%</b>
Disposable Income Level (Annual)	Less than 30,000- CNY 50,000	52	11.6%
	CNY 50,000- CNY 100,000	113	25.2%
	CNY 100,000- CNY 200,000	102	22.8%
	CNY 200,000- CNY 300,000	84	18.8%
	CNY 300,000- CNY 500,000	63	14.1%
	CNY 500,000- CNY 700,000	34	7.6%
<b>Total</b>		<b>448</b>	<b>100%</b>
Working Experience in E-	Less than 5 years	128	28.6%
	5-10 years	239	53.3%

commerce Business	11-15 years	81	18.1%
<b>Total</b>		<b>448</b>	<b>100%</b>

#### 4.2.1 Gender, Age and Marital Status

Table 4.1 indicates the results of the frequency and percentage of the demographic variables of respondents from the study sample, where it is clear that 47.5% of the respondents are male, and 52.5% are female. In terms of gender, there are slightly more women than men, and the overall balance is maintained. Regarding the age variable, the results show that 40% of the respondents were between 26 - 35 years old and 37.9% were between 36 - 45 years old. These two age groups are the main groups in the sample for this study. For the provinces, the numbers are around 14% for each region, with a more balanced geographical distribution of the sample. For marital status, 63.2% of respondents were married, in comparison, and the proportion of divorced persons is lower, which is 8.5%.

#### 4.2.2 Education Level

In terms of education level, the Undergraduate is 39.5%, which is a large percentage. This result is in line with China's national conditions of popularizing undergraduate education. The percentage of those with a doctoral degree is 9.4%. The high education level of operators in the C2C e-commerce industry is currently relatively low.

#### 4.2.3 Employment Status and Annual Disposable Income Level

However, in terms of employment status, the results show that 59.2% of the sample are currently “Full Time Employed”, 20.8% are “Part Time Employed”, 20.1% are “Self Employed”. The difference in employment status makes all C2C e-commerce operators

think differently about taxation. For the annual disposable income level, 25.2% of respondents had disposable income between CNY 50,000 and CNY 100,000. In addition, 22.8% of respondents had disposable income between CNY 100,000 and CNY 200,000. However, 7.6% of respondents had disposable income between CNY 500,000 and CNY 700,000.

#### **4.2.4 Experience in E-Commerce Business**

In terms of experience in e-commerce business, 28.5% of the respondents had less than five years of experience in e-commerce business, and 53.3% of the respondents had five to ten years of experience in e-commerce business. The results indicate that most operators in the emerging industry of e-commerce are not very experienced.

#### **4.3 Reliability Analysis**

In social surveys, in order to delve deeper into some essential or theoretical issues from the phenomena, researchers often design questions about opinions or attitudes in addition to general facts, in order to measure some more abstract "attitudes", "perceptions " and other types of questions. In social life or economic management activities, it is a common problem to make a comprehensive evaluation of an individual or a thing. Comprehensive evaluation necessarily involves the same question of how to apply comprehensive evaluation to the object being assessed, and most researchers use the development of scales to evaluate the object being observed. This raises the question: are the values obtained from the measurement reliable and accurate? In other words, can they be regarded as a reliable and accurate measure of the "true attitude" of the respondents? ( Zhang &Tian,2007 ) Reliability analysis addresses this question.



Reliability analysis is an effective way of measuring the stability and reliability of a comprehensive evaluation system. Composite Reliability (CR) and Cronbach's Alpha (CA) are two of the reliability techniques that are most often used. Reliability represents the degree of random error in a measurement, and high reliability means that the results of numerous measurements of the same thing are consistent, showing that the measurement equipment is reliable. Cronbach's Alpha is a type of reliability metric that measures the internal consistency dependability of the items in a measure. (Aguirre-Urreta et al., 2013). The questionnaire in this study involves scale scores on taxpayer tax morale, trust in the government, trust in the legal system, national pride and perception of punishment, so a reliability analysis can verify the consistency and stability of the measures in the study.

If the Cronbach's Alpha is greater than 0.9, the scale is considered to have high intrinsic reliability; if the Cronbach's Alpha is greater than 0.7, the scale is regarded as having strong internal consistency.; if the Cronbach Alpha is greater than 0.5 (less than 0.7), the scale is considered to have acceptable intrinsic reliability; if the Cronbach's Alpha is less than 0.5, the scale design is considered to have significant problems and should be considered for redesign. The results are shown in the Table 4.2 below, we were able to conclude that the construct-representation components' internal consistency was enough.

The Cronbach coefficients for the trust in the government, trust in the legal system, national pride, perception of sanctions, and tax morale scales were 0.824, 0.834, 0.780, 0.824, and 0.828 respectively, all of which were greater than 0.7. A further point to mention is that all of the Cronbach's alphas are more than 0.70, suggesting that each building's internal consistency is exceptional (Bagozzi & Yi, 1988).

**Table 4.2 Cronbach's Alpha**

	<b>Cronbach's Alpha</b>	<b>N of Items</b>
<b>TG</b>	0.824	4
<b>TLS</b>	0.834	4
<b>NP</b>	0.780	3
<b>POS</b>	0.824	4
<b>TM</b>	0.828	4

\*\*Note: TG: trust in the government; TLS: trust in the legal system; NP: national pride; POS: perception of punishment; TM: tax morale.

