## **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 vs. monitoring has been widely and deeply studied is that of taxation.[[1]](#footnote-1) Almost any study on compliance, uses tax as the prototypical case study of compliance. Mainly because, it is widely used in the context of ordinary unethicality because every citizen can evade taxation, which doesn’t exist in other contexts, where ordinary people don’t have the ability to not comply, even if they want to. Throughout history, governments have faced the difficult task of improving compliance with tax laws to maximize and increase their tax income. Widespread tax evasion raises the costs of tax collection because it requires more resources to find and stop non-compliance. Moreover, tax evasion skews the distribution of the tax burden, leading to unfairness where taxpayers who follow the rules bear a disproportionately higher financial burden[[2]](#footnote-2).

There are many questions without a clear answer as to what the best approach by government is to elicit tax compliance. For example, what is the bottom line in terms of what can be learned from the type of studies that focus on different framings of texts sent to people? What can be learned from the research on procedural justice and taxations, how big or pivotal is the effect? What can be learned from the various studies focusing on ethical nudges, such as signing at the beginning of tax forms,[[3]](#footnote-3) as well as on various pledges which might reduce the need of states to monitor the ethicality of the people?[[4]](#footnote-4) As in the previous chapter, much of the discussion in these case studies will focus on gathering and analyzing data on what were the best practices for enhancing compliance and what can be generalized from them to other contexts.

In addition to being very common compliance dilemma to ordinary people, there are also some other distinctive properties to tax compliance relative to other areas. Firstly, the primary dilemma in taxation is related to honesty, which is not the case in most environmental or COVID-related behaviour. This unique context emphasizes the importance of understanding people's honesty. Secondly, unlike environmental matters, taxes typically involve less expectation for beyond-compliance situations or behavioural change, as the context is that of bureaucratic compliance. Thirdly, tax is the context in which the dilemma can be viewed as a zero-sum game, where every dollar paid is taken from the individual, while in the environmental context, for example, the situation is very different, whether the conduct involves buying an electric car, enjoying 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. As such, governments should vigilantly monitor and apply research findings in these domains. Utilizing research outcomes and implementing policies widely recommended and substantively supported becomes a paramount priority for all states. Lastly, it is imperative to recognize the reciprocal nature of trust between the government and its citizens. In other words, when a government pursues policies designed to enhance citizen trust, whether related to taxation or other areas, the impacts extend far and wide. Even policies that may not directly demonstrate a state's trust in its citizens can exert a positive influence on trust levels.

## Intrinsic vs. extrinsic tax compliance

The classical approach to tax compliance is based on audits which if viewed through one dimensional lenses could be seen as representing a rational choice approach, where people comply to avoid being audited.

## Audits and tax compliance

An important factor which is seen as one of the main deterrence mechanisms in tax compliance is Audit[[5]](#footnote-5). In the realm of fiscal policy and tax administration, audits constitute a pivotal mechanism for ensuring compliance with tax legislation and maintaining the integrity of the revenue collection system. Tax audits, defined as systematic examinations of taxpayers' financial records and tax declarations, 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 is characterized by a spectrum of methodologies, ranging from cursory reviews of specific line items to comprehensive analyses of an entity's complete fiscal portfolio. Tax authorities typically employ sophisticated risk assessment algorithms and data analytics to identify returns that exhibit a higher probability of discrepancies or non-compliance, thereby optimizing the allocation of limited auditing resources. This strategic approach not only enhances the efficacy of audit procedures but also amplifies their deterrent effect on the broader taxpayer population.

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

However while one might view audits as a tool which is if done properly could In that study,[[6]](#footnote-6)the impact of operational tax audits on self-employed US taxpayers was examined. Audits significantly affected reporting behavior, leading to a 15% increase in taxable income overall. Those receiving additional tax assessments reported 64% higher income (44% after 3 years), while those without assessments reported 15% lower income (21% after 3 years). Targeting audits better at noncompliant taxpayers could increase audit revenue and future tax collections. In other words, the same regulatory approach had a completely different impact on taxpayers based on their initial willingness to pay taxes. This suggests the problematic nature of aggressive enforcement activities.

