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Editorial

Taxation, social norms, and compliance: Research questions and results

1. Introduction

How can we ensure that sufficient revenues are collected from tax payers at reasonable cost while obeying basic normative principles of fairness and equity? This intriguing question continues to occupy tax administrations and governments worldwide as well as scholars from a wide range of disciplines.

The traditional analysis of tax compliance points to the fundamental difficulty that tax payers have insufficient incentives to pay their taxes and to provide accurate information about their taxable income. Key measures to improve compliance are audits and sanctions in case of detected evasion (Allingham and Sandmo, 1972). The recent literature has pointed also to the crucial role of institutions for ensuring that the information available to the administration is extensive enough to make it difficult or even impossible to evade taxes. In particular, third-party reporting has been identified as a powerful tool to increase the effectiveness of the tax administration (Kleven et al., 2011). However, the extent to which administration can set up third-party reporting and other institutional safeguards, that deliver sufficient information, varies among different taxes and tax payers. It is important to note, that even in countries with a well-developed tax system, a large fraction of the overall tax base is not subject to third-party reporting or any other mechanism that would more or less automatically ensure an effective enforcement of the tax law. This explains why tax compliance and the willingness of tax payers to provide information to tax authorities is still a concern.

Yet to achieve high levels of tax compliance is not a hopeless case. Contributions from various disciplines have pointed to the importance of an interplay between monetary incentives that enforce compliance and normative principles that induce voluntary cooperation when it comes to tax compliance decisions. Psychologists have pointed out that voluntary compliance and cooperation with the tax administration can be fostered by reason-based trust and legitimate power of the authorities, which may reduce the necessity of costly monitoring (e.g. Kirchler, 2007 or Kirchler et al., 2008). Scholars in tax law have repeatedly stressed the importance of equitable laws for tax compliance (see e.g., Tipke, 2003, or Spindler, 2010). Research in sociology notes that social norms tend to support compliance, even if, due to the complexity of the tax laws, non-compliance takes more subtle forms such as legal avoidance (e.g. McBarnet, 1991). Even the economic literature has noted that social norms, fairness and justice are important determinants of the willingness and ability of taxpayers to cooperate with tax authorities, and moreover pointed to the role of government intentions and performance, as well as compliance cost (among others, Jackson and Milliron, 1986; Andreoni et al., 1998; Cowell, 1990; Feld and Frey, 2002).

The more recent empirical literature tries to gather detailed insights on the interplay of monetary and non-monetary incentives. Due to unobservability and lack of exogenous variation, empirical research often proved unable to determine causal effects. Therefore, more recent research has focused on quasi-experiments, laboratory experiments, and field experiments. Pioneered by a number of studies by, e.g., Alm et al. (1992), Alm et al. (1993), Alm et al. (2009), and Alm and McKee (2004), the literature exploiting laboratory experiments has studied the response of individuals to variation in the key elements of the Allingham-Sandmo model, i.e. the marginal tax rate, the audit probability, and the severity of sanctions. Though the evidence from the laboratory tends to support the main predictions of this standard model, i.e. that individuals are more compliant if the expected costs associated with tax evasion increase, it is not always possible to reconcile theoretical predictions with the evidence from the laboratory experiments and from field data. In particular, it has been found that the observed level of compliance with tax laws and regulations is often higher than the model would predict. As a consequence, Andreoni et al. (1998) argue that social norms are of key importance for explaining the observed levels of compliance.

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This raises the issue as to how the design of the tax system and its administration can rely on cooperative behavior of taxpayers, as opposed to a strategy building solely on enforcement and third-party reporting. Against this background, several authors have investigated non-monetary determinants of tax compliance. Buell and Norton (2011, 2013), for instance, show that transparency of the use of taxpayer money increases support for government programs. Also giving taxpayers the possibility to make proposals on the usage of tax revenues increases satisfaction with paying taxes (Lamberton et al., 2014). Coricelli et al. (2010, 2014) provide evidence that the threat of social stigmatization can sustain compliance. On the other hand, Slemrod et al. (2001), Blumenthal et al. (2001), and Fellner et al. (2011) have found that appeals to individuals' moral or to social norms affect compliance only marginally.