#### **4.4 Validity Analysis**

This research makes use of AMOS 24.0 to conduct a Confirmatory Factor Analysis (CFA) on the formal questionnaire in order to further assess the scale's quality and validity. The underlying concept of factor analysis is to identify common components in order to make data collection more straightforward. The fundamental concept of component analysis is to examine the underlying structure of the correlation coefficient matrix of the scale's items. The observed variables with high correlation are divided into subgroups according to the rules. The variables in each subgroup share a common factor. In addition to common factors affecting each item, it is also affected by other factors. Therefore, each item has its own special factor. The common factor represents the basic structure of the scale, and the purpose of factor analysis is to determine the number of common factors. The common factor explains the actual significance of the common factor of the total variance of the observed variables. CFA is to test whether the collected data work in a predetermined structural way under the condition of known

factors. Consequently, the primary objective of CFA is to assess the capacity of the model with predefined components to fit the actual data, as well as to determine if the data are compatible with the predicted theory. Clarifying the scale's fundamental substance and structure is beneficial. In this study, after the preliminary model is obtained, the sample data is used to verify whether the assumed model structure is reasonable, such as the relationship between the item and latent variables, and the relationship between latent variables. Therefore, exploratory factor analysis (EFA) was used in the pilot study, and in the present analysis this paper chooses to use CFA.

The next step is to analyze the results of the model fitting indicators of the scale, and to evaluate the scale through the interpretation of each indicator. When performing confirmatory factor analysis, it is necessary to judge whether the model fits the data through the fit index representing the difference between the regeneration covariance matrix and the sample covariance matrix. The theoretical expectation of the statistic known as Minimum Fit Functional Chi G Square ( $X^2/df$ ) is 1, and it is used to directly assess how similar the sample covariance matrix and the predicted variance matrix are to one another. The closer  $X^2/df$  is to 1 indicates a “close fit”. When the sample is larger, around 5 is acceptable. Root Mean Square Error of Approximation (RMSEA) is an absolute fit index that measures how much a proposed model deviates from the ideal model. If it is close to 0 it indicates a “close fit”.  $0.05 \leq RMSEA \leq 0.08$  suggests a reasonable model. Table 4.3 is the model fit of the confirmatory factor analysis of the scale. From the absolute fit indices, the  $X^2/df$  value is 1.310, which is less than 5. The value of RMSEA is 0.026, which is less than 0.08. Therefore, from the perspective of absolute fit indices, the scale studied in this paper is close to the reasonable model.

On the contrary, Incremental Fit Index (IFI) and Tucker-Lewis Index (TLI) are incremental fit indices that assess the fit of a proposed model to a baseline model. Bentler and Bonett (1980) recommended that TLI >0.90 and IFI >0.90 indicates an acceptable fit. In terms of the incremental fit indices, the value of IFI is 0.987, which is greater than 0.9. The value of TLI is 0.984, which is greater than 0.9. The value of CFI is 0.987, which is greater than 0.9.

In terms of brief fit indices, the value of Parsimony Goodness-of-Fit Index (PGFI) is 0.716, which is greater than 0.5. The value of Parsimonious Normed Fit Index (PNFI) is 0.787, which is greater than 0.5. It indicates an acceptable fit from brief fit indices perspective. Overall, the model fit for the scales in this paper was excellent and no modifications to the model were required. In addition, this study will provide a more in-depth analysis from the perspective of convergence validity.

**Table 4.3 Model Fit Indicator Results of Scale**

Indicators	Absolute Fit Indices		Incremental Fit Indices			Brief Fit Indices	
	$\chi^2/df$	RMSEA	IFI	TLI	CFI	PGFI	PNFI
Classification							
Judgment Standard	<5	<0.08	>0.9	>0.9	>0.9	>0.5	>0.5
Fitting Effect	1.310	0.026	0.987	0.984	0.987	0.716	0.787

Convergence validity describes how well many different efforts to measure the same

concept agree. If two or more measurements of the same item are acceptable measures of the notion, they should differ significantly from one another (Bagozzi & Yi 1988). Convergent validity is usually analysed for three indicators, Average Variance (AVE), Composite Reliability (CR) and factor loading coefficients, and all are analysed for the indicators after the final confirmation of the model. When the AVE is more than or equal to the specified value of 0.50, it is shown that the items are convergent in their ability to assess the underlying concept or hypothesis (Fornell & Larcker, 1981). As shown by AVE statistics in Table 4.8, the convergent validity results of the present study demonstrate that all of the constructs have an AVE greater than 0.50. This is consistent with previous findings. Convergent validity is thus not a worry as a result of this. Following Table 4.4 that shows what the AVE value is for each of the constructions. The normalized factor load of each item of the questionnaire scale is greater than 0.5, which is in line with the standard. The AVE values of TG, TLS, NP, POS, and TM were 0.546, 0.562, 0.566, 0.555, and 0.548, which were all greater than 0.5, indicating that the scale's convergent validity met the standard.

**Table 4.4 Convergent validity**

Scale	Items	Normalized factor load	CR	AVE
<b>TG</b>	TG1	0.767	0.827	0.546
	TG2	0.801		
	TG3	0.714		
	TG4	0.667		
<b>TLS</b>	TLS1	0.753	0.837	0.562
	TLS2	0.807		
	TLS3	0.742		
	TLS4	0.693		
<b>NP</b>	NP1	0.881	0.793	0.566
	NP2	0.711		
	NP3	0.644		
<b>POS</b>	POS1	0.733	0.831	0.555

	POS2	0.753		
	POS3	0.616		
	POS4	0.857		
	TM1	0.760		
<b>TM</b>	TM2	0.766	0.829	0.548
	TM3	0.721		
	TM4	0.713		

\*\*Note: TG: trust in the government; TLS: trust in the legal system; NP: national pride; POS: perception of punishment; TM: tax morale.

