

THE ROLE OF EDUCATION IN FORMING VOLUNTARY TAX COMPLIANCE

Sabina Kołodziej

Uniwersytet Warszawski,

Instytut Studiów Społecznych im. prof. B. Zajonca

00-183 Warszawa, ul. Stawki 5/7

e-mail: skolodziej@alk.edu.pl

Abstract. The article describes a variety of factors determining taxpayers willingness to pay taxes. External, referred to economic variables (e.g. tax rates, income), and internal, related to psychological features (e.g. knowledge, motivational postures), factors are distinguished. Particularly, the relation between the level of economic knowledge and attitudes toward taxation is discussed.

Key words: tax compliance, tax behavior, attitudes, education.

Introduction

Taxes are compulsory monetary contributions to the state's revenue, assessed and imposed by a government on the activities, enjoyment, expenditure, income, occupation, privilege, property, etc. of individuals and organizations [1]. Those fiscal charges are meant to realize political, economic and social aims preconceived by the government. State authorities activities funded by taxes tend to improve living conditions of citizens by providing public access to health services, education, culture as well as internal and external security of a country. But at the same time, taxes limit an individual's freedom to make autonomous decisions about his or her income [2]. Therefore, several tax systems are perceived as more or less just which may lead to different attitudes toward taxation and willingness to fulfill tax duties. Preconditions forming tax compliance or tax reducing (tax avoidance and tax evasion) by the taxpayers are analyzed by economists as well as psychologists. Researches focusing on the tax attitudes from economic perspective, emphasize the role of external factors, such as tax rate, income, audit probability and severity of fines, while psychologists stress internal variables, e.g. subjective knowledge, motivational postures and perceived justice of the tax system.

External determinants of tax compliance

Economic model of rational compliance decisions analyzing the role of tax rate is exemplified by the Laffer curve. It shows that government revenues increase if tax rate increases from 0% or reduces from 100%. That means reduction of very high tax rate may lead to increase in revenues. However, this theory does not explain the increasing budget deficit. Some researches claim that increasing marginal tax rate has a significant role in tax underreporting [3].

It is also assumed that high tax rates may serve as a disincentive to work and occurring decrease in income leads to lower taxes paid by the taxpayer. The effect of income, and in particular its growth, is also discussed by the researchers. Previous researches conducted by Anderhub and collaborators show that higher income level encourages tax evasion [3].

The effect of another external factors influencing tax compliance, audit probability and severity of fines are discussed by Kirchler, Hölz, and Wahl [4]. The authors developed a model assuming that audits and fines are effective in increasing the level of revenue from taxes under the condition of low trust in governmental institutions and tax authorities. However, such authorities decisions contribute to reduction of the illegal tax evasion, but will not limit the legal tax avoidance. Under different conditions, where authorities and taxpayers trust

each other, audits and fines are ineffective and the voluntary tax compliance results from citizens' positive representations of tax systems and tax authorities and the consequent willingness to cooperate.

Internal factors influencing tax behavior

Research analyzing psychological variables determining tendency to comply or reduce one's tax liabilities usually refers to: subjective tax knowledge, ethical norms, perceived fairness of tax systems and tax authorities and motivation to comply [3].

Tax knowledge is indicated one of the important factors influencing individual's tax attitudes. Importance of this issue stems from the fact that tax law is generally considered as difficult, complicated and beyond one's depth. According to many authors, it results in negative attitudes toward taxation and tax authorities and indulgent opinions concerning tax avoidance and evasion. Research conducted by Eriksen and Fallan [9] reports significant changes in respondents attitude toward tax and tax behavior due to the increased level of tax knowledge. After taking part in a course on taxes, respondents more severely judged tax evasion and perceived tax system as fairer. It shows that understanding of tax systems and tax regulations may transfer into voluntary tax compliance. The issue of correlation between economic knowledge and attitudes toward taxation is the subject of research described in the following part of the article.

People's behavior in a society is regulated by norms and ethical standards. It should be noted that among different moral rules which determine human decisions, researchers distinguished personal, social and societal norms [5]. Personal norms consist of personality factors, moral reasoning, values, religious beliefs, etc. A survey of research in this area reveals that positive effect on paying tax is connected with altruistic orientation, honesty and religious beliefs while tax evasion correlates with Machiavellianism [6].

Social norms concerning tax behavior consist of common opinions about peoples' tendency to avoid or evade tax liabilities and societal acceptance of evasion. Wenzel claims that widespread perception and acceptance of tax cheating may lead to reduction of taxpayers' honesty and tax evasion despite the coexisting

belief that everybody should honestly pay their taxes [7].

Societal norms are connected with tax law, tax morale and civic duty. Tax morale is defined as the aggregated attitudes of a group or population to comply with taxes and is related to the concept of civic duty [6]. It can be assumed that taxpayers with strong civic duty comply honestly with tax law due to their internal motivation, not because of audits and the threat of fines.

Perceived fairness is another psychological factor that influences taxpayers' attitudes. Kirchler lists three areas of justice which should be analyzed: a) distributive justice; b) procedural justice; c) retributive justice [3]. Generally, justice consideration are associated with assessment of effects caused by taxpayers' decisions concerning tax compliance, avoidance or evasion. This assessment is made on individual, group and societal level. Factors taken into account in this assessment refer both to audits or fines and the derived benefits.

