

Review of Recent Literature

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This section provides a brief review of selected peer-reviewed publications (2015) that investigate aspects of taxpayer and tax authority relations. It does not purport to be comprehensive, but rather gives a flavour of the variety of research studies from around the world. They are presented under broad headings, and in no particular order within those headings. The papers summarised here come from a variety of disciplinary backgrounds including economics, psychology, law and public policy.

Tax Compliance

Alm, Bloomquist and McKee (2015) - On the External Validity of Laboratory Tax Compliance Experiments

In this paper the authors examine the issue of external validity of the studies that use laboratory experiments to derive conclusions about tax compliance. They show that the behavioural patterns of subjects in the laboratory conform to those of individuals making a similar decision in naturally occurring settings. Moreover, they also find that the behavioural responses of students are largely the same as those of nonstudents in identical experiments.

Castro and Scartascini (2015) - Tax Compliance and Enforcement in the Pampas: Evidence from a Field Experiment

This paper describes a large field experiment in Argentinian property tax to evaluate how the compliance behaviour of taxpayers varied according to their beliefs regarding the levels of enforcement, reciprocity, and peer-effects. The authors show that introducing messages in the tax bill might be an effective way of influencing taxpayers' behaviour albeit with an observed heterogeneity of taxpayer responses to different messages. The results indicate that the most effective was the deterrence message that listed the actual fines and potential administrative and judicial steps that the municipality might follow in the case of non-compliance. Specifically, the authors estimate that the probability of compliance by a taxpayer that received the deterrence message is 5 percentage points higher than for an individual in the control group.

Kosonen and Ropponen (2015) - The Role of Information in Tax Compliance: Evidence from a Natural Field Experiment

The authors examine unintentional mistakes in VAT tax returns and whether providing information about the tax rules improves reporting. Using a natural field experiment, the authors show that informing taxpayers about tax rules reduces mistakes significantly.

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Kasper, Kogler and Kirchler (2015) - Tax policy and the news: An empirical analysis of taxpayers' perceptions of tax-related media coverage and its impact on tax compliance

In this paper, using a survey-based experiment, the authors examine how actual media representations of tax authorities' trustworthiness and power impact intended tax compliance. The authors find evidence supporting a link between trust, power and intention to comply in a real-world setting, as opposed to hypothetical settings used in previous research.

Thomas (2015) - The Psychic Costs of Tax Evasion

In this paper the author suggests increasing the "psychic cost" of tax evasion as a way of generating more tax revenue. She draws on studies that find people experience some form of psychological discomfort when they are dishonest, which may deter them from cheating and proposes employing subtle behavioural interventions that encourage more honest tax reporting by raising the level of psychological discomfort experienced from underreporting.

Timmesch (2015) - Testing the Models of Tax Compliance: The Use-Tax Experiment

This paper examines non-compliance with US state level use taxes, a type of sales tax payable when purchases are made without payment of sales tax, most usually from online vendors. The author argues that non-compliance costs states up to US\$20bn a year. The author makes a case for applying the modern tax compliance theories to promote individual compliance with state use taxes, instead of assuming they are unenforceable.

Devos and Zackrisson (2015) - Tax Compliance and the Public Disclosure of Tax Information: An Australia/Norway Comparison

This paper presents and analyses the strategies adopted by tax authorities globally and specifically in Australia and Norway, regarding the public disclosure of tax information and its likely compliance impact. The authors argue that public disclosure of taxpaying information, in addition to traditional compliance strategies, is potentially useful in improving compliance in Australia. The paper outlines a number of ways additional tax information disclosure could improve overall tax compliance but notes that more empirical studies are needed, preferably with tax authority involvement.