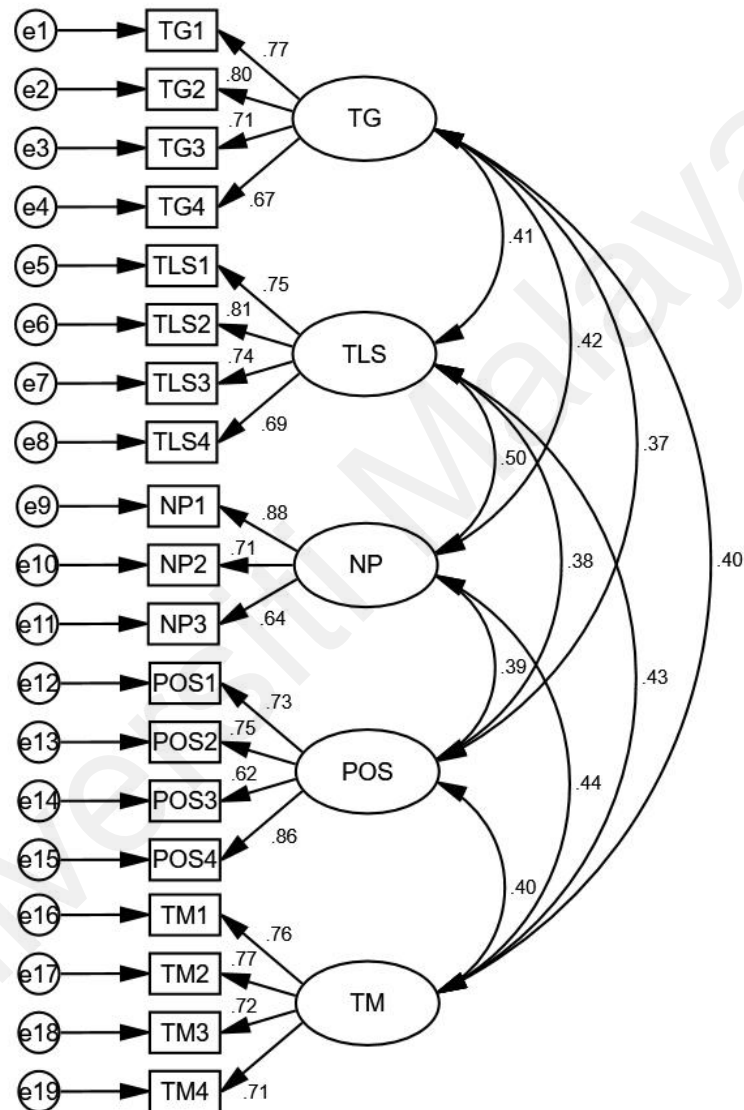


Figure 4.1 Confirmatory Factor Analysis

#### 4.5 Descriptive Analysis

The results of a descriptive analysis of tax morale and its influencing factors are reported in Table 4.5. According to the results of descriptive analysis, the average score of trust in the government is 3.41, trust in the legal system is 3.45, national pride is

3.611, perception of sanctions is 3.508 and tax morale is 3.622. The value of all items is higher than the theoretical median value of 3 points, which indicates that the dimension score level of trust in government, trust in legal system, national pride, perception of sanctions and tax morale is high.

**Table 4.5 Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
TG	448	1	5	3.410	0.801
TLS	448	1.25	5	3.450	0.846
NP	448	1	5	3.611	0.902
POS	448	1.25	5	3.508	0.802
TM	448	1.25	5	3.622	0.820

#### 4.6 Correlation Analysis

Correlation analysis measures the relationship between two variables. This paper uses the Pearson correlation coefficient in SPSS 22.0 for correlation analysis. Table 4.6 presents the correlation analysis of research variables using SPSS 22.0. The Pearson correlation coefficient is a common method to describe the strength of the relationship between two variables. Correlation analysis is an analysis method to study whether there is a correlation between two variables. The correlation coefficient has a value between -1 and 1. The greater the positive correlation between variables, the closer the value is to 1. On the contrary, the closer its value is to -1, the higher the negative correlation between variables.

A correlation matrix was developed to quantify the strength of the association between the relative movements of each pair of variables. In Table 4.10, it shows the relationship between TM and independent variables. Trust in the Government (TG) positively correlated ( $p < 0.001$ ) with Tax Morale (TM), which correlation coefficients were 0.339;

Trust in Legal System (TLS) positively correlated ( $p < 0.001$ ) with Tax Morale (TM), which correlation coefficients were 0.375. National Pride (NP) positively correlated ( $p < 0.001$ ) with Tax Morale (TM), which correlation coefficients were 0.385. Perception of Sanctions (POS) positively correlated ( $p < 0.001$ ) with Tax Morale (TM), which correlation coefficients were 0.354. The results of the above analysis demonstrate a strong relationship between tax morale, trust in government, trust in the legal system, national pride and perception of sanctions. This is consistent with the hypothesis of this study.

**Table 4.6 Correlation Analysis**

	TG	TLS	NP	POS	TM
TG	1				
TLS	0.339***	1			
NP	0.354***	0.424** *	1		
POS	0.324***	0.339** *	0.342***	1	
TM	0.339***	0.375** *	0.385***	0.354***	1

Note: \*\*\*, \*\*, \* represent  $P < 0.001$ ,  $P < 0.01$ ,  $P < 0.05$

#### 4.7 Analysis of Variance

**Table 4.7 Analysis of Variance**

		N	Mean	Std. Deviation	t/F	P
Gender	Male	213	3.778	0.760	3.908	0.000
	Female	235	3.480	0.847		
Age	20-25 years	47	3.133	0.891	6.943	0.000
	26-35 years	179	3.634	0.809		
	36-45 years	170	3.696	0.796		
	46-55 years	52	3.779	0.727		
Highest Formal Education	Below Diploma	48	3.432	0.668	4.929	0.001
	Diploma	87	3.483	0.924		
	Undergraduate	177	3.599	0.812		



Marital Status	Master Degree	94	3.684	0.786	6.970	0.001
	Doctoral Degree	42	4.083	0.696		
	Single	127	3.632	0.799		
	Married	283	3.679	0.790		
	Divorced	38	3.158	0.973		
Employment Status	Part Time Employed	93	3.589	0.769	0.213	0.808
	Full Time Employed	265	3.618	0.841		
	Self Employed	90	3.667	0.814		
Disposable Income Level (Annual):	Less than 30,000-50,000	52	3.322	0.887	4.692	0.000
	CNY 50,000- CNY 100,000	113	3.438	0.840		
	CNY 100,000- CNY 200,000	102	3.674	0.775		
	CNY 200,000- CNY 300,000	84	3.720	0.739		
	CNY 300,000- CNY 500,000	63	3.818	0.806		
	CNY 500,000- CNY 700,000	34	3.927	0.775		
Working Experience in E-commerce Business:	Less than 5 years	128	3.377	0.758	11.538	0.000
	5-10 years	239	3.654	0.845		
	11-15 years	81	3.914	0.732		

Since previous studies found that population variables also have a certain impact on tax morale, in order to make the analysis in this paper more comprehensive, a variance analysis of population variables was inserted. When the demographic variable is a binary variable, the independent sample t-test method is used. When the demographic variable is a multi-category variable, the one-way ANOVA analysis method is used, and the test statistics are t/F statistics respectively. If the P value corresponding to the t/F statistic is less than 0.05, it means that there is a significant difference, otherwise, there is no significant difference. Table 4.7 presents the result.

