



Tax compliance inventory TAX-I: Designing an inventory for surveys of tax compliance

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ABSTRACT

Surveys on tax compliance and non-compliance often rely on ad hoc formulated items which lack standardization, theoretical background, and empirical validation. We present an inventory to assess different intentions of compliance and non-compliance: voluntary versus enforced compliance, tax avoidance, and tax evasion. First, items eligible to differentiate between the intentions of compliance and non-compliance were collected from past research and newly developed, and tested empirically with the aim of producing four validated scales with a clear factorial structure. Second, findings from the first analyses were replicated and validated on the basis of motives of compliance and non-compliance, and on the basis of behaviour in a tax experiment. A standardised inventory is provided which can be used in surveys in order to collect data which are comparable across research focusing on self-reports. The inventory can be used in either of two ways: either in its entirety, or by applying the single scales independently, allowing an economical and fast assessment of different intentions underlying tax behaviour.

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1. Introduction

Following publications of the tax evasion models by Allingham and Sandmo (1972) and Srinivasan (1973), based on Becker's (1968) theory of crime, there was significant movement in the research on tax evasion. Research has continued to grow to the present day. Andreoni, Erard, and Feinstein (1998) observed that it was particularly the effects of audit probabilities and fines that were studied in the context of rational choice theory. Despite Schmolders' (1959) early emphasis on the relevance of citizens' opinions about the government in general, and fiscal policy in particular, sociological and social psychological studies addressing tax compliance are still rare. Moreover, the approach taken in social psychology has tended not so much towards forming a clearly expressed theory, as, for instance, the economic model, but has rather focused on unsystematically addressing specific and often isolated questions (Kirchler, 2007). Hence, future research on taxes should follow a clear conceptualisation of tax behaviour and commensurate measurement.

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In the following we discuss different intentions of tax behaviour, derived from research on tax compliance and non-compliance. Subsequently, we present conceptual clarifications and definitions of different behavioural intentions of compliance and non-compliance. Further, an inventory for the assessment of intentions of compliance and non-compliance according to our definitions is presented. First, items on voluntary and enforced compliance, tax avoidance and evasion are collected from previous research and newly formulated, and their factor structure is analysed. Second, the inventory is cross-validated, and the validity of the scales is additionally assessed by means of reference to motivational postures (Braithwaite, 2003; Braithwaite, 2009) and behavioural data collected in a tax experiment.

1.1. Research methods

There are several methodological problems to be solved in order to integrate research findings into a coherent theoretical framework able to describe tax behaviour and to inform policy. Kirchler (2007) and Torgler (2002) discuss the arsenal of methods, sampling techniques, operationalisation of variables as well as the inconsistent use of self-reports and observed tax behaviour, and come to the conclusion that different research methods often lead to contradictory results. Similar conclusions were drawn in a workshop on measuring the indirect effects of services and enforcement on taxpayer compliance, conducted by the US Internal Revenue Service (IRS, 2008).

Methods vary from aggregate econometric modelling to micro-econometric modelling, field experiments and quasi naturalistic experiments, to laboratory experiments, agent based modelling and network analyses, to surveys. Aggregate econometric modelling uses panel data on observations of tax reporting and filing behaviour, aiming at providing reliable estimates of the effects of tax policy for the entire population (e.g., Dubin, 2007; Dubin, Graetz, & Wilde, 1990; Plumley, 1996). One challenge of aggregate econometric modelling, which may account for controversial results, concerns confounding influences. Micro-econometric approaches predominantly examine the impact of audit probability, fines in cases of evasion, tax rate, and income and develop highly stylised mathematical models, which, however, fail to incorporate many facets of taxpayers' realities. Field experiments are valuable methods of providing reliable estimates for compliance determinants. Here the challenge is to find comparable treatment and control groups in the population and to control for treatment and confounding variables. In contrast, laboratory experiments (e.g., Alm, Jackson, & McKee, 1992; Friedland, Maital, & Rutenberg, 1978; Kastlunger, Kirchler, Mittone, & Pitters, 2009) are conducted in highly controlled environments and are most appropriate for validating theoretical assumptions. They suffer, however, from external validity and generalisability. Although "hard" empirical data would provide a better understanding of tax compliance, the difficulty of obtaining this data has led researchers to generate their own data via surveys (Baldry, 1987).

Studies in economic psychology in particular rely on survey data in which taxpayers are asked to report their intended tax behaviour. This way of collecting data is usually convenient; however, generalisability of findings is problematic (e.g., Wilson & Sheffrin, 2005). Generalisability suffers from memory lapse and social desirability biases, and reliability and (construct) validity in particular are to be questioned. If answers in surveys can be trusted as accurately reflecting tax compliance, honesty and perfect recall are required. Hessing, Elfers, and Weigel (1988) examined whether self-reports can be used as substitutes for direct observations of tax evasion behaviour, and found serious limitations. The concordance between participants' self-reports of tax evasion and officially found evasion behaviour was negligible. Although participants knew that their self-reports could be compared with the results of their audited tax records, the correlations between self-reports and observed behaviour were weak. Hessing et al. (1988) found that different explanatory variables were either linked with self-reports or with observed evasion behaviour: Attitudes toward tax evasion and subjective norms were found to correlate with self-reported compliance but not with observed compliance. Personality dispositions, in contrast (e.g., tolerance of illegal behaviour; competitiveness) correlated with observed data but not with self-reports. While the studies conducted by Hessing et al. (1988) do give grounds for serious concern, Hite (1988) found positive relationships between data obtained from self-reports and compliance observed by tax authorities.

The questionable relation between observed and self-reported behaviour may be due to a series of methodological shortcomings: Besides the existence of differences in authorities' and taxpayers' interpretations of tax law and legal and illegal acts, authorities may not always detect subtle tax evasion, whereas taxpayers are aware of it and report their behaviour in surveys. Moreover, sometimes taxpayers may unintentionally make mistakes which are interpreted as evasion by authorities.

Direct observations of tax behaviour may reflect tax behaviour best. However, combining direct observations with results from laboratory studies and surveys further broaden our understanding of tax behaviour. Especially, when information on motives or intentions regarding a particular behaviour should be investigated, surveys are a necessary tool.

In addition to concerns regarding research methods, there is a lack of clear definitions of compliance and non-compliance. A particular problem is the absence of a validated inventory assessing behavioural intentions of compliance and non-compliance. Surveys often make use of one or more items developed in an ad hoc manner, asking respondents to indicate their willingness to comply, their filing habits or their readiness to evade taxes without considering previous items on tax behaviour and theoretical or statistical foundations. The source of the serious limitations of self-reports and the difficulties experienced when trying to compare data from different research lie in insufficient reflection of different intentions of tax behaviour and often vague definitions of compliance and non-compliance. Moreover, the lack of a validated scale on behavioural intentions of compliance and non-compliance usable across various research programmes makes it difficult if not impossible to compare findings across different studies.

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