Interestingly, supervision by tax authorities was not shown to affect compliance,[[7]](#footnote-7) In a field experiment on tax compliance, specially focusing on newly founded firms. A novel aspect of the study was the examination of the effect of tax authorities’ supervision on timely tax payments. Interestingly, results show no overall positive effect of close supervision on tax compliance**.** In an important study on the effect of extrinsic motivation on compliance motivation Dwenger et al,[[8]](#footnote-8) investigate the interplay of extrinsic and intrinsic motivations for tax compliance, focusing on the local church tax system in Germany.

This tax system traditionally lacked deterrence, making compliance intrinsically motivated. To explore this, they conduct a field experiment introducing deterrence and rewards as incentives. Additionally, by analyzing tax payment records and actual tax obligations, they find that intrinsic motivation for compliance is substantial, potentially stemming from duty-based preferences. Most importantly for the purposes of this book, they show that there is no crowding out of intrinsic motivation when economic incentives are being introduced. Cummings et al,[[9]](#footnote-9) also suggest that enforcement efforts alone cannot explain all aspects of tax compliance. They review various factors such as fairness, attitudes towards the tax authorities and cultures, using multiple methods, including surveys, existing data and experiments. Indeed One of the areas in which the relative efficacy of VC vs. strict monitoring and high sanctions has been widely and deeply studied is that of taxation.[[10]](#footnote-10)

However, the view adopted in this book, suggest that such as association between audits and instrumental tax motivation ignore much of what we know even in the area of tax compliance on the importance of other mechanisms. 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 taxations? What can be learned from the various conflicting studies focusing on ethical nudges, as well as on various pledges which might reduce the need of states to monitor the ethicality of the people?[[11]](#footnote-11) In many countries, various initiatives to obtain public cooperation were suggested with some clear advantages to these approaches over coercive power-based tax collection.[[12]](#footnote-12) Much research done in the area of tax compliance by tax compliance scholars such as Krichler,[[13]](#footnote-13) and Wenzel,[[14]](#footnote-14) have observed two competing forces – power of authorities vs. trust in authorities. The classical findings from many of these studies is that perceptions of trust in tax authorities increases voluntary compliance while perceptions of the power of tax authorities increase coerced compliance. This approach has merit, as power is associated with deterrence, monitoring and sanctions, and trust is associated with intrinsic motivation and cooperative behavior.

However, as discussed in the preceding section, here as well, the approach is a bit more simplistic than a behavioral approach based on a combination of broader behavioral and institutional accounts. First, conducting research on conditional cooperation, we will demonstrate how, for many people, knowing that the tax authorities will collect tax from other evaders might increase their willingness to pay. Second, a meta-analysis conducted on the effectiveness of deterrence has shown that increased levels of trust also improve authorities’ ability to deter people.[[15]](#footnote-15) Third, most of the studies in this area overlook factors developed in previous sections, such as understanding the heterogeneity of the effect (e.g., what segment of the population reacts to what type of regulatory approach), its durability and sustainability (e.g., what is the effect on taxpayers’ behaviors in the year that follow), and its broader effects (e.g., how taxpayers will behave in other contexts) .[[16]](#footnote-16)

## Importance of tax morale

The determinants of tax compliance and their relationship to tax morale have been subjects of extensive empirical research in recent years, yielding nuanced and sometimes conflicting results. Several studies have explored the efficacy of various interventions designed to enhance tax compliance, with a particular focus on messages that appeal to tax morale. Hallsworth et al. demonstrated, through large-scale natural field experiments involving over 200,000 UK taxpayers, that social norm messages emphasizing widespread compliance can significantly increase timely tax payments[[17]](#footnote-17).[1] Similarly, Bott et al., using a randomized field experiment with 15,000 Norwegian taxpayers likely to have unreported foreign income, found that moral appeals highlighting the societal benefits of tax contributions positively influenced compliance among certain taxpayer groups[[18]](#footnote-18).[2] However, the relationship between tax morale interventions and compliance is not uniformly positive. De Neve et al., in a comprehensive study involving over 1 million Belgian taxpayers across two tax years, concluded that while simplification and deterrence messages were highly effective, appeals to tax morale were not only ineffective but potentially counterproductive in some instances[[19]](#footnote-19).[3] This variability in outcomes suggests that the efficacy of tax morale interventions may be context-dependent, influenced by factors such as cultural norms, existing levels of compliance, and the specific framing of the moral appeal. Furthermore, as noted by Carrillo et al., who conducted 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 socio-economic context[[20]](#footnote-20).[4] These findings collectively underscore the need for a nuanced approach to tax compliance strategies, recognizing that while tax morale can be a powerful lever for increasing compliance, its effectiveness is moderated by a range of contextual and individual factors.

