

Voluntary Tax Compliance

INTRODUCTION

One of the areas in which the relative efficacy of voluntary compliance and monitoring has been extensively studied is that of taxation.¹ Taxation serves as a central example in compliance studies for several reasons. It presents a universal opportunity to examine unethical behavior, as every citizen faces tax-related decisions that could involve evasion at various levels. This makes taxation particularly valuable for studying compliance behavior, as it provides a natural context where individuals must choose between full compliance and various degrees of evasion.² This level of unethicity does not exist in other less ordinary contexts, where citizens do not have the capacity not to comply even if they wanted to do so. Throughout history, governments have faced the challenging task of increasing compliance with tax laws to maximize their tax income.³ Widespread tax evasion raises the costs of tax collection because it requires more resources to detect and stop noncompliance. Moreover, tax evasion distorts the distribution of the tax burden, creating inequality and unfairness in that taxpayers who abide by the rules bear a disproportionately higher financial burden.⁴

¹ For a discussion and evidence on the challenge of making a tax system fully successful without information and monitoring, see Dwenger, Nadja, et al. "Extrinsic and intrinsic motivations for tax compliance: Evidence from a field experiment in Germany." *American Economic Journal: Economic Policy* 8.3 (2016): 203–232; Batrancea, Larissa, et al. "Trust and power as determinants of tax compliance across 44 nations." *Journal of Economic Psychology* 74 (2019): 1–15; Ioan, Batrancea, et al. "An empirical investigation on determinants of sustainable economic growth. Lessons from Central and Eastern European countries." *Journal of Risk and Financial Management* 13.7 (2020): 1–25; Hartmann, Andre Julian, Martin Mueller, and Erich Kirchler. *Tax compliance: Research methods and decision processes*. Springer International Publishing, 2020; Kogler, Christoph, et al. "Trust and power as determinants of tax compliance: Testing the assumptions of the slippery slope framework in Austria, Hungary, Romania and Russia." *Journal of Economic Psychology* 34 (2013): 169–180; Alm, James. "What motivates tax compliance?" *Journal of Economic Surveys* 33.2 (2019): 353–388.

² Andreoni, James, Brian Erard, and Jonathan Feinstein. "Tax compliance." *Journal of Economic Literature* 36.2 (1998): 818–860.

³ Andreoni, Erard, and Feinstein. "Tax compliance."

⁴ Slemrod, Joel. "Tax compliance and enforcement." *Journal of Economic Literature* 57.4 (2019): 904–954.

This chapter presents a comprehensive overview of research on tax compliance, with a particular emphasis on the complex relationship between intrinsic motivation, extrinsic factors, and government policies aimed at promoting tax payment. Among other issues, it explores the concept of tax morale – the intrinsic motivation to pay taxes – and its relationship to actual compliance behavior. These studies reveal a nuanced relationship between interventions aimed at improving tax morale and compliance outcomes. They suggest that the effectiveness of these interventions varies depending on the context, including factors such as cultural norms, current levels of compliance, and the wording used in the appeals.

Tax compliance not only presents a common dilemma for ordinary citizens but also poses unique challenges compared to other areas of regulatory compliance. First, the primary dilemma in taxation seems to be related to honesty, which is not the case in most environmental or COVID-related behavior. Second, taxes usually require less emphasis on compliance expectations or encouraging behavioral changes compared to environmental issues. This is because tax compliance is more of a bureaucratic requirement than compliance with other kinds of regulations, which require deliberate conduct. Third, tax compliance represents a context in which the dilemma can be viewed as a zero-sum game, where every dollar paid in taxes is taken away from the individual.⁵ In contrast to tax compliance, environmental behavior, which is the focus of Chapter 10, present a different set of challenges and motivations. Whether it's purchasing an electric car, opting for green energy, or supporting circular economy products, these actions are often voluntary and can be driven by a mix of personal values, social norms, and economic incentives. Unlike mandatory tax payments, individuals have more choice in these environmental decisions and the benefits are often more tangible and immediate to the individual and their community.

From a governmental perspective, ensuring high compliance rates is essential. This underscores the importance of monitoring and applying research on trust-building strategies. Trust between government and citizens works reciprocally – when governments implement policies that enhance citizen trust, whether in taxation or other domains, the effects often extend beyond the policy's immediate scope, creating broader improvements in state–citizen relationships.⁶ For example, policies that improve transparency, ensure consistent enforcement, or provide clear explanations for regulations may increase trust, even if that wasn't their primary goal. The key is that when citizens perceive the government as effective, fair, and responsive, trust tends to grow, regardless of whether the policies were specifically crafted with trust building in mind.

⁵ Erard, Brian, and Jonathan S. Feinstein. "Honesty and evasion in the tax compliance game." *RAND Journal of Economics* 25.1 (1994): 1–19.

⁶ Swaner, Rachel. "Trust matters: Enhancing government legitimacy through participatory budgeting." *New Political Science* 39.1 (2017): 95–108.

This chapter's review also highlights the crucial role of trust in the government and how it affects tax compliance. Research consistently shows that when people have higher levels of trust in government and institutions, they are generally more willing to pay taxes.⁷ In addition, this chapter examines the effectiveness of different regulatory approaches, ranging from coercive measures to more cooperative strategies. It also examines the potential of utilizing behavioral interventions, or "nudges," to enhance tax compliance. Finally, it explores the cultural and cross-national differences in attitudes and behaviors related to tax compliance. This will highlight the significance of taking local contexts into account when developing tax compliance strategies.

Many questions remain unanswered regarding the most effective government strategies for encouraging tax compliance. As will be developed throughout the chapter, we will try to answer questions such as what is the conclusion that can be drawn from studies that focus on different framings of texts sent to people? What can be learned from the research on procedural justice and taxation? How significant is the impact? What can be learned from the various studies focusing on ethical nudges, such as requiring signatures at the beginning of tax forms,⁸ as well as various pledges that might reduce the need for states to monitor people's ethical behavior?⁹ As in Chapter 8, the focus of much of the discussion here will focus on trying to identify the best practices for improving compliance and what can be generalized from them to other contexts.

WHAT IS TAX COMPLIANCE?

An interesting example comes from an Indian study by Anil Kumar Jain on tax evasion, tax avoidance, and the black economy in India, as well as the impact of policies on these issues.¹⁰ The research examined the underlying causes and consequences of evasion and avoidance and proposed measures to address these issues. The study also presented information about the quantity of offenders and the corresponding penalties they received.

Scott Dyreng and colleagues examined corporate tax avoidance over time using a measure called "the long-run cash effective" tax rate.¹¹ The study investigated to

⁷ Feld, Lars P., and Bruno S. Frey. "Trust breeds trust: How taxpayers are treated." *Economics of Governance* 3 (2002): 87–99.

⁸ Shu, Lisa L., et al. "Signing at the beginning makes ethics salient and decreases dishonest self-reports in comparison to signing at the end." *Proceedings of the National Academy of Sciences of the United States of America* 109.38 (2012): 15197–15200.

