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

Dr. Katharina Gangl
University of Göttingen, Germany

Prof. Dr. Benno Torgler
Queensland University of Technology, Australia
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

Gangl et al. 2017; Mooijman, van Dijk, van Dijk, & Ellemers, 2017; author of picture: NY police
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)

Gangl et al., 2017; Gangl et al., 2013; Hofmann et al. 2017; Riitsalu, 2017; author of picture: pixaby
Reward power

Reward power is:

• Verbal or written praise for correct behavior
• Monetary reward for correct behavior (e.g., money prices, 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

Alm et al., 1992; Bazart & Pickard, 2011; Koessler et al., 2016; Torgler 2003; author of picture: pxabay
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 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

Fairtaxmark.net; Gangl et al., 2016; Musharraf et al., 2017
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):

<table>
<thead>
<tr>
<th></th>
<th>Coercive power</th>
<th>Moral and social information</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slemrod et al. 2001</td>
<td>a) Close examination</td>
<td></td>
<td>Positive impact on low and medium income</td>
</tr>
<tr>
<td></td>
<td>b) No letter</td>
<td></td>
<td>Negative impact on high income</td>
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<tr>
<td></td>
<td>N = 1724</td>
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<td>----------------------------------------------------------------</td>
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<tr>
<td>Iyer et al. (2010)</td>
<td>a) Audit + penalty</td>
<td></td>
<td>Positive short term (no long term) effects on reported tax base</td>
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<td></td>
<td>b) Audit + no penalty</td>
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<tr>
<td></td>
<td>c) No audit + penalty</td>
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<tr>
<td></td>
<td>d) No audit + no penalty</td>
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<tr>
<td></td>
<td>N = 257</td>
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<td></td>
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<td>N = 908</td>
<td></td>
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<td>Ariel et al. (2012)</td>
<td>a) New auditing methods</td>
<td>c) Moral suasion: tax evasion has negative effects</td>
<td>No effects of the letters; some firms reacted negatively to moral suasion</td>
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<td></td>
<td>b) No letter</td>
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<td></td>
<td>N = 4395</td>
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<td>Pommeranz et al. (2013)</td>
<td>a) Firm is chosen for an audit</td>
<td>c) Tax compliance in the country is high</td>
<td>Positive short term effect of deterrence, particularly among small firms. No effect after 18 months.</td>
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<tr>
<td></td>
<td>b) No letter</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>c) Letter with neutral information</td>
<td></td>
<td></td>
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<td></td>
<td>N &gt; 400.000</td>
<td></td>
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<td>Bergolo et al. (2017)</td>
<td>a) Baseline letter</td>
<td>e) Taxes are used for public goods</td>
<td>Real and increased audit rate letter: 8.7% plus in VAT payments</td>
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<td></td>
<td>b) Letter with real audit rate</td>
<td></td>
<td>Increase of indirect detection: 10% plus in VAT payments</td>
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<td></td>
<td>c) Letter with increased audit rate</td>
<td></td>
<td>Public good letter had no effect</td>
</tr>
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<td></td>
<td>d) Letter with increased indirect audit rate</td>
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<tr>
<td>Study</td>
<td>Coercive power</td>
<td>Moral and social information</td>
<td>Legitimate power</td>
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</tbody>
</table>
| **Chirico et al. (2017)**  
* N = 19.333 | a) Control group  
b) Reminder  
c) Reminder + threat of lien  
d) Reminder + threat of sale | c) Reminder + local public service  
d) Reminder + city wide public service  
e) Reminder + social norm (90% pay in time)  
f) Reminder + civic duty |  | 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 | a) No letter  
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 | 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 | a) No letter  
b) Threat of detection  
c) Social norm  
d) Importance for public good  
e) Letter with service information |  | 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):

<table>
<thead>
<tr>
<th>Study</th>
<th>Coercive power combined with legitimate power</th>
<th>Rewards</th>
<th>Results</th>
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</thead>
<tbody>
<tr>
<td>Koessler et al. (2016) N = 2.201</td>
<td></td>
<td>a) Control group</td>
<td>Promise with wellness reward is effective. Financial reward without promise backfires</td>
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<td></td>
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<td>b) Wellness reward for timley payment</td>
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<td></td>
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<td>c) Money reward</td>
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<td></td>
<td></td>
<td>d) Promise prior to taxfiling via postcard: wellness reward</td>
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<tr>
<td>Gangl et al. (2014) N = 1.721</td>
<td></td>
<td>a) Control group</td>
<td>Supervision backfired, lead to later payments</td>
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<td></td>
<td></td>
<td>b) Close supervision (permanent audit &amp; support)</td>
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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 templates, 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

Author of pictures: freepik & pexels
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

Author of pictures: pixapay & Kanton Zürich
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

Author of pictures: tax authority websites of USA, Austria
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 prices 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!

Contact and further information:
gangl@psych.uni-goettingen.de
benno.torgler@qut.edu.au
References:


• Ariel (2012)


• Fairtaxmark.net


• Shu, L.L., Mazar, N., Gino, F., Ariely, D., & Bazerman, M.H. (2102). Signing at the beginning makes ethics salient and decreases dishonest self-reports in comparsion to signing at the end. PNAS, 109, 15197-15200.
