What is Driving Tax Morale?

TARC
Tax Administration Research Centre

Response to the OECD Public Consultation Document

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The OECD's Public Consultation Document *What is Driving Tax Morale* showcases the need for tax administrations in developing countries to examine factors beyond the more cost-benefit/rational choice explanations for tax behaviour. There has been significant academic research over the past forty years across the social sciences dedicated to studying these factors. This response reflects our past and ongoing research on tax compliance from different perspectives. In Part I we offer some observations on the Consultation Document and in Part II we offer some recommendations.

Part I: Observations

1. **Tax morale is not a panacea and only makes up one small component of the entire set of variables that affect an individual's tax compliance decision.**

Tax morale is a highly ambiguous concept and should not be thought of as a panacea for tax administrations. There is a plethora of factors influencing why people choose to pay, or not to pay, their taxes, including the effectiveness of institutions[1] social norms[2] and reciprocity[3], which need to be addressed before tax administrations can begin to consider tax morale seriously. There is a wide range of academic studies into tax compliance from different disciplinary perspectives and adopting different methodologies. Over reliance on work from a small selection of academic disciplines and a failure to appreciate the limitations of methods used can potentially lead to poor policy choices and inefficient use of resources.

2. **Tax administrations in developing countries should proceed with caution when using attitudinal survey data on tax morale.**

Surveys that provide questions which can be used as proxies for tax morale have been employed in the scholarly literature, however these attitudinal surveys, like all surveys, are not without bias. Specifically, the World Values Survey (WVS) relies on *one* survey question as a measure for tax

[1] D'Attoma, J. (2018). More bang for your buck: tax compliance in the United States and Italy. *Journal of Public Policy*, 1-24.

[2] Onu, D., & Oats, L. (2016). "Paying tax is part of life": Social norms and social influence in tax communications. *Journal of Economic Behavior & Organization*, *124*, 29-42.

[3] Björklund Larsen, L. (2018). A Fair Share of Tax: A Fiscal Anthropology of Contemporary Sweden. London: Palgrave Macmillan. Open Access.

morale when tax morale is constituted by a number of different factors. An index made up of several questions that account for the range of characteristics that make up tax morale would eliminate some of the bias in the measurement that arises from using a single question.[4] Moreover, the question used in the WVS in itself is problematic. There are many reasons why citizens might have high tax morale, yet nonetheless think that cheating on taxes is completely justifiable, such as civil war or political violence. Individuals from developing countries are more likely to face these challenges which could be reflected in this particular measure of tax morale.

There is recent data that demonstrate that attitudes about taxes do not converge with tax compliance behaviour in laboratory experiments.[5] There is also considerable uncertainty about how stated intentions to comply or not translate into actual compliance or non-compliance. This is not to say that tax morale is not important, but rather that tax administrations in developing countries need to be careful with how they define tax morale and how much weight they are assigning to tax morale (especially measured in this way) when designing tax policies intended to improve levels of tax compliance.

3. Over reliance on tax morale as an indicator of tax behaviour can lead to generalizations and cultural stereotypes

Cultural arguments are often unfounded and culture itself can be thought of as deriving from a specific institutional environment.[6] These cultural arguments are often used to stereotype that does not reflect the institutional problems such as ineffective governance and corruption, and to project blame on to regions and countries without examining the broader institutional and structural context. Over reliance on tax morale might encourage developing countries to overlook or even ignore their underlying institutional and structural problems while attempting to "fix" their "tax culture" or tax morale.

4. Regional generalisations do not advance debates.

Developing countries vary considerably in terms of categories of taxpayer (eg size) and their heterogeneity as well as the types of taxes and the way in which they are operationalised. We are concerned about the regional categorization of, for example, 'African' or 'Latin American' tax morale. What purpose does such categorization serve if we believe that tax morale depends on a variety of interlinked factors, including tax systems that vary in legal construction as well as enforcement and facilitation between countries? There is a danger that regional generalisations impede the development of effective localised policies.

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[4] Onu, D. (2016). Measuring tax compliance attitudes: What surveys can tell us about tax compliance behaviour. In *Advances in taxation* (pp. 173-190). Emerald Group Publishing Limited.

[5] Guerra, A., & Harrington, B. (2018). Attitude–behavior consistency in tax compliance: A cross-national comparison. *Journal of Economic Behavior & Organization*, *156*, 184-205.

