

## REVIEW OF RECENT LITERATURE

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A selection of recently published papers is reviewed below. The aim is to bring together tax administration-related papers from the diverse range of outlets in which they are published. The review is necessarily selective, and the Journal welcomes suggestions for inclusion of papers in subsequent reviews.

### AUDITS

#### **DeBacker, J., Heim, B.T., Tran, A., & Yuskavage, A. (2018). The Effects of IRS Audits on EITC Claimants.**

The study provides empirical evidence of the compliance patterns of earned income tax credit (EITC) claimants and investigates the impact of audits on subsequent taxpayer declarations (on both intensive and extensive margins). Exploiting both data from the universe of filers and from a program of randomized audits (National Research Program), the authors show that being subject to audit increases the average gross income (AGI) of EITC recipients by more than 6 percent for at least six years. There are other margins over which EITC claimants might distort their declarations: first, the size of EITC credit claimed; second, the number of dependents reported – which is positively related to the credit that may be claimed; and, third, the filing status – with married households reporting split returns typically achieving lower total tax liability. The evidence presented in the article shows that, upon audit, EITC claims fall by 6 percentage points and that the likelihood of reporting multiple dependents or head-of-household status drops at similar rates. Finally, the results suggest that EITC participants draft their declarations strategically, with misrepresentations most likely to happen in the regions of the EITC schedule delivering higher reduction of liabilities. However, taxpayers do not seem to be driven entirely by EITC incentives; while evidence of sizeable bunching is found at a spot of the EITC schedule that maximizes the amount of the credit, the second kink point only displays limited bunching behavior.

### COMPLIANCE

#### **Lozza, E., & Castiglioni, C. (2018). Tax Climate in the National Press: A New Tool in Tax Behaviour Research.**

Considerable evidence has been provided in the scientific literature on the importance of a country's tax climate in shaping compliance behavior. In this article, the authors present a novel methodology by which to assess the tax climate: "lexicographical analysis". The study focuses on tax-related articles on newspapers from two regions that, despite their geographical proximity, display marked differences in terms of compliance: Italy and the Italian-speaking Canton of Ticino (Switzerland). Interpreting the results through the lens of the "slippery slope" framework, the authors show that an antagonistic tax climate (coercive power of authorities and distrust in the tax system) appears to prevail in Italy, while a synergistic tax climate

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(legitimate power of authorities and trust in the tax system) characterizes the Canton of Ticino. The paper provides an illustration of the tax climate evolution in the two regions during the period 2010-2016. As argued by the authors, the possibility of monitoring the dynamic of the compliance climate may prove useful to policymakers when designing better fiscal and deterrence policies.

**Alm, J. (2018). What Motivates Tax Compliance?**

This paper is a survey of what we have learned about what motivates individuals to pay – or to not pay – taxes. First, it discusses how theory shows that enforcement matters, but an individual does not always behave as assumed in the standard economic approach and may be influenced by group considerations. Second, the author reviews empirical and experimental findings, showing that individuals are motivated by financial considerations (e.g., audits and penalties) as well as non-financial considerations (e.g., sympathy, empathy, guilt, shame, and morality) and social considerations (e.g., social norms, public goods, voting, and neighbor behavior). The author finally concludes on the necessity to consider the great heterogeneity across individuals and makes policy recommendations based on this survey.

**Givati, Y. (2018). Of Snitches and Riches: Optimal IRS and SEC Whistleblower Rewards.**

In the US, hundreds of millions of dollars are paid out to whistleblowers by the Internal Revenue Service (IRS) and the Securities and Exchange Commission (SEC) as rewards for the provision of information about violations. In this paper, the author develops an economic model to capture the deterrent effect of whistleblower rewards. The paper includes an analysis of the regulations that guide the IRS and SEC in setting the rewards. Policy recommendations are made based on the model, which suggests, counter-intuitively, that less severe violations may deserve greater rewards, different whistleblowers may be given different rewards for the same information, and a greater likelihood of a successful false report may require greater reward.

