



Fostering tax morale in the digital age: The evidence-based tax administration

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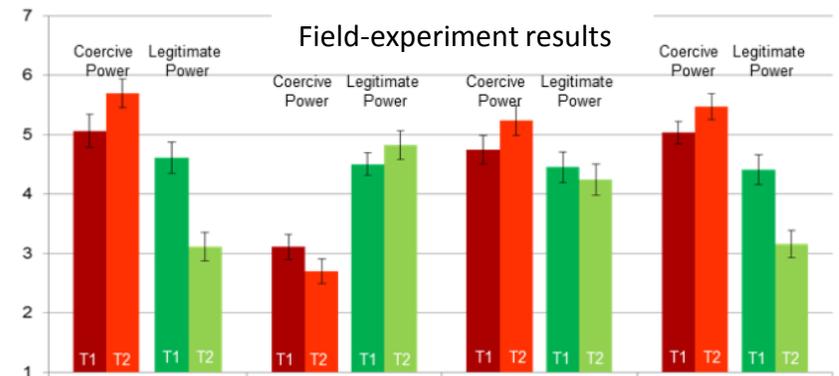


primate
cognition



Outlook

- A definition of tax morale
- Determinants of tax morale
- Tax administrations' instruments to increase tax morale
- Field-experiments as a pillar for an evidence-based tax administration in the digital age
- Five ideas for field-experiments to implement and test instruments to foster tax morale



Tax morale

... an individual's willingness to be tax honest.

- **Enforced compliance:** Tax honesty because of fear of strict laws, control and punishment.
- **Voluntary cooperation:** Tax honesty is easier than evasion.
- **Committed cooperation:** Intrinsic motivation and felt moral obligation to be tax honest.

Determinants of tax morale

- Socio-demographic factors (gender, profession, etc.)
- Cultural and country specific factors (economic development, legislation etc.)
- Institutional factors (corruption, perceived quality, etc.)
- Economic factors (audit rates, fine rates, etc.)
- Psychological factors (trust, knowledge, etc.)

Instruments of the tax administration

- Coercive power: strict laws, audits and fines
- Legitimate power: education, professional services, support
- Reward power: praise, monetary and non-monetary incentives
- Moral and social information: appeals to norms, shaming
- Communication and Advertising: Marketing, friendly faces, symbols

Coercive power

Coercive power (strict audits and fines) can:

- foster honest tax payments
- foster enforced compliance
- undermine trust in the tax administration
- provoke resistance
- reduce the tax decision to a simple calculative problem - drive out the moral dimension of taxpaying



Coercive power should be:

- used as a neutral monitoring instrument instead of a deterring instrument
- used in combination with legitimate power

Legitimate power

Legitimate power is:

- Knowledge provision (information, training, etc.)
- Legally grounded (transparency, fairness and voice, etc.)
- Professional service (web, telephone, office, etc.)
- Expertise (well trained officers and auditors, etc.)



Legitimate power can:

- Foster honest tax payments
- Foster reason-based trust in the tax administration
- Lead to voluntary and committed tax cooperation
- Sustain the moral dimension of tax compliance

Legitimate power should be:

- Increased wherever possible particularly, knowledge on taxes, duties and rights
- (if possible) used instead of coercive power (with compliant and committed taxpayers)

Reward power

Reward power is:

- Verbal or written praise for correct behavior
- Monetary reward for correct behavior (e.g., money prizes, tax amnesties)
- Non-monetary reward for correct behavior (e.g., wellness vouchers, horizontal monitoring)



Rewards can:

- Drive out committed cooperation, backfire or wear-out if they are financial
- Can increase trust and tax compliance if they are non-financial

Rewards should be:

- Rather non-financial than financial
- If financial, rather used in the form of a lottery than in a fixed form

Moral and social information

Moral and social information is

- Moral appeals (pros of honesty, cons of dishonesty, shaming)
- Updating own ethical values (signing prior to filling in the tax forms)
- Social information on norms (conditional corporation: other taxpayers are honest)



Moral appeals rarely work, sometimes they even backfire; shaming seems to work only among small but not big tax evaders. However, updating own values increases compliance and also...

