## **Chapter 9 Tax Compliance**

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## Why tax compliance is especially important for voluntary compliance research

One of the areas in which the relative efficacy of voluntary compliance and monitoring has been extensively studied is that of taxation.[[1]](#footnote-1) Nearly all studies on compliance use taxes as the prototypical example of compliance. The area of taxation is widely used in the context of studying unethical behavior because any citizen can evade taxation at some level. This level of unethicality does not exist in other contexts, where citizens do not have the capacity not to comply even if they wanted to do so. Throughout history, governments have faced the challenging task of increasing compliance with tax laws to maximize their tax income. Widespread tax evasion raises the costs of tax collection because it requires more resources to detect and stop non-compliance. Moreover, tax evasion distorts the distribution of the tax burden, creating inequality and unfairness in that taxpayers who abide by the rules bear a disproportionately higher financial burden.[[2]](#footnote-2)

There are many questions without clear answers revolving around what is the most effective government approach by the government to encouraging tax compliance. For example, what is the ultimate conclusion that can be drawn from studies that focus on different framings of texts sent to people? What can be learned from the research on procedural justice and taxation? How significant is the impact? What can be learned from the various studies focusing on ethical nudges, such as requiring signatures at the beginning of tax forms,[[3]](#footnote-3) as well as various pledges that might reduce the need for states to monitor people’s ethical behavior?[[4]](#footnote-4) As in the previous chapter, the focus of much of the discussion here of certain case studies will focus on trying to identify best practices for improving compliance and what can be generalized from them to other contexts.

In addition to posing a common compliance dilemma for ordinary people, tax compliance also presents distinct challenges compared to other areas. First, the primary dilemma in taxation is related to honesty, which is not the case in most environmental or COVID-related behavior. This unique context underscores the importance of understanding people’s honesty. Secondly, taxes usually require less emphasis on exceeding compliance expectations or encouraging behavioral changes compared to environmental issues. This is because tax compliance is more of a bureaucratic requirement than is compliance with other kinds of regulations, which require deliberate conduct. Thirdly, tax compliance represents a context in which the dilemma can be viewed as a zero-sum game, where every dollar paid in taxes is taken away from the individual. In contrast, in the environmental context, for example, the situation is very different, whether the conduct involves buying an electric car, using green energy, or buying a circular economy product.

From a governmental standpoint, the advantages of taking measures to ensure high compliance rates appear self-evident. Consequently, governments should vigilantly monitor and apply research findings in these domains. Utilizing research outcomes and implementing policies that are widely recommended and substantively supported is of utmost importance for all states. Lastly, it is crucial to recognize the reciprocal nature of trust between the government and its citizens. In essence, when a government pursues policies designed to enhance citizen trust, whether related to taxation or other areas, the effects are far-reaching. Even policies that may not directly reflect a state’s trust in its citizens can have a positive influence on the level of trust.

## Intrinsic versus extrinsic tax compliance

The traditional method of ensuring tax compliance is through audits. When viewed from a one-dimensional perspective, it may appear that people make a rational choice to comply to avoid being audited, thus following a rational decision-making process.

## Audits and tax compliance

Audits are considered an important factor and one of the main deterrence mechanisms in tax compliance.[[5]](#footnote-5) In the realm of fiscal policy and tax administration, audits play a critical role in ensuring compliance with tax legislation and maintaining the integrity of the revenue collection system. Tax audits are systematic examinations of taxpayers’ financial records and tax declarations that serve multiple functions within the broader framework of tax enforcement. These procedures are instrumental in verifying the accuracy of reported financial information, detecting instances of non-compliance or fraudulent activity, and fostering a culture of voluntary adherence to tax obligations.

The implementation of tax audits involves various methodologies, ranging from brief reviews of specific line items to thorough analyses of an entity’s entire financial portfolio. Tax authorities usually employ sophisticated risk assessment algorithms and data analytics to identify tax returns that exhibit a higher probability of discrepancies or non-compliance issues, thereby optimizing the allocation of limited auditing resources. This strategic approach not only improves the effectiveness of audit procedures but also increases their ability to deter non-compliance among the general taxpayer population.

The theoretical underpinnings of tax audit strategies are rooted in economic models of deterrence and behavioral economics.

Research indicates that audits can be a useful tool when conducted properly. A recent studyexamined the impact of operational tax audits on self-employed U.S. taxpayers.[[6]](#footnote-7) Audits significantly affected reporting behavior, leading to a 15% increase in taxable income overall. Those receiving additional tax assessments reported a 64% higher income (44% after 3 years), while those without assessments reported a 15% lower income (21% after 3 years). Improving the targeting of audits toward non-compliant taxpayers could lead to an increase in audit revenue and boost future tax collections. Essentially, the same regulatory approach had varying effects on taxpayers depending on their initial willingness to pay taxes. This highlights the potential issues with aggressive enforcement measures.