## Competing Tax Regulatory Approaches

As suggested above, studies in tax enforcement and morality offer some insight into regulatory approaches. Kirchler has famously engaged in numerous studies in which he compares different regulatory and enforcement styles, with preference to voluntary compliance. As suggested above, his approach combines regulatory and enforcement efforts built on either coercive or legitimate power. Interestingly, it is not always clear why is it of such importance in the tax contexts. In addition, in many ways, his focus doesn’t necessarily regard regulatory approaches but rather on enforcement styles. For example, in one of his most classical studies, he attempts to connect the dimension of the tax authorities which are being primed and the likelihood of compliance.[[21]](#footnote-21) In a later study, there is greater focus on the theoretical interaction between power and trust.[[22]](#footnote-22) However, for the most part, the focus is on how individuals are being treated by the authorities, on enforcement climate not on core question in regulatory design.[[23]](#footnote-23) Similarly, Feld and Frey also advocate for friendly treatment as well as legitimacy as drivers of tax compliance.[[24]](#footnote-24) Other studies emphasize the importance of public *social sanctioning* in guaranteeing their cooperation in public good experiments.[[25]](#footnote-25)

Indeed the cooperation literature, which seems to be especially important for tax compliance contexts, has focused much of its efforts on attempting to explain what makes people cooperate in social dilemmas, with focusing on factors such as willingness to sanction rule violators and the type of the dilemma.[[26]](#footnote-26)

## Transparency and Voluntary Tax Compliance

An additional approach to elicit trust by tax-payers is related to transparency. From a tax policy perspective, strategies such as promoting transparency to citizens, allocating tax revenues towards social expenditures, and striving to establish and maintain stable tax rates assume significant relevance in bolstering citizen trust in the government. These measures aimed at enhancing tax compliance would also serve to reduce tax avoidance and evasion, particularly among individual taxpayers. Corporate tax avoidance and evasion exhibit distinct characteristics, influenced, at least in part, by different motivating factors. Additionally, there exist country-specific determinants affecting tax compliance rates. Identifying these factors proves to be a formidable task, necessitating an in-depth examination and analysis of case studies pertaining to each respective nation, especially when discerning the influence of cultural and sociological factors on compliance rates.

## Enforcement, Power and Tax Compliance Motivations

Tax studies have shown that the use in what is called “high power,” meaning stricter enforcement, can cause a decline in compliance.[[27]](#footnote-27) Various motivations were found to enhance tax compliance, including the use of financial and non-financial aids, such as morality, guilt, or sympathy.[[28]](#footnote-28) It was also found that political ideology had an impact on the perception of the use of coercive measures and tax compliance.[[29]](#footnote-29) behaviorally based tax compliance programs (nudges, reminders, framing of letters, changing defaults, etc.) have been used in different countries,[[30]](#footnote-30) by various tax authorities in the context of priming social norms and fairness.[[31]](#footnote-31) There is related to the overall perception that people’s tax motivation include non-financial factors such as social norms and morality. Research also suggest that because of the heterogeneity in the population with regards to tax motivations, we have to be very careful in thinking of the best combination of tax motivation. Indeed what is evident in many countries around the world is the changes in tax authorities’ practices for regulating citizen behavior. For example, in Europe cooperative strategies such as “enhanced relationships,” “horizontal monitoring,” and “fair-play initiatives,” are being used[[32]](#footnote-32).

