

Faith, Morality, and Compliance: Examining Tax Morale and Zakat Obligation in Pakistan's Hospitality Construction Sector: Evidence from Lahore

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Abstract

Tax compliance remains a major concern in developing economies where informal practices often influence reporting behaviour. This study examines how faith-based obligations and moral considerations affect compliance behaviour in Pakistan's hospitality construction sector. Specifically, the research investigates the role of tax morale and perceived zakat obligation in shaping compliance behaviour among contractors and developers involved in hospitality construction projects in Lahore. A quantitative research design was adopted, and primary data were collected through a structured questionnaire from 200 respondents including builders, contractors, and project supervisors working on hospitality-related construction projects. Data analysis was conducted using SmartPLS (Partial Least Squares Structural Equation Modelling) to evaluate the relationships between the variables. The findings indicate that both tax morale and zakat obligation positively influence compliance behaviour. The results highlight the importance of ethical and faith-based motivations in encouraging voluntary compliance within the construction industry. The study provides practical insights for policymakers to integrate moral and religious awareness into tax compliance strategies in Pakistan.

Keywords: Tax Morale; Zakat Obligation; Compliance Behaviour; Hospitality Construction Sector; Religious Motivation; Pakistan

Introduction

Taxation is among the greatest tools that governments use to fund their services to the people, their infrastructure, and their socio-economic welfare programs. Effective tax systems also help the governments in offering the people the goods of the society, including education, hospitals and roads, among others, which are necessities in economic growth and social stability. Although it is important, tax compliance has been a challenge in most developing economies including Pakistan where tax evasion and informal economy makes the tax revenues minimal. The difference between the potential tax collection and actual tax collection is most frequently explained by poor institutional capacity, low enforcement systems, and behavioral considerations that affect the disposition of taxpayers in adhering to taxation laws (Alm and Torgler, 2006). Here, the study of the behavioral and moral aspects of tax compliance has emerged as a notable field of interest in public finance and behavioral economics.

The economic theories of tax compliance traditionality have been mainly based on the models of deterrence. According to the classical model advanced by Allingham and Sandmo (1972), the decisions to obey or not obey the tax rule are made by the taxpayers who are described as rational individuals who also make decisions based on the likelihood of being audited and the magnitude of the punishment imposed in case of failure to follow the tax rules. In this point of view, people, in the first place, consider the possible advantages of avoiding taxes and the anticipated expenses of being caught and punished. When the perceived benefits of the evasion act are higher than the possible punishment, there is high likelihood that taxpayers will take part in noncompliant acts. Although the model has been very common in tax research, empirical studies have revealed that the model fails to explain the actual compliance pattern that is witnessed in most countries (Andreoni, Erard, and Feinstein, 1998). In real life, compliance levels usually tend to be higher than it would be in the absence of economic assumptions, which creates the possibility that other non-economic aspects of choices, including moral values, social norms, and ethical implications, also play a role in the choices of taxpayers.

Consequently, modern studies have given more focus on the notion of tax morale which can be described as the intrinsic motivations or moral sense that people have when it comes to paying tax. Tax morale describes the psychological and ethical sentiments that affect the sense of voluntary compliance with the tax laws by the taxpayers when there are no effective enforcement systems. According to scholars, tax morale refers to the inner drive to pay taxes in accordance with civic sense, moral principles and trust to the governmental authorities (Feld & Frey, 2007). Research has also indicated that people with greater tax morale tend to be more honest in reporting their incomes and adhering to tax laws since they tend to view paying taxes as an obligation to the society that it is a moral obligation (Torgler, 2007). Tax morale thus shows the wider association of citizens and the state in which compliance is not only due to fear of punitive but also to the ethical consideration and social responsibility.

Recent sources also point out cultural and social norms to determine the morale to pay tax. Attitudes towards taxation and compliance may be highly dependent on cultural beliefs, religious values and social expectations. In most societies, paying in taxes is

considered as civil responsibility, which helps in common good and the development of a nation. People will be willing to pay taxes willingly when they believe that the tax systems are fair and transparent. On the other hand, tax morale can be undermined by perceptions of corruption, unfair taxation policy or embezzlement of public funds, and thus tempt the tax evasor. Empirical research has confirmed that the beliefs in the government institutions, views of fairness and social norms are some of the strongest predictors of tax morale and tax compliance actions (Alm and Torgler, 2006; Torgler, 2007).