#### **4.7.1 Gender, Age and Marital Status**

For gender, there is a significant difference in tax morale of C2C E-commerce operators between different genders, the value of t statistic is 3.908, and the corresponding P value is 0.000, which is less than 0.05. Specifically, tax morale of male is significantly higher than female.

For age, different ages have significant differences in tax morale, the value of F statistic is 6.943, and the corresponding P value is 0.000, which is less than 0.05. And the older the age, the greater the value of C2C E-commerce operator's tax morale.

For marital status, different marital status has significant difference in C2C E-commerce operators' tax morale, the value of F statistic is 6.970, and the corresponding P value is 0.001, which is less than 0.05. The tax morale of married and unmarried C2C E-commerce operators is significantly higher than those of divorced.

#### **4.7.2 Education Level**

For the educational level, there is a significant difference between different highest degree of education on tax morale, the value of F statistic is 4.929, and the corresponding P value is 0.001, which is less than 0.05. And the greater the highest educational level, the higher the value of C2C E-commerce operators' tax morale.

Webley (2004) contends that individuals with greater information have more favorable views about taxation and that social norms preclude them from auditing and imposing sanctions. Those with a higher level of education typically have a deeper knowledge of fiscal policy.

#### **4.7.3 Employment Status and Annual Disposable Income Level**

For the employment status, there is no significant difference in tax morale between different employment status. The value of the F statistic is 0.213, and the corresponding P value is 0.808, which is greater than 0.05.

For the annual disposable income, there is a significant difference in the C2C E-commerce operators 'tax morale of different annual disposable income, the value of F statistic is 4.692, and the corresponding P value is 0.000, which is less than 0.05. The higher the annual disposable income, the higher the C2C E-commerce operators 'tax morale. Torgler (2007) discovered that a person's financial condition affects their willingness to pay taxes, with those who are better off financially being more inclined to do so.

#### **4.7.4 Experience in E-Commerce Business**

For the working experience of C2C e-commerce operators, there is a significant difference in tax morale for different working experience of C2C e-commerce operators. The value of the F statistic is 11.538, and the corresponding P value is 0.000, which is less than 0.05. The longer the working experience of C2C e-commerce operators, the higher C2C E-commerce operators 'the tax morale.

### **4.8 Regression Analysis**

#### **4.8.1 Structural Equation Model**

This study uses multiple regression analysis to test the influence of independent variables of Trust in Government (TG), Trust in Legal System (TLS), National Pride (NP) and Perception of Sanctions (POS) on the dependent variable of C2C E-commerce Operators Tax Morale (TM). Due to the large sample size of this study, this article does

regression analysis using AMOS, constructing structural equation model, as shown in the Figure 4.2.