⁹ Pe'er, Eyal, and Yuval Feldman. "Honesty pledges for the behaviorally-based regulation of dishonesty." *Journal of European Public Policy* 28.5 (2021): 761–781.

¹⁰ Jain, Anil Kumar. "Tax avoidance and tax evasion: The Indian case." *Modern Asian Studies* 21.2 (1987): 233–255.

¹¹ Dyreng, Scott D., Michelle Hanlon, and Edward L. Maydew. "Long-run corporate tax avoidance." *The Accounting Review* 83.1 (2008): 61–82, at 62.

what extent companies could reduce their tax burden over ten years. It also evaluated the reliability of annual tax rates as a predictor of long-term tax avoidance. After analyzing a sample of 2,077 firms, the researchers found that although the average tax rate was 30 percent, the effective tax rate amounted to 20 percent. Moreover, their findings indicate that annual tax rates do not necessarily predict a company's long-term tax avoidance behavior. However, firms that manage to maintain low effective tax rates can do so for extended periods. This study is valuable for its analysis of long-term corporate tax avoidance and its measurement of tax rates and effective tax rates, which are crucial in examining these issues.

Lei Guangyong and colleagues examined how the cultural diversity across Chinese cities where corporations operate influences organizations' tax avoidance behavior.¹² The researchers found that companies located in culturally diverse cities participated in less tax avoidance compared to companies located in more homogeneous cities. The impact of this effect was more significant in cases where companies had strong managerial incentives and when cities experienced higher levels of migration and even more so when companies were under internal or external monitoring. This study is valuable for its introduction of cultural diversity as a factor in the analysis of tax avoidance, which appears to be a relatively unexplored topic in the literature.

Finally, Keith Staveland conducted a study comparing the effectiveness of coercive policies versus service and value-based policies in minimizing tax evasion.¹³ The research concluded that policies focusing on service and value were more effective, likely because they have the potential to foster trust between citizens and the government. The study's findings suggest that governments should prioritize building trust, improving service quality, and emphasizing the societal advantages of tax contributions to increase voluntary compliance and decrease tax evasion.

MONITORING, AUDITS, AND TAX COMPLIANCE

The presence of audit mechanisms in regulatory frameworks could undermine claims about regulators' genuine trust in regulated entities. Even in cooperative regulatory programs, the ongoing threat of audits suggests that compliance behavior may not be purely voluntary, but rather shaped by the prospect of verification and potential enforcement. Indeed, tax policy audits serve as a cornerstone of fiscal policy and tax administration, functioning as a critical deterrence mechanism in promoting tax compliance.¹⁴ These systematic examinations of taxpayers' financial

¹² Lei, Guangyong, et al. "Cultural diversity and corporate tax avoidance: Evidence from Chinese private enterprises." *Journal of Business Ethics* 176 (2022): 357–379.

¹³ Staveland, Keith. "Governmental policies to reduce tax evasion: Coerced behavior versus services and values development." *Policy Sciences* 23.1 (1990): 57–72. <https://doi.org/10.1007/s10551-020-04683-2>.

¹⁴ For more elaboration see, for example, Allingham, Michael G., and Agnar Sandmo. "Income tax evasion: A theoretical analysis." *Journal of Public Economics* 1.3–4 (1972): 323–338; Alm. "What motivates tax compliance?"

records and declarations operate on multiple levels within the broader framework of tax enforcement, simultaneously verifying reporting accuracy, detecting potential fraud, and encouraging broader compliance through deterrence.

The implementation of tax audits encompasses various methodologies across a spectrum of scrutiny. At one end, auditors may conduct targeted reviews of specific line items or transactions. At the other end, they may perform comprehensive examinations of an entity's complete financial portfolio, including detailed analyses of supporting documentation, transaction histories, and accounting methodologies. Modern tax authorities have enhanced their audit efficiency through sophisticated risk assessment algorithms and advanced data analytics. These tools help identify returns exhibiting characteristics associated with higher probabilities of noncompliance or significant discrepancies, allowing for more strategic allocation of limited auditing resources.¹⁵

This strategic deployment of audit resources serves dual purposes. First, it increases the effectiveness of actual audit procedures by focusing examinations on returns most likely to yield significant adjustments or uncover noncompliance. Second, and perhaps more importantly, it amplifies the deterrent effect of audits across the broader taxpayer population. When taxpayers understand that sophisticated methods may detect noncompliance, they are more likely to file accurate returns, even if their actual probability of being audited remains relatively low.

The development of cooperative compliance programs in various jurisdictions has further evolved the role of audits. Under these programs, taxpayers who demonstrate robust internal controls and transparent reporting may qualify for reduced audit intensity or real-time issue resolution. For instance, the Netherlands' horizontal monitoring program and Australia's justified trust initiative represent innovative approaches where past compliance behavior influences future audit likelihood and intensity.

Empirical research consistently demonstrates the effectiveness of tax audits in promoting compliance. Studies across multiple jurisdictions show that both direct enforcement through completed audits and indirect deterrence through perceived audit risk significantly influence taxpayer behavior.¹⁶ However, research also indicates that the relationship between audit probability and compliance is not linear, suggesting the importance of maintaining a sophisticated and adaptable audit strategy.¹⁷

¹⁵ Atayah, Osama F., and Muneer M. Alshater. "Audit and tax in the context of emerging technologies: A retrospective analysis, current trends, and future opportunities." *International Journal of Digital Accounting Research* 21 (2021): 95–128.

¹⁶ Kasper, Matthias, and James Alm. "Audits, audit effectiveness, and post-audit tax compliance." *Journal of Economic Behavior & Organization* 195 (2022): 87–102.

¹⁷ Bentley, Kathleen A., Thomas C. Omer, and Nathan Y. Sharp. "Business strategy, financial reporting irregularities, and audit effort." *Contemporary Accounting Research* 30.2 (2013): 780–817.

Research indicates that audits, when done properly, can be a useful tool for increasing compliance. A recent study examined the impact of operational tax audits on self-employed US taxpayers and found significant effects on future compliance.¹⁸ The study revealed that audits led to increased reported income in subsequent years. Overall, audited taxpayers reported 15 percent higher taxable income in the years following the audit. However, the effects varied based on the audit outcome:

1. Taxpayers who received additional tax assessments (i.e., were found to have underpaid) subsequently reported 64 percent higher income in the following year and this effect persisted, with a 44 percent increase still evident three years later.
2. Conversely, taxpayers who underwent audits but received no additional assessments (i.e., were found to be compliant) subsequently reported 15 percent lower income in the following year, with this effect increasing to a 21 percent reduction after three years.

These findings suggest that audit experiences significantly influence future tax-reporting behavior, but in different ways depending on the audit outcome. Moreover, the study implies that improving the targeting of audits toward noncompliant taxpayers could potentially increase both immediate audit revenue and future tax collections.