The religious beliefs and ethical responsibilities can also be considered a significant factor in determining the behavior of tax compliance in Muslim-majority countries, including Pakistan. The Islamic religion focuses more on honesty, fairness, and social responsibility in business practices, whereby people are advised to give to the social welfare by the provision of charity like zakat. The obligatory charity in Islam is called Zakat, which obliges Muslims who are in a position to offer an amount of their wealth as almsgiving to the poor and unfortunate in the society. Despite the fact that zakat and taxation have different purposes within the institutions, the two mechanisms have the same foundation of the overarching concept of social justice and wealth redistribution. Religious duties related to zakat, in turn, can affect the attitudes to the financial responsibilities and ethics that people have, as well as strengthen the positive behavioral attitudes to tax compliance.

Religiosity and the relationship between religiosity and economic behaviour has been a growing area of research with scholars hypothesising that religious values may play a role in guiding ethical decision-making in businesses and financial affairs. The teachings of religion usually encourage honest, integrity and accountability, and that discourages the person to do unethical acts like evading taxes. The research studies that have been conducted on the effect of religious commitment on economic behavior have concluded that high religious commitment results to people being more inclined to live up to ethical standards and also exhibit greater social responsibility in their lives. In this regard, religious duties like zakat can enhance moral incentives of financial compliance by highlighting the value of giving to society and helping poor and vulnerable communities.

The case of Pakistan offers a very interesting environment in which the issue of tax morale and religious obligations and compliance behavior may be analyzed. In spite of having a huge population and ever increasing economic potential, Pakistan still experiences a serious challenge in terms of tax collection and revenue mobilization. The tax to GDP percentage is quite low in the country as compared to most other developing economies and this shows that a significant percentage of economic activity is not subject to the tax system. This problem has been attributed to a number of studies which include the lack of tax awareness, complicated taxation laws, their non-enforcement, and the lack of trust that people have to the governmental bodies. Moreover, many sectors of the economy also have a high level of informal economy and lack of reporting of income, which complicates further the fight against income tax compliance only (Bukhari and Haq, 2016).

The construction sector is one of the key sectors in economic development among the other industries in operation in Pakistan. The sector plays a significant role in the creation of jobs, development of infrastructure as well as investment. In this larger sector, there has been significant expansion in the past few years in hospitality related construction projects such as hotels, resorts and tourism infrastructure facilities considering the rising urbanization, tourism development projects and foreign investor activities in hospitality services. Such projects have various stakeholders including contractors, developers, architects, project managers and investors, which expose them to complicated financial and regulatory landscapes. It therefore becomes vital that tax compliance in this sector should be promoted in order to facilitate transparency, boost revenue collection and promote a sustainable economic growth.

Nevertheless, construction business is commonly connected with the issues of taxability and financial disclosures. Because of the project-based construction activity, they often have more than one subcontractor, supplier, and temporary labor, so there are additional complications in the financial reporting. Existence of these complexities in most developing nations such as Pakistan can give way to opportunity to underreport income, transactions conducted informally, and evasion of taxes. Consequently, the creation of a more effective regulatory framework and the enhancement of the construction sector tax compliance should not solely focus on the more potent regulatory frameworks but also the development of a greater insight into the behavioral and ethical determinants of compliance decisions.

In that regard, the hospitality construction industry is a special research environment as it is a mixture of infrastructure development and service-oriented business operations. The developers and contractors working on the hospitality project will have to deal with the regulatory constraints concerning the construction, tourism development, and financial reporting. This is further reinforced by the fact that various stakeholders are involved and lots of financial resources are involved in this process, so it is highly important that financial practices are ethical and there is full disclosure of taxation. An analysis of the determinants of compliance behavior in this industry can thus be fruitful to the policymakers and other stakeholders in the industry who want to enhance governance and financial accountability.

Although the literature has widely studied tax morale and compliance behavior in different sectors and countries, the information on this issue has not been determined in a particular setting of the hospitality-related construction projects in Pakistan. Moreover, the possible impact of religious duty like zakat on tax compliance behavior has not been studied empirically with much consideration. Given the cultural and religious beliefs that exist in the Pakistani society, there is a possibility that incorporating religious dimension into the tax compliance analysis can offer a better insight into the motivational elements that influence the attitudes and behavior of taxpayers.