## Coercion vs. Trust in tax compliance

As suggested above in the Kirchner approach to tax compliance cooperation and work best when they operate in tandem. Coercive power did not reduce implicit trust in tax authorities.[[33]](#footnote-33) However, when applied solely, it had an effect on reason-based trust, interaction climate, and intended tax compliance. In combination with legitimate power, the use in coercive power had no effect on tax compliance. In a different study with somewhat different results, Greece,[[34]](#footnote-34) trust was found to increase voluntary compliance, while power was found to increase enforced compliance. Surprisingly it was found that power has no influence on voluntary compliance in high trust conditions. however, high-power leads to even lower voluntary compliance in low trust conditions.

Other research,[[35]](#footnote-35) suggests a link between trust, power, and intentions to comply in a real-world setting. This suggests that media reports on tax issues cover the dimensions trust and power and that both factors impact intended tax compliance. In a comprehensive literature review, Kirchelr et al,[[36]](#footnote-36) explored intrinsic and extrinsic factors affecting tax compliance, including fines, audit probabilities, tax rates, knowledge, attitudes, norms and fairness. The review discusses these factors with reference to the power and trust dimensions. He also found that Ideology had an impact on tax compliance, where left-leaning taxpayers expressed higher levels of voluntary cooperation and showed reactance to the coercive power of authorities, whereas right-leaning taxpayers expressed higher levels of enforced tax compliance and were more averse to tax evasion with increased trust in authorities and institutions[[37]](#footnote-37). In addition, there is a positive and statistically significant relationship between trust in government and tax compliance. Similarly, there is a positive and statistically significant relationship between trust in government on the perception of tax justice. The power of tax authorities was found to be associated mainly with a negative reaction to coercive measures, while trust, on the contrary, was shown to impact compliance positively. Research also suggests that interaction between trust and power can have a decreasing effect of noncompliant behavior.

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

Due to the importance of tax compliance to the dilemma regarding voluntary compliance, given that this is one of the areas in which many people can disobey. We are working now a combined mega-meta-analysis of the association between tax morale and actual tax behavior.[[38]](#footnote-38) These findings shed light on the intention-behavior gap, enabling researchers and policymakers to better comprehend tax morale's influence on tax compliance.

Since reducing tax evasion is a primary objective of tax authorities, significant emphasis has been 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.[[39]](#footnote-39) Numerous studies corroborate the association between higher tax morale and enhanced tax compliance.[[40]](#footnote-40) However, a significant portion of this evidence relies on measures of intentions to comply rather than real compliance behaviors. Although some studies suggest that subjective norms are associated with actual tax evasion, more research is needed to establish a clear link between these two factors, other studies present less clear-cut results.[[41]](#footnote-41) In general, the complex interplay between tax morale and tax compliance behavior is shaped by a range of contextual factors, resulting in varied outcomes.[[42]](#footnote-42) Thus, we conducted a combined mega-meta-analysis of the association between tax morale and actual tax behavior.[[43]](#footnote-43) These findings will shed light on the intention-behavior gap, enabling researchers and policymakers better to comprehend tax morale's influence on tax compliance. Another study on tax morale reversed the classical causality, usually examined in such study and examined the effect of tax dilemmas on tax morale rather than the other way around[[44]](#footnote-44). It placed young adults with limited taxation experience in a simulation where their attitudes towards taxes are determined and how those attitudes shape their decisions. While the use of a simulation may devalue the study to some extent, yet it allowed researchers to analyze how participants acted, experienced, and observed these dilemmas. The study found that these dilemmas reduced tax morale and compliance.

Scholz and Lubell,[[45]](#footnote-45) investigated how the 1986 Tax Reform Act (TRA) affected 292 American respondents' trust, duty, and fear towards the state. They found that respondents whose taxes decreased due to the TRA gained trust in the state, while those whose taxes increased experienced decreased trust. The study suggests a correlation between the amount of taxes levied on a population and that population's trust in the state, and that the state may adjust taxes based on its trust in the population's willingness to pay.

Koumpias, Leonardo, and Martinez-Vazquez,[[46]](#footnote-46) investigated factors that increase a population's tax morale using World Values Surveys data from 92 countries between 1981 and 2014. This comprehensive study found that governments can most effectively build trust with citizens by creating more efficient output-based agencies and programs, as these are the government entities that citizens interact with most frequently. Rather than focusing on the correlation between government-citizen trust and tax compliance, this study examines how governments can increase trust to achieve that goal.