Interestingly, in some studies,¹⁹ oversight by tax authorities has not been shown to affect compliance. A novel field experiment on tax compliance specifically focused on newly founded firms to examine the effect of tax authorities' supervision on timely tax payments. It is interesting to note that the results do not demonstrate a positive effect of close supervision on tax compliance.²⁰

Monitoring and Trust in Tax Compliance

An increasing number of studies show that monitoring alone is not sufficient to ensure tax compliance. The field of taxation has become a leading area in which the relative efficacy of voluntary compliance versus strict monitoring and high sanctions has been widely and deeply studied.²¹ We argue that any suggested association between audits and instrumental tax motivation ignores much of what we know about the importance

¹⁸ Beer, Sebastian, et al. "Do audits deter or provoke future tax noncompliance? Evidence on self-employed taxpayers." *CESifo Economic Studies* 66.3 (2020): 248–264.

¹⁹ Tax oversight might be seen as a more preventive approach.

²⁰ Gangl, Katharina, et al. "Effects of supervision on tax compliance: Evidence from a field experiment in Austria." *Economics Letters* 123.3 (2014): 378–382.

²¹ See: Dwenger, et al. "Extrinsic and intrinsic motivations for tax compliance"; Andrighetto, Giulia, et al. "Are some countries more honest than others? Evidence from a tax compliance experiment in Sweden and Italy." *Frontiers in Psychology* 7 (2016): 1–8.

of other mechanisms in tax compliance.²² In many countries, noncoercive initiatives have been proposed to obtain public cooperation. These approaches have some clear advantages, in terms of quality of compliance and enforcement costs, over coercive tax collection methods that rely on the exercise of state power.²³

Behavioral tax compliance scholars, such as Erich Kirchler and Michael Wenzel,²⁴ have conducted considerable research in the field and have observed two competing forces: the power of authorities versus trust in authorities. The common discovery of many studies in that tradition is that when people perceive tax authorities as trustworthy, they are more likely to comply voluntarily with tax requirements, whereas if people perceive tax authorities as powerful, compliance tends to be coerced. This approach holds value, as power can discourage unwanted behavior through monitoring and sanctions, whereas trust can encourage cooperation and self-motivation.

Building on our earlier discussion, linking perceived trustworthiness to intrinsic compliance requires a more nuanced approach that combines both behavioral insights and institutional factors. First, based on research on conditional cooperation, we can demonstrate how people's willingness to pay taxes can increase when they know that the tax authorities are collecting taxes from other tax evaders.²⁵ Second, a meta-analysis examining the effectiveness of deterrence has shown that higher levels of trust can enhance the authorities' ability to deter individuals.²⁶ Third, most of the studies in this field overlook factors that we developed in previous sections. These include understanding the heterogeneity of the effect (i.e., identifying which segment of the population reacts to a particular regulatory approach), determining its durability and sustainability on taxpayers' behaviors in the years that follow, and evaluating its broader effects, such as how taxpayers will behave in other contexts.²⁷

²² Kemper, Nathan, et al. "The effects of honesty oath and consequentiality in choice experiments." Paper presented at Agricultural and Applied Economics Association Annual Meeting (2016).

²³ Muehlbacher, Stephan, Erich Kirchler, and Herbert Schwarzenberger. "Voluntary versus enforced tax compliance: Empirical evidence for the 'slippery slope' framework." *European Journal of Law and Economics* 32 (2011): 89–97.

²⁴ Kirchler, E. *The economic psychology of tax behaviour*. Cambridge University Press, 2007; Kirchler, Erich, Christoph Kogler, and Stephan Muehlbacher. "Cooperative tax compliance: From deterrence to deference." *Current Directions in Psychological Science* 23.2 (2014): 87–92; Wenzel, Michael. "An analysis of norm processes in tax compliance." *Journal of Economic Psychology* 25.2 (2004): 213–228.

²⁵ Frey, Bruno S., and Benno Torgler. "Tax morale and conditional cooperation." *Journal of Comparative Economics* 35.1 (2007): 136–159.

²⁶ Balliet, Daniel, and Paul A. M. Van Lange. "Trust, conflict, and cooperation: A meta-analysis." *Psychological Bulletin* 139.5 (2013): 1090–1112.

²⁷ "2020 global forum annual report: Tax transparency and exchange of information in time of COVID-19 (OECD)." www.oecd.org/en/publications/2020/04/global-forum-on-transparency-and-exchange-of-information-for-tax-purposes-switzerland-2020-second-round_0a70b055.html; Rogers, Daniel T. *Environmental compliance and sustainability: Global challenges and perspectives*. CRC Press, 2019. <https://doi.org/10.1201/9780429400667>.

ENFORCEMENT, POWER, AND TAX COMPLIANCE MOTIVATIONS

Tax studies have shown that the use of what is known as “high power,” meaning stricter enforcement measures, can result in a decline in compliance.²⁸ Various approaches have been found to enhance tax compliance, including the use of financial and nonfinancial aids. These include appealing to an individual’s morality, guilt, or sympathy.²⁹ It has also been found that political ideology can affect how people perceive the use of coercive measures and tax compliance.³⁰ To encourage tax compliance, tax authorities in different countries have implemented behaviorally based tax compliance programs (nudges, reminders, framing of letters, changing defaults, and so on)³¹ to prime social norms and promote fairness.³² This study, as well as many others, demonstrate that there is a relationship between people’s tax motivation and factors beyond financial considerations, such as social norms and morality, that contribute to the overall perception.³³ Indeed, many countries have made changes to how tax authorities regulate the behavior of their citizens. For example, countries in Europe have been deploying cooperative strategies such as “enhanced relationships,” “horizontal monitoring,” and “fair-play initiatives.”³⁴

COERCION VERSUS TRUST IN TAX COMPLIANCE

Research on tax compliance reveals complex relationships between power, trust, and compliance behavior. According to Hofmann and colleagues’ study, while coercive power alone affected reason-based trust and intended tax compliance, it didn’t reduce implicit trust in tax authorities when combined with legitimate power.³⁵

²⁸ Batrancea, et al. “Trust and power as determinants of tax compliance across 44 nations”; Kaplanoglou, Georgia, and Vassilis T. Rapanos. “Why do people evade taxes? New experimental evidence from Greece.” *Journal of Behavioral and Experimental Economics* 56 (2015): 21–32; Pukeliene, Violeta, and Austėja Kažemekaitė. “Tax behaviour: Assessment of tax compliance in European Union countries.” *Ekonomika* 95.2 (2016): 30–56.

²⁹ Alm. “What motivates tax compliance?”

³⁰ Lozza, Edoardo, et al. “The relationship between political ideology and attitudes toward tax compliance: The case of Italian taxpayers.” *Journal of Social and Political Psychology* 1.1 (2013): 51–73.

³¹ Hofmann, Eva, Erik Hoelzl, and Erich Kirchler. “Preconditions of voluntary tax compliance: Knowledge and evaluation of taxation, norms, fairness, and motivation to cooperate.” *Zeitschrift für Psychologie/Journal of Psychology* 216.4 (2008): 209–217.

³² John, Peter, and Toby Blume. “How best to nudge taxpayers? The impact of message simplification and descriptive social norms on payment rates in a central London local authority.” *Journal of Behavioral Public Administration* 1.1 (2018): 1–11.