Thus, this research paper attempts to analyze how tax morale and zakat obligation can influence the nature of compliance behavior in the hospitality construction industry of Pakistan, and specifically the project that runs in city of Lahore. Lahore is one of the biggest economic and urban hubs in Pakistan where there are many construction

projects in terms of hotels, commercial development, and tourism infrastructure. The city offers a reasonable background to examine how the economic activity, ethical motivation, and compliance to regulations interact in the construction business. This study aims at filling the gap in the literature on behavioral taxation and ethical economic conduct by examining the role of moral attitudes and religious duties in promoting compliance behavior among contractors, developers, and project managers in the construction of hotel-related projects.

The results of this research can be valuable to the policymakers, tax enforcers, and the stakeholders within the construction industry that may be keen on enhancing the voluntary compliance and also reinforcing ethical financial behavior in the construction industry. Moreover, the paper points to the necessity of allowing moral and cultural aspects into the tax policy frameworks, especially in the societies where religious values and social norms are highly influential in the determination of the economic behavior.

Literature Review

Compliance Behaviour of Taxes in the construction sector of hospitality industry.

Tax compliance behaviour is defined as the degree to which individuals or businesses adhere to tax laws i.e. reporting the correct amount of income, making tax returns and paying the amount of tax that is due within the time specified. It is an inseparable part of fiscal policy since governments largely depend on tax income to support the expenditures on public services and construction of infrastructures. The determinants of tax compliance behaviour have been a long standing research topic amongst scholars in ensuring that they understand the reasons why some taxpayers comply willingly and the reasons as to why others indulge in tax evasion or avoidance (Andreoni, Erard, and Feinstein, 1998). The classical economic theories describe tax compliance using deterrence theory. Proposed classical model is that of Allingham and Sandmo (1972) in which taxpayers behave as a rational beings by comparing the possible benefits of tax evasion with the perceived expenses of the audit and penalties. In this model, taxpayers will tend to avoid taxation in case the enforcement mechanisms are weak and they cannot be detected. Empirical studies have however revealed that the rate of compliance in reality is very often larger than in the case of deterrence models and this means that there are other non-economic factors that may affect the behaviour of taxpayers (Alm, McClelland, and Schulze, 1992). Over the last few decades, scholars have paid more attention to behavioral factors when explaining tax compliance. These aspects are moral values, social norms, fairness perceptions, and trust on government institutions. People will become more voluntary to tax regulations when they feel that tax revenues are appropriately used to assist the provision of the services to the population and economic development (Feld and Frey, 2007). On the other hand, corruption or inefficiencies in the government institutions would undermine the compliance desire of the taxpayers.

In the hospitality construction industry, construction projects have another challenge of tax compliance because of the nature of construction activity that is project based. Hotels, resorts, and tourism facilities, among other hospitality constructions, can

comprise of a multiplicity of contractors, subcontractors, suppliers and financial stakeholders. This sophisticated system may provide a chance to underreport earnings, unofficial financial operations and evasions. These issues are even greater in developing economies such as Pakistan where informal economic activities are prevalent (Bukhari and Haq, 2016). The high rates of development of tourism infrastructure in big cities like Lahore have augmented the investment in the construction activities of the hospitality sector. These projects have a great impact in the growth of economy, creation of jobs and development of the urban infrastructure. Nevertheless, the policy of financial transparency and tax compliance in this sector is a significant issue. Comprehending the behavioural and ethical aspects that determine compliance behaviour of the contractors and developers is thus a key to enhancing a better tax administration and governance in the construction industry of the hospitality sector.

Morale and Compliance Behaviour to Tax in Hospitality Construction Sector.

Tax morale is considered to be one of the most significant behavioral factors of tax compliance. It is the inherent urge or ethical duty in which people desire to pay taxes. Tax morale is based on in-house attitudes and moral convictions that promote voluntary compliance unlike deterrence-related models where enforcement systems are the guiding force (Torgler, 2007).

Tax morale is a psychological association between tax payers and the state. Those who have high moral standards might view payment of taxes as civic duty that would lead to the common good and national security. It is also this inner drive that makes taxpayers submit to tax rules even when the risk of detection is quite high (Alm and Torgler, 2006). Tax morale is therefore very essential in the development of voluntary compliance behaviour.