**Wynter, C.B., & Oats, L. (2018). Don't worry, we are not after you! Anancy culture and tax enforcement in Jamaica.**

This paper explores the role of culture in tax enforcement practices in the context of property tax collection in Jamaica. The analysis is informed by semi-structured interviews with a wide range of participants, including politicians, tax administrators, tax payers and non-payers. Anancy culture is found to shape the practice of tax administrators leading to selective enforcement strategies. The paper provides insights into the unique culture of Jamaica, in which democracy co-exists with resistance to the established order deriving from colonial history.

## CONSUMPTION TAXES

**Feldman, N., Goldin, J., & Homonoff, T. (2018). Raising the Stakes: Experimental Evidence on the Endogeneity of Taxpayer Mistakes.**

When a tax is not included in the displayed price of a commodity, it modifies buyers' subsequent decision-making processes. People buy more when it is included. This effect is called the salience effect. The present paper studies the impact of the magnitude of the tax being levied (8% vs. 22% tax rate) on the salience effect. The results show no evidence that the salience effect declines as the tax rate increases. It is rather the reverse here; higher taxes

make consumers less attentive. This last result might come from a confirmation bias, where customers disregard information that is not concordant with their intentions of buying.

## **DIGITALISATION**

### **Hodzic S. (forthcoming). Tax Administration Challenges of the Digital Economy: The Croatian Experience.**

This article addresses the digital economy with respect to the tax administration challenges in Croatia. The biggest taxation problems in the single market are tax avoidance and aggressive tax planning. As a result of Croatia's accession to the European Union of 1 July 2013, the tax administration encounters even greater challenges. These include harmonization with the approach taken by the European Union, along with its targets of fairness, competitiveness, integrity of the Single Market, and sustainability. Following a discussion on the importance and characteristics of the digital economy and e-Government model in Croatia, the author focuses on analyzing the implementation of new electronic services in Croatian Tax Administration through a SWOT analysis. The results show that, in addition to some strengths and potential opportunities, there are a number of weaknesses, namely absence of monitoring of key performance indicators, data security problems, delays in informatization in relation to the European Union Member States etc., accompanied with threats such as insufficient funds for modernization, brain drain, no reward system for employees and so on.

### **James, S., & Sawyer, A. (forthcoming). Digitalization of Tax: Comparing New Zealand and United Kingdom Approaches.**

The article discusses the digitalization of tax administration, comparing New Zealand and the United Kingdom's approaches. Using comparative case study methodology, the authors investigate the approaches applied in these two countries i.e. New Zealand's "Business Transformation Programme" and the United Kingdom's "Making Tax Digital" project. These projects are considered to be ambitious and are expected to transform the way in which taxpayers (and their agents) interact with the revenue authorities. The revenue authorities (New Zealand's Inland Revenue (IR) and the United Kingdom's HM Revenue and Customs (HMRC)) face considerable challenges, including delays in progress and "teething issues" with the elements being operative. Taxpayers may have trouble using the new digital framework, resulting in challenges for these revenue authorities in terms of disseminating the digitalization to the large population. Moreover, multiple risks arise, such as the overall effect on morale, results caused by the shortage of personal engagement with taxpayers and, in particular, the inescapable reality of the limited success rate of IT (and related) projects, primarily attributed to ineffective project management. However, the digitalization projects under examination are still incomplete and it is thus expected that a more extensive review will be undertaken in the near future.

## **DISPUTE RESOLUTION**

### **Cai, Q. (2018). Behind Sovereignty: Concerns about International Tax Arbitration and How They May be Addressed.**

Sovereignty looms large in international tax matters, not least in the realm of dispute resolution. In this paper, the author draws on lessons from international investment arbitration, which has raised a number of serious concerns that are evaluated. The implications for tax arbitration are

then considered and recommendations are made for reform. Objections to arbitration based on sovereignty arguments are found to be largely empty; what is of significance are the practical implementation difficulties. Overcoming these difficulties is important in the face of the increasing strain being placed on traditional dispute resolution mechanisms. Included in the analysis is a case study of TRIBUTE, a relatively recent initiative.