Casagrande, Di Cagno, Pandimiglio and Spallone (2015) - The Effect of Competition on Tax Compliance: The Role of Audit Rules and Shame

The authors conduct a laboratory experiment using students and test two alternative audit rules, random and targeted to those reporting lowest incomes. They show that competition between taxpayers induces more compliance - ceteris paribus tax revenues are higher under the strategic audit rule than under the random one. Authors also test the effects of "name and shame" strategies and

show that such strategies reinforces competition but play no significant role on its own.

Tax morale

Andriani (2015) - Tax morale and prosocial behaviour: evidence from a Palestinian survey

This paper use a unique public opinion survey conducted in West Bank and Gaza Strip among Palestinians in 2007 and empirically investigates the relationship between prosocial behaviour and tax morale in the context of state capacity building. The authors use the notions of “public spirit” - a positive attitude adopted by citizens for the benefit of the community and “associational activity” - individuals’ engagement in voluntary activities, as two major expressions of prosocial behaviour and estimate their impact on Palestinians’ ‘tax morale’ (intrinsic motivation to pay taxes). They show that tax morale increases with public spirit but it is lower among Palestinians involved in associational activities.

Blaufus, Braune, Hundsdoerfer and Jacob (2015) - Self-serving Bias and Tax Morale

Using a laboratory experiment with student subjects, the authors test the assumption that tax morale arises independently of the individuals’ economic situation. The paper shows that self-serving bias plays an important role where individuals with the opportunity to evade taxes consider tax evasion less unethical compared to those without this opportunity. These findings indicate that self-serving bias is observable regardless of the economic conditions.

Lisi (2015) - Tax Morale, Tax Compliance and the Optimal Tax Policy

This paper seeks to incorporate behavioural aspects of compliance into optimal tax policy debates. Using theoretical modelling, it is shown that tax authority monitoring is effective at increasing tax compliance in the case of tax evaders and maintaining the right balance of compliance in the case of honest taxpayers. The paper suggests imposing stricter penalties on dishonest taxpayers and alleviating the tax burden on honest taxpayers.

Thomas (2015) – The Psychic Cost of Tax Evasion

This paper argues that the standard theory under which policymakers should be able to reduce tax evasion by increasing tax penalties, raising the audit rate, or some combination of the two has proven ineffective that the government continues to lose hundreds of billions of dollars in tax revenue due to underreporting by individual taxpayers. Acknowledging the budgetary limitations and political hurdles faced by the IRS the author recommends implementing penalties that would produce psychological discomfort on tax under-reporting by dishonest tax payers. He suggests structuring tax filing process in a way that would emphasize the existence of penalties with such “psychic” costs.

Shadow Economy and evasion

Viren (2015) - Why So Little Revenues are obtained from a presumed large shadow economy?

This paper examines the gap between very high estimates of the size of the shadow economy and the small amount of government revenue that is obtained by means of tax inspections and regulatory activities. Using tax audit data from Finland the author shows that the actual size of shadow economy is much smaller than is publicized and present it as one of the most important reasons why actions taken by the Finnish government to curtail the shadow economy are disappointing.

Seidel and Thum (2015) - Tax Evasion, Corruption and Market Entry

This paper develops an economic model of the impact of tax policy on firms' market entry and on tax revenue in the presence of corruption when firms can evade taxes. The authors show that if bribers are exogenous, stricter enforcement of taxation lowers market entry which leaves the government with a trade-off between market entry and tax revenues. On the other hand, if bribes are endogenous, stricter enforcement can result in more market entry and more tax revenues.

Schneider, Raczkowski and Mróz (2015) - Shadow Economy and Tax Evasion in the EU

This paper reviews a variety of studies and identifies some 17 shadow economy research areas that could usefully be studied as interdisciplinary projects. The authors conclude that the main driving forces of the shadow economy are indirect taxes followed by self-employment and unemployment.