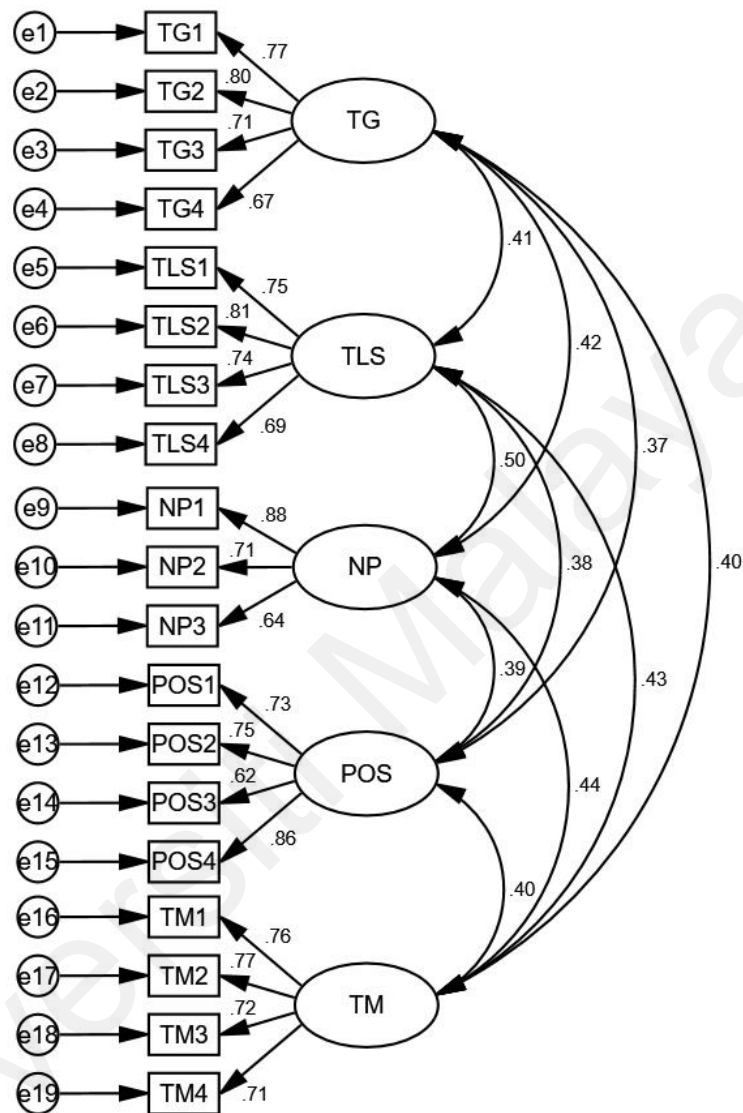


Figure 4.2 Structural Equation Model

#### 4.8.2 Model Fit for Structural Equation Modeling

**Table 4.8 Model Fit Table for Structural Equation Modeling**

Indicators	Absolute Fit Indices		Incremental Fit Indices			Brief Fit Indices	
	x2/df	RMSEA	IFI	TLI	CFI	PGFI	PNFI
<b>Classification</b>	x2/df	RMSEA	IFI	TLI	CFI	PGFI	PNFI
<b>Judgment Standard</b>	<5	<0.08	>0.9	>0.9	>0.9	>0.5	>0.5
<b>Fitting Effect</b>	1.310	0.026	0.987	0.984	0.987	0.716	0.787

Table 4.8 is a table of model fit degree. The absolute fit index, represented by the X2/df value, is 1.310, which is less than 5. RMSEA has a value of 0.026, which is less than 0.08. The absolute fit indication is a perfect fit. IFI's value in terms of the incremental fit index is 0.987, which is larger than 0.9. TLI has a value of 0.984, which is larger than 1.0. CFI has a value of 0.987%, which is more than the normal value of 0.9. The incremental fit index is ideally suited. In terms of brief fit index, the value of PGFI is 0.716, which is greater than 0.5. The value of PNFI is 0.787, which is greater than 0.5. The brief fit index fits ideally. Overall, the metrics of the model fit well and this study will use this model for the following path analysis.

#### 4.8.3 Path Coefficients

The Maximum Likelihood Estimate (MLE) method in AMOS software was chosen for the path analysis, and the results of the model parameter estimation are shown in Table 3. As can be seen from Table 4.9, the C.R. test values for all parameters are greater than 2 and the p-values are less than 0.05, indicating that all parameter estimates in the model have a high level of significance.

**Table 4.9 AMOS Path Coefficients**

	Path		Estimate $\beta$	S.E.	C.R.	P	Result
<b>TM</b>	<---	TG	0.171	0.065	2.789	0.005	Supported
<b>TM</b>	<---	TLS	0.198	0.065	3.053	0.002	Supported
<b>TM</b>	<---	NP	0.195	0.07	2.954	0.003	Supported
<b>TM</b>	<---	POS	0.183	0.052	3.119	0.002	Supported

\*\*Note: TG: trust in the government; TLS: trust in the legal system; NP: national pride; POS: perception of punishment; TM: tax morale.

In **H<sub>1</sub>**, Trust in Government (TG) is proposed to have a significant positive effect on C2C E-commerce Operators Tax Morale (TM). As shown in Table 4.10, TG does significantly affect TM ( $\beta = 0.171$ ,  $p=0.005$ ). This means that if TG increases by one standard deviation from its mean, TM is expected to increase by only 0.171 its own standard deviations from its own mean. This means that the higher the idea of trust in the government, the higher the tax morale as consistent to Boys and Hetherington (2008). At present, the Chinese government has increased the public's trust in the government through transparent government affairs, massive investment in infrastructure construction, and promulgation of policies that benefit the people. Especially for e-commerce, the government has given preferential policies for the development of e-commerce. Encourage Internet entrepreneurship through preferential tax policies. Compared with other industries, the taxation of e-commerce is relatively low, which has greatly promoted the development of e-commerce. The trust of e-commerce operators in the government has also been enhanced at this level. The results are thus consistent with the findings of Ma and Ma (2019), which documented that trust as an emotion towards political authorities can be translated into a deeper social identity.

If tax-paying behavior is conceptualized as citizens' support for the government, then government trust will have a positive impact on willingness to pay taxes. Therefore, this proves that hypothesis **H<sub>1</sub>**: Trust in Government (TG) has a significant positive influence upon C2C e-commerce operators' Tax Morale (TM). is supported.

In **H<sub>2</sub>**, Trust in Legal System (TLS) is proposed to have a positive significant effect on C2C E-commerce Operators Tax Morale (TM) as consistent to Wei(2006). As shown in Table 4.10, TLS does significantly affect TM ( $\beta = 0.198, p=0.002$ ), indicating that The higher the trust in the judicial system, the more willing to pay taxes. In the context of the promulgation of China's E-commerce Law, the taxation and supervision of e-commerce are more standardized, which also puts e-commerce in a benign market environment. At the same time, Chinese General Secretary Xi Jinping has repeatedly emphasized: "To comprehensively govern the country according to the law, we must closely focus on ensuring and promoting social fairness and justice (Hu, 2017). E-commerce operators are aware of a fair legal system, which provides a benign environment for their operations. Therefore, this result is consistent with the conclusion of Kuang and Yang (2008) that trust in the judicial system can promote the level of intrinsic willingness to pay taxes. Therefore, this proves that hypothesis **H<sub>2</sub>**: Trust in Legal System (TLS) has a significant positive influence upon C2C e-commerce operators' Tax Morale (TM) is supported.

In **H<sub>3</sub>**, National Pride (NP) is proposed to have a positive significant effect on C2C E-commerce Operators Tax Morale (TM) as consistent to (Strielkowski & Čábelková, 2015). As shown in Table 4.10, NP does significantly affect TM ( $\beta = 0.195, p=0.003$ ) in China. The Chinese people have been influenced by Confucianism for five millennia,

and in Confucianism there is a concern for the fate of the nation, believing that national prosperity and national revitalisation are inextricably linked to the well-being of individuals and families (Zhang & Deng, 2022). At the same time, contemporary China emphasises the cultivation of individual national pride. Therefore, in the context of a Chinese society with a high level of personal national pride, the findings of this study are consistent with Stets and Burke (2000). Individuals who have a strong sense of social identity perceive themselves as members of a larger social group and adopt that group's perspective in their behaviour. Therefore, this proves that hypothesis H3: National Pride (NP) has a significant positive influence upon C2C e-commerce operators' Tax Morale (TM) is supported.