³³ Trivedi, Viswanath Umashanker, Mohamed Shehata, and Stuart Mestelman. “Attitudes, incentives, and tax compliance.” *Canadian Tax Journal* 53 (2005): 29–61.

³⁴ Kirchler, Erich. “Strengthening tax compliance by balancing authorities’ power and trustworthiness.” No. 2019–03. WU International Taxation Research Paper Series (2019).

³⁵ Hofmann, Eva, et al. “Enhancing tax compliance through coercive and legitimate power of tax authorities by concurrently diminishing or facilitating trust in tax authorities.” *Law & Policy* 36.3 (2014): 290–313.

A contrasting study in Greece by Kaplanoglou and Rapanos found that trust increased voluntary compliance, while power increased enforced compliance.³⁶ Notably, in high-trust situations, power had no impact on voluntary compliance. However, when trust was low, high power actually decreased voluntary compliance levels.

Other research by Matthias Kasper and colleagues suggests a link between trust, power, and intentions to comply in a real-world setting.³⁷ Their findings indicate that media reports on tax issues address issues of trust and power and that both factors have an impact on the intended level of tax compliance. In a comprehensive literature review, Kirchler and colleagues explored intrinsic and extrinsic factors affecting tax compliance, including fines, audit probabilities, tax rates, knowledge, attitudes, norms, and fairness.³⁸

The review explores the power and trust dimensions, referencing these factors throughout. Kirchler also found that ideology played a role in tax compliance. Left-leaning taxpayers expressed higher levels of voluntary cooperation and showed resistance to the coercive power of authorities. In contrast, right-leaning taxpayers demonstrated higher levels of enforced tax compliance and were more averse to tax evasion, showing increased trust in authorities and institutions.³⁹ Moreover, this trust is strongly correlated with individuals' perceptions of tax justice.⁴⁰

INTEGRATING COMPETING TAX ENFORCEMENT APPROACHES

Research in this area has found that coercive power by tax authorities typically triggers negative reactions, while trust fosters positive compliance outcomes. Studies by Kirchler and his coauthors demonstrate that effectively combining trust-building measures with appropriate power dynamics can significantly reduce noncompliant behavior, leading to more sustainable compliance strategies. Understanding tax compliance requires examining both regulatory design and enforcement approaches. Kirchler's extensive research comparing various regulatory and enforcement methods has significantly shaped this field.⁴¹ While his work initially focused on enforcement strategies through coercive and legitimate power, later collaborations

³⁶ Kaplanoglou and Rapanos. "Why do people evade taxes?"

³⁷ Kasper, Matthias, Christoph Kogler, and Erich Kirchler. "Tax policy and the news: An empirical analysis of taxpayers' perceptions of tax-related media coverage and its impact on tax compliance." *Journal of Behavioral and Experimental Economics* 54 (2015): 58–63.

³⁸ Kirchler, Erich, Erik Hoelzl, and Ingrid Wahl. "Enforced versus voluntary tax compliance: The 'slippery slope' framework." *Journal of Economic Psychology* 29.2 (2008): 210–225.

³⁹ Lozza, et al. "The relationship between political ideology and attitudes toward tax compliance."

⁴⁰ Güzel, Sonmur Aktaş, Gökhan Özer, and Murat Özcan. "The effect of the variables of tax justice perception and trust in government on tax compliance: The case of Turkey." *Journal of Behavioral and Experimental Economics* 78 (2019): 80–86.

⁴¹ Kirchler, Hoelzl, and Wahl. "Enforced versus voluntary tax compliance."

expanded to explore the theoretical interaction between power and trust.⁴² This research revealed that effective compliance strategies must balance enforcement mechanisms with trust-building approaches.

The broader literature on tax compliance demonstrates how different factors influence cooperative behavior. For instance, Lars Feld and Bruno Frey emphasize that treating taxpayers fairly and thoughtfully enhances compliance.⁴³ Additionally, studies have shown that public social sanctioning plays a crucial role in promoting cooperation in public good scenarios.⁴⁴

This research on cooperation and tax compliance has revealed important insights about why people cooperate in social dilemmas, particularly focusing on sanctioning mechanisms and the nature of different compliance challenges. These findings contribute to our understanding of how regulatory design can effectively promote voluntary compliance while maintaining necessary enforcement measures.⁴⁵

TRANSPARENCY AND VOLUNTARY TAX COMPLIANCE

Transparency serves as a crucial mechanism for fostering taxpayer trust. Tax policy research indicates that promoting transparency, directing tax revenues toward social expenditures, and maintaining stable tax rates are fundamental strategies for building citizen trust in governmental institutions.⁴⁶ These trust-building measures can potentially reduce both tax avoidance and evasion, particularly among individual taxpayers.⁴⁷

Corporate tax compliance presents distinct challenges that stem from different motivational factors than those affecting individual taxpayers.⁴⁸ Moreover, country-specific factors significantly influence tax compliance rates, requiring

⁴² Gangl, Katharina, Eva Hofmann, and Erich Kirchler. "Tax authorities' interaction with taxpayers: A conception of compliance in social dilemmas by power and trust." *New Ideas in Psychology* 37 (2015): 13–23.

⁴³ Feld, Lars P., and Bruno S. Frey. "Tax compliance as the result of a psychological tax contract: The role of incentives and responsive regulation." *Law & Policy* 29.1 (2007): 102–120.

⁴⁴ Kroll, Stephan, Todd L. Cherry, and Jason F. Shogren. "Voting, punishment, and public goods." *Economic Inquiry* 45.3 (2007): 557–570.

⁴⁵ Molenmaker, Welmer E., Erik W. de Kwaadsteniet, and Eric van Dijk. "On the willingness to costly reward cooperation and punish non-cooperation: The moderating role of type of social dilemma." *Organizational Behavior and Human Decision Processes* 125.2 (2014): 175–183.

⁴⁶ Prichard, Wilson, et al. "Innovations in tax compliance: Conceptual framework." World Bank Policy Research Working Paper 9032 (2019).

⁴⁷ Slemrod. "Tax compliance and enforcement."

⁴⁸ Tax avoidance involves legally minimizing one's tax liability by taking advantage of existing loopholes or incentives in the tax code, while tax evasion is the illegal nonpayment or underpayment of taxes, often through deliberate misreporting or concealment of income; a classic example of tax avoidance is contributing to a tax-deferred retirement account to reduce current taxable income, whereas hiding cash earnings from a business and not reporting them on a tax return is a typical instance of tax evasion. Stiglitz, Joseph E. "The general theory of tax avoidance." *National Tax Journal* 38.3 (1985): 325–337.

careful consideration of national contexts. The identification and analysis of these factors, while methodologically challenging, remains essential for understanding how cultural and sociological variables impact compliance behaviors across different jurisdictions.

Does Tax Morale Substantially Contribute to Tax Compliance?