Benk, Budak, Püren and Erdem (2015) - Perception of Tax Evasion as a Crime in Turkey

Using a survey of 475 self-employed respondents, the paper investigates Turkish taxpayers' perception of the severity of tax evasion relative to other crimes and violations. The authors show that tax evasion is ranked 10th among the 21 offences surveyed. These results indicate that the average person views tax evasion as only somewhat serious, ranking less severe than accounting fraud. It seems that the general public in Turkey do not perceive tax evasion as a serious crime, which together with poor enforcement, has created an environment where some individuals may not be afraid to cheat.

Hard to tax sectors

Huang (2015) - A Study in Compliance: The Taxation of Virtual Economies

This paper looks into the gaming industry and investigates the economic magnitudes of transactions that are facilitated by digital platforms such as mobile apps and games. The taxation of such virtual economies is an important and an

emerging issue both from tax policy and administrative perspective. To conceptualize, World of Warcraft, an online multiplayer game created in 2004, have reached US\$1.04bn in revenues from over 10 million subscribers. The author argues that the IRS loses a significant amount of potential tax revenue to such transactions and recommends the application of withholding taxation as the most efficient way to capture lost tax revenue from the sale of virtual assets for real dollars.

Tax Complexity

James, Sawyer and Wallschutzky (2015) - Tax simplification: A review of initiatives in Australia, New Zealand and the United Kingdom

This paper considers the role of tax simplification in the operation of a tax system as a whole and then analyses developments in Australia, NZ and the UK. The paper focusses on three aspects: simplifying tax law, taxpayer communications and tax administration. The authors suggest that establishing some form of independent authority may enable effective simplification in the three jurisdictions reviewed, but call for further research into tax simplification.

Borrego, Loo, Lopes and Ferreira (2015) - Tax professionals' perception of tax system complexity: Some preliminary empirical evidence from Portugal

This paper analyses tax professionals' perception of tax complexity in Portugal. The authors seek to determine the dimensions of causes of tax complexity and create indices of these causes. They also aim to identify the factors that could influence the level of tax complexity. This paper presents the results collected from 994 questionnaire responses. The survey findings concluded that professionals perceived three dimensions of causes of tax complexity: legal complexity; complexity of information preparation and record keeping; and complexity of tax forms. Exogenous factors include tax knowledge and size of companies.

General Tax Administration

Forman and Mann (2015) - Making the Internal Revenue Service Work

This paper makes suggestions as to how to redesign the federal tax system so that the Internal Revenue Service (IRS) can administer it more effectively given limited available resources, which weaken its enforcement capability. The authors' recommendations include simplifying the tax system, enhancing third-party reporting, and streamlining tax-filing and dispute-resolution procedures.

Browde (2015) - Many Unhappy Returns: The Need for Increased Tax Penalties for Identity Theft-Based Refund Fraud

This paper investigates identity theft-based refund fraud and analyses the inadequacy of existing law to solve the problem. IRS efforts to address the issue include committing resources to assisting victims, updating detection and prevention mechanisms, and increasing criminal investigations and prosecutions.

The IRS's approach and pending proposed legislation are not enough to address the problems created by identity theft-based tax fraud. Accordingly the author recommends enhanced criminal penalties and a new civil penalty for offenders.

Brand, Hodson and Sawyer (2015) - South East Asian tax administration issues in the drive to attract foreign direct investment: Is a regional tax authority the way forward?

This paper examines the relation between foreign direct investment (FDI) and tax administration, an area that is largely neglected by the literature. Authors show that tax administration is a consideration evaluated by foreign investors when making FDI decisions, hence it is in the interests of both parties to resolve tax administration problems such as corruption, inadequate dispute settlement, and difficulty of obtaining binding rulings. They suggest the establishment of ASEAN-based Regional Tax Authority (RTA), possibly even as a first step towards a world tax administration.