In H<sub>4</sub>, Perception of Sanctions (POS) is proposed to have a positive significant effect on C2C E-commerce Operators Tax Morale (TM). As shown in Table 4.10, POS does significantly affect TM ( $\beta = 0.183$ ,  $p=0.002$ ). This means that if POS increases by one standard deviation from its mean, TM is expected to increase by only 0.252 its own standard deviations from its own mean. China has established a strong e-commerce law to regulate the conduct of e-commerce. At the same time, China's taxation authorities have developed an information platform to form an accurate "portrait" of the full cycle of tax-related matters of taxpayers, relying on taxation big data to comprehensively collect tax-related and expense-related information of enterprises. By establishing a taxpayer characteristic labeling system, the taxation authorities can accurately grasp the production, operation and tax-related information of enterprises. In particular, it realises the early identification, timely warning and effective resolution of tax-related risks, and changes risk prevention and control from post-control to pre-prevention. This means



that the more likely C2C E-commerce operators believe they will face an audit for tax evasion, the more willing they are to pay tax as consistent to Xiao and Fu (2015). Therefore, this proves that hypothesis H4: Perception of Sanctions (POS) has a significant positive influence upon C2C e-commerce operators' Tax Morale (TM) is supported.

#### **4.9 Summary**

Cronbach's Alpha was used to analyse the reliability of the study and confirmatory factor analysis was used to measure the validity. This was followed by a structural model using AMOS and finally a path analysis to test the four hypotheses. The discussion of the current findings and analysis highlighted the impact of the four factors (Trust in The Government, Trust in The Legal System, National Pride and Perception of Sanctions) on tax morale. This suggests that all four factors have a positive and significant impact on tax morale. Overall, this study recommends the application of the slippery slope theory based analysis of the factors that influence tax morale. The final chapter, Chapter 5, summarises the full text.

## **CHAPTER FIVE: DISCUSSION AND CONCLUSIONS**

### **5.0 Introduction**

As the final chapter, Chapter 5 summarizes the results revealed by this study and discusses the implications and limitations of this study. Section 5.1 and 5.2 discussion and summarizes this study. Next, Section 5.3 explains the implications of this research from both theoretical and practical aspects. Next is Section 5.4, which highlights the limitations.

### **5.1 Discussion of The Key Findings**

This study has four objectives. Firstly, to investigate whether trust in the government have an effect on C2C operators' tax morale in China. Secondly, to investigate whether trust in legal system have an effect on C2C operators' tax morale in China. Third, to investigate whether national pride have an effect on C2C operators ' tax morale in China. Fourth, to investigate whether perception of sanctions have an effect on C2C operators' tax morale in China. The proposed research model is validated in this paper and the results obtained are supported by all hypotheses. Therefore, based on the results of the data analysis and in conjunction with the literature review, the four research questions of this paper are answered and the research objectives of this paper are met. Overall, the findings of this paper support the behavioural planning theory linking tax morale to four

influencing factors (Trust in The Government, Trust in The Legal System, National Pride and Perception of Sanctions).

**RQ1:** Does trust in government have an effect on C2C operators' tax morale in China?

This study concludes that trust in the government has a significant positive effect on the tax morale of C2C e-commerce operators in China. In China, the higher the trust in the government, the higher the taxpayers' awareness of tax compliance. Moreover, the relationship between trust in the government and tax compliance awareness is absolutely consistent across taxpayers, regardless of size, type, time in business, and other effects (Yang, 2015). This paper examines the impact of trust in government on tax morale. The Chinese government, in order to be able to promote the development of e-commerce, has subsidised e-commerce to varying degrees. Firstly, the government has subsidised cross-border e-commerce. The scope of supportive policies for cross-border e-commerce is relatively broad and involves a large number of departments. Vertically, the introduction of supportive policies related to cross-border e-commerce involves the State Council and local governments. Among the relevant departments of the State Council, the General Administration of Customs and the Foreign Exchange Bureau are involved in issuing support policies; at the local level, it is the provincial governments and the governments of the relevant pilot regions that issue the corresponding support policy documents (Zhou, 2022). Xin (2019) exemplifies the documents issued by various government departments to support cross-border e-commerce. In 2018, the State Council issued the "Approval of the State Council on Agreeing to the Establishment of Comprehensive Pilot Zones for Cross-border E-Commerce in 22 Cities"; and in 2019, the "Approval of the State Council on Agreeing to the Establishment of Comprehensive

Pilot Zones for Cross-border E-Commerce in 24 Cities", in which pilot policies were vigorously pursued, requiring localities to proactively try them out, which in turn could be implemented on a large scale by the state. Relevant departments of the State Council have also actively introduced supporting policies for complementary services, such as the Announcement on the Adjustment of the Expanded List of Goods for Cross-border E-Commerce Retail Imports, which was jointly issued by the Ministry of Commerce and other departments on 24 December 2019. Governments at all levels have established cross-border e-commerce pilot zones and cross-border e-commerce industrial parks. This is not only through the introduction of well-known leading cross-border e-commerce enterprises, the improvement of online public service platforms for cross-border e-commerce, and the development of cross-border e-commerce integrated service enterprises. The scale of online transactions in the cross-border e-commerce industry has also been enhanced through the formulation of preferential tax policies for the import and export of cross-border e-commerce. In particular, the government has encouraged postal courier companies to improve their logistics services and subsidised the construction of public overseas warehouses and bonded warehouses to enhance the level of cross-border e-commerce services.