Interestingly, oversight by tax authorities has not been shown to affect compliance.[[7]](#footnote-8) A novel field experiment on tax compliance specifically focused on newly founded firms to examine the effect of tax authorities’ supervision on timely tax payments. It is interesting to note that the results do not demonstrate a positive effect of close supervision on tax compliance**.**

In an important field study on the effect of extrinsic motivation on compliance motivation, Nadja Dwenger and colleagues[[8]](#footnote-9) examined the interplay of intrinsic and extrinsic motivations related to tax compliance by introducing rewards as incentives and deterrence measures. They focused on the local church tax system in Germany, which traditionally has lacked deterrence mechanisms, relying on intrinsic motivation to encourage compliance. Through their additional analysis of tax obligations and payment records, they found that people have a strong intrinsic motivation to comply with tax laws, which may be linked to a sense of duty and responsibility. Most importantly in the context of this book, their findings show that there is no crowding out of intrinsic motivation when economic incentives are introduced. In a different context, Ronald Cummings and colleagues have also suggested that enforcement efforts alone cannot explain all aspects of tax compliance.[[9]](#footnote-11) Using multiple methods, including surveys, existing data, and experiments, they arrived at their conclusions after reviewing various factors, such as fairness and attitudes towards the tax authorities and cultures.

Indeed, one of the areas in which the relative efficacy of voluntary compliance versus strict monitoring and high sanctions has been widely and deeply studied is that of taxation.[[10]](#footnote-12) We argue here that any suggested association between audits and instrumental tax motivation ignores much of what we know about the importance of other mechanisms even in the area of tax compliance. Instead, we ask: What can be learned from the type of studies that focus on different framings of texts sent to people? What can be ascertained from the research on procedural justice and taxation? What can be learned from the various conflicting studies focusing on ethical nudges, as well as on various pledges that might reduce the need for states to monitor the ethicality of the people?[[11]](#footnote-13) In many countries, non-coercive initiatives have been proposed to obtain public cooperation. These approaches have some clear advantages over coercive tax collection methods that rely on the exercise of state power.[[12]](#footnote-14) Tax compliance scholars, such as Erich Kirchler,[[13]](#footnote-15) and Michael Wenzel[[14]](#footnote-16) have conducted considerable research in the field and have observed two competing forces: the power of authorities versus trust in authorities. The common discovery of many studies is that when people perceive tax authorities as trustworthy, they are more likely to comply voluntarily with tax requirements, whereas if people perceive tax authorities as powerful, compliance tends to be coerced. This approach holds value, as power can discourage unwanted behavior through monitoring and sanctions, whereas trust can encourage cooperation and self-motivation.

However, as discussed in the preceding section, this approach to identifying a connection between people’s perceptions of trustworthiness and intrinsic compliance is somewhat less sophisticated than a behavioral approach based on a combination of broader behavioral and institutional accounts. First, based on research on conditional cooperation, we will demonstrate how many people’s willingness to pay taxes can increase when they know that the tax authorities are collecting taxes from other tax evaders. Second, a meta-analysis examining the effectiveness of deterrence has shown that higher levels of trust can enhance the authorities’ ability to deter individuals.[[15]](#footnote-17) Third, most of the studies in this field overlook factors that we developed in previous sections. These include understanding the heterogeneity of the effect (that is, identifying which segment of the population reacts to a particular regulatory approach), determining its durability and sustainability on taxpayers’ behaviors in the years that follow, and evaluating its broader effects, such as how taxpayers will behave in other contexts.[[16]](#footnote-18)

## Importance of tax morale

In recent years, extensive empirical research has been conducted on the determinants of tax compliance and their correlation with tax morale. This research has yielded nuanced and sometimes conflicting results. Several studies have examined the effectiveness of different measures aimed at improving tax compliance, especially through messages that promote tax morale. Michael Hallsworth and colleagues conducted large-scale natural field experiments involving over 200,000 U.K. taxpayers. They found that social norm messages emphasizing widespread compliance can significantly increase timely tax payments.[[17]](#footnote-19) Similarly, Kristina Bott and colleagues conducted a randomized field experiment with 15,000 Norwegian taxpayers considered likely to have unreported foreign income. According to their findings, moral appeals emphasizing the societal benefits of tax contributions positively influenced compliance among certain taxpayer groups.[[18]](#footnote-20) However, the impact of tax morale interventions on compliance is not consistently positive. Jan-Emmanuel De Neve and his team conducted a comprehensive study that examined the tax records of more than 1 million Belgian taxpayers over a period of two years. They concluded that simplification and deterrence messages were highly effective. However, appeals to tax morale were not only ineffective but, in some cases, were even counterproductive.[[19]](#footnote-21) The varying outcomes indicate that the effectiveness of interventions aimed at improving tax morale may be dependent on the context, including cultural norms, existing compliance levels, and how the moral appeal is presented. Furthermore, as Paul Carrillo and colleagues noted after conducting two-stage randomized experiments with over 80,000 Ecuadorian firms, the results of such interventions can be mixed, indicating a complex interplay between tax morale, compliance behaviors, and the broader socioeconomic context.[[20]](#footnote-22) These findings emphasize the importance of a nuanced approach to tax compliance strategies. It is important to recognize that although tax morale can be a powerful tool for increasing compliance, its effectiveness is influenced by a range of contextual and individual factors.