As a result, it could serve as a foundational piece of research, as any discussion of this topic would likely begin with an examination of the methodology of building trust between governments and citizens. Additional Support for the importance of tax morale and conditional cooperation with tax requirement comes from a paper that relies on survey data from 30 West and East European countries, reporting high correlation between perceived tax evasion and tax morale.[[47]](#footnote-47)

## Motivational postures theory and tax compliance

In contrast to the view by Kichler which seems to be more dichotomous in nature, Braithwaite showed a more complex perspective on what it means to cooperate with the tax authority. She argues that those who resist most vocally, who challenge tax authority decisions and are openly critical of the institution, are not discernibly more noncompliant as a group than taxpayers who choose other ways of engaging with the system,[[48]](#footnote-48) furthermore, as it comes to tax compliance, younger people were found to be less compliant in attitude and behavior than older people. Australia’s taxpaying culture rather than its youth culture holds the key to high tax compliance.[[49]](#footnote-49) It seems based on data related to tax evasion, that perceived deterrence predicts lower tax evasion. Over and above this prediction is the finding that dismissive defiance (which can increase or decrease with deterrence) predicts higher tax evasion.[[50]](#footnote-50) Along those lines, an additional study examined the influence of postures motivation, strategy of tax audits, and peer reporting behavior in experimental studies. The study proves that the strategy of tax audits and peer reporting behavior affect tax compliance decisions.[[51]](#footnote-51) Some results shows that enforcement tools had resulted an opposite behavior which indicates that punishment by means of maximum penalty is not effective to create willingness to comply with the regulation.[[52]](#footnote-52)

## Behavioral interventions and Tax Compliance

The complexity of the motivations associated with tax compliance could be seen from the mixed results from behavioral public policy studies of tax compliance – mostly the different nudges used to elicit tax compliance. With regards to nudges and tax compliance,[[53]](#footnote-53) research has shown that Nudges enhance public administration by improving messages and revenue. This study uses factorial designs to test simplification and social norms in increasing local tax payments in central London. Simplification increased payments by 4% in a targeted group, while the social norm backfired in a broader study, possibly due to the heterogeneous target population and wording of the norm. In a meta-analysis based on 45 randomized controlled trials research metanalytical methods[[54]](#footnote-54), it was shown that interventions pointing to elements of individual tax morale are, on average, ineffective in curbing tax evasion (when evaluated against a control group of taxpayers receiving neutral communication). In contrast, deterrence nudges- interventions emphasizing traditional determinants of compliance such as audit probabilities and penalty rates, were effective, albeit modest (1.5-2.5 percentage points more than non-deterrence nudges).

An additional paper that focus on alternating messages aimed at reminding people regarding tax compliance, demonstrated the advantages of deterrence messages on other social norms and morality factors is based nationwide randomized controlled trial in Guatemala that used reminders to promote tax compliance.[[55]](#footnote-55) The trial varied the letter received by taxpayers (individuals and firms) who had failed to pay their income tax for the 2013 tax year. The best performing treatments were a deterrent message framing non-declaration as an intentional and deliberate choice, (designed to overcome status quo bias), and a social norms message that referred to the 64.5 percent of taxpayers that had already paid this tax (joining the status quo). Most importantly, the effects are persistent and remain at 12 month follow up.

Another highly interesting paper in that methodological tradition demonstrated the difference between moral and detection (e.g. deterrence) letters sent to taxpayers in Norway.[[56]](#footnote-56) The findings revealed that moral letters had greater impact on what’s called in economics the intensive margin (how much tax) while the deterrence letter had a greater impact on the extensive margin (whether tax was paid or not). Thus, in the comparison of moral letters aimed at intrinsic motivation and deterrence letters aimed at extrinsic motivation, at least this paper didn’t find a clear winner in terms of the effect of people’s behavior. Possibly, those who planned on paying something, because of a moral message paid more, but those who didn’t plan on paying any taxes didn’t change their behavior. In contrast the deterrence letter was more effective in causing those people who didn’t plan on paying to pay something. This difference in effect is of high importance when attempting to understand the pros and cons of intrinsic motivation. Another important aspect to consider when thinking about the difference between the two messages is that detection messages were more likely to have a long-term effect on people’s tax compliance.