Since the 1960s, substantial attention has been focused on investigating “tax morale”⁴⁹ – the intrinsic motivation to pay taxes – as a crucial determinant of compliance.⁵⁰ Numerous studies support the idea that higher levels of tax morale led to enhanced tax compliance.⁵¹ However, a considerable amount of this evidence is based on self-reported intentions to comply rather than actual compliance behaviors.

Despite the presumed importance of tax morale in reducing tax evasion and the shadow economy,⁵² Žiga Puklavac and colleagues found little consensus on its definition and measurement.⁵³ Their systematic literature review reveals a wide range of definitions, from narrow concepts of intrinsic motivation to broad interpretations encompassing various nonpecuniary factors. It also demonstrates how intrinsic motivation was rarely measured as a separate concept, with some confusion between intrinsic motivation, tax morale, and morality. Operationalizations vary greatly, with the most common being a single question about the justifiability of tax cheating. This heterogeneity in definitions and measurements creates a misalignment between conceptualization and operationalization, highlighting the need for a unified definition and improved measurement instruments to better capture the psychology of tax morale.

Although some studies suggest that subjective norms are associated with actual tax evasion, further research is needed to establish a definitive link between these

⁴⁹ The existence of a parallel debate around moral suasion, as a regulatory strategy in tax and other domains, should be noted. Moral suasion has faced significant scrutiny from both empirical and philosophical perspectives. Torgler’s 2004 Swiss field experiment revealed the limited practical impact of moral suasion in tax compliance, while Bardach raised fundamental philosophical concerns about its validity as a regulatory approach. These studies suggest the need for careful consideration when employing moral suasion as a policy tool. Torgler, Benno. “Moral suasion: An alternative tax policy strategy? Evidence from a controlled field experiment in Switzerland.” *Economics of Governance* 5.3 (2004): 235–253; Bardach, Eugene. “Moral suasion and taxpayer compliance.” *Law & Policy* 11.1 (1989): 49–69.

⁵⁰ Horodnic, Ioana Alexandra. “Tax morale and institutional theory: A systematic review.” *International Journal of Sociology and Social Policy* 38.9–10 (2018): 868–886.

⁵¹ E.g., Torgler, Benno, and Friedrich Schneider. “The impact of tax morale and institutional quality on the shadow economy.” *Journal of Economic Psychology* 30.2 (2009): 228–245.

⁵² Cummings, Ronald G., et al. “Tax morale affects tax compliance: Evidence from surveys and an artefactual field experiment.” *Journal of Economic Behavior & Organization* 70.3 (2009): 447–457.

⁵³ Puklavac, Žiga, et al. “Unobscuring the concept of tax morale.” Working paper, 2024 (on file with author).

two factors, given that other studies have proved less conclusive.⁵⁴ In general, the complex interplay between tax morale and tax compliance behavior is shaped by a range of contextual factors, resulting in diverse outcomes.⁵⁵

Jonathan Slater and colleagues conducted a combined mega-meta-analysis of the association between tax morale and actual tax behavior.⁵⁶ This research could shed light on the intention–behavior gap, enabling researchers and policymakers to comprehend tax morale’s influence on tax compliance. In another study on tax morale, the classical causality was reversed and the effect of tax dilemmas on tax morale was examined, rather than the usual approach of examining the effect of tax morale on tax dilemmas.⁵⁷ The study’s simulation placed young adults with limited experience in taxation in a situation where their attitudes toward taxes could be observed and where their attitudes influenced their decisions. Although the use of a simulation may have its drawbacks, it has allowed researchers to analyze how participants responded to, experienced, and observed these dilemmas. The study found that such tax dilemmas reduced both tax morale and compliance.

Scholz and Lubell’s influential study examined how the 1986 Tax Reform Act impacted Americans’ trust in government.⁵⁸ Analyzing responses from 292 participants, they found a direct relationship between tax changes and trust levels: Individuals who experienced tax decreases developed greater trust in the state, while those facing tax increases showed diminished trust. These findings demonstrated how tax policy changes can significantly affect citizens’ trust in government institutions.

Along those lines, Antonios Koumpias and colleagues conducted a study to examine the factors that can enhance a population’s tax morale.⁵⁹ They analyzed data from World Values Surveys collected from ninety-two countries between 1981 and 2014. According to this comprehensive study, governments can establish trust with citizens most effectively by improving the efficiency of agencies and programs that are output-based, as these are the government entities that citizens interact with most frequently. Instead of examining the correlation between citizen trust in the government and tax compliance, this study focused on how governments can increase trust to attain this goal. Therefore, it could serve as a foundational piece of research, as

⁵⁴ Wenzel. “An analysis of norm processes in tax compliance.”

⁵⁵ Azmi, Deena Azriana Wan Mohd, and Seri Ayu Masuri Md Daud. “Reconceptualizing tax compliance behavior: A theoretical matrix approach.” *Accounting and Finance Research* 13.1 (2024): 1–67.

⁵⁶ Slater, Jonathan, et al. “The role of tax morale on actual tax compliance: A meta-analytical review.” Working paper, 2024 (on file with author).

⁵⁷ Deglaire, Emmanuelle, Peter Daly, and Fabrice Le Lec. “Exposure to tax dilemmas deteriorate individuals’ self-declared tax morale.” *Economics of Governance* 22 (2021): 363–397.

⁵⁸ Scholz, John T., and Mark Lubell. “Adaptive political attitudes: Duty, trust, and fear as monitors of tax policy.” *American Journal of Political Science* 42.3 (1998): 903–920. <https://doi.org/10.2307/2991734>.

⁵⁹ Koumpias, Antonios M., Gabriel Leonardo, and Jorge Martinez-Vazquez. “Trust in government institutions and tax morale.” *European Journal of Public Finance* 77.2 (2020): 117–140. <https://doi.org/10.1628/fa-2021-0006>.

any discussion on this topic would likely begin with analyzing the methods used to establish trust between the government and its citizens. Further evidence supporting the importance of tax morale and conditional cooperation with tax requirements is presented in a study drawing on survey data from thirty countries in Western and Eastern Europe. This study reports a strong correlation between perceived levels of tax evasion and tax morale.⁶⁰

Importance of Tax Morale and Intrinsic Compliance Motivation

In an important field study on the effect of extrinsic motivation on compliance motivation, Nadja Dwenger and colleagues examined the interplay of intrinsic and extrinsic motivations related to tax compliance, which are based on incentives and deterrence measures.⁶¹ They focused on the local church tax system in Germany,⁶² which traditionally lacked deterrence mechanisms, relying on intrinsic motivation to encourage compliance. Through their additional analysis of tax obligations and payment records, they found that people have a strong intrinsic motivation to comply with tax laws, which may be linked to a sense of duty and responsibility. Most importantly in the context of this book, their findings show that there is no crowding out of intrinsic motivation when economic incentives are introduced. In a different context, Ronald Cummings and colleagues have also suggested that enforcement efforts alone cannot explain all aspects of tax compliance.⁶³ Using multiple methods, including surveys, existing data, and experiments, they arrived at their conclusions regarding the limits of enforcement after reviewing various factors, such as fairness and attitudes toward the tax authorities and cultures.⁶⁴

Indeed, since the early 2000s, extensive empirical research has been conducted on the determinants of tax compliance and their correlation with tax morale as the alternative explanation for tax compliance.⁶⁵ Several studies have examined the effectiveness of different measures aimed at improving tax compliance, especially through messages that promote tax morale. However, this research has yielded nuanced and sometimes conflicting results. For example, Michael Hallsworth and colleagues conducted large-scale natural field experiments involving over 200,000 UK taxpayers.