Tax morale depends on a number of factors that include trust in government institutions, perceptions on tax fairness and social norms in a given society. When taxpayers feel that the government is spending tax revenues well and in a transparent manner, a greater sense of responsibility is created in the minds of tax payers toward the realization of their tax obligations. On the other hand, corruption or misappropriation of official funds may decrease the morale of taxpayers and act as an incentive to evade taxes (Feld and Frey, 2007). Tax morale can play a great role in financial reporting in the hospitality construction industry. Construction projects are usually prone to high financial deals, contract payments, and the acquisition of materials. The contractors and developers have to keep their financial records transparent to make sure that they do not violate the taxation rules. When making such transactions, people of higher tax morale will record the income well and comply with tax laws.

Empirical research has revealed that tax morale is strongly related with less engagement in informal economic activities. As an example, Torgler (2007) has discovered that in societies with better moral attitudes towards taxation, the rate of compliance and shadow economy is higher. This implies that enhanced ethical values towards payment of tax would be significant in enhancing adherence to taxation in the

industry with intricate financial arrangements like construction. In Pakistan where institutional constraints play a major role in tax enforcement, tax morale plays a significant role in promoting voluntary compliance. Encouraging moral consciousness and building a firmer civic roles among the industry players can thus contribute towards enhancing level of tax compliance in areas like hospitality construction.

H1: Tax morale has a significant positive effect on compliance behaviour in the hospitality construction sector of Pakistan.

Zakat Obligation and Compliance Behaviour in the Hospitality Construction Industry.

The attitudes of the people to financial responsibility and economic behaviour are frequently determined by the religious beliefs and ethical values. Financial operations are directed by moral principles of justice, honesty and social responsibility in Islamic principles of economics. Zakat is one of the most significant processes that encourage such values since it is a compulsory type of charity in Islam. Zakat is obligatory and involves qualified Muslims to give out a certain amount of their wealth to aid the less fortunate in the society. This is regarded as one of the key pillars of the Islam faith and is a mechanism used to enhance the social welfare and redistribute wealth (Kuran, 2004). Zakat enables people to make donations to the poor to enhance community growth and development, which strengthens financial ethical conduct in society.

Despite the fact that zakat and taxation are run with dissimilar institutional structures, the two systems have similar goals touching on social responsibility and the good of the society. Whereas the government determines the tax levels to fund governmental services and facilities, zakat is a religious duty that motivates people to promote social justice and economic equality. Consequently, some of the persons having a strong sense of religious requirements like zakat could also have good attitudes towards financial responsibility and obedience to the law.

Studies that have been done to determine the correlation or relationship between religiosity and ethical behaviour indicate that religious beliefs have the potential of affecting business and financial decision-making. Honesty, transparency, and fairness are common teachings in religion and they do not encourage people to commit immoral acts like defraud or evasion of taxes (Weaver and Agle, 2002). When people have the view of their financial choices as a larger moral and religious duty, they may be the more likely to adhere to the laws. In the hospitality building industry, religious principles can tend to affect the contractor, developer and project managers financial reporting and taxation. Construction projects are usually a bulk investment, complicated contract agreements, and various financial dealings. The religious teachings on ethical values can influence people to be transparent and accountable in their financial dealings in such environments.

In Pakistan, where the influence of Islamic values on cultural and social values is substantial, zakat obligation could enhance ethical orientation towards financial compliance. Those who believe that zakat is a significant religious obligation can also see tax payment as a supplementary task which helps to promote social welfare and

national growth. Such an attitude would promote responsible financial conduct and minimize the chances of tax evasion.

H2: Zakat obligation has a significant positive effect on compliance behaviour in the hospitality construction sector of Pakistan.

The correlation between Zakat Obligation and Tax Morale in the Hospitality Construction Industry.

Both tax morale and zakat obligation have some similar ethical underpinnings in terms of social responsibility and financial integrity. Tax morale is civic responsibility to the government institutions, whereas zakat obligation is the religious one of helping the welfare of the society. The two concepts can have an interaction in influencing the attitude of individuals towards financial compliance. Researchers have postulated that religious values can enhance moral norms and ethical decision making process in economic activities. Active religious believers can gain greater ethical orientation on the issue of money, such as paying taxes (Torgler, 2007). High opinions of religion tend to promote uprightness, responsibility, and justice that may support good intentions towards legal obedience.