## Comparing the effect of different messages on tax compliance

Not surprisingly, when attempting to understand the effect of different messages on tax compliance, we can observe that the ability of tax payers to evade taxation was the factor moderated the size of the manipulation effect.[[57]](#footnote-57) In a study conducted on Australian taxpayers, a difference in perception of fairness and how they experience the tax system, was observed between self-employed taxpayers and others.[[58]](#footnote-58) Wenzel conducted a line of studies in which, he showed that fairness-oriented letters were likely to increase compliance.[[59]](#footnote-59)

In another study,[[60]](#footnote-60) which examines the different policies that can be used by the state to minimize tax evasion and examines the effectiveness of coercive policies versus service and value-based policies. The study finds that value-based policies are more effective. Focusing on the pro-social aspect of taxation as a motivator for tax compliance, three correlational studies were conducted examining more than 500 US residents and found that when citizens are aware of prosocial taxation, they are more willing to pay higher taxes and take more enjoyment in paying taxes.[[61]](#footnote-61) Additionally, it was found that those who trust their government often do so because they believe their taxes benefit pro-social causes. This study could very useful as it provides evidence for the idea that when governments go out of their way to show citizens what their taxes are being used for, citizens are more likely to trust the state.

Another important approach attempted to examine the importance of understanding where did all the tax money is being used for.

This study,[[62]](#footnote-62) examines whether people are more supportive of taxation if they are aware of how their taxes help other citizens. Three correlational studies were conducted examining more than 500 US residents and found that when citizens are aware of prosocial taxation, they are more willing to pay higher taxes and take more enjoyment in paying taxes. Additionally, it was found that those who trust their government often do so because they believe their taxes benefit prosocial causes. This study could be very useful as it provides evidence for the idea that when governments go out of their way to show citizens what their taxes are being used for, citizens are more likely to trust the state.

In summary while this area has been studied expensively, it is not clear that a gold standard has been found as to what message is always the best approach in terms of how to frame the letter and still even newer study keep going back to compare the relative efficacy of different type of message.

## Tax Morale, Reciprocity and Self Interest.

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A possible mechanism which might challange, whether tax morale is indeed related to alturisim come from research on recirporicity which might suggest the limits of tax morale which is completely separated from self interest. Reciprocity's influence on tax morale was demonstrated in an experimental study by Giaccobasso et al. (2022) [[63]](#footnote-63). This research explored how information about the usage of tax money affects tax morale, revealing the complexity of individual preferences based on self-interest. The study focused on property tax protests as an indicator of tax morale. 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 with 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 highlight how perceptions of government spending can significantly impact tax morale, with effects varying based on personal circumstances and perceived benefits.

## Tax avoidance vs. tax evasion

Jain's 1987 study,[[64]](#footnote-64) investigated tax evasion, tax avoidance, and the black economy in India, as well as the effects of policies on these issues. The research explored the roots, causes, and repercussions of evasion and avoidance, and suggested measures to tackle these problems. Additionally, the study provided data on the number of offenders and the penalties they incurred. This work is useful as a case study of India's unique circumstances, and its recommendations may be relevant to other countries facing similar challenges.

Dyreng, et al.[[65]](#footnote-65) examined corporate tax avoidance over time using a measure called the long-run cash effective tax rate. The study investigated the extent to which firms could avoid taxes over periods of up to ten years and assessed the predictive power of yearly rates for long-term avoidance. Analyzing a sample of 2,077 firms, the researchers found that average tax rates of 30% amounted to an effective tax rate of 20%. Additionally, they discovered that while yearly rates were not reliable predictors of long-term avoidance, firms that maintained low effective tax rates could do so for extended periods. 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 for examining these issues.