These findings suggest that achieving high levels of overall tax compliance requires an adequate mixture of enforcement, sophisticated administrative strategies, transparency, as well as a tax law and tax practices that are in accordance with fairness perceptions. In this broader perspective also the perception of the government and its intentions, including self-interest and corruption, can be a crucial determinant of tax compliance. Along these lines, this special issue offers new insights on taxpayer behavior and illustrates the potential of various methodological approaches to inform tax administration and tax policy.

2. The special issue: An overview

The special issue collects 14 papers with innovative research along these lines that helps to improve our understanding of tax compliance. The papers are a selection from more than 50 papers and/or posters that were accepted for presentation at a Conference on "Taxation, Social Norms and Compliance" that took place in March 2014 in Nuremberg, Germany.

The papers in this special issue document that the current research on tax compliance uses a large variety of methods. The fact that behavior is hardly observable requires a mix of empirical, field and laboratory studies to understand key phenomena. The many behavioral aspects of tax compliance make it necessary to broaden the perspective and to include insights from psychology, sociology, and communication science. The papers can be grouped around three research themes: Does it matter for tax compliance how taxes are perceived? Can non-monetary incentives be used to raise tax compliance? What is the role of government intentions and performance?

2.1. Perception of taxes

Two papers of the special issue demonstrate in different experimental setups that in order to judge reactions to taxation it is not sufficient to consider the tax-induced shifts in the budget constraint. It rather seems that individuals respond stronger to shifts in the budget constraint triggered by taxes than to identical shifts that are due to other causes, a phenomenon that is known as "tax aversion".

Catrine Jacobsen and Marco Piovesan demonstrate in a "lab in the field" setup that increased salience of a tax charge increases dishonesty using a version of the die-under-cup paradigm (Fischbacher and Föllmi-Heusi, 2013). Whereas dishonesty is substantial in a treatment with a tax frame (as compared to a neutral frame), dishonest behavior is significantly reduced if an explanation is given for the tax. The study demonstrates that there is a non-trivial relationship between tax institutions and compliance decisions. Especially in the communication of rules, fine details may have substantial effects on compliance behavior. In particular, the study demonstrates that explanations on why the tax has been adopted can be important for the acceptance of taxation, and thus, for compliance.

Also **Judd B. Kessler and Michael Norton** focus on tax aversion. In a real effort experiment they show that labor supply decreases more with the introduction of a tax than with a financially equivalent drop in wages. The authors show that the effect is big in magnitude but affects working time rather than productivity while working. These findings have interesting implications for the way taxes on labor are collected. Given the results it seems likely that labor supply responses will be stronger if taxes are collected from the individual worker rather than from the employer for instance through a payroll tax.

Whereas experimental and also empirical and survey research provide evidence for critical attitudes toward taxation, the literature also suggests that in various countries compliance norms guide social interaction. In contrast to survey research that specifically asks participants for their opinions and attitudes, the study of **Diana Onu and Lynne Oats** in this special issue uses a discourse analytic framework to analyze discussions on tax compliance in an online forum. The authors select conversations among self-employed software developers on tax compliance and categorize the interactions. The authors analyze in-depth patterns of information-provision, norm-statements, practiced persuasion techniques, as well as the contents of warnings and threats. While the analysis does not provide quantitative evidence on the importance of specific types of interactions, the paper gives an impression of the nature of conversations on compliance and provides researchers with valuable insights on the potential motivations behind compliance decisions.

Keith Marzilli Ericson and Judd B. Kessler present evidence on responses to the articulation of policies from a field study in the context of health insurance reform in the US. They show that perceptions of policies rather than the policies themselves may substantially affect behavior and trigger responses. Participants of the field experiment report their probability of purchasing health insurance under two different, but financially equivalent, policies: a mandate to purchase insurance or a tax on the uninsured. The authors show clearly that the communication of the rules has a strong behavioral effect that might be accounted for in institutional design.