## Competing tax regulatory approaches

As mentioned earlier, research on tax enforcement and moral values can provide valuable insights into regulatory strategies. Kirchler is well-known for conducting multiple studies that compare various regulatory and enforcement methods, reflecting a preference for voluntary compliance. As mentioned earlier, his approach involves integrating regulatory and enforcement measures, which can be enforced through coercive or legitimate power. Interestingly, it is not always clear why the issue of coercive or legitimate power is of such importance in tax contexts. Moreover, Kirchler’s focus lies primarily on enforcement approaches rather than regulatory methods in many instances. For example, in one of his most well-known studies, he endeavors to establish a connection between the level of the tax authorities’ preparation and the likelihood of compliance.[[21]](#footnote-23) While a later study in which he was involved examined the theoretical interaction between power and trust,[[22]](#footnote-24) for the most part, the focus was on how individuals are being treated by the authorities, rather than on the climate of enforcement climate, which is the core question in regulatory design.[[23]](#footnote-25) Similarly, Lars and Bruno Frey have also emphasized the importance of treating taxpayers thoughtfully and fairly in order to encourage tax compliance.[[24]](#footnote-26) Other studies have highlighted the importance of public social sanctioning in ensuring individuals’ cooperation in public good experiments.[[25]](#footnote-27)

Indeed, the literature on cooperation, which is particularly relevant in the context of tax compliance, has devoted considerable effort to trying to understand the reasons people are willing to cooperate in social dilemmas. This line of research has focused on factors such as the willingness to sanction rule violators and the type of dilemma being faced.[[26]](#footnote-28)

## Transparency and voluntary tax compliance

Transparency is another approach for eliciting trust from taxpayers. From a tax policy perspective, it is important to promote transparency to citizens, allocate tax revenues towards social expenditures, and strive to establish and maintain stable tax rates. These strategies are essential in building citizen trust in the government. These measures aimed at enhancing tax compliance could also serve to reduce tax avoidance and evasion, particularly among individual taxpayers. Corporate tax avoidance and evasion have distinct characteristics that are influenced, at least in part, by different motivating factors. Furthermore, there are certain factors specific to each country that can affect tax compliance rates. Identifying these factors is a challenging task that requires a thorough examination and analysis of case studies relevant to each specific nation. This is particularly important when trying to determine the impact of cultural and sociological factors on compliance rates.

## Enforcement, power, and tax compliance motivations

Tax studies have shown that the use of what is known as “high power,” meaning stricter enforcement measures, can result in a decline in compliance.[[27]](#footnote-29) Various approaches have been found to enhance tax compliance, including the use of financial and non-financial aids. These include appealing to an individual’s morality, guilt, or sympathy.[[28]](#footnote-30) It has also been found that political ideology can affect how people perceive the use of coercive measures and tax compliance.[[29]](#footnote-31) To encourage tax compliance, tax authorities in different countries have implemented behaviorally based tax compliance programs (nudges, reminders, framing of letters, changing defaults, and so on)[[30]](#footnote-32) to prime social norms and promote fairness.[[31]](#footnote-33) There is a relationship between people’s tax motivation and factors beyond financial considerations, such as social norms and morality, that contribute to the overall perception. Research suggests that due to the diversity in the population’s tax motivations, we must be cautious when determining the optimal combination of tax incentives. Indeed, many countries have made changes to how tax authorities regulate the behavior of their citizens. For example, countries in Europe have been deploying, cooperative strategies such as “enhanced relationships,” “horizontal monitoring,” and “fair-play initiatives.”[[32]](#footnote-34)

## Coercion versus trust in tax compliance

As suggested by the Kirchner approach to tax compliance, cooperation, and teamwork function best when they work together. The exercise of coercive power did not reduce the public’s implicit trust in tax authorities.[[33]](#footnote-35) However, when applied alone, coercive power affected reason-based trust, the climate of cooperation, and intended tax compliance. The use of coercive power, in combination with legitimate power, had no effect on tax compliance. In another study with somewhat different results, it was found in Greece[[34]](#footnote-36) that trust led to a greater degree of voluntary compliance, while the use of power led to a greater degree of enforced compliance. Surprisingly, it was found that power had no impact on voluntary compliance in situations where trust was high. However, in situations with low trust, high power results in even lower levels of voluntary compliance.

Other research by Matthias Kasper and colleagues suggests a link between trust, power, and intentions to comply in a real-world setting.[[35]](#footnote-38) Their findings indicate that media reports on tax issues address issues of trust and power, and that both factors have an impact on the intended level of tax compliance. In a comprehensive literature review, Kirchler and colleagues explored intrinsic and extrinsic factors affecting tax compliance, including fines, audit probabilities, tax rates, knowledge, attitudes, norms, and fairness.[[36]](#footnote-40) The review explores the power and trust dimensions, referencing these factors throughout. Kirchler also found that ideology played a role in tax compliance. Left-leaning taxpayers expressed higher levels of voluntary cooperation and showed resistance to the coercive power of authorities. In contrast, right-leaning taxpayers demonstrated higher levels of enforced tax compliance and were more averse to tax evasion, showing increased trust in authorities and institutions.[[37]](#footnote-41) In addition, there is a positive and statistically significant relationship between trust in government and tax compliance. Likewise, there exists a strong and statistically significant correlation between one’s level of trust in the government and their perception of tax justice. The power of tax authorities was found to be associated mainly with a negative reaction to coercive measures, while trust, in contrast, was shown to have a positive impact on compliance. Research indicates that the interaction of trust and power can reduce non-compliant behavior.