An additional study by Guangyong, Lei, et al.[[66]](#footnote-66) investigated the impact of cultural diversity on corporate tax avoidance in China. The researchers found that companies based in more culturally diverse cities engaged in less tax avoidance compared to firms in more homogeneous cities. This effect was more pronounced when companies had strong managerial incentives and when cities experienced higher levels of migration. Furthermore, the effect was amplified when companies were subject to internal or external monitoring. The study is valuable as it introduces cultural diversity as a factor in the analysis of tax avoidance, which appears to be a relatively unexplored area in the literature.

Finally, a study compared the effectiveness of coercive policies versus service and value-based policies in minimizing tax evasion.[[67]](#footnote-67) The researchers found that service and value-based policies were more effective, possibly due to their potential to foster trust between citizens and the state.The study's findings suggest that governments should focus on building trust, improving service quality, and emphasizing the societal benefits of tax contributions to enhance voluntary compliance and reduce tax evasion. Policymakers should consider incorporating service and value-based approaches, such as simplifying tax procedures, providing better taxpayer assistance, and clearly communicating the benefits of tax revenues to society, into their tax policies to create a more effective and sustainable tax system.

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## Government Support and Tax Compliance

Listokin and Schizer,[[68]](#footnote-68) write a very important paper on factors related to intrinsic motivation to tax compliance. In that paper they examine the relationship between taxpayer support for government spending and the efficiency of the tax system. The authors argue that taxpayers are more likely to support government spending when they perceive the tax system to be efficient. Furthermore, they suggest that a more efficient tax system can lead to greater taxpayer compliance and reduced tax evasion. The paper provides empirical evidence to support these claims, drawing on data from surveys and experiments. Overall, the paper suggests that improving 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 interesting angles in the research about taxation is related to culture, where we can see how different countries allow states to rely differently on the cooperation of their residents. Various studies have taken a comparative perspective and others have taken a case study approach regarding each country. By and large in many of this studies, trust with a particular focus on institutional trust has been shown to be correlated with higher willingness to pay taxes. In some context this is related to perception of certain programs and in some other contexts it has been associated with the general culture in a given countriy.

An example of the first kind is a study,[[69]](#footnote-69) that aims to examine factors that increase a population's tax morale. This study examines data from World Values Surveys examining data from 92 countries. It Suggests that governments can most effectively build trust in their citizens through creating ever more effective output-based agencies and programs. An example for the second kind includes a series of case studies on developing as well as developed counties. These studies from many developing countries and some developed countries collectively highlight the crucial role of trust in government and institutions in shaping citizens' attitudes towards taxation and compliance. Flores-Macías,[[70]](#footnote-70) found that in Mexico, mechanisms for civil society oversight and earmarking taxes for specific programs increased support for taxation. The study also examined the effects of these measures through factors such as trust in government, perception of the public good, and income.

The importance of trust in tax compliance was demonstrated in a long list of studies done, mostly in developing countries. Jimenez and Iyer,[[71]](#footnote-71) explored the influence of social and personal norms on tax compliance, finding that these norms both affect and are affected by trust in government and other factors. Kinyondo and Byaro,[[72]](#footnote-72) studied the relationship between citizens' trust in government and willingness to pay taxes in Tanzania. They discovered that low trust, largely due to failures in public services, resulted in reduced willingness to pay taxes. Nam and Woo,[[73]](#footnote-73) examined the effects of various types of trust on willingness to pay more taxes for welfare in South Korea and Taiwan. They found that trust in government led to higher willingness to pay taxes for welfare in South Korea.

Ogorodnikova et al,[[74]](#footnote-74) analyzed tax culture in Russian society, focusing on tax morality, tax literacy, and tax behavior. They concluded that institutional trust is a crucial factor in shaping tax culture. Kaplanoglou and Rapanos,[[75]](#footnote-75) studied the failures of the Greek tax system that led to a recession, attributing them to several factors, including low institutional trust. Bergman's 2002 study,[[76]](#footnote-76) compared taxes and social policies in Chile and Argentina, emphasizing the crucial role of trust in government as a factor influencing tax compliance. The study found that higher levels of trust were associated with a greater willingness among citizens to pay taxes.