Buckers, Hopkins-Burns, Bennet and Namay (2015) - Information Sharing by Government Agencies: The Effect on the Integrity of the Tax System

This paper by New Zealand Inland Revenue researchers, examines increased information sharing activity of the Inland Revenue in New Zealand with other government departments and agencies. The paper reports findings from five studies conducted between 2010 and 2013 and proposes alternative methods that the revenue agency could implement to maintain taxpayer and tax-collector trust. The authors argue that it is vital that the Inland Revenue protects the current high regard that the public holds for its standards of privacy by limiting its information sharing to the most pressing needs, and continuously tightening its information security processes.

Wihantoro, Lowe, Cooper and Manochin (2015) - Bureaucratic reform in post-Asian Crisis Indonesia: The Directorate General of Tax

This paper is based on an ethnographic study that examines the movement in the Indonesian Tax Office towards much more bureaucratic organisational form. The authors question the appropriateness of basing public sector reform in the Indonesian public sector on a broadly western model and argue that it is important to carefully modify adopted organisational forms to fit the specific cultural concepts and practices.

Nasyrova (2015) - Estimation of the Quality of Tax Administration in the Russian Federation

This paper explores indicators of the quality of the tax administration in the context of Russia. The author presents growth rates of tax revenues, collection of tax payment, pre-charges as a result of tax inspections, structure dynamics of tax payers, indicators of tax revenues of one tax payer as direct indicators of the quality of the tax administration. The author also argues that an integrated indicator such as the World Bank's notion of "doing business" is an important indirect indicator of the quality of the tax administration.

Björklund (2015) - Common sense at the Swedish tax agency: transactional boundaries that separate taxable and tax free income.

Based on an ethnography of publicly available documentary material, the author analyses how the Swedish tax agency manages the various boundaries present in the income tax system in its enforcement role. The documents are taken by the author as expressions of the collective practices of agency employees that inform taxpayers about the agency's approach to difficult issues such as market exchanges.

Tax Profession

Levy (2015) - Believing in Life after Loving: IRS Regulation and Tax Preparers

In this paper the author critically investigates the recent court decision that overruled the IRS's efforts to regulate tax preparers, an action that is taken in the face of fraudulent and/or incompetent tax reporting by non-qualified tax preparers. The IRS's move to implement standards on the eligibility criteria for tax preparers would be of significant importance as only in 2011, as of the 142 million individual income tax returns filed 79 million were completed by paid preparers. Moreover of those filings, 42 million were filled out by preparers who were neither licensed nor regulated who mostly target low-income families who claim the earned income. The author discusses in detail why the arguments presented against the new regulations were flawed and how congress should increase its support to IRS in this area.

Oyer (2015) - Unregulated Tax Return Preparers: Not Loving the Penalties

This paper, like the above paper, discusses the IRS's recent move on to regulate un-licensed tax preparers. The author argues that specific regulations the IRS wants to implement may over-penalize tax return preparers. The article supports tax preparers' regulation but suggests Congress enact legislation that would limit the penalties and align them with those already in place for tax return preparer misconduct.

Bowde (2015) - Many Unhappy Returns: The Need for Increased Tax Penalties for Identity Theft-Based Refund Fraud

Bowde investigates the growing problem of fraudulent tax returns file using stolen identities which is costing tremendous amount of money on assisting victims, detecting and preventing refund fraud and prosecuting offenders. The author argues that the IRS and the Congress should take on a multi-dimensional approach and implement new civil tax penalties aimed specifically at targeting such tax fraud.

Levy (2015) - Believing in Life After Loving: IRS Regulation of Tax Preparers

In this paper Levy critically examines the IRS endeavour to regulate tax preparers and provide background on the incentives behind the IRS move. The author

provides a story of a judicial affirmation that the new rules proposed by IRS were in fact “unlawful” with a critical perspective.

Tax Disputes

Miles (2015) - The price we pay for a specialised society: do tax disputes require greater judicial specialisation?

This paper considers the arguments for greater judicial specialisation in New Zealand tax cases, and concludes based on comparisons with other jurisdictions, that such specialisation is not desirable. In part this is a function of the New Zealand environment where there are insufficient tax cases to warrant specialisation.

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