The government also provides subsidies to C2C e-commerce companies selling agricultural products. The rapid development of e-commerce for agricultural products cannot be achieved without strong state support. In 2014, the Chinese government made it clear that it would start the process of upgrading rural circulation facilities and the informatization of agricultural wholesale markets, and strengthen the construction of various e-commerce platforms for agricultural products at all levels. On the basis of the

development of e-commerce of agricultural products in 2014, in 2015 the state intensively introduced policies and measures to support, encourage and guide the development of e-commerce of agricultural products. Throughout 2015, the state has successively issued 75 policies on the development of e-commerce for agricultural products. For example, in 2015, the Chinese government clearly stated that it is necessary to support e-commerce, logistics, commerce, finance and other enterprises to participate in the construction of agriculture e-commerce platforms. It is necessary to gradually carry out comprehensive demonstrations of e-commerce entering villages in areas where conditions permit (Hong, 2016). These policies issued by the government to promote the development of e-commerce are aimed at providing an employment environment for C2C e-commerce operators. The government's preferential policies have enhanced e-commerce's trust in the government, because the Chinese government can efficiently provide public goods and services to e-commerce taxpayers. This explains the conclusions in the descriptive analysis of this paper. Chinese C2C e-commerce operators have high trust in the government, with an average of 3.41 in the result of descriptive analysis. When C2C e-commerce operators' trust in the government is transformed into social recognition, they can be encouraged to support the government's policies, and taxation is part of this support, as consistent to Ma and Ma (2019).

**RQ2:** Does trust in legal system have an effect on C2C operators' tax morale in China?

This study concludes trust in the legal system has a significant positive impact on the tax morale of C2C e-commerce operators in China. Previous literature reviewed that in China, the implementation of the E-Commerce Law on 1 January 2019 has made the

industry more legally compliant in terms of paying taxes, safeguarding consumer rights and regulating product quality. From the value added tax, personal income tax and customs duties reviewed in the literature, all three taxes have been reformed accordingly under the e-commerce law. For the conversion of business tax to value added tax, the overall competitive environment has been regulated in the context of the new tax reform to achieve a fair competition. The new tax policy, in order to create a relatively fair competitive environment, proposes that the import tax levied on cross-border retail e-commerce enterprises when importing goods is calculated at 70% of the value-added tax consumption tax. For some new industries, there is a platform to compete on a level playing field with traditional industries as well as industries from around the world. Therefore, a fair competition environment in the market is effectively achieved, which has further contributed to market dynamics (Li, 2022).

For the reform of personal income tax, in order to promote tax fairness, personal income tax is divided into grades according to the amount of income, and the tax rate is calculated and levied to adjust the income gap. Under the current preliminary development of the C2C model, taking personal income tax as the main tax type for C2C merchants can strengthen the tax management of the C2C e-commerce market and regulate the C2C e-commerce market. At the same time, it is possible to better grasp the taxation intensity and avoid the consequences of the C2C industry withering and the market shrinking due to excessive taxation. At the same time, in view of the fact that there is no difference between e-commerce and offline transactions. The selection of this tax is the same as the current tax on offline individual industrial and commercial households, which truly achieves the fairness of online and offline taxation (Wu, 2015).

These are all efforts made by the tax system for fairness. Wei (2006) proposed that a fair tax burden improved the sense of trust in the legal system, but he believed that Chinese taxpayers had low trust in the judicial system at that time. Because, at that time, the power of the collection and inspection model was still relatively centralized, so that individuals replaced the law with their own words and deeds. However, in this study, C2C taxpayers have a high degree of trust in the judiciary. From the results of the descriptive analysis, the average respondents' trust in the judicial system was 3.45. This is because China has stepped up its reform of the judicial system in recent years, and the core of the reform is to ensure social fairness and justice (Hu, 2017). Our findings are consistent with Crnogorac and Lago-Peñas (2020), that the more people trust the legal system, the more willing they are to pay taxes.

**RQ3:** Does national pride have an effect on C2C operators' tax morale in China?

This study concludes that national pride has a significant positive impact on the tax morale of Chinese C2C e-commerce operators. The Belt and Road Initiative is a transnational economic belt initiated and led by the government of the People's Republic of China in 2013, covering countries in China, Central Asia, North and West Asia, the Indian Ocean coastline, the Mediterranean coastline, South America and the Atlantic Ocean region along China's historical Silk Road and Maritime Silk Road. With the implementation of the Belt and Road Initiative, China's cross-border e-commerce industry has been presented with new development opportunities. The Belt and Road Initiative has helped China build infrastructure and promote cross-border e-commerce logistics in the countries involved. The Belt and Road Initiative helps countries along the route to build infrastructure and improve their transportation networks, which

provides a solid foundation for the development of cross-border e-commerce logistics. Since the implementation of The Belt and Road Initiative, it has covered more than 60 countries along the route, benefiting a population of over 4 billion and a total economic volume of over US\$20 trillion, accounting for more than 30% of the world economy (Dong, 2019). This demonstrates the strong economic appeal of China. Whether a nation has enough self-confidence and pride to support and love the country is an important basis for judging whether the country is strong or not, and the strength of a people's national pride directly affects people's sense of identity and belonging to the country (Zhang & Deng, 2022). This can explain the findings in the descriptive analysis of this paper that Chinese C2C e-commerce operators have a strong sense of national pride with a mean value of 3.611 in the result of descriptive analysis. Therefore, e-commerce operators have a strong willingness to pay taxes in order to support the construction of the national Belt and Road economic zone. At the same time, they are able to gain access to a larger trade market in the construction of the Belt and Road Initiative. This is in line with Mickiewicz et al. (2019).