[6] D'Attoma, J. (2019). What explains the North–South divide in Italian tax compliance? An experimental analysis. *Acta Politica*, *54*(1), 104-123.

5. **The use of the concept of trust as a determinant of tax compliance also needs to be treated with caution.**

Like 'tax morale', 'trust' is a multifaceted and complex phenomena that is not well understood in the tax compliance context. It should also be noted that there are also flaws in how trust in government is measured in surveys and experiments. Although there is a significant body of academic literature (some of it cited) on how trust in government affects tax compliance, the WVS, etc., do not necessarily provide the best measure of trust. "Trust" is clearly important for tax compliance. But we have concerns about the way it is measured. Measuring trust in government using a single question doesn't capture the multidimensionality of trust in government. Is the survey referring to specific leaders or to institutional aspects of trust? Trust in what – competence, integrity or something else? What part of government or aspect of governing is the WVS, Latin Barometer, or Afrobarometer referring to? Further problems here include the ambiguity of the meaning of "government"[7] and the relationship between trust and legitimacy.

6. **The use of the concept of tax morale, and the use of tax certainty as a proxy for tax morale, in the context of businesses entities is problematic.**

The tax compliance decisions of businesses cannot necessarily be understood in the same way as the tax compliance decisions of individuals. Even if businesses are viewed as being comprised of individual decision makers, there is a spectrum which to some extent will correlate with the size of the business. At one end, businesses can be viewed as being an aggregation of individuals making unfettered decisions about tax compliance. At the other end of the spectrum, businesses can be considered to be collective entities with one single guiding mind. Micro businesses are likely to behave more like individuals, however medium and large businesses operate with more constraints and it is important to learn how they are structured and operate in order to understand how compliance decisions are made[8]. In terms of micro businesses, research has also shown that proprietors are often concerned less with whether to comply or not, but rather how to comply[9]. For all businesses, certainty (and stability) in relation to tax liabilities is important to business because uncertainty is costly to them, but the link between certainty and tax compliance is tenuous at best.

In the business context also, recent research on cooperative compliance initiatives with large businesses in several countries has revealed important differences in local adaptations of the model[10].

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[7] For a much more detailed analysis of some of the problems of measuring trust in government see: Feldman, S. (1983). The measurement and meaning of trust in government. *Political Methodology*, 341-354.

[8] Mulligan, E. and Oats, L. (2015) Tax Professionals at work in Silicon Valley, Accounting Organizations and Society, 52, 63-76

[9]. Onu, D. & Oats, L (2016) "Tax Talk: An Exploration of Online Discussions among Taxpayers", Journal of Business Ethics; Onu, D. & Oats, L. (2016) "Paying tax is part of life: Social norms and social influence in tax compliance", Journal of Economic Behavior and Organization.

[10] Björklund Larsen, L. and Oats, L. (2019) Large Businesses: Co-operative Compliance in action, FairTax Policy Brief No 3, available at http://umu.diva-portal.org/smash/record.jsf?language=en&pid=diva2%3A1293994&dswid=3494

Part II: Recommendations

1. While recognising the discussion document's acknowledgement that tax morale is multi-faceted, we recommend the development of new terminology, given the ambiguity of 'tax morale' and the dangers of uncritical acceptance that it is capable of providing 'solutions' to the problems of non-compliance in developing countries. A more holistic approach is required.

2. Increased attention should be given to a wider range of academic studies in relation to tax compliance, beyond that emanating from economics and psychology and by reference to universally applicable principles. We recommend that future work unpacks the different elements, making use of contemporary tax compliance research from various disciplines, including political science, anthropology and sociology. A multi-disciplinary and multi method (including qualitative methods) approach will lead to more robust policy prescriptions.

3. While appreciating the value of learning from the experiences in other countries, and we encourage more of this type of work, we urge tax administrations individually to engage with academic researchers in their attempt to design country specific policies to improve tax compliance. Tax administrations should make data available so as to facilitate academic studies into actual compliance behaviour as distinct from attitudes towards compliance.

The Tax Administration Research Centre was founded in 2013 to deliver interdisciplinary research in tax administration and policy that addresses the major challenges confronting policy makers and tax authorities. The Centre is funded in part by the Economic and Social Research Council under grant number ES/S00713X/1.
More information about the Centre's work can be found on our website http://tarc.exeter.ac.uk.

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