## What is the contribution of tax morale to actual tax compliance?

Tax compliance is crucial, especially in the context of voluntary compliance, as it is an area where many people may choose to disobey. We are currently conducting a combined mega-meta-analysis to investigate the relationship between tax morale and actual tax behavior.[[38]](#footnote-42) These findings can illuminate the gap between intention and behavior, which enables researchers and policymakers to have a better understanding of how tax morale affects tax compliance.

Reducing tax evasion is a primary objective of tax authorities, and as a result, there has been significant emphasis placed on understanding the factors that influence this behavior. In recent decades, substantial attention has been focused on investigating “tax morale”—the intrinsic motivation to pay taxes—as a crucial determinant of compliance.[[39]](#footnote-43) Numerous studies support the idea that higher levels of tax morale lead to enhanced tax compliance.[[40]](#footnote-44) However, a considerable amount of this evidence is based on self-reported intentions to comply rather than actual compliance behaviors. Although some studies suggest that subjective norms are associated with actual tax evasion, further research is needed to establish a definitive link between these two factors, given that other studies have produced less conclusive.[[41]](#footnote-45) In general, the complex interplay between tax morale and tax compliance behavior is shaped by a range of contextual factors, resulting in diverse outcomes.[[42]](#footnote-46) Therefore, the findings of a combined mega-meta-analysis of the association between tax morale and actual tax behavior[[43]](#footnote-47) we are conducting should shed light on the intention-behavior gap, enabling researchers and policymakers better to comprehend tax morale’s influence on tax compliance. In another study on tax morale, the classical causality was reversed and the effect of tax dilemmas on tax morale was examined, rather than the usual approach of examining the effect of tax morale on tax dilemmas.[[44]](#footnote-48) The study’s simulation placed young adults with limited experience in taxation in a situation where their attitudes towards taxes could be observed, and where their attitudes influenced their decisions. Although the use of a simulation may have its drawbacks, it has allowed researchers to analyze how participants responded to, experienced, and observed these dilemmas. The study found that such dilemmas reduced both tax morale and compliance.

John Scholz and Mark Lubell[[45]](#footnote-49) investigated how the 1986 Tax Reform Act (TRA) affected 292 American respondents’ feelings of trust, duty, and fear towards the state. They found that individuals whose taxes decreased as a result of the TRA developed more trust in the state, whereas those who experienced an increase in taxes had reduced levels of trust. The study suggests that there is a relationship between the level of taxes imposed on a population and the level of trust that the population has in the government. Its findings also indicate that the government might adjust tax rates according to how much trust it has in the population’s ability to pay.

Antonios Koumpias and colleagues conducted a study to examine the factors that can enhance a population’s tax morale.[[46]](#footnote-51) They analyzed data from World Values Surveys collected from 92 countries between 1981 and 2014. According to this comprehensive study, governments can establish trust with citizens most effectively by improving the efficiency of agencies and programs that are output-based, as these are the government entities that citizens interact with most frequently. Instead of examining the correlation between citizen trust in the government and tax compliance, this study focused on how governments can increase trust to attain this goal.

Therefore, it could serve as a foundational piece of research, as any discussion on this topic would likely begin with analyzing the methods used to establish trust between the government and its citizens. Further evidence supporting the importance of tax morale and conditional cooperation with tax requirements is presented in a study drawing on survey data from 30 countries in Western and Eastern Europe. This study reports a strong correlation between perceived levels of tax evasion and tax morale.[[47]](#footnote-52)

## Motivational postures theory and tax compliance

In contrast to Kichler’s view, which appears more dichotomous, Valerie Braithwaite presented a more nuanced perspective on what it means to collaborate with the tax authority. She argues that those who resist most vocally, challenge tax authority decisions, and are openly critical of the institution, are not necessarily more non-compliant as a group than taxpayers who engage with the tax system in other ways.[[48]](#footnote-53) Furthermore, younger people were found to be less compliant in attitude and behavior than older people. In Australia, high tax compliance is attributed to its taxpaying culture rather than to its youth culture.[[49]](#footnote-54) Therefore, based on the data related to tax evasion, it appears that higher perceived deterrence leads to lower instances of tax evasion. Furthermore, it has been found that individuals who exhibit dismissive defiance (which can increase or decrease with deterrence) are more likely to engage in higher levels of tax evasion.[[50]](#footnote-55) In addition, another study was conducted to examine the impact of motivation in postures, tax audit strategies, and peer reporting behavior through experimental studies. The study demonstrates that the strategy of tax audits and peer reporting behavior affect decisions regarding tax compliance strategies.[[51]](#footnote-56) Some results show that enforcement tools have led to the opposite behavior than was sought. This suggests that punishing offenders with maximum penalties is not an effective way to encourage compliance with regulations.[[52]](#footnote-57)