Social information increases trust and committed cooperation, should be:

- Socially close to the recipient (people of your profession are honest)
- Spatial close to the recipient (your neighbors, your fellow citizens are honest)

Communication and advertising

Communication and advertising is:

- the application of classical marketing instruments (mass media campaigns, advertisement (fair tax mark), reminders, etc.)
- subtle communication of messages (nudges, national symbols, etc.)



Communication can:

- enhance trust and positive attitudes toward taxation, however, maybe only on the short run
- Create a social norm of tax honesty

Communication should:

- Be applied immediately before tax filing takes place
- Use role-models of honest tax compliance

More empirical evidence is needed!!!

Most studies are based on laboratory and survey studies with small samples from a small subset of countries



Digitalization of the tax administration offers new chances to implement and experimentally test new instruments to foster the tax morale in with field experiments

Field-experiments

Typical characteristics:

- Systematic testing and comparing of different interventions in a relevant field setting
- Assigning participants randomly to experimental groups and control groups
- Assessment of behavioral data and self-reports before and after the intervention

Advantages:

- Results have a high external validity
- Interventions that were successful can directly be implemented
- Data of special sub-groups can be analyzed

Obstacles:

- Legal constrains: taxpayers are not threaten equality
- Sensitive data
- Costly

Field-experiments: status-quo

Possibilities of digitalization are rarely utilized:

- Most are based on letters with different information but rarely on different treatments from the authorities
- Most use survey data *or* administrative tax data which makes it difficult to understand the results
- Most studies analyzed the effect of coercive power and moral and social information; studies on legitimate power, reward power, and communication are rare, also studies on the effect of combinations of instruments are rare
- Many tax authorities conduct studies without publishing results
- Good examples: -> big samples, elaborate research designs, longitudinal data, administrative and survey data in combination, real interventions, etc. (Bérgolo et al., 2017; Bott et al., 2017; Pommeranze et al. 2013, Hallsworth et al., 2017; Gangl et al., 2017; Koessler et al., 2017)

Examples (1):

	Coercive power	Moral and social information	Results
Slemrod et al. 2001 N = 1724	a) Close examination b) No letter		Positive impact on low and medium income Negative impact on high income
Iyer et al. (2010) N = 257 N = 908	a) Audit + penalty b) Audit + no penalty c) No audit + penalty d) No audit + no penalty		Positive short term (no long term) effects on reported tax base
Ariel et al. (2012) N = 4395	a) New auditing methods b) No letter	c) Moral suasion: tax evasion has negative effects	No effects of the letters; some firms reacted negatively to moral suasion
Pommeranz et al. (2013) N > 400.000	a) Firm is chosen for an audit b) No letter c) Letter with neutral information	c) Tax compliance in the country is high	Positive short term effect of deterrence, particularly among small firms. No effect after 18 months.
Bergolo et al. (2017) N = 20.471	a) Baseline letter b) Letter with real audit rate c) Letter with increased audit rate d) Letter with increased indirect audit rate	e) Taxes are used for public goods	Real and increased audit rate letter: 8.7% plus in VAT payments Increase of indirect detection: 10% plus in VAT payments Public good letter had no effect

Examples (2):