These studies provide insights into the importance of building and maintaining trust relationship between governments and citizens to foster a more cooperative and compliant tax environment. They suggest that governments should invest in public services, promote transparency, and implement policies that enhance trust to improve tax compliance and support for taxation. However, while each of the studies focus on different definitions to trust, demonstrating the multifaceted nature of the relationship between trust and taxation, they all seem to move in the same direction where higher trust correlates with higher compliance. While these studies are highly important, they are mostly correlated where the higher trust was not manipulated but self-measured. This is of course different from the more important question whether the actual trust by government breeds better tax compliance by people.

Feld and Frey's 2002 study,[[77]](#footnote-77) focused on the improving the relationship between tax compliance and tax evasion, suggesting that promoting compliance is an effective strategy to combat evasion. The researchers also analyzed the interaction between tax authorities and taxpayers, highlighting the importance of this relationship in shaping tax compliance behavior.

Both studies contribute significantly to our understanding of the factors that influence tax compliance. They underscore the importance of trust between citizens and the government, as well as the quality of the relationship between taxpayers and tax authorities. Governments that prioritize building trust and fostering positive interactions with taxpayers may be more successful in encouraging compliance and reducing evasion. These findings can inform the development of tax policies and strategies that aim to create a more cooperative and compliant taxpaying environment.

## Intermediate summary of the chapter

This chapter provides a comprehensive review of tax compliance research, offering insights into the complex interplay between intrinsic motivation, extrinsic factors, and governmental approaches to encouraging tax payment. It explores the concept of tax morale—the intrinsic motivation to pay taxes—and its relationship to actual compliance behavior. The chapter synthesizes findings from numerous studies across multiple countries that have examined the effectiveness of various interventions, including social norm messaging, moral appeals, and deterrence strategies. These studies reveal a nuanced relationship between tax morale interventions and compliance outcomes, suggesting that the efficacy of such interventions is highly context-dependent, influenced by factors such as cultural norms, existing compliance levels, and the specific framing of appeals. The review 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. The 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 leveraging 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 tend to focus on a much more complex set of behaviors with far less limited way to mandate behaviors, such as purchasing and recycling and transportation choices and more.

## Summary and Conclusion

This chapter provides a comprehensive overview of tax compliance research, focusing on the interplay between intrinsic motivation, extrinsic factors, and governmental approaches to encouraging tax payment. It explores the concept of tax morale—the intrinsic motivation to pay taxes—and its relationship to actual compliance behavior. The chapter synthesizes findings from numerous studies across multiple countries that have examined the effectiveness of various interventions, including social norm messaging, moral appeals, and deterrence strategies. These studies reveal a nuanced relationship between tax morale interventions and compliance outcomes, suggesting that the efficacy of such interventions is highly context-dependent, influenced by factors such as cultural norms, existing compliance levels, and the specific framing of appeals.

The review 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. The chapter examines the effectiveness of different regulatory approaches, from coercive measures to more cooperative strategies, and discusses the potential of behavioral interventions or "nudges" in improving tax compliance. It also explores the cultural and cross-national variations in tax compliance attitudes and behaviors, underscoring the importance of considering local contexts when designing 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. While many existing studies focus on short-term outcomes, understanding the sustainability of compliance improvements over time is crucial for developing effective long-term strategies. Additionally, future research could delve deeper into the interaction between different types of interventions. For instance, how do deterrence measures interact with trust-building initiatives in shaping compliance behaviors over time? Such studies could help policymakers design more holistic and effective compliance strategies.

Another promising direction for future research is the exploration of how technological advancements and the digitalization of tax systems impact tax morale and compliance. As tax authorities increasingly leverage big data and artificial intelligence for enforcement, it's crucial to understand how these technologies affect taxpayers' perceptions and behaviors. Furthermore, with the rise of new economic models such as the gig economy and cryptocurrency transactions, research needs to address how these developments challenge traditional notions of tax compliance and how tax morale concepts apply in these new contexts. Ultimately, the field would benefit from more interdisciplinary approaches, combining insights from economics, psychology, sociology, and data science to develop a more comprehensive understanding of tax compliance behavior in an increasingly complex and globalized world.

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>

This study[[78]](#footnote-78) 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) [[79]](#footnote-79) 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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