## Behavioral interventions and tax compliance

The complexity of the factors that influence tax compliance can be observed through the inconsistent outcomes of behavioral public policy studies that aim to examine how to encourage people to pay their taxes through various forms of nudges. Research by John Peter and Toby Blume regarding nudges and tax compliance has shown that nudges can enhance tax compliance and public administration by improving messages and thereby increasing revenue.[[53]](#footnote-59) Their study used factorial designs to examine the effectiveness of simplification and social norms in promoting local tax compliance in central London. It finds that simplification led to a 4% increase in payments among a specific group of taxpayers, but the social norm approach did not have the intended impact in a larger sample, possibly because of the diverse characteristics of the target population and the wording of the norm. A meta-analysis based on 45 randomized controlled trials research metanalytical methods demonstrated that interventions targeting individuals’ tax morale are, on average, ineffective in curbing tax evasion when compared to a control group of taxpayers receiving neutral communications.[[54]](#footnote-61) In contrast, deterrence nudges—interventions emphasizing traditional determinants of compliance such as audit probabilities and penalty rates—were effective, albeit only modestly, resulting in a 1.5–2.5% better compliance rate than non-deterrence nudges.

An additional paper used reminders to promote tax compliance in a nationwide randomized controlled trial in Guatemala. Focusing on alternative messaging aimed at reminding people about tax compliance, this study demonstrated the effectiveness of deterrence messages on social norms and morality factors in promoting tax compliance.[[55]](#footnote-62) The trial involved variations in the letters sent to individuals and firms who did not pay their income tax for the 2013 tax year. The most effective treatments included a message that discouraged non-declaration by framing it as a deliberate and intentional choice, designed to overcome status quo bias. Another effective approach was a social norms message that referenced the 64.5 percent of taxpayers who had already paid this tax, thus encouraging people to conform to the status quo. Most importantly, the effects were persistent and remained at a 12-month follow-up.

Another paper of great interest drawing on a similar methodology demonstrated the difference between moral and detection (that is, deterrence) letters sent to taxpayers in Norway.[[56]](#footnote-63) The findings revealed that moral letters were more effective in influencing the intensive margin (the amount of tax paid) compared to the deterrence letter, which had a stronger impact on the extensive margin (whether or not tax was paid). While this paper aimed to compare the effects of moral letters aimed at intrinsic motivation and deterrence letters aimed at extrinsic motivation, its results were inconclusive in determining which had the greater impact on people’s behavior. It is possible that those who intended to pay something in response to a moral message ultimately paid more, but those who did not plan to pay any taxes did not alter their behavior. In contrast, the deterrence letter proved to be more effective in causing those people who had no intention of paying to make some payment. This difference in impact is of considerable importance when evaluating the advantages and disadvantages of intrinsic motivation. Another crucial aspect to consider when differentiating between the two messages is that detection (deterrence) messages had a greater likelihood of having a lasting impact on people’s tax compliance.

## Comparing the effect of different messages on tax compliance

It is not surprising that when analyzing the effect of different messages on tax compliance, we can see that the taxpayers’ ability to avoid paying taxes is the factor that moderates the magnitude of the manipulation effect.[[57]](#footnote-64) A study conducted on Australian taxpayers observed a difference between self-employed taxpayers and others in their perceptions of the fairness and the experience of the tax system.[[58]](#footnote-65) Similarly, Wenzel has conducted a line of studies indicating that fairness-oriented letters were more likely to increase compliance.[[59]](#footnote-66)

An additional study has examined the different policies that can be used by the state to minimize tax evasion. It also assesses the effectiveness of coercive policies versus service and value-based policies.[[60]](#footnote-68) This study has found that value-based policies are more effective. Three correlational studies conducted with over 500 U.S. residents focused on the prosocial aspects of taxation as a motivator for tax compliance. The studies found that when citizens are aware of the benefits of their taxes, they are more willing to pay higher taxes and even find more satisfaction in doing so.[[61]](#footnote-69) Furthermore, these studies indicate that people who trust their government tend to do so because they are convinced that the taxes they pay are being used for socially beneficial purposes. These findings provide support for the idea that when governments make an effort to show citizens how their taxes are being used, citizens are more likely to trust the state.

Another important approach is to understand where all the tax money is being used. Emily Thornton and colleagues conducted a study to investigate whether people are more supportive of taxation if they are aware of how their taxes benefit other citizens.[[62]](#footnote-71) Three correlational studies conducted with over 500 U.S. residents focused on the prosocial aspects of taxation as a motivator for tax compliance. The studies found that when citizens are aware of the benefits of their taxes, they are more willing to pay higher taxes and even find more satisfaction in doing so.[[63]](#footnote-72) This provides support for the idea that when governments go out of their way to show citizens how their taxes are being used, citizens are more likely to trust the state.

In summary, while this area has been studied extensively, it is not clear that a gold standard has been established for the best approach to framing a letter’s message. Even newer studies continue to compare the relative efficacy of different types of messages.

## Tax morale, reciprocity, and self-interest

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Research on reciprocity suggests that there may be limits to tax morale being solely based on altruism. This challenges the idea that tax morale is completely separate from self-interest. The impact of reciprocity was examined in an experimental study by Matias Giaccobasso and colleagues.[[64]](#footnote-73) This study, examining property tax protests as a measure of tax morale, explored how information about the usage of tax money affects tax morale, highlighting the complex nature of individual preferences that are driven by self-interest. When households learned that a larger portion of their taxes was allocated to public schools, their reactions varied:

1. Households **with** children in public schools became less likely to protest, suggesting an increase in tax morale.
2. Households **without** children in public schools became more likely to protest, indicating a decrease in tax morale.