**RQ4:** Does perception of sanctions have an effect on C2C operators' tax morale in China?

This study concludes that the perception of sanctions has a significant positive impact on the tax morale of e-commerce operators in China. China's e-commerce law was enacted to better regulate the economic activities of e-commerce. The e-commerce law stipulates the tax obligations of e-commerce operators, and also specifies the subject of taxation. Therefore, the Chinese taxation bureau has laws to follow. In addition, from the perspective of personal income tax, the Chinese tax authorities have taken the



following measures to strengthen the regulation. Firstly, the China Taxation Bureau has established a strong e-commerce tax registration. As e-commerce is a product of the development of the Internet, the tax bureau can also use the Internet platform to network the tax administration, as well as the registration of online tax subjects and online information registration for e-commerce taxation. In particular, the Chinese tax bureau issues electronic personal tax registration certificates and each person has a taxpayer identification number on the tax registration certificate (Wang et al., 2019). Secondly, in the increasingly developed and mature e-commerce industry, electronic invoices will also certainly assume the role of a bridge linking consumers, sellers and tax authorities. Therefore, improving the electronic invoice system is a key step in improving the taxation issues under the C2C model. At the meantime, improving the electronic invoice system will also improve electronic taxation. This is because the prevalence of electronic invoices will promote the development of accounting computerisation, which in turn will lead to the development of tax processing computerisation. In particular, the establishment of an electronic accounting data platform facilitates the tax authorities in approving the taxable income of taxable entities in a reasonable and accurate manner. Tax payments and enquiries on tax issues are handled through the electronic platform (Fu, 2019). Finally, in order to form a socially sound and autonomous tax environment, the Chinese tax authorities guide and encourage individual e-commerce merchants to file their own tax returns. For individual households with a lack of tax awareness, certain coercive measures are taken, and different levels of punitive tax penalties are applied to tax evasion found depending on the actual situation, while this also has a deterrent effect on individual households with a strong tax awareness. In addition, any

business involving personal taxation issues also becomes a personal credit report scoring criterion. Therefore, if a self-employed e-commerce business owner is not tax conscious, and if he or she evades tax, this will become a "stain" on the credit report.

As a result, Chinese e-commerce operators are easily caught evading taxes under strong tax regulation. 2021 In December, the Inspection Bureau of Hangzhou Taxation Bureau in Zhejiang Province found, after analysis of tax big data, that individual e-commerce operator Huang Wei had evaded 643 million Yuan in taxes between 2019 and 2020 by concealing her personal income, fictitiously converting the nature of his business into income by false declarations, and other underpayments of taxes 0.06 billion Yuan. As a result, a tax administrative processing penalty decision was issued against Huang Wei in accordance with the law, recovering the tax, adding late payment fees and imposing fines totalling 1.341 billion Yuan. In the context of the gradual standardisation of e-commerce taxation in China, the cost of tax evasion for C2C e-commerce operators is extremely high. As a result, most C2C e-commerce operators have a high perception of sanctions, as concluded in the descriptive analysis of this paper, with a mean value of 3.508. Under strong regulation, they are more willing to pay taxes in accordance with the law, which is consistent with Xiao and Fu (2015).

## **5.2 Summary of This Study**

This research investigates the tax morale of C2C e-commerce operators in China and the determinants of tax morale. This research employs a quantitative approach. The sample procedure employs provincial-level stratification, as the extent of e-commerce development varies by province. A sample of 500 selected from ten provinces. Of 500 questionnaires distributed, 448 responses were usable for analysis. Along with the

quantitative approach, questionnaires were conducted to obtain qualitative data. Data was collected from Wenjuan Net questionnaire platform.

To guarantee that the questionnaire's validity and credibility were not compromised, pre-test and pilot research were conducted. In this study, the results of the pilot test were evaluated using SPSS version 22.0 and AMOS version 24.0. In order to do frequency analysis and exploratory factor analysis, which involved downscaling various dimensional variables, we employed SPSS 22 as our statistical software. For the purposes of demonstration, AMOS version 24.0 is used to perform reliability analysis, correlation analysis, and regression analysis.

Survey data show that Trust in the Government (TG) ( $\beta = 0.171$ ,  $p=0.005$ ), Trust in the legal system (TLS) ( $\beta = 0.198$ ,  $p=0.002$ ), National Pride (NP) ( $\beta = 0.195$ ,  $p=0.003$ ) and Perception of Sanctions (POS) ( $\beta = 0.183$ ,  $p=0.002$ ) both had a significant positive effect on the Tax Morale of C2C e-commerce operators (TM). This suggests that the more trust citizens have in their government, the better tax morale; the more taxpayers trust the legal system, the more they have an inherent willingness to pay their taxes; the strength of the country makes people prouder of it, and they are more likely to agree with the national system and be willing to support its policies and pay taxes; the greater the likelihood that C2C E-commerce operators may face a tax evasion examination, the more ready they are to pay tax.

### **5.3 Implications**

Factors suggested as influencing tax morale and the taxpayers' decision to pay tax emerge. While the four factors (Trust in The Government, Trust in The Legal System, National Pride and Perception of Sanctions) all play an important role, improving the

transparency of the government, legal justices and the supervision of the tax authorities are suggested to improve the willingness to pay tax and the ability of the taxpayers to execute their willingness. The study's conclusions advocate for increased government transparency and regulation of government employees' personal behaviour and efficiency. This will eventually enhance C2C e-commerce operator's willingness to pay taxes. The authorities must incorporate strategies for increasing tax knowledge into their policies and promote a better understanding of tax penalties among taxpayers. In addition, the education of national pride is very important, especially in the early years of the people. Schools can add national pride as well as patriotic education to their curriculum.

#### **5.4 Limitation**

This research was designed to explain the tax morale of C2C e-commerce operator in China by using questionnaire approach. However, it should be highlighted that there are still certain limitations, and the findings of this study should be evaluated with caution in this regard in order to ensure that they are used appropriately for policy formulation and subsequent research.

Several limitations are acknowledged in this study, including the self-reporting aspect of the survey used, which may result in a discrepancy between what respondents say and what they actually do, particularly when dealing with a sensitive subject such as taxation. It is suggested that self-reporting methods may exhibit bias (Elffers et al, 1987). This research tries to address this limitation by employing anonymous questionnaires. The second limitation is the survey samples of this research. At this point, the study population focuses only on the top ten provinces in China in terms of

the number of e-commerce transactions. In total, there are 34 provinces in China. However, due to the massive volume of China's population, it is not possible to fully cover the population of all provinces.

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