Empirical studies have also suggested that religiosity can be used to affect the tax morale by determining the moral perception of people in terms of ethical behaviour. Individuals who are deeply religious can be less tolerant of unilateralism, including evasion of tax and be more obligated to meet their civic obligations. Moral values based on religious teaching in such societies that have a significant role with religion in the social life of the society might consequently result to higher levels of tax morale.

Zakat duty can enforce the legal obligation to comply with taxpayers in Pakistan, where Islamic values affect the social norms and economic practices. Individuals who realize the ethical significance of giving back to the society by way of zakat would also be in a better position to become internally motivated to adhere to tax laws. It can be implied by this relationship that religious obligations cannot get a direct effect on tax compliance because of increasing tax morale.

In the hospitality construction industry, in which financial responsibility is critical in ensuring a clean project management and adherence to set regulations, the relationship between zakat requirement and tax morale can be a key determinant of compliance behaviour. The contractors and developers who combine the religious values and professional tasks can show better attitudes towards the ethical financial reporting and taxes. Thus, the duty of zakat can also help in improving the tax morale of the stakeholders in the industry which in effect will motivate them to voluntarily abide by the tax laws.

H3: Zakat obligation has a significant positive effect on tax morale in the hospitality construction sector of Pakistan.

Methodology

The research design used in this study is a quantitative research design because it focuses on the effects of tax morale and zakat commitment on compliance behaviour

in the hospitality construction industry of Pakistan. Social sciences commonly use quantitative research methods to study causation between the variables as well as to empirically test the theoretical models based on statistical methods (Creswell and Creswell, 2017). This study aims to examine the influences of moral and religious motivation on the financial compliance behaviour among practitioners working on construction related to the hospitality sector. The study is based on the city of Lahore as one of the major economic and construction hubs of Pakistan and has been benefiting greatly in terms of development of hospitality infrastructure with the development of hotels, resorts and other tourism oriented projects. The research target population will be contractors, builders, project managers, site engineers and developers that are actively engaged in hospitality construction projects in Lahore.

The study utilized a structured questionnaire survey as the primary source of data collection because this is a common method of behavioral and management research when it is necessary to gather standardized data of respondents (Sekaran and Bougie, 2016). The questionnaire was constructed on the basis of the literature on tax morale based on previous measurement scales that were validated. The questionnaire employed was split into two parts. The initial part was a demographic section that was used to obtain demographic data, including the respondents professional position, work experience, and the participation in the projects of construction of the hospitality facilities. The second part was used to measure the key constructs of the study: tax morale, zakat obligation and compliance behaviour. The constructs relied on the previous empirical research and measurement items were modified to guarantee the reliability and validity of the constructs (Torgler, 2007; Alm & Torgler, 2006). Everything was measured on a five-point Likert scale (1 strongly disagree, 2 strongly disagree, 3 disagree, 4 agree, and 5 strongly agree) employed in social science research to evaluate attitudes and perceptions (Hair et al., 2021).

The convenience sampling technique was adopted in the data collection process since it is often applied in the exploratory study when the access to the target population is restricted (Etikan, Musa, and Alkassim, 2016). The questionnaires were mailed out to 230 professionals who have been involved in hospitality construction projects in Lahore, comprising the professionals in the hotel construction, tourism infrastructure development, and other construction-related projects. Only 200 valid questionnaires were left after filtering the responses obtained in terms of completeness and consistency. This is the right size of the sample to be applied in structural equation modeling processes, especially where the techniques are Partial Least Squares Structural Equation Modeling (PLS-SEM) (Hair et al., 2021).

To analyze the data, the study employed SmartPLS software, which is commonly used in research on social sciences in analyzing the complex correlation between latent constructs using the Partial Least Squares Structural Equation Modeling (PLS-SEM). SmartPLS is especially appropriate with exploratory and predictive models and is efficient when the research is needed to conduct the study of the relation between several independent and dependent variables at once (Hair et al., 2021). Analysis was in the two-step process that is suggested in the PLS-SEM methodology. The measurement model was tested in the first stage to test the reliability and validity

of the constructs. This phase entailed the assessment of indicator reliability, internal consistency reliability, convergent validity in terms of Average Variance Extracted (AVE). The discriminant validity was also determined as per the existing criteria like Fornell-Larcker criterion and Heterotrait-Monotrait ratio (HTMT) to determine whether the constructs were empirically differentiated (Henseler, Ringle, and Sarstedt, 2015).