## **EVASION**

### **Cockfield, A. J. (2017). Policy Forum: Examining Canadian Offshore Tax Evasion.**

This paper reviews academic and government studies that assess the magnitude of Canadian offshore tax evasion. Each approach has its own flaws, but it suggests that Canadians maintain hundreds of billions of dollars of undisclosed financial wealth offshore. The author points to the recent measures taken to limit offshore tax evasion: a whistleblower program, disclosures of cross-border transfers of \$10,000 or more, cross-border tax information exchanges, and enhanced audit resources. Finally, this article recommends ways to improve the system for investigating and prosecuting offshore tax evaders, like strengthening the coordination among different federal departments and agencies, publishing the names of successfully prosecuted offshore tax cheats, amending corporate law statutes and providing detailed annual reports on revenue collection with respect to offshore tax cases.

### **Alm, J., Liu, Y., & Zhang, K. (2018). Financial constraints and firm tax evasion.**

This paper studies firm tax evasion using data from the Business Environment and Enterprise Performance Survey (World Bank). It shows that more financially constrained firms are more likely to be involved in tax evasion activities, because evasion helps them to deal with financing issues created by financial market constraints. Financial constraints are heterogeneous across firm ownership, firm size, and firm age. Firms evading taxes are found to be more likely to reduce information disclosure in the banking system, more likely to conduct business in cash in order to avoid paper trails of transactions, and more likely to lobby the government for a lower probability of tax audit.

### **Chan, E.Y. (2018) Exposure to national flags reduces tax evasion: Evidence from the United States, Australia and Britain.**

In this paper, the author draws on social identity theory to test the hypothesis that exposure to one's national flag can serve to reduce income tax evasion. Both indirect and direct evidence in support of the hypothesis is presented. Three experiments are conducted drawing on three national samples; in the US (using Amazon Turk), in Australia (using undergraduate students) and in the UK (using Prolific Academic). Across the three experiments, the author finds consistent and converging evidence that exposure to national flags can reduce tax evasion, most likely because such exposure makes national identity salient. National identity is arguably one particular form of social identity that links most closely with taxpaying/non-taxpaying behavior.

## **PENALTIES**

### **Gemmel, N., & Ratto, M. (2018) The Effects of Penalty Information on Tax Compliance: Evidence from a New Zealand Field Experiment.**

The article studies the effect of penalties on compliance decisions using a field experiment based on New Zealand's goods and service tax (GST). The field experiment investigates how taxpayers with overdue GST liabilities respond, in terms of repayment, to being provided with three levels of detail regarding the penalty regime and to being offered a reduced penalty rate if they entered an agreement to repay by installments. Since the experiment consisted of an initial phone call followed by attempts to obtain payment (immediate or delayed), the paper can disentangle the effect of the treatment on the taxpayer's immediate stated intention from the impact on actual behavior. The results presented suggest that the experimental intervention increases taxpayers' intentions to pay back GST liabilities but has no statistically significant effect either on the probability of a taxpayer entering an installment arrangement or on immediate repayment. Evidence provided by the authors suggests that strategic considerations might be driving the observed difference between intention and behavior, and that individual taxpayer characteristics associated with their perceived probabilities of enforcement or the cost of borrowing have an impact on observed compliance.

