

# **The Ethics of Tax Evasion: A Survey of Chinese Business Students in USA and China**

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*Tax evasion has existed historically. The present study lists rationalizations for tax evasion in a survey consisting of 18 questions.*

*This survey has been used in the past including a survey of business students in China by McGee, Yoon and Li (2015). The present study surveys Chinese business students studying in the USA and compares the results to the study on Chinese students in China.*

*The findings of the study indicate that in general both groups of students, those studying in China and those studying in USA, were opposed to tax evasion though for different reasons.*

## **INTRODUCTION**

Tax evasion is an illegal practice and entails an individual, partnership or corporation not paying the true amount of tax that they owe. It involves misrepresentation to avoid showing the correct taxable income of the entity involved. It is punishable by criminal charges and other penalties. Tax evasion is different from tax avoidance which is working within the law to reduce ones tax liability.

Tax evasion has been discussed over the centuries. One of the comprehensive works in this area was written by Martin Crowe, a catholic priest in 1944. Crowe summarized hundreds of years of debate on this topic. His work which was titled *The Moral Obligation of Paying Just Taxes* presented three philosophical positions on the issue. It identified numerous arguments that have been used to justify tax evasion. The present empirical study takes many of these arguments and uses a survey instrument that is comprised of 18 questions. These questions include questions about respondent's attitude towards tax evasion when taxpayers consider the tax system to be unfair, when tax rates are too high, where taxpayers lack the funds to pay and where the taxes collected are wasted or used for purposes the taxpayers do not agree with. The questionnaire includes arguments used to justify tax evasion in prior studies over the last 500 years.

The present study reports on the results of the survey given to graduate Chinese business students studying in the USA and compares the results to a study of views on tax evasion conducted on Chinese students in China (McGee, Yoon and Li, 2015). The purpose of this study is to see if there is any difference in the results between the two groups of students. The authors would like to thank Yeomin

Yoon and Ye Li for use of the findings published in McGee, Yoon and Li (2015) for comparison purposes.

The data were analyzed to determine the responses to the 18 historical arguments for tax evasion. Means and standard deviations of responses to the questions were tabulated. The arguments were also ranked from strongest to weakest.

## **LITERATURE SEARCH**

There have been surveys of Chinese students on the ethics of tax evasion. McGee and Guo (2006) surveyed law, business and philosophy students in Wuhan, China regarding tax evasion. Results indicated that tax evasion was considered unethical if it was for personal reasons but that there was some justification for it if the government was corrupt or the tax system was unfair or when the funds raised from taxes were used in ways that the respondent did not agree with.

McGee and An (2007) surveyed business and economics students in Beijing, China regarding tax evasion. The results indicated that tax evasion was not acceptable in most cases except where the money collected was wasted, the tax system was corrupt or unfair, tax rates were too high and beyond the ability of the taxpayer to pay. The sample consisted of both graduate and undergraduate students. Overall there was no significant difference found in the responses regarding tax evasion between the two groups of students.

A study by McGee, Ho and Li (2006) was conducted on comparing the responses of business students in Hong Kong versus American business students in the USA. The study found that while there was agreement that tax evasion was unethical; there were some differences about when it was justified.

McGee and Noronha (2008) compared the opinions of students in Southern China and Macau. They found that overall students from mainland China and Macau were equally opposed to tax evasion.

McGee, Yoon and Li (2014) compared the opinions of Chinese students in China with American students in the USA. The results indicated that Chinese students were significantly more opposed than US students to tax evasion where the statement was that tax evasion was ethical even if the tax rates were not too high, the money was spent wisely, the money was spent on projects I don't approve of or benefit me, if everyone is doing it, probability of getting caught is low, or if the government discriminates against me. Chinese students were less opposed to tax evasion if the money collected was wasted, or if the money was used for wars I consider unjust.

The present study differs from all of the studies mentioned above because it compares the opinions of Chinese students in China and Chinese students studying in the USA who have taken business courses at an American university. Thus any differences between the two groups could have been caused by differences in the educational exposure of the two groups of students.

There have been other surveys regarding tax evasion conducted by McGee and co-authors on other respondent groups all over the world.