 The interaction effect indicated that a 10-percentage point *increase* in the perceived school funding share led to a 3.7-percentage point *decrease* in tax appeals from households with children. The same increase resulted in a 2.8 percentage point increase in appeals from households without children. These findings emphasize how individuals’ perceptions of government spending can significantly influence tax morale, with the impact varying depending on their personal circumstances and their perceived benefits from such spending.

## Tax avoidance versus tax evasion

Anil Kumar Jain conducted a study on tax evasion, tax avoidance, and the black economy in India, as well as the impact of policies on these issues.[[65]](#footnote-75) The research examined the underlying causes and consequences of evasion and avoidance and proposed measures to address these issues. The study also presented information about the quantity of offenders and the corresponding penalties they received. Not only does this work make important contributions to the field as a case study of India’s unique circumstances, but its recommendations may be relevant to other countries facing similar challenges.

Scot Dyreng and colleagues examined corporate tax avoidance over time using a measure called the long-run cash effective tax rate.[[66]](#footnote-77) The study investigated to what extent companies could reduce their tax burden over ten years. It also evaluated the reliability of annual tax rates as a predictor of long-term tax avoidance. After analyzing a sample of 2,077 firms, the researchers found that although the average tax rate was 30%, the effective tax rate amounted to 20%. Moreover, their findings indicate that annual tax rates do not necessarily predict a company’s long-term tax avoidance behavior. However, firms that manage to maintain low effective tax rates are capable of doing so for extended periods of time. This study is valuable for its analysis of long-term corporate tax avoidance and its measurement of tax rates and effective tax rates, which are crucial in examining these issues.

An additional study by Lei Guangyong and colleagues investigated the impact of cultural diversity on corporate tax avoidance in China.[[67]](#footnote-79) The researchers found that companies located in culturally diverse cities participated in less tax avoidance compared to companies located in more homogeneous cities. The impact of this effect was more significant in cases where companies had strong managerial incentives and when cities experienced higher levels of migration. Moreover, the effect was intensified when companies were under internal or external monitoring. This study is valuable for its introduction of cultural diversity as a factor in the analysis of tax avoidance, which appears to be a relatively unexplored topic in the literature.

Finally, Keith Stavely conducted a study comparing the effectiveness of coercive policies versus service and value-based policies in minimizing tax evasion.[[68]](#footnote-80) The research concluded that policies focusing on service and value were more effective, likely because they have the potential to foster trust between citizens and the government. The study’s findings suggest that governments should prioritize building trust, improving service quality, and emphasizing the societal advantages of tax contributions in order to increase voluntary compliance and decrease tax evasion. When creating tax policies, policymakers should take into account service and value-based approaches. These can include simplifying tax procedures, providing better assistance for taxpayers, and clearly communicating the benefits of tax revenue to society.

## Government support and tax compliance

Yair Listokin and David Schizer have written an important paper on factors related to intrinsic motivation to tax compliance in which they examine the relationship between taxpayer support for government spending and the efficiency of the tax system.[[69]](#footnote-82) The authors argue that taxpayers are more inclined to support government spending when they perceive that the tax system to operating efficiently. They suggest, therefore, that a more efficient tax system can lead to greater taxpayer compliance and reduced tax evasion. This study presents empirical evidence to support these claims, drawing on data from surveys and experiments. Their paper concludes, then, that enhancing the efficiency of the tax system can have positive effects on taxpayer attitudes and behavior.

## Culture, trust, and tax compliance and tax evasion

One of the most compelling areas of tax research pertains to culture. It allows us to examine how different countries permit states to depend on the cooperation of their inhabitants to varying extents. Some research has approached the topic of taxation from using comparative perspectives, while others have turned to case studies on individual countries. Overall, many of these studies have found that trust, especially institutional trust, is positively correlated with a higher willingness to pay taxes. In some contexts, this correlation between institutional trust and willingness to pay taxes has been related to peoples’ perceptions of certain programs; in other contexts, it has been associated with the general culture in a given country. An example of the first kind of situation, related to people’s perception of certain programs, is a study by Antonios Koumpias and colleagues exploring factors that increase a population’s tax morale.[[70]](#footnote-83) After examining data from the World Values Surveys in 92 countries, the results suggest that governments can effectively build trust in their citizens by creating more efficient output-based agencies and programs. The second type of situation related to culture has been examined in a series of case studies on both developing and developed countries. These studies conducted in both developing and developed countries have highlighted the significant impact of trust in government and institutions on shaping citizens’ attitudes towards taxation and compliance. Gustavo Flores-Macías found that in Mexico, implementing mechanisms for civil society oversight and earmarking taxes for specific programs increased public support for taxation.[[71]](#footnote-85) The study also analyzed the effects of these measures by considering factors such as trust in government, perception of the public good, and income.