### **Keen, M. (2018). Competition, Coordination and Avoidance in International Taxation.**

The article provides a discussion of the economic linkages between avoidance, competition and coordination in international taxation. The author observes that the intense coordination projects/debates currently undertaken worldwide raise questions about the adequacy of the international tax architecture and calls for a deeper analysis of the underlying trade-offs shaping the different proposals. Defining "tax coordination" as the international agreement on rules about national tax policies and "tax competition" as a form of game among countries on the definition of their tax system directed toward the attraction of tax base, the author illustrates how the two are necessarily co-existent. First, because coordination is one of the many means that a state may use to pursue national self-interest in tax matters and, second, because coordination is usually "partial", affecting only a subset of the available tax instruments. One especially relevant implication of the latter point is that the effects of collective action in reducing avoidance by coordination on a subset of tax instruments may be (more than) offset by national decisions on instruments left unconstrained (e.g., lowering the statutory tax rate). Hence, coordination efforts might lead to an intensification of tax competition, leaving the final impact of the coordination activity on national well-being ambiguous. Finally, the author argues that the implementation of effective minima is a promising measure in dealing with tax competition (for taxes levied on a source basis), also representing an appropriate response to preferential regimes (relative to insisting on uniform treatment).

## **PROFESSION**

### **Apostol, O., & Pop, A. (2018). 'Paying taxes is losing money': A qualitative study on institutional logics in the tax consultancy field in Romania.**

In this paper, the authors examine the role of the tax consultancy industry in Romania, drawing on institutional theory, in particular, institutional logics. Semi-structured interviews with tax consultants and with tax inspectors working in the large business directorate are used for data collection. It is found that commercial logic dominates, within which compliance work plays a

larger role than avoidance. Interestingly, the authors found no signs of an ethical logic with the tax consultants, which is consistent with other studies in western countries.

## **SHARING ECONOMY**

### **Brandon Elliot, C. (2018). Taxation of the Sharing Economy: Recurring Issues.**

The author describes the current challenges faced by the government when collecting direct and indirect taxes in the sharing economy. The issue presented in relation to direct taxation is profit-shifting by large worldwide platforms, such as Uber and Airbnb. The author argues that there are two types of transactions which are considered for VAT purposes: intermediary services provided by the platform and the services provided to end users. The decision is made depending upon whether the provider is regarded as a taxable person. Furthermore, the author argues that goods or services supplied in return for reward-based crowdfunding fall within the VAT regime if the goods or services are identified at the time of the contribution. The author also details four types of tax opportunism in the sharing economy and suggests that lack of visibility of the provider's activity is the main issue when collecting tax.

### **Bornman, M., & Wessel, J. (forthcoming). The tax compliance decision of the individual in business in the sharing economy.**

The authors argue that individuals who newly enter the sharing economy cause the most pressure on tax compliance. Extending and revising the framework developed by Kamleitner, Korunka and Kirchler (2012) for small business owners to the analysis of home-sharing industries by individuals, this article presents a four-dimensional concept that includes personal characteristics, perceived opportunity, knowledge requirement, and decision-making. The authors propose to use this novel framework for the analysis of tax compliance decisions and risks for individuals participating in the sharing economy.

### **Migai, C., de Jong, J., & Owens, J. (forthcoming). The Sharing Economy: Turning Challenges into Compliance Opportunities for Tax Administrations.**

This article details the challenges and opportunities for tax authorities in the face of the increasing role played by the sharing economy. To address how fiscal policies should be designed, the authors separate the role of end users on the digital platforms and the digital platforms themselves. They conclude that, on the one hand, the sharing economy may boost the size of the informal sector by either cash transactions or cryptocurrencies. On the other hand, the digital nature of the sharing economy may create a new source of public revenue and unique tax compliance opportunities with properly designed regulations and use of technologies. The article contains numerous examples of businesses within the sharing economies in various countries, with carefully referenced details of their operations, sizes, and treatment for tax purposes.

## **TRANSFER PRICING**

### **Hofmann, P., & Riedel, N. (2018). Transfer Pricing Regimes for Developing Countries.**

Recently, governments all over the world have increasingly paid attention to international profit shifting, especially as it relates to transfer pricing. This article focuses on the challenges facing developing and emerging countries in terms of transfer pricing regime design and

administration. First, the arm's length principle applies in less developed countries to protect their domestic corporate tax bases. Second, it is difficult to find comparable transactions required for transfer pricing, due to weak public reporting requirements. Third, given the complexity of transfer pricing regimes partly related to the OECD/G20's base erosion and profit shifting (BEPS) initiative, