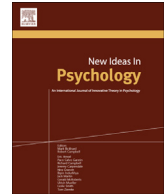




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Tax authorities' interaction with taxpayers: A conception of compliance in social dilemmas by power and trust



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ABSTRACT

Keywords:

Coercive power
 Legitimate power
 Reason-based trust
 Implicit trust
 Tax compliance
 Cooperation

Tax compliance represents a social dilemma in which the short-term self-interest to minimize tax payments is at odds with the collective long-term interest to provide sufficient tax funds for public goods. According to the Slippery Slope Framework, the social dilemma can be solved and tax compliance can be guaranteed by power of tax authorities and trust in tax authorities. The framework, however, remains silent on the dynamics between power and trust. The aim of the present theoretical paper is to conceptualize the dynamics between power and trust by differentiating coercive and legitimate power and reason-based and implicit trust. Insights into this dynamic are derived from an integration of a wide range of literature such as on organizational behavior and social influence. Conclusions on the effect of the dynamics between power and trust on the interaction climate between authorities and individuals and subsequent individual motivation of cooperation in social dilemmas such as tax contributions are drawn. Practically, the assumptions on the dynamics can be utilized by authorities to increase cooperation and to change the interaction climate from an antagonistic climate to a service and confidence climate.

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1. Introduction

Citizens appreciate public goods such as schools or hospitals. Funding the public goods through taxpaying, however, represents a social dilemma in which the individual short-term interest to minimize paying taxes is at odds with the long-term collective interest to ensure sufficient tax payments for financing the public goods (Balliet & Van Lange, 2013). To overcome the social dilemma and to insure high tax compliance among citizens, tax authorities rely on two measures. Power measures such as audits and fines and trust related measures such as fair procedures

(e.g., Allingham & Sandmo, 1972; Feld & Frey, 2007; Srinivasan, 1973). In research, the positive impact of both measures on tax compliance received empirical support (e.g., Muehlbacher & Kirchler, 2010; Wahl, Kastlunger, & Kirchler, 2010).

Surface validity might suggest that power and trust are incompatible and the opposites of each other. In contrast, we assume that power and trust are related in a specific dynamic in which they mutually destroy or mutually foster each other and in turn influence tax compliance. However, distinct theoretical assumptions about the dynamics between power and trust are missing. The purpose of the present theoretical paper is to conceptualize these dynamics and to elaborate on how they might influence tax compliance. This conceptualization serves as the theoretical basis for empirical research and conclusions how to increase tax compliance in particular and cooperation in social dilemmas in general.

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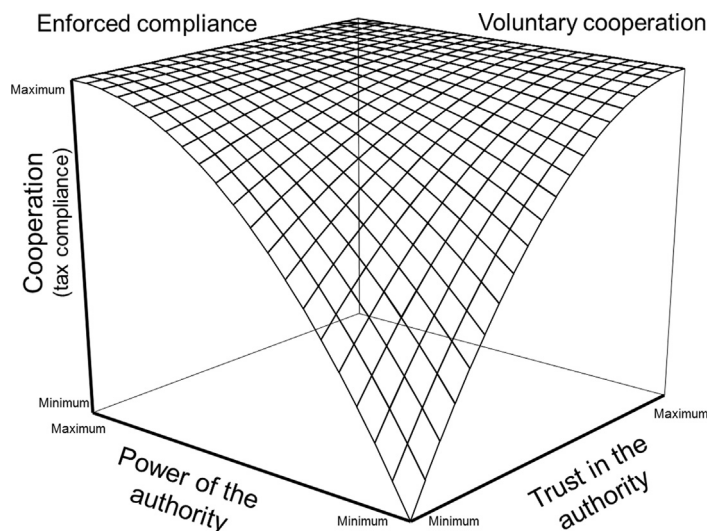


Fig. 1. The Slippery Slope Framework (Kirchler, Hoelzl, and Wahl, 2008, p. 212).

There is little doubt that audits and fines are necessary to levy taxes, however, they are not the only determinants to ensure contributions. Experiments on tax behavior in the laboratory have consistently supported the positive impact of audits and fines on compliance (Blackwell, 2007). Nonetheless, the effects are rather weak. Field studies and surveys have yielded effects that are lower than, and sometimes the opposite of the predicted effects (e. g., Andreoni, Erard, & Feinstein, 1998). Additionally, Feld and Frey (2007) question whether audits and fines may destroy trust, as they crowd out the intrinsic motivation to cooperate among committed and cooperative citizens. Thus, besides “economic” determinants such as audits and fines, “psychological” determinants such as the motivation to comply, the attitudes of taxpayers towards the state, the government and taxation, transparency and understanding of tax laws, personal and social norms, and fairness perceptions were shown to impact tax compliance (Braithwaite, 2003; Kirchler, 2007; Torgler, 2003).

Kirchler (2007) and Kirchler, Hoelzl, and Wahl (2008) endeavored to integrate the economic and psychological factors into a comprehensive two-dimensional framework, the Slippery Slope Framework (SSF). The dimension power of authorities aggregates economic determinants and is defined by taxpayers' perception of authorities' capacity to detect and punish tax evaders. The dimension trust in authorities covers psychological bases of tax compliance and results from taxpayers' general opinion that the tax law and regulations are clear and easy to follow, and that the tax authorities operate fairly and benevolently in the interest of the community. The SSF asserts that both the power of authorities and the trust in authorities can solve the social dilemma of tax compliance.

On the individual taxpayer level, the framework differentiates between two motivations to comply with tax law, enforced compliance and voluntary cooperation. Enforced compliance results from the power of tax authorities, whereas voluntary cooperation is driven by the taxpayers'

trust in tax authorities. On the aggregate level, the SSF postulates that power and trust define different interaction climates between tax authorities and taxpayers: while the exertion of strong power by the authorities fosters an antagonistic climate, high trust is the prerequisite of a synergistic climate (Kirchler, 2007; Kirchler et al. 2008). Fig. 1 depicts power and trust as independent dimensions, positively related to enforced compliance and voluntary cooperation, respectively, and to an antagonistic and synergistic climate, respectively.

Empirical evidence generally supports the relevance of power and trust as determinants of compliance (Kogler et al., 2013; Muehlbacher & Kirchler, 2010; Muehlbacher, Kirchler, & Schwarzenberger, 2011; Wahl, Endres, Kirchler, & Böck, 2011; Wahl et al. 2010). For instance, in a representative sample of self-employed taxpayers, trust and power co-varied with tax compliance (Muehlbacher & Kirchler, 2010). Kogler et al. (2013) and Wahl et al. (2010) found that compliance is highest if both power and trust are perceived as high. This result suggests an additive effect of power and trust. Moreover, a dynamic relationship between power and trust can be assumed.

In the conceptualization of the SSF, Kirchler et al. (2008) speculate about a dynamic relationship but they offer no elaboration of the possible interaction effects between power and trust. In contrast to surface validity, which might suggest that power and trust are incompatible, they assume that power and trust might not only weaken but also strengthen each other. So far, empirical studies in the tax behavior context suggest that power and trust are influencing each other positively (Kogler et al. 2013; Muehlbacher et al. 2011; Wahl et al. 2010). Nevertheless, in various research fields the theoretical conceptualization and the empirical evidence for the mutual effects of power and trust are inconsistent, which suggests that there is both a fostering as well as an eroding influence of power on trust (Adler, 2001; Bijlsma-Frankema & Costa, 2005; Das & Teng, 1998; Kumlin & Rothstein, 2005; Möllering, 2005). This

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