Numerous studies conducted mostly in developing countries have demonstrated the significance of trust in tax compliance. For example, Peggy Jimenez and Govind Iyer have explored the influence of social and personal norms on tax compliance, finding that these norms both affect and are affected by trust in government, as well as by other factors.[[72]](#footnote-87) Abel Kinyondo and Myoba Byaro studied the connection between citizens’ trust in government and their willingness to pay taxes in Tanzania.[[73]](#footnote-89) They found that low trust, largely caused by failures in public services, led to a reduced willingness to pay taxes. In their study of the effects of various types of trust on willingness to pay more taxes for welfare in South Korea and Taiwan, Eunyoung Nam and Myungsook Woo found that in South Korea, having trust in the government led to a higher willingness to pay taxes for welfare specifically. [[74]](#footnote-91)

Analyzing tax culture in Russian society, Irina Ogorodnikova and colleagues focused on tax morality, tax literacy, and tax behavior, concluding that institutional trust is a crucial factor in shaping tax culture.[[75]](#footnote-93) The study of Georgia Kaplanoglou and Vassilis Rapanos analyzed the failures of the Greek tax system, which ultimately led to a recession, and attributed them to several factors, including low institutional trust.[[76]](#footnote-95) Marcel Bergman’s study comparing taxes and social policies in Chile and Argentina emphasized the crucial role of trust in government as a factor influencing tax compliance.[[77]](#footnote-97) His study found that citizens with higher levels of trust were more willing to pay taxes.

These studies offer insight into the importance of establishing and sustaining a trustworthy relationship between governments and citizens, which in turn promotes a more cooperative and compliant tax environment. They indicate that governments invest in public services, promote transparency, and implement policies that cultivate trust to enhance tax compliance and garner support for taxation. However, while each of the studies focuses on different definitions of trust, they all seem to point to a consistent trend. This demonstrates the multifaceted nature of the relationship between trust and taxation, where higher levels of trust correlate with greater compliance. While these studies are certainly valuable, their findings are largely based on correlations between self-reported levels of trust and compliance. However, it remains unclear whether actual government trust leads to increased tax compliance among the population – a question that deserves greater attention.

An earlier study by Feld and Frey focused on efforts to improve the relationship between tax compliance and tax evasion and suggested that promoting compliance is an effective strategy to combat evasion.[[78]](#footnote-99) The researchers also analyzed the interaction between tax authorities and taxpayers, emphasizing the significance of this relationship in determining taxpayers’ compliance with tax laws.

All these studies make significant contributions to our understanding of the factors that influence tax compliance. They highlight the importance of creating trust between citizens and their governments, along with maintaining a positive relationship between taxpayers and tax authorities. Governments that prioritize building trust and fostering positive relationships with taxpayers are more likely to encourage compliance and reduce tax evasion. These findings can help shape the creation of tax policies and strategies that encourage a more cooperative and compliant taxpaying environment.

## Intermediate summary of the chapter

This chapter has presented a comprehensive overview of research on tax compliance, with a particular emphasis on the complex relationship between intrinsic motivation, extrinsic factors, and government policies aimed at promoting tax payment. Among other issues, it has explored the concept of tax morale—the intrinsic motivation to pay taxes—and its relationship to actual compliance behavior. This chapter summarizes the findings from several studies conducted across multiple countries that examined the effectiveness of various interventions, such as social norm messaging, moral appeals, and deterrence strategies. These studies reveal a nuanced relationship between interventions aimed at improving tax morale and compliance outcomes. They suggest that the effectiveness of these interventions varies depending on the context, including factors such as cultural norms, current levels of compliance, and the wording used in the appeals. The chapter also highlights the critical role of trust in government and its impact on tax compliance, with research consistently indicating that higher levels of trust in government and institutions are generally associated with increased willingness to pay taxes.

In conclusion, this chapter underscores the multifaceted nature of tax compliance behavior and the need for a sophisticated, context-sensitive approach to tax policy and enforcement. The research reviewed suggests that while tax morale can be a powerful lever for increasing compliance, its effectiveness is moderated by a range of contextual and individual factors. In addition, this chapter emphasizes the importance of considering multiple strategies to encourage voluntary compliance, including improving transparency in government spending, enhancing the perception of fairness in the tax system, and taking advantage of technological advancements to improve compliance while addressing potential new avenues for tax avoidance.

While the area of tax compliance, discussed thus far focuses on relatively one type of behavior, the next chapter focuses on environmental compliance, which tends to focus on a much more complex set of behaviors with far less limited ways to mandate behaviors, such as purchasing and recycling and transportation choices and more.

## Summary and Conclusion

This chapter has presented a comprehensive overview of research on tax compliance, with a particular emphasis on the complex relationship between intrinsic motivation, extrinsic factors, and government policies aimed at promoting tax payment. Among other issues, it has explored the concept of tax morale—the intrinsic motivation to pay taxes—and its relationship to actual compliance behavior. This chapter summarizes the findings from several studies conducted across multiple countries that examined the effectiveness of various interventions, such as social norm messaging, moral appeals, and deterrence strategies. These studies reveal a nuanced relationship between interventions aimed at improving tax morale and compliance outcomes. They suggest that the effectiveness of these interventions varies depending on the context, including factors such as cultural norms, current levels of compliance, and the wording used in the appeals.

This chapter’s review also highlights the crucial role of trust in the government and how it affects tax compliance. Research consistently shows that when people have higher levels of trust in government and institutions, they are generally more willing to pay taxes. In addition, this chapter examines the effectiveness of different regulatory approaches, ranging from coercive measures to more cooperative strategies. It also delves into the potential of utilizing behavioral interventions, or “nudges”, to enhance tax compliance. Finally, It also explores the cultural and cross-national differences in attitudes and behaviors related to tax compliance. This highlights the significance of taking local contexts into account when developing tax compliance strategies.

