

Accepted Manuscript

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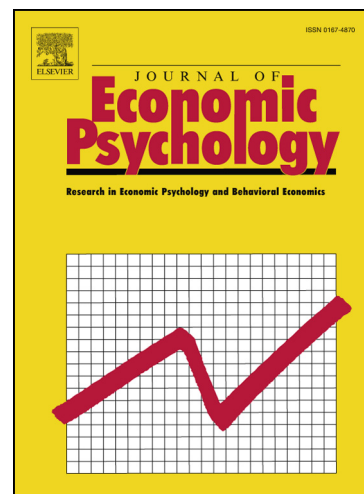
PII: S0167-4870(16)30309-9
DOI: <http://dx.doi.org/10.1016/j.joep.2016.06.001>
Reference: JOEP 1923

To appear in: *Journal of Economic Psychology*

Received Date: 22 September 2015
Revised Date: 26 May 2016
Accepted Date: 1 June 2016

Please cite this article as: Alm, J., Bruner, D.M., McKee, M., Honesty or Dishonesty of Taxpayer Communications in an Enforcement Regime, *Journal of Economic Psychology* (2016), doi: <http://dx.doi.org/10.1016/j.joep.2016.06.001>

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Honesty or Dishonesty of Taxpayer Communications in an Enforcement Regime

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Abstract

In many settings the true likelihood of capture when engaging in an illegal activity, such as tax evasion, is not well known to an individual. “Official” statements from the tax administration regarding enforcement effort provide some information. In addition, “informal”, or “unofficial”, communication among taxpayers can supplement these official announcements, but individuals do not know with certainty whether such unofficial information is honest (or accurate) versus dishonest (or inaccurate). We examine the truthfulness of an individual’s revelation of unofficial information to other individuals, along with the factors that affect any revelation, focusing on the intrinsic motivations for revelations. Our experimental design allows us to examine the type and the honesty of messages that an individual chooses to send to other individuals regarding their own audit *outcome* and their own compliance *behavior*. Our results indicate that most individuals send accurate messages about their own audit outcomes and their own compliance behaviors. Nevertheless, many individuals are also systematically dishonest about being audited; that is, we observe a significant tendency for individuals to claim that they were audited when they were not. We also observe a strong interaction between individuals’ audit outcomes and their compliance behaviors, so that individuals who engaged in tax evasion and who were audited were more truthful in their communications than those whose tax evasion went undetected.

Keywords: Tax compliance; Tax audits; Information; Honesty; Experimental economics.

PsycINFO classification: 2360; 2910; 3020; 3040; 3120.

JEL classification: H2, H26, C91.

Acknowledgements: The research reported here was partially funded by the Internal Revenue Service (TIRNO – 07 – P – 00683) and the Social Sciences and Humanities Research Council (Canada) RT733923. The views expressed are those of the authors, and do not reflect the opinions of the IRS or of the Social Sciences and Humanities Research Council. The software for these experiments was designed by the authors and programmed by Michael Jones of Bridgewater State University in Bridgewater, MA. An earlier version of this paper was presented at the 2014 conference “Taxation, Social Norms and Compliance” in Nuremberg, Germany, and we are grateful to Joerg Paetzold and other conference participants for many helpful comments. We are also grateful to Erich Kirchler, Martin Kocher, and three anonymous referees for many useful suggestions.

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