## **METHODOLOGY AND RESULTS**

A survey instrument regarding tax evasion was used to solicit the views of Chinese students studying for a business degree at a university in California. The results were compared to the results of the same survey given to a group of Chinese business students at a university in China. The results for the survey of students in China were obtained with permission from a publication by McGee, Yoon and Li (2014). The statements in the survey are reproduced in Table 1 below. Students were asked to choose a number from 1 to 7 on a Likert scale where 1 = strongly agree and 7 = strongly disagree.

**TABLE 1**  
**STATEMENTS IN THE SURVEY INSTRUMENT**

S#	
1	Tax evasion is ethical if tax rates are too high.
2	Tax evasion is ethical even if tax rates are not too high because the government is not entitled to take as much as it is taking from me.
3	Tax evasion is ethical if the tax system is unfair.
4	Tax evasion is ethical if a large portion of the money collected is wasted.
5	Tax evasion is ethical even if most of the money collected is spent wisely.
6	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of.
7	Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects.
8	Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me.
9	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me.
10	Tax evasion is ethical if everyone is doing it.
11	Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends.
12	Tax evasion is ethical if the probability of getting caught is low.
13	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust.
14	Tax evasion is ethical if I can't afford to pay.
15	Tax evasion is ethical even if it means that if I pay less, others will have to pay more.
16	Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1940.
17	Tax evasion is ethical if the government discriminates against me because of my religion, race or ethnic background.
18	Tax evasion is ethical if the government imprisons people for their political opinions.

Descriptive statistics for the sample of students in China and the USA are presented in Table 2 below.

**TABLE 2  
DESCRIPTIVE STATISTICS OF STUDENTS IN CHINA AND USA**

	CHINA			USA	
	n	%		n	%
<b>GENDER</b>					
Male	50	25.0		9	31.03%
Female	150	75.0		20	68.97
Total	200			29	
<b>STUDENT</b>					
Undergraduate	116	58.0		0	0
Year 1	51	25.5			
Year 2	22	11.0			
Year 3	42	21.0			
Year 4	1	0.5			
Graduate	83	41.5		29	100
Year 1	75	37.5			
Year 2	8	4.0			
Unknown	1	0.5			
Other					
Total	200			29	
<b>MAJOR</b>					
Finance	60	30.0			
Financial engineering	18	9.0			
Financial management	14	7.0			
International trade	44	22.0			
Law	13	6.5			
Business	10	5.0			
Other	41	20.5			
Accounting				29	100
Total					
	200			29	

The results indicate that the two samples are not completely homogenous. The Chinese sample has both graduate and undergraduate students while the US sample has only graduate students. However this may not be a major drawback because a study by McGee and An (2007) mentioned above on tax evasion found that there was no significant difference of opinion between graduate and undergraduate students in

China. The Chinese sample had a number of different business majors whereas the US sample had only accounting majors.

Table 3 shows the results of the survey for the two groups of students. The mean and standard deviation for each question is shown. A two tailed t test for difference of means was done to compare the means for each question for the true groups. The t value is shown. The last column indicates whether the difference in the mean scores was significant at the 5 percent level.

**TABLE 3**  
**RESULTS OF SURVEY OF STUDENTS IN CHINA VERSUS STUDENTS IN USA**  
**(1 = STRONGLY AGREE; 7 = STRONGLY DISAGREE)**

S#	CHINA			USA			t value	Sign. Diff?
	n	Mean	SD	n	Mean	SD		
1	200	5.145	1.896	29	5.51724	1.5950	-1.00636	NO
2	200	6.010	1.503	29	5.41379	1.4019	2.01253	YES
3	200	4.475	1.921	29	4.34483	1.9689	0.33997	NO
4	199	4.226	2.109	29	4.72414	1.7907	-1.2094	NO
5	199	6.397	1.283	29	6.06897	1.2516	1.2902	NO
6	200	5.950	1.303	29	5.48276	1.4298	1.78165	NO
7	200	6.390	1.352	29	5.72414	1.3335	2.48274	YES
8	200	6.130	1.298	29	5.62069	1.2932	.00211	NO
9	200	6.485	1.221	29	5.86207	1.3816	2.52428	YES
10	200	6.190	1.544	29	5.48276	1.5725	2.29995	YES
11	200	4.515	2.204	29	4.93103	2.0862	-.95586	NO
12	200	6.450	1.174	29	5.93103	1.5336	2.13363	YES
13	198	3.965	2.191	29	4.86207	1.8268	-2.09941	YES
14	199	5.050	2.027	29	5	1.5811	.12722	NO
15	199	6.322	1.239	29	6.03448	1.1796	1.1743	NO
16	199	4.085	2.323	29	5.51724	1.7852	-3.18367	YES
17	199	4.497	2.196	29	4.65517	2.1090	-.36413	NO
18	199	3.935	2.222	29	5.39286	1.4991	-3.36237	YES

Table 4 lists the differences in the survey results for the two groups of students.