During the second stage, the structural model was tested with the aim of testing the hypothesized relationships between tax morale, zakat obligation, and compliance behaviour in the hospitality construction industry. The relevance of the hypotheses proposed was tested with the help of the bootstrapping process in SmartPLS, which estimates the path coefficients, t-values, and p-values of each relationship in the model (Hair et al., 2021). Also the coefficient of determination (R^2) was utilized to measure the explanatory ability of the model in forecasting compliance behaviour. This method of analysis enables the researcher to test the quality of the measurement of constructs as well as the strength of the relationship among variables. SmartPLS application therefore offers a strong methodological model in order to examine the effects of moral and religious motives on financial compliance practices in the professionals who are engaged in construction works in hospitality projects in Lahore.

Data Analysis and Results

The data collected from respondents working in the hospitality construction sector of Lahore were analyzed using the software SmartPLS. Partial Least Squares Structural Equation Modeling (PLS-SEM) is widely used in social science research to analyze complex relationships among latent constructs and to test theoretical models with multiple variables simultaneously (Hair et al., 2021). The analysis followed the two-step approach commonly recommended in PLS-SEM studies, which includes evaluation of the measurement model followed by assessment of the structural model (Hair et al., 2021).

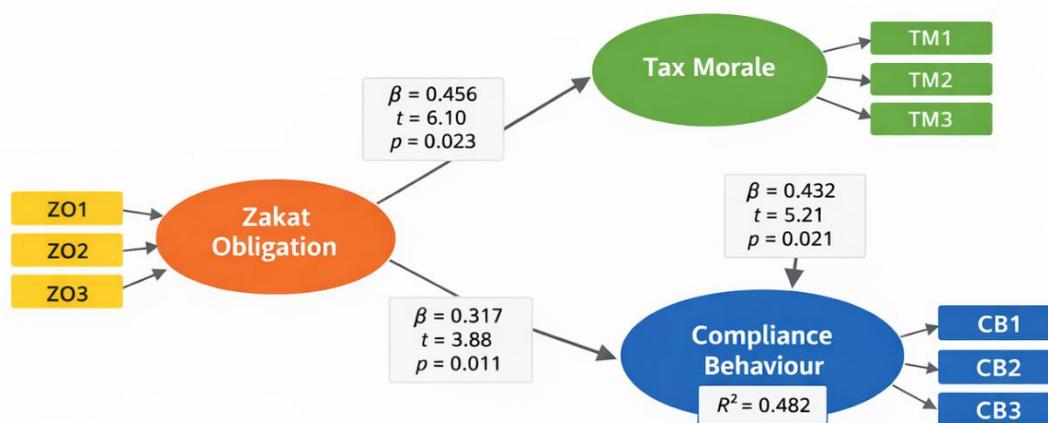
Measurement Model Assessment

The measurement model was evaluated to assess the reliability and validity of the constructs used in the study. Reliability was measured using Cronbach's Alpha and Composite Reliability (CR), while convergent validity was assessed using Average Variance Extracted (AVE). According to established guidelines, Cronbach's Alpha and Composite Reliability values should exceed 0.70, while AVE values should be greater than 0.50 to confirm convergent validity (Hair et al., 2021).

Table 4.1: Construct Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE
Tax Morale	0.845	0.892	0.622
Zakat Obligation	0.861	0.903	0.651
Compliance Behaviour	0.878	0.914	0.679

The results presented in Table 1 indicate that all constructs achieved acceptable levels of internal consistency reliability. The Cronbach’s Alpha values ranged from 0.845 to 0.878, exceeding the recommended threshold of 0.70. Similarly, the Composite Reliability values ranged between 0.892 and 0.914, indicating strong internal consistency among the measurement items. The AVE values for all constructs were above 0.50, confirming adequate convergent validity of the measurement model (Hair et al., 2021).



