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ABSTRACT

Many federal and local governments rely on shaming penalties to achieve policy goals, but little is known about how shaming works. Such penalties may be ineffective, or even backfire by crowding out intrinsic motivation. In this paper, we study shaming in the context of the collection of tax delinquencies. We sent letters to 34,334 tax delinquents who owed a total of half a billion dollars in three U.S. states. We randomized some of the information contained in the letter to vary the salience of financial penalties, shaming penalties, and peer comparisons. We then measured the effects of this information on subsequent payment rates. We found that increasing the visibility of delinquency status increased compliance by individuals who have debts below \$2500, but had no significant effect on individuals with larger debt amounts. Financial reminders had a positive effect on payment rates independent of the size of the debt, while information about the delinquency of neighbors had no effect on payment rates.

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1. Introduction

Many federal and local governments rely on shaming as a penalty to achieve policy goals (Kahan, 1996; Kahan and Posner, 1999). Yet little is known about whether shaming penalties work as intended. There are reasons to believe that shaming could be ineffective; for example, antisocial individuals may not care about social sanctions. Shaming penalties could even backfire—for example, if they crowd out the intrinsic motivation to do the right thing (Bénabou and Tirole, 2003). In this paper, we study specific channels through which shaming penalties may affect behavior, using an important context in which they have been widely implemented: the collection of tax delinquencies. To do so, we implemented a field experiment with 34,334 tax delinquents from three U.S. states who collectively owed half a billion dollars.

Tax delinquencies are the debts owed to tax agencies by citizens. Even though they have been understudied relative to other aspects of tax collection, such as tax evasion and tax avoidance, tax delinquencies play an important role in the tax collection process. For instance, in the United States, where debt collection tools are believed to be effective, delinquent taxes still comprised more than 25% of the total

gross tax gap in 2006.¹ Moreover, tax delinquencies are the potential tax revenues that are most readily available to tax enforcement agencies. As a result, tax agencies invest substantial resources in policies aimed at reducing tax delinquency.

Some of the most traditional tools used to collect tax delinquencies are financial penalties and income garnishment. Additionally, tax delinquencies are collected through shaming penalties, by which the identities of tax debtors are publicly revealed. For instance, as of January 2015, 23 U.S. states maintained online shaming lists with the names, addresses, and other information on individuals and businesses with delinquent taxes (see Table 1 for a list of states and more details). Other local and national governments around the world use similar penalties.² Despite the popularity of shaming penalties, to the best of our knowledge there is no evidence on how they work or whether they have the intended effect.

Studying the effectiveness of financial and shaming penalties in the context of tax delinquency is challenging. For instance, the ideal experiment would randomly assign different penalties to a sample of taxpayers. Unlike the randomization of audit probabilities, however, randomizing financial and shaming penalties would imply punishing the same crime differently, which would likely be infeasible for legal and other reasons.³ Instead, our research design consists of varying the salience of different incentives. We sent letters by mail to a sample of existing tax delinquents. These letters were identical except for a few pieces of information that were cross-randomized to vary the salience of financial incentives, the salience of shaming incentives, and the salience of peer comparisons. We then estimated the effects of these random variations on the probability of paying the tax debt by using publicly available data to identify whether the subjects were still listed as delinquent after they received our letters.

We sent letters to 34,334 individuals from the online lists of tax delinquents published by the states of Kansas, Kentucky, and Wisconsin. These letters were sent independently by the research group, without mentioning the tax agency.⁴ Individuals in this sample owed between \$250 and \$150,000, with a median of \$5500. All of these tax delinquents had already been informed by the tax agencies that their information, including full name, address, and debt amount, had been listed online.⁵ These subjects had been delinquent for years, despite numerous solicitations from the tax agency, financial penalties, and, possibly, failed collection attempts through income garnishing. For example, subjects in Kentucky had been delinquent for an average of 2.7 years and faced annual interest rates of up to 30%.⁶

We sent letters to all individuals in our subject pool, but cross-randomized the information contained in the letter. The first treatment arm was designed to study the shaming incentives through the social interactions channel. We altered the visibility of recipients' delinquency status offered to delinquents' neighbors. We randomized subjects into two treatment groups. In the first treatment, the delinquent was the only individual from the same area (defined as the 9-digit ZIP code) who was randomly chosen to be informed about the online list of delinquents. The second treatment was identical, except that other individuals from the same area were also randomly chosen to be informed about the online list of delinquents. The letter communicated the nature of the randomization explicitly and conspicuously—in other words, it was apparent to individuals in the first treatment group that their neighbors would not receive a letter, and apparent to individuals in the second treatment group that their neighbors would receive a letter. Compared to the first treatment group, the second treatment should make delinquents feel that they are being monitored more closely by their neighbors—and, if they are sensitive to social pressure, this should render them more likely to pay their debts.