Looking to the future, research in tax compliance and tax morale could benefit from more longitudinal studies that track the long-term effects of various interventions on compliance behavior. Although many current studies concentrate on short-term results, it is critical to comprehend the long-term sustainability of compliance enhancements to develop effective strategies. Additionally, future research could delve deeper into the interaction between different types of interventions. For example, how do deterrence measures and trust-building initiatives work together in shaping compliance behavior over a period of time? Conducting such studies can assist policymakers in creating comprehensive and efficient compliance strategies.

An area that shows promise for future research is examining the impact of technological advancements and the digitalization of tax systems on tax morale and compliance. With tax authorities increasingly relying on big data and artificial intelligence for enforcement, it is crucial to understand how these technologies affect the perception and behavior of taxpayers. Moreover, as new economic models such as the gig economy and cryptocurrency transactions continue to emerge, there is a need for research to address how these developments challenge conventional notions of tax compliance and how the concept of tax morale applies in these new contexts. Ultimately, the field could benefit from interdisciplinary approaches that combine knowledge from economics, psychology, sociology, and data science. By doing so, it would be possible to reach a more comprehensive understanding of how tax compliance behavior works in a world that is becoming more complex and globalized.

Edit until here

1. Katharina MomsenThomas Stoerk (2014), have shown that in context of using renewable energy, the nudge interventions on households who choose to take part in renewable energy.

https://reader.elsevier.com/reader/sd/pii/S0301421514004121?token=2AD47BB625C965DEEFE7FFF1AED4040618236BA139E6758F73EB2B755E4D2D9B1CA7ED8328A470E85246C9EA363FAA64&originRegion=eu-west-1&originCreation=20210411140713

1. Soubhik Barari, Stefano Caria, Antonio Davola, Paolo Falco, Thiemo Fetzer, Stefano Fiorin, Lukas Hensel, Andriy Ivchenko, Jon Jachimowicz, Gary King, Gordon Kraft-Todd, Alice Ledda, Mary MacLennan, Lucian Mutoi, Claudio Pagani, Elena Reutskaja, Christopher Roth, Federico Raimondi Slepoi (2020), Have shown that nudges to improve attitudes already near their maximum have little effect.

[https://www.medrxiv.org/content/10.1101/2020.03.27.20042820v2.full.pdf+html](https://www.medrxiv.org/content/10.1101/2020.03.27.20042820v2.full.pdf%2Bhtml)

This study[[79]](#footnote-100) examines the effects of technological progress on tax avoidance and evasion. The study examines these effects on individual taxpayers and the state and it finds that technology

has two effects. The first is that it increases the amount of information taken in by the government which makes tax evasion more difficult as the state can better combat tax evasion.

While this means that the majority of taxpayers will evade taxes less, the paper argues that technology also allows for a small group of taxpayers to more easily avoid taxes. The paper correlates wealth with the ability to do this which means that in a more unequal society the

wealthy can more easily avoid taxation. This paper is useful as it examines technological effects

on tax avoidance.

Im et al. (2014) [[80]](#footnote-101) investigated the impact of internet use on government trust and citizen compliance in South Korea. They found that increased internet use led to decreased trust and compliance, but e-government programs could effectively counter these problems.

1. For a discussion and evidence on the challenge of making a tax system fully successful without information and monitoring, see Dwenger, Nadja, Henrik Kleven, Imran Rasul, and Johannes Rincke. "Extrinsic and intrinsic motivations for tax compliance: Evidence from a field experiment in Germany." *American Economic Journal: Economic Policy* 8, no. 3 (2016): 203-32; Batrancea, Larissa, Anca Nichita, Jerome Olsen, Christoph Kogler, Erich Kirchler, Erik Hoelzl, Avi Weiss et al. "Trust and power as determinants of tax compliance across 44 nations." *Journal of Economic Psychology* 74 (2019): 102191 ;Ioan, Batrancea, Rathnaswamy Malar Mozi, Gaban Lucian, Fatacean Gheorghe, Tulai Horia, Bircea Ioan, and Rus Mircea-Iosif. "An empirical investigation on determinants of sustainable economic growth. Lessons from Central and Eastern European Countries." *Journal of Risk and Financial Management* 13, no. 7 (2020): 146; Hartmann, Andre Julian, Martin Mueller, and Erich Kirchler. "Tax Compliance: Research Methods and Decision Processes." In *Psychological Perspectives on Financial Decision Making*, pp. 291-330. Springer, Cham, 2020; Kogler, Christoph, Larissa Batrancea, Anca Nichita, Jozsef Pantya, Alexis Belianin, and Erich Kirchler. "Trust and power as determinants of tax compliance: Testing the assumptions of the slippery slope framework in Austria, Hungary, Romania and Russia." *Journal of Economic Psychology* 34 (2013): 169-180 ;Alm, James. "What motivates tax compliance?" *Journal of Economic Surveys* 33, no. 2 (2019): 353-388. [↑](#footnote-ref-1)
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