Discriminant Validity:

Discriminant validity was assessed using the Heterotrait–Monotrait Ratio (HTMT), which is considered a more reliable method for evaluating discriminant validity in PLS-SEM studies (Jörg Henseler et al., 2015). HTMT values should be below 0.90 to confirm that constructs are empirically distinct.

Table 4.2: HTMT Discriminant Validity

Constructs	Tax Morale	Zakat Obligation	Compliance Behaviour
Tax Morale	—		
Zakat Obligation	0.624	—	
Compliance Behaviour	0.701	0.658	—

The HTMT results presented in Table 2 indicate that all values are below the recommended threshold of 0.90, confirming that discriminant validity is established among the constructs. This suggests that tax morale, zakat obligation, and compliance behaviour represent conceptually distinct constructs within the hospitality construction sector.

Structural Model Assessment

After confirming the reliability and validity of the measurement model, the structural model was evaluated to test the proposed hypotheses. The relationships among the constructs were examined using the bootstrapping procedure in SmartPLS, which

generates path coefficients, t-values, and p-values to determine the statistical significance of the hypothesized relationships (Hair et al., 2021).

Figure 4.1 Structural Model of the Study

The figure 4.1 illustrates the bootstrapped structural model examining the relationships among Zakat Obligation, Tax Morale, and Compliance Behaviour in the hospitality construction sector of Lahore. The results indicate that Tax Morale significantly influences Compliance Behaviour ($\beta = 0.432$, $t = 5.214$, $p = 0.021$), while Zakat Obligation also has a significant positive effect on Compliance Behaviour ($\beta = 0.317$, $t = 3.876$, $p = 0.011$). Furthermore, Zakat Obligation significantly influences Tax Morale ($\beta = 0.456$, $t = 6.102$, $p = 0.023$). The coefficient of determination ($R^2 = 0.482$) demonstrates that the model explains 48.2% of the variance in compliance behaviour, highlighting the role of moral and religious motivations in encouraging financial compliance within the hospitality construction sector.

Table 4.3: Structural Model Results

Hypothesis	Relationship	Path Coefficient (β)	t-value	p-value	Result
H1	Tax Morale → Compliance Behaviour	0.432	5.214	0.021	Supported
H2	Zakat Obligation → Compliance Behaviour	0.317	3.876	0.011	Supported
H3	Zakat Obligation → Tax Morale	0.456	6.102	0.023	Supported

The outcomes of the analysis of the structural models show that the three hypotheses are all statistically significant. The hypothesis concerning the relationship between tax morale and compliance behaviour (H1) has a positive path coefficient ($= 0.432$) with a t-value of 5.214 that shows that tax morale is a major determinant of compliance behaviour among professionals in the hospitality construction industry. This observation is in line with other studies that implied that voluntary compliance should be reinforced by moral attitudes to taxation (Torgler, 2007). Likewise, compliance behaviour is greatly positively influenced by zakat obligation (H2), whose path coefficient is 0.317 as compared to t-value of 3.876. This finding indicates that religious duties that are associated with zakat influence people to engage in responsible financial activities, such as adherence to tax laws. Lastly, the findings indicate that the obligation of zakat has a significant effect on tax morale (H3) with path coefficient equal to 0.456 and t-value is equal to 6.102. This observation suggests that the religious values could enhance the moral attitudes of financial responsibility and hence indirectly foster the tax compliance behaviour in the hospitality construction industry. On the whole, the outcomes of the structural model indicate the significance of both ethical and religious reasons in the determination of financial

compliance behaviour among professionals engaged in hospitality construction projects in Lahore.

Discussion & Conclusion

The results of the current research give empirical data on how tax morale and zakat obligation influence compliance behaviour of the professional in the hospitality construction industry in Pakistan. The findings of the SmartPLS test show that the three hypothesized relationships (H1-H3) were statistically significant, which means that moral and religious motives are beneficial in facilitating voluntary compliance. H1 was the effect of tax morale on compliance behaviour and the findings revealed a positive and significant relationship ($0.432, = 0.021$). This observation is in line with other studies that have indicated that a person with good ethical and moral motivation is likely to obey tax laws without being coerced (Torgler, 2007; Alm and Torgler, 2006). When discussing the hospitality construction industry, the contractors, developers and project managers are usually subject to high volume financial transactions and contract payments. The tax morale is high and this would motivate these professionals to declare their income properly and comply with taxation rules even in the case where the tools of enforcement are weak.