⁶⁰ Frey and Torgler. "Tax morale and conditional cooperation."

⁶¹ See: Dwenger, et al. "Extrinsic and intrinsic motivations for tax compliance."

⁶² In Germany and few other European countries, church tax is collected by the state tax authorities on behalf of the religious communities.

⁶³ Cummings, Ronald G., et al. "Effects of tax morale on tax compliance: Experimental and survey evidence." CREMA Working Paper, No. 2005-29 (2006).

⁶⁴ Marandu, Edward E., Christian J. Mbekomize, and Alexander N. Ifezue. "Determinants of tax compliance: A review of factors and conceptualizations." *International Journal of Economics and Finance* 7.9 (2015): 207–218.

⁶⁵ Luttmer, Erzo F. P., and Monica Singhal. "Tax morale." *Journal of Economic Perspectives* 28.4 (2014): 149–168.

They found that social norm messages emphasizing widespread compliance can significantly increase timely tax payments.⁶⁶

Similarly, Kristina Bott and colleagues conducted a randomized field experiment with 15,000 Norwegian taxpayers considered likely to have misreported foreign income. According to their findings, moral appeals emphasizing the societal benefits of tax contributions positively influenced compliance among certain taxpayer groups.⁶⁷ However, the impact of tax morale interventions on compliance is not consistently positive. Jan-Emmanuel De Neve and his team conducted a comprehensive study that examined the tax records of Belgian taxpayers over a couple of years. They concluded that simplification and deterrence messages were highly effective. However, appeals to tax morale were not only ineffective but, in some cases, were even counterproductive.⁶⁸ The varying outcomes indicate that the effectiveness of interventions aimed at improving tax morale may be dependent on the context, including cultural norms, existing compliance levels, and how the moral appeal is presented.

MOTIVATIONAL POSTURES THEORY AND TAX COMPLIANCE

In contrast to Kirchler's view, which appears more dichotomous, Valerie Braithwaite presented a more nuanced perspective on what it means to collaborate with the tax authority. This nuanced approach makes the challenge even more complex for tax authorities interested in enhancing intrinsic motivation to comply. She argues that those who resist most vocally, challenge tax authority decisions, and are openly critical of the institution, are not necessarily more noncompliant as a group than taxpayers who engage with the tax system in other ways.⁶⁹ Furthermore, younger people were found to be less compliant in attitude and behavior than older people. However, in Australia, high tax compliance is attributed to its taxpaying culture rather than to its youth culture.⁷⁰ Research shows that higher perceived deterrence reduces tax evasion, while it was also found that individuals displaying dismissive defiance – a response that can vary with deterrence levels – are more likely to evade taxes.⁷¹ In addition, a study was conducted to examine the impact of motivation

⁶⁶ Hallsworth, Michael, et al. "The behavioralist as tax collector: Using natural field experiments to enhance tax compliance." *Journal of Public Economics* 148 (2017): 14–31.

⁶⁷ Bott, Kristina M., et al. "You've got mail: A randomized field experiment on tax evasion." *Management Science* 66.7 (2020): 2801–2819.

⁶⁸ De Neve, Jan-Emmanuel, et al. "How to improve tax compliance? Evidence from population-wide experiments in Belgium." *Journal of Political Economy* 129.5 (2021): 1425–1463.

⁶⁹ Braithwaite, Valerie. "Dancing with tax authorities: Motivational postures and non-compliant actions." *Taxing Democracy* 3 (2003): 15–39.

⁷⁰ Braithwaite, Valerie, and Monika Reinhart. "The taxpayers' charter: Does the Australian Tax Office comply and who benefits?" Centre of Tax System Integrity report (2000).

⁷¹ Braithwaite, Valerie, and Monika Reinhart. "Deterrence, coping styles and defiance." *FinanzArchiv/ Public Finance Analysis* 69.4 (2013): 439–468.

in postures, tax audit strategies, and peer-reporting behavior through experimental studies. The study demonstrates that the strategy of tax audits and peer-reporting behavior affect decisions regarding tax compliance strategies.⁷² Some results show that enforcement tools have led to the opposite behavior than was sought. This suggests that punishing offenders with maximum penalties is not an effective way to encourage compliance with regulations.⁷³

BEHAVIORAL INTERVENTIONS AND TAX COMPLIANCE

The complexity of the factors that influence tax compliance, as discussed earlier in this chapter, can be observed through the inconsistent outcomes of behavioral public policy studies that aim to examine how to encourage people to pay their taxes through various forms of nudges. Research by John Peter and Toby Blume regarding nudges and tax compliance has shown that nudges can enhance tax compliance and public administration by improving messages and thereby increasing revenue.⁷⁴ Their study used factorial designs to examine the effectiveness of simplification and social norms in promoting local tax compliance in central London. It finds that simplification led to a 4 percent increase in payments among a specific group of taxpayers, but the social norm approach did not have the intended impact in a larger sample, possibly because of the diverse characteristics of the target population and the wording of the norm. In addition, a meta-analysis based on forty-four randomized controlled trials found that simple reminders increase compliance probability by 10.8 percent compared to baseline levels. Nondeterrence nudges targeting tax morale show a 16.4 percent improvement, while deterrence-based interventions prove most effective, enhancing compliance by 23.6 percent.⁷⁵

An additional paper used reminders to promote tax compliance in a nationwide randomized controlled trial in Guatemala. Focusing on alternative messaging aimed at reminding people about tax compliance, this study demonstrated the effectiveness of deterrence messages on social norms and morality factors in promoting tax compliance.⁷⁶ The trial involved variations in the letters sent to individuals and firms who did not pay their income tax for the 2013 tax year. The most effective

⁷² Puspitasari, Elen, and Wahyu Meiranto. Motivational postures in tax compliance decisions: An experimental study, *International Journal of Business, Economics and Law* 5.1 (2014): 100–110.

⁷³ Sabri, Bibi Khairani Mohamed, et al. “Measures in curbing poor compliance to building control regulation among renovated terrace houses.” *International Journal of Law in the Built Environment* 9.3 (2017): 256–271.

⁷⁴ John and Blume. “How best to nudge taxpayers?”

⁷⁵ Antinyan, Armenak, and Zareh Asatryan. “Nudging for tax compliance: A meta-analysis.” *The Economic Journal* 135.668 (2024): 1033–1068.