It is important to note that in the letter, we refer generically to the other people who were being contacted as “neighbors.” For practical, legal, and ethical considerations, we contacted neighbors who were themselves delinquent—and therefore on the shaming list—but did not contact any neighbors who were not. Although in reality we only contacted delinquent neighbors, the letter was worded to suggest that nondelinquent neighbors would be contacted. As a result, our estimates must be interpreted as such.

The second treatment arm was designed to create exogenous variation in the knowledge and salience of financial penalties. It has been documented in a variety of settings that subjects systematically underestimate financial penalties (Stango and Zinman, 2011; Frank, 2011; Ausubel, 1991) and are inattentive to financial penalties (Karlan et al., 2016). In the first treatment, the letter contained a message that summarized the financial penalties incurred by the debt. The second treatment group was identical, except that it did not include the message about financial penalties. If recipients cared about financial penalties but were inattentive to them, adding the financial reminder to the letter should increase the likelihood of paying the debt.

The third and final treatment arm was designed to create exogenous variation in peer comparisons. If delinquents use the online lists of tax delinquents to compare their own debt amount to the amounts owed by other delinquents, that comparison may affect their decision to pay. For instance, a delinquent who learns that the other delinquents in her area owe larger amounts may feel less guilty about not paying her own debt. This mechanism could change, for better or worse, the effects of shaming policies. To measure this mechanism, our experimental letters included some information about the delinquent behavior of others. Using a non-deceptive method, we created random variation in the amounts owed by the individuals listed in the letter. This allowed us to test whether, consistent with the social norm hypothesis, payment rates go down when delinquents observe that their neighbors owe larger amounts.

First, our evidence suggests that the salience of the shaming penalties can increase the probability of repayment. For delinquents in the first quartile of the debt distribution (\$250–\$2273), higher visibility increased the probability of repayment 10 weeks after mail delivery by 2.1 percentage points. This effect is statistically significant at the 1% level, and also economically significant: The 2.1 percentage points effect amounts to 21% of the average payment probability. Given that our visibility treatment was marginal, this effect size is remarkable. Among individuals in the other three quartiles (\$2274–\$149,738), the effect of the visibility treatment on the payment rate was close to zero and statistically insignificant.

¹ The U.S. Treasury reported \$46 billion in underpayment of declared taxes and \$65 billion in enforced and other late payments as of 2006. The tax gap amounts to \$450 billion dollars, which in addition to the previous items includes nonfiling and underreporting. Source: U.S. Department of the Treasury, Internal Revenue Service (2012), “Updated Estimates of the TY 2006 Individual Income Tax Underreporting Gap. Overview,” Washington, D.C.: Office of Research, Analysis, and Statistics.

² For example, online lists of tax delinquents are or have been published by local or national governments in Argentina, Bosnia and Herzegovina, Croatia, El Salvador, Greece, Macedonia, Mexico, Montenegro, Portugal, Serbia, Slovenia, Spain and the United Kingdom. Other countries, such as Canada, Ireland, Italy and New Zealand, published lists of tax evaders in newspapers or newsletters. A notable example is the city of Bangalore, India, which hires drummers as tax collectors to visit the homes of tax evaders and to bang the drum if they refuse to pay.

³ For example, tax authorities have co-operated in the past with researchers for randomizing audit probabilities in the context of tax evasion (Slemrod et al., 2001; Kleven et al., 2011).

⁴ Note that our delivery method differs from most of the literature on tax compliance involving mailing experiments, in which the letters are sent from the tax agency. It is possible that some of our results would have been different if the letters had been sent directly by the tax agency. For example, the letters from the tax agency could be more effective if taxpayers trust the tax agency more than they trust researchers.

⁵ Tax agencies are required to notify delinquents before disclosing the identity of tax delinquents.

⁶ Kentucky is the only one of the three states that publishes the date when the delinquent debts were originated.

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