The second hypothesis (H2) was used to test the direct impact of zakat obligatory on compliance behaviour. The test results proved the existence of a strong positive correlation ($= 0.317, p = 0.011$), which implies that the process of religious compliance encourages the responsible financial behaviour. This is in line with past researches that point at the impact of religiosity in ethical decision making and financial responsibility (Kuran, 2004; Weaver and Agle, 2002). In Pakistan, professionals fulfilling their zakat obligation because zakat is a well-known national religious obligation will also view tax compliance as an extension of moral responsibility. This is especially true in the hospitality construction sector where financial transparency may affect the credibility of project and investor confidence.

The third hypothesis (H3) addressed the impact of obligatory zakat on the morale of tax. The data indicated a significant positive correlation ($= 0.456, = 0.023$), meaning that religious values have the potential to support the moral attitudes towards taxation. This aspect is similar to that of Torgler (2007), who stressed that social and religious norms influence the development of internal moral motivation. To practitioners in the hospitality construction projects, the religious doctrines like zakat can enhance ethical obligation and indirectly promote adherence to the taxation laws thereby promoting a culture of honesty in the industry.

The structural model can explain, in general, 48.2% of the compliance behaviour ($R^2 = 0.482$), which demonstrates that the moral and religious motivations have a moderate, yet significant impact. The findings highlight the synergistic nature of the ethical values and religious requirements in improving the financial compliance in an industry where complexity of project and high cash flows may breed non-compliance. These results also add to the body of literature as they combine both tax morale and zakat requirement in construction-based hospitality projects- an area that has not been explored in scholarly literature.

This paper will find that tax morale and zakat obligation are both important predictors of compliance behaviour within the hospitality construction industry of Lahore in Pakistan. Tax morale has a direct effect on compliance behaviour, giving it a sense of ethical responsibility, and zakat obligation has a direct and indirect influence on compliance by impacting tax morale. The results indicate that ethical and religious values are also significant factors, which influence voluntary tax compliance, especially in the industries with complex financial operations and in which there are numerous stakeholders.

As the study shows, establishing ethical sensitivity and religiously based financial responsibility can fulfill regulatory interventions in the promotion of tax compliance. To policymakers, the knowledge of these inherent motivations is essential in formulating effective policies to improve voluntary compliance particularly in such industry as hospitality construction where traditional methods of enforcement would not be easy.

Recommendations

The recommendations which are proposed based on the findings are as follows:

Enhance a culture of Ethical Thinking and Tax Education: The hospitality construction industry agencies and professional bodies should undertake workshops and training to underline the significance of ethical financial management and social goodwill of payment of taxes (Feld & Frey, 2007).

Incorporate Religious Values into Compliance Programs: Zakat is a form of obligatory charity, which can be used as a form of motivation by emphasizing on the moral and social importance of paying due taxes to the government, as a way of boosting the morale of the construction professionals (Kuran, 2004).

Streamline Taxation Processes in the Construction Industry: It is possible to simplify the bureaucracy in the construction industry by offering simple guidelines to a contractor, developer, and project manager since voluntary compliance will be able to simplify the process and lessen unintentional non-compliance (Alm et al., 1992).

Promote Transparency of Financial Reports: Hospitality construction companies must develop internal policies that encourage the proper reporting and recording of revenues and expenses as well as contribute to the improvement of confidence with the authorities as well as clients.

Carry Out Sector-Specific Awareness Campaigns: Sector-specific awareness campaigns should be used to have the hospitality construction sector that provides the moral and religious motivation to engage in practical compliance behaviour by connecting moral and religious motivations with contributions made by the tax system and zakat to the funding of public services and welfare in society (Torgler, 2007).

Future Research Directions: It would be possible to conduct more studies that would extend the model by adding behavioural and institutional conditions, like trust in government, perceived fairness, and social norms, to gain a more extensive insight into compliance behaviour in other construction-related businesses in Pakistan.

In conclusion, the integration of moral and religious considerations with conventional compliance mechanisms provides a holistic approach to improving financial

compliance in the hospitality construction sector. Policymakers and industry stakeholders can leverage these insights to foster a culture of ethical responsibility and sustainable financial practices in construction projects.

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