⁷⁶ Kettle, Stewart, et al. “Behavioral interventions in tax compliance: Evidence from Guatemala.” World Bank Policy Research Working Paper 7690 (2016). See also Chirico, Michael, et al. “An experimental evaluation of notification strategies to increase property tax compliance: Free-riding in the city of brotherly love.” *Tax Policy and the Economy* 30.1 (2016): 129–161.

treatments included a message that discouraged nondeclaration by framing it as a deliberate choice, designed to overcome status quo bias. Another effective approach was a social norms message that referenced the 64.5 percent of taxpayers who had already paid this tax, thus encouraging people to conform to the status quo. Most importantly, the effects were persistent and remained at a twelve-month follow-up.

Another paper of great interest drawing on a similar methodology demonstrated the difference between moral and detection (i.e., deterrence) letters sent to taxpayers in Norway.⁷⁷ A study comparing tax compliance letters found that moral appeals were more effective at increasing payment amounts from existing taxpayers, while deterrence messages better motivated nonpayers to make some payment. Notably, deterrence messages showed more lasting effects on compliance behavior.

MESSAGE EFFECTS ON TAX COMPLIANCE

It is not surprising that when analyzing the effects of different messages on tax compliance, we can see that the taxpayers' ability to avoid paying taxes is the factor that moderates the magnitude of the manipulation effect.⁷⁸ This might be seen as a chilling effect on the perceived importance of intrinsic motivation in ensuring compliance. However, numerous studies demonstrate the significance of fairness in this context. For example, a study of Australian taxpayers revealed significant differences between self-employed individuals and other taxpayers in their perceptions of fairness and experiences with the tax system.⁷⁹ Similarly, Wenzel has conducted a line of studies indicating that fairness-oriented letters were more likely to increase compliance.⁸⁰

An additional study has examined the different policies that can be used by the state to minimize tax evasion. It also assesses the effectiveness of coercive policies versus service and value-based policies.⁸¹ This study has found that value-based policies are more effective. Three correlational studies conducted with over 500 US residents focused on the prosocial aspects of taxation as a motivator for tax compliance. The studies found that when citizens are aware of the benefits of their taxes, they are more willing to pay higher taxes and even find more satisfaction in doing so.⁸²

⁷⁷ Bott, et al. "You've got mail."

⁷⁸ Slemrod, Joel, Marsha Blumenthal, and Charles Christian. "Taxpayer response to an increased probability of audit: Evidence from a controlled experiment in Minnesota." *Journal of Public Economics* 79.3 (2001): 455–483.

⁷⁹ Ahmed, Eliza, and Valerie Braithwaite. "Understanding small business taxpayers: Issues of deterrence, tax morale, fairness and work practice." *International Small Business Journal* 23.5 (2005): 539–568.

⁸⁰ Wenzel, Michael. "A letter from the tax office: Compliance effects of informational and interpersonal justice." *Social Justice Research* 19 (2006): 345–364.

⁸¹ Snavey. "Governmental policies to reduce tax evasion."

⁸² Thornton, Emily M., et al. "Prosocial perceptions of taxation predict support for taxes." *PLOS One* 14.11 (2019): 1–12.

Furthermore, these studies indicate that people who trust their government tend to do so because they are convinced that the taxes they pay are being used for socially beneficial purposes.

These findings provide support for the idea that when governments try to show citizens how their taxes are being used, citizens are more likely to trust the state. Thus, even when numerous studies demonstrate that fairness contributes to tax compliance, its importance may be challenged if two conditions are met:⁸³ First, if fairness alone cannot ensure compliance, and second, if its effect size is marginal compared to other factors such as the ability to evade. This challenge becomes especially relevant if emphasizing fairness hinders the effectiveness of other regulatory methods. Thus, while this area of tax compliance has been studied extensively, especially by behavioral scholars interested in compliance, it is not clear that a gold standard has been established for the best approach to framing a letter's message.

TAX MORALE, RECIPROCITY, AND SELF-INTEREST

In light of the tension between fairness and self-interest in predicting and ensuring tax compliance, reciprocity emerges as an important motivation. It combines aspects of both fairness and self-interest, potentially bridging the gap between these competing factors.⁸⁴ Indeed, in tax context, research on reciprocity suggests that there may be limits to tax morale being solely based on moral attitudes.⁸⁵ This challenges the idea that tax morale is completely separate from self-interest. The impact of reciprocity was examined in an experimental study by Matias Giacobasso and colleagues.⁸⁶ This study, examining property tax protests as a measure of tax morale, explored how information about the usage of tax money affects tax morale, highlighting the complex nature of individual preferences that are driven by self-interest. When households learned that a larger portion of their taxes was allocated to public schools, their reactions varied:

1. Households *with* children in public schools became less likely to protest, suggesting an increase in tax morale.
2. Households *without* children in public schools became more likely to protest, indicating a decrease in tax morale.

⁸³ Hartner, Martina, et al. "Procedural fairness and tax compliance." *Economic Analysis and Policy* 38.1 (2008): 137–152.

⁸⁴ Fehr, Ernst, and Klaus M. Schmidt. "The economics of fairness, reciprocity and altruism: Experimental evidence and new theories." *Handbook of the Economics of Giving, Altruism and Reciprocity* 1 (2006): 615–691.

⁸⁵ Doerrenberg, Philipp, and Andreas Peichl. "Tax morale and the role of social norms and reciprocity: Evidence from a randomized survey experiment." (2018). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3237993.

⁸⁶ Giacobasso, Matias, et al. "Where do my tax dollars go? Tax morale effects of perceived government spending." No. w29789. National Bureau of Economic Research, 2022.

The interaction effect indicated that a 10 percentage point *increase* in the perceived school funding share led to a 3.7 percentage point *decrease* in tax appeals from households with children. The same increase resulted in a 2.8 percentage point increase in appeals from households without children. These findings underscore how individuals' perceptions of government spending can significantly influence tax morale. The impact varies depending on personal circumstances and perceived benefits from such spending. However, the research also reveals that the effect sizes are relatively small. This raises a crucial policy question: Given our discussion in Chapter 5 on the perils of voluntary compliance, is investing in intrinsic motivations cost-effective?

GOVERNMENT SUPPORT AND TAX COMPLIANCE

In the same tradition, Yair Listokin and David Schizer have written an important paper on factors related to intrinsic motivation to tax compliance in which they examine the relationship between taxpayer support of government spending and the efficiency of the tax system.⁸⁷ The authors argue that taxpayers are more inclined to support government spending when they perceive that the tax system is operating efficiently. They suggest, therefore, that a more efficient tax system can lead to greater taxpayer compliance and reduced tax evasion. This study presents empirical evidence to support these claims, drawing on data from surveys and experiments.