Braithwaite distinguishes, in turn, five motivational postures toward taxation and tax authorities, among which two postures reflect an overall positive orientation to tax liabilities [8]. Commitment which reflects beliefs about the desirability of tax system and feelings of moral obligation to act in the interest of the collective and pay one's tax good will. The second one is capitulation, which reflects acceptance of the tax office as the legitimate authority and the feeling that the tax office is a benign power as long as one acts properly and defers to its authority.

In contrast to these postures of deference, are three postures of defiance. Resistance reflects doubts about the intentions of the tax office to behave cooperatively and benignly towards those it dominates and provides the rhetoric for calling on taxpayers to be watchful, to fight for their rights, and to curb tax office power. Disengagement is also a motivational posture that communicates resistance, but here the disenchantment is more widespread, and individuals and groups have moved beyond seeing any point in challenging the authorities. The last one, game playing, is the posture of those whose sights were firmly set on winning in their interactions with the tax system.

Economic knowledge and tax attitudes – research results

The above literature review refers to research conducted in Western Europe, United States and

Australia. Results showing validity of distinguished internal and external variables influencing tax compliance in those countries lead to the assumption of similar relation regarding Polish taxpayers. It should be noted that in Poland tax duties and tax authorities are perceived rather negatively and in social opinion most Poles tend to avoid paying tax or at least to

reduce the amount of paid tax. In accordance with public statistics, tax evasion is a considerable problem in the scale of national economy. Knowledge of factors stimulating voluntary tax compliance would be very important in forming positive tax attitudes among young Polish taxpayers.

Table 1. R – Pearson’s correlation between economic knowledge and tax attitudes.

Economic knowledge	Commitment	Capitulation	Resistance	Disengagement	Game playing
Facts	0,02	-0,04	-0,07	0,02	0,08
Notions	0,05	0,004	-0,01	-0,12	-0,18
Rights and relations	0,26 p>0,009	0,16	-0,17	-0,07	0,18

Research was conducted in order to analyze the level of economic knowledge, frequency of distinguished motivational tax postures among adult Polish taxpayers and the possible relationship between distinguished variables. This paper is focused on the last listed purpose. In order to measure tax attitudes Braithwaite’s questionnaire [8] was used, which covers questions concerning person’s attitude toward tax liabilities and Tax Office (e.g. Paying tax is the right thing to do; The tax system may not be perfect, but it works well enough for most of us; It’s impossible to satisfy the Tax Office completely; I don’t really know what the Tax Office expects of me and I’m not about to ask; I like the game of finding the grey area of tax law). Respondent expressed his opinion on a scale from 1- strongly disagree to 5 – strongly agree.

Level of economic knowledge was measured using questionnaire specially drawn to this purpose, measuring objective aspects of the economic knowledge. The diagnosis of knowledge level is held with a multiple-choice test referring to 3 areas: 1) Facts – measuring the degree of acquaintance level of current economic indicators and chosen public charges in the year preceding the year of research (e.g. rates of unemployment, growth in the economy, rates of the tax return); 2) Notions – defining economic notions (e.g. inflation, growth in the economy, unemployment); 3) Understanding rights and economic relations – referring among others to the relation between inflation and tendency to consume, supply of goods and its price).

Research was conducted in 2011 among taxpayers from 2 big Polish cities.

Presented research was conducted on 100 persons (55 men, 45 women) group of adult Poles aging from 19 to 72 (average: 31,7) years. In the predominating majority (96%) examined persons had at least average education (including 25% higher), and were also professionally active. Half of the examined were employed in private enterprises, the next 21% was recruited out of employees public sector, whereas 13% worked in state enterprises. Remaining persons at the moment of research were without work or stayed on the retirement/disability pension.

The following table shows the results of *r* – Pearson’s correlation analysis between the level of economic knowledge on three distinguished dimensions and five motivational postures toward taxation.

As it is showed in the above table, the significant correlation ratio was obtained only for the relation between the third scale of economic knowledge, referring to understanding economic rights and relations and the most positive attitude toward tax and tax authorities – commitment. In other cases results obtained in this research do not confirm the correlation between the discussed variables – economic knowledge (facts and notion) and tax attitudes within the test group.

Conclusions

Conducted research showed positive correlation between economic knowledge in the scale of economic rights and relation and posture of commitment in respect of tax. The observed relation may suggest that taxpayers with knowledge allowing them to fully

understand interrelation between individual macroeconomics units operating on the market, therein between tax compliance and the possibility of implementing the socio – economic aims of the government policy will be more in favor of tax system and tax authorities. The above correlation was discussed by several authors [3, 4, 6, 9].

This may also indicate the already stressed by other authors, the significant role of economic education in forming positive attitudes of taxpayers toward tax law and tax authorities.

In the light of the obtained results it can be concluded that Lewis's findings about the number of education years necessary to understand the tax system [6], still remain valid. High level of abstraction, difficult language and complicated tax law in several analyzed countries have led the author to conclude that the ability to fully understand the tax system requires ten-odd years of school education, while in the most studied countries the education period closes within 9 – 10 years.

These finding show the importance of actions aimed on maximum tax simplification, which could contribute to the growth of voluntary tax compliance. Simultaneously, irrespective of the above activities, extensive attention should be paid to the process of education, especially economic education which should be aimed at creating programs placing special emphasis on transferring knowledge allowing comprehensive understanding of the relationship between tax paid by the citizens and the social-economic tasks undertaken by the government.

Those programs should be directed not only to young future economists, but to all pupils, on the level of basic education. Such influence on future taxpayers motivational postures would allow to achieve positive attitude toward tax and tax compliance, based on inner belief

about the justification of tax systems and tax authorities decisions.

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