**TABLE 4  
DIFFERENCES IN SURVEY FOR THE STUDENTS IN CHINA VERSUS USA**

	S#
Chinese were significantly more opposed to tax evasion	2,7,9,10,12
Chinese were more opposed to tax evasion, but not significantly	3,5,6,8,14,15
Chinese were less opposed to tax evasion, but not significantly	1,4,11,17
Chinese were significantly less opposed to tax evasion	13,16,18

The results in Table 5 show the statements on which the China sample was significantly more opposed to tax evasion

**TABLE 5  
STATEMENTS FOR WHICH CHINESE WERE SIGNIFICANTLY MORE OPPOSED TO  
TAX EVASION**

S#	
2	Tax evasion is ethical even if tax rates are not too high because the government is not entitled to take as much as it is taking from me.
7	Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects.
9	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me.
10	Tax evasion is ethical if everyone is doing it.
12	Tax evasion is ethical if the probability of getting caught is low.

Table 6 lists the questions on which the students in China were significantly less opposed to tax evasion than the students in the USA.

**TABLE 6  
CASES WHERE CHINESE WERE SIGNIFICANTLY LESS OPPOSED TO TAX EVASION**

S#	
13	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust.
16	Tax evasion would be ethical if I were a Jew living in Nazi Germany.
18	Tax Evasion is ethical if the government imprisons people for their political opinions.

Table 7 lists the rankings for the various statements for the two groups of students:

**TABLE 7**  
**RELATIVE RANKING OF REASONS FOR JUSTIFYING TAX EVASION (1 = MOST**  
**OPPOSED; 18 = LEAST OPPOSED)**

CHINA	USA	
1	4	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me.
2	3	Tax evasion is ethical if the probability of getting caught is low.
3	1	Tax evasion is ethical even if most of the money collected is spent wisely.
4	5	Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects.
5	2	Tax evasion is ethical even if it means that if I pay less, others will have to pay more.
6	10	Tax evasion is ethical if everyone is doing it.
7	6	Tax evasion is ethical if a large portion of the money
8	11	Tax evasion is ethical even if tax rates are not too high
9	9	Tax evasion is ethical if a large portion of the money
10	7	Tax evasion is ethical if tax rates are too high.
11	13	Tax evasion is ethical if I can't afford to pay.
12	14	Tax evasion is ethical if a significant portion of the money
13	17	Tax evasion is ethical if the government discriminates
14	18	Tax evasion is ethical if the tax system is unfair.
15	16	Tax evasion is ethical if a large portion of the money
16	8	Tax evasion would be ethical if I were a Jew living in
17	15	Tax evasion is ethical if some of the proceeds go to
18	12	Tax evasion is ethical if the government imprisons people

The results are somewhat similar but the statements on which there was a difference in ranking of more than 2 were the following. The students in China ranked their opposition to tax evasion relatively higher even if the money was spent on projects that did not benefit me, if everyone was doing it, because the government is not entitled to take so much in taxes, or if the government discriminates against me. The students in USA were relatively more opposed to tax evasion, even if it meant others would have to pay more, even if tax rates are too high, if I were a Jew living in Nazi Germany and if the government imprisons people for their political opinions.

## CONCLUSION

The findings of the survey indicate that both the students surveyed in China and in USA opposed tax evasion. But there were some significant differences among the two groups about the extent to which they opposed some of the statements regarding tax evasion. The group in China ranked their opposition to tax evasion relatively higher on those statements which said that tax evasion was justified if the money was

spent on projects that did not benefit me, if everyone was doing it, because the government is not entitled to take so much in taxes, or if the government discriminates against me.

The group surveyed in the USA was more opposed to tax evasion on those statements which said that tax evasion is justified if it meant others would have to pay more, if tax rates are too high, if I were a Jew living in Nazi Germany and if the government imprisons people for their political opinions.

Both groups were opposed to tax evasion overall. The differences in opposition to particular statements on the survey may be due to the differences in educational exposure of the two groups of students with one group studying in China and the other group studying in the USA.

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