CULTURE AND TRUST: TAX COMPLIANCE AND TAX EVASION

The landscape of tax regulation becomes even more complex when we consider studies demonstrating how a country's culture affects the efficacy of various regulatory approaches. This cultural dimension allows us to examine how different countries can rely on their citizens' cooperation to varying degrees. Research in this area has taken two main approaches: comparative perspectives across multiple countries and in-depth case studies of individual nations. Overall, many of these studies have found that trust, especially institutional trust, is positively correlated with a higher willingness to pay taxes.⁸⁸ In some contexts, this correlation between institutional trust and willingness to pay taxes has been related to people's perceptions of certain programs; in other contexts, it has been associated with the general culture in each country. An example, related to people's perception of certain programs, is a study by Antonios Koumpias and colleagues exploring factors that increase a population's tax morale.⁸⁹ After examining data from the

⁸⁷ Listokin, Yair, and David M. Schizer. "I like to pay taxes: Taxpayer support for government spending and the efficiency of the tax system." *Tax Law Review* 66 (2012): 179–216.

⁸⁸ Batrancea, et al. "Trust and power as determinants of tax compliance across 44 nations."

⁸⁹ Koumpias, Leonardo, and Martinez-Vazquez. "Trust in government institutions and tax morale."

World Values Surveys in ninety-two countries, the results suggest that governments can effectively build trust in their citizens by creating more efficient output-based agencies and programs. The second type of situation, which is related to cultural differences, has been examined in a series of case studies on both developing and developed countries. For example, Gustavo Flores-Macías found that, in Mexico, implementing mechanisms for civil society oversight and earmarking taxes for specific programs increased public support for taxation.⁹⁰ The study also analyzed the effects of these measures by considering factors such as trust in government, perception of the public good, and income.

Numerous studies conducted mostly in developing countries have demonstrated the significance of trust in tax compliance. For example, Peggy Jimenez and Govind Iyer have explored the influence of social and personal norms on tax compliance, finding that these norms both affect and are affected by trust in government, as well as by other factors.⁹¹ Abel Kinyondo and Mwoya Byaro studied the connection between citizens' trust in government and their willingness to pay taxes in Tanzania.⁹² They found that low trust, largely caused by failures in public services, led to a reduced willingness to pay taxes. In their study of the effects of various types of trust on willingness to pay more taxes for welfare in South Korea and Taiwan, Eunyong Nam and Myungsook Woo found that, in South Korea, having trust in the government led to a higher willingness to pay taxes for welfare specifically.⁹³

Analyzing tax culture in Russian society, Irina Ogorodnikova and colleagues focused on tax morality, tax literacy, and tax behavior, concluding that institutional trust is a crucial factor in shaping tax culture.⁹⁴ Moreover, the study of Georgia Kaplanoglou and Vassilis Rapanos analyzed the failures of the Greek tax system, which ultimately led to a recession, and attributed them to several factors, including low institutional trust.⁹⁵ Marcel Bergman's study comparing taxes and social policies in Chile and Argentina emphasized the crucial role of trust in government as a

⁹⁰ Flores-Macías, Gustavo A. "Building support for taxation in developing countries: Experimental evidence from Mexico." *World Development* 105 (2018): 13–24.

⁹¹ Jimenez, Peggy, and Govind S. Iyer. "Tax compliance in a social setting: The influence of social norms, trust in government, and perceived fairness on taxpayer compliance." *Advances in Accounting* 34 (2016): 17–26.

⁹² Kinyondo, Abel, and Mwoya Byaro. "Does citizen's trust in government increase willingness to pay taxes in Tanzania? A case study of Mtwara, Lindi and Dar es Salaam regions." *African Journal of Economic Review* 7.1 (2019): 176–187.

⁹³ Nam, Eunyong, and Myungsook Woo. "Who is willing to pay more taxes for welfare? Focusing on the effects of diverse types of trust in South Korea and Taiwan." *Development and Society* 44.2 (2015): 319–343.

⁹⁴ Ogorodnikova, Irina Ivanovna, et al. "Tax culture and trust." *Comparative Sociology* 19.3 (2020): 363–387.

⁹⁵ Kaplanoglou, Georgia, and Vassilis T. Rapanos. "Tax and trust: The fiscal crisis in Greece." *South European Society and Politics* 18.3 (2013): 283–304.

factor influencing tax compliance.⁹⁶ His study found that citizens with higher levels of trust were more willing to pay taxes.

An earlier study by Feld and Frey focused on efforts to improve the relationship between tax compliance and tax evasion and suggested that promoting compliance is an effective strategy to combat evasion.⁹⁷ The researchers also analyzed the interaction between tax authorities and taxpayers, emphasizing the significance of this relationship in determining taxpayers' compliance with tax laws.

SUMMARY AND CONCLUSION

This chapter has utilized tax compliance as a lens through which to examine the broader concepts of voluntary compliance and intrinsic motivation. The extensive body of research on tax compliance provides a rich case study for understanding how individuals' internal drives interact with external factors and governmental policies.

These studies collectively underscore the critical role of trust and positive relationships between citizens and their governments in promoting tax compliance. By prioritizing trust building and fostering cooperative interactions with taxpayers, governments can more effectively encourage compliance and reduce tax evasion. These insights provide valuable guidance for policymakers in designing tax strategies that cultivate a more collaborative and compliant taxpaying environment, moving beyond traditional enforcement-based approaches to more nuanced, trust-centered policies.

By analyzing the concept of tax morale and its relationship to actual compliance behavior, we have gained insights into the nature of intrinsic motivation in a regulatory context. Research has explored various interventions to foster voluntary tax compliance, including social norm messaging and moral appeals.⁹⁸ These approaches reveal complex dynamics when compared to traditional command and control methods. Notably, conventional enforcement strategies often overlook the importance of intrinsic motivation and voluntary compliance. Significantly, the predictive power of tax morale proved limited across many studies reviewed in this analysis. This relatively weak correlation between tax morale and actual tax behavior is further corroborated by our ongoing meta-analysis in collaboration with Slater, mentioned earlier in the chapter. While these findings do not negate the value of investing in tax morale, they underscore the importance of maintaining a critical perspective when considering intrinsically motivated compliance as an alternative to traditional tax enforcement mechanisms.

⁹⁶ Bergman, Marcelo. "Who pays for social policy? A study on taxes and trust." *Journal of Social Policy* 31.2 (2002): 289–305.

⁹⁷ Feld and Frey. "Trust breeds trust."

⁹⁸ Blumenthal, Marsha, Charles Christian, and Joel Slemrod. "Do normative appeals affect tax compliance? Evidence from a controlled experiment in Minnesota." *National Tax Journal* 54.1 (2001): 125–138.

As shown throughout this book regarding voluntary compliance, research on tax compliance presents mixed results. It remains unclear which approaches work best, how effective softer enforcement tools are, or what combinations of regulatory tools yield optimal results. This chapter shows that what drives people to comply with rules isn't simple. While internal factors like tax morale matter, their effectiveness depends on cultural norms, existing compliance rates, and how interventions are presented. Trust in government emerges as particularly important – when people trust institutions, they're more likely to comply willingly with regulations.

Looking ahead, we need longer term studies to understand how voluntary compliance holds up over time. We should also examine how different approaches work together – for instance, how enforcement measures might complement trust-building efforts. This could help create systems that encourage willing compliance while still preventing abuse. Chapter 10 will explore how these insights from tax compliance apply to environmental regulation and other areas.