	Coercive power	Moral and social information	Legitimate power	Results
Chirico et al. (2017) N = 19.333	<ul style="list-style-type: none"> a) Control group b) Reminder c) Reminder + threat of lien d) Reminder + threat of sale 	<ul style="list-style-type: none"> c) Reminder + local public service d) Reminder + city wide public service e) Reminder + social norm (90% pay in time) f) Reminder + civic duty 		<ul style="list-style-type: none"> Reminder (plus 3.8% compared to control) after 3 month Reminder plus lien (plus 9.2%) Reminder plus sale (plus 8.8%) Also amount paid increased. Other letters had no effect.
Hallsworth et al, 2017 (exp 1) N = 101.471	<ul style="list-style-type: none"> a) No letter 	<ul style="list-style-type: none"> b) Basic norm c) Country norms d) Minority norm e) Gain through public good f) Loss through public good 		All letters have an effect, minority norms and loss letters work best
Hallsworth et al. 2017 (exp 2) N = 119.527	14 groups	<ul style="list-style-type: none"> a) 6 social norms letters with varying social distance b) 5 letters with moral appeals to norms c) Financial information 		All letters have an effect. The local norm (your neighbors who were late paid already) is the most effective
Bott et al., 2014 N = 15.708	<ul style="list-style-type: none"> a) No letter b) Threat of detection 	<ul style="list-style-type: none"> c) Social norm d) Importance for public good 	<ul style="list-style-type: none"> e) letter with service information 	<ul style="list-style-type: none"> Receiving a letter works per se. Detection letter has a short and long term effect. Single moral letters had no effect – positive short term effect on hard-to-detect income when moral letters were pooled

Examples (3):

	Coercive power combined with legitimate power	Rewards	Results
Koessler et al. (2016) N = 2.201		<ul style="list-style-type: none"> a) Control group b) Wellness reward for timely payment c) Money reward d) Promise prior to taxfiling via postcard: wellness reward c) Promise: money reward 	<p>Promise with wellness reward is effective.</p> <p>Financial reward without promise backfires</p>
Gangl et al. (2014) N = 1.721	<ul style="list-style-type: none"> a) Control group b) Close supervision (permanent audit & support) 		Supervision backfired, lead to later payments

Field-experiments in the digital age

- The computer mediated interaction between tax authorities and taxpayers can be easily manipulated in an experiment
- Administrative data can be combined with survey data and possibly also with data from other public authorities
- A larger variety of administrative tax data can be examined (honest tax payments, timely payments, quality of uploaded papers, frequency and content of email requests, ratings of provided information materials, etc.)
- Research projects and their results can be made electronically available

5 practical ideas for field-experiments

1. Combination of coercive and legitimate power
2. Legitimate power: Education and support
3. Legitimate power: Participation
4. Communication and advertisement
5. Reward power

1. Combination of coercive and legitimate power

Experimental group 1:

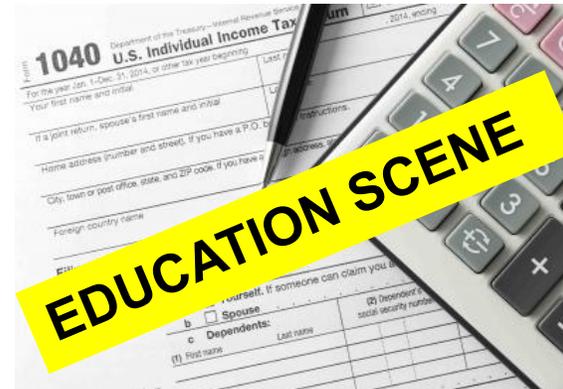
- A. Taxpayers are informed that their tax returns run through an automatic verification process.
- B. Detected abnormalities are treated as unintentional errors. A feedback is send to the taxpayer with a clear step by step explanation how to resolve it.
- C. If the issue is satisfactorily resolved, the taxpayer receives a friendly notification.
- D. If the issue is not resolved or the problem occurs again, transparent enforcement measures start.

Experimental group 2:

- A. Taxpayers are informed that their tax returns were chosen to be audited.
- B. Detected abnormalities are treated as an intentional error and are enforced.

Control group:

No special intervention



2. Legitimate power: Education and support

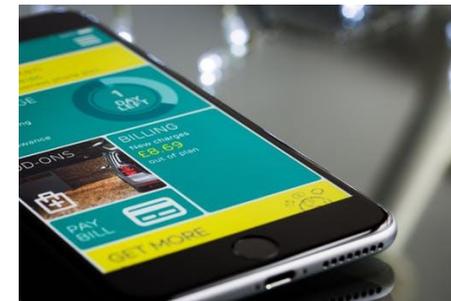
Experimental group/groups:

Provide:

1. Explanatory videos for preparing tax documents, varying in socio-demographic characteristics, using common speech
2. Graphical charts which explain the whole process from the beginning to the end (road-map, check-lists, and electronical templets, APPs)
3. Trainings and workshops on how to prepare a proper tax return particularly, for new taxpayers (students, young entrepreneurs)
4. Telephone/skype hotlines with personalized tax officers (like a bank officer), provide a picture of the officer
5. App which allows to organize all tax documents and communication from the beginning to the end, which saves all past interaction incl. corrections, sends out reminders, etc.

Control group:

No special intervention



3. Legitimate power: Participation

Experimental group/groups:

1. Participation in the process:
 - Voice on setting up appointments, deadlines
2. Participation in the allocation of tax money
 - Voice on taxation of negative behavior (e.g., unhealthy food, SUVs)
 - Voice on collecting taxes on income vs. consumption vs. property, etc.
3. Participation in the spending of tax money
 - Give taxpayers voice on how to spend a specific proportion of their tax contribution

Control group
No special intervention



4. Communication: Generate trust

Experimental group/groups:

1. Own website and social media

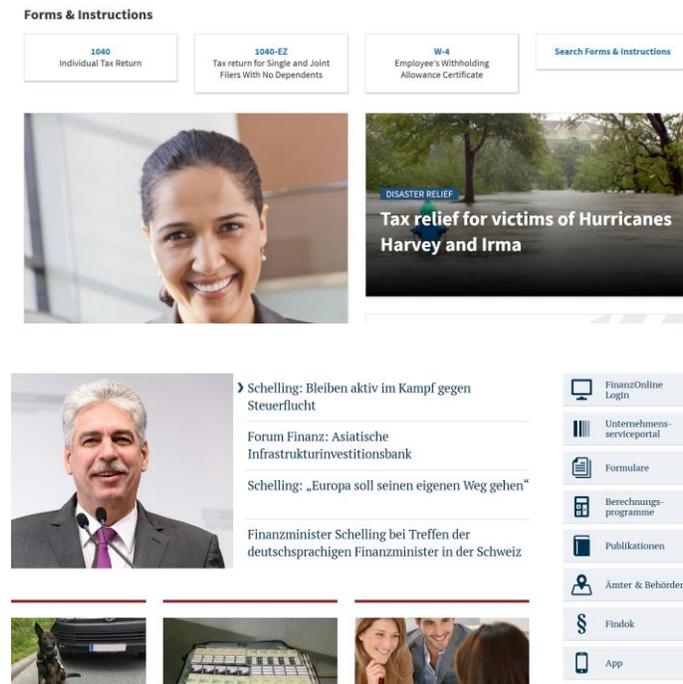
- A. Present pictures of friendly people (tax officers, other taxpayers)
- B. Give reasons to trust: Provide videos, stories, news on political and administrative achievements, how the tax money is used
- C. Create a shared identity: Provide videos, stories, news on honest taxpayers (role-models), country symbols (landscape) which make people proud (not nationalistic: comparisons with other countries)

2. Classical media campaigns

A. TV and newspaper

Control group

- 1. Technical pictures
- 2. No intervention



5. Reward power: Honors and incentives

Experimental group/groups:

1. Provide a seal of quality for honest taxpayers (e.g., fair tax mark)
2. Offer non-monetary prizes for honest taxpayers (e.g., wellness vouchers)
3. Respect and honor honest taxpayers during audits and after a well-prepared tax return (e.g., a thank you note)
4. Offer honest taxpayers a special beneficial treatment (e.g. faster decisions, faster information)

Control group:

No special intervention



Summary

- Tax moral is strengthened through trust in the tax administration
- Trust is the result of a professional administration and of shared values
- Digitalization, by using innovative field-experiments, allows to implement and test new instruments which increase professionalism of the administration and in turn trust and tax morale



Digitalization can foster the evidence-based tax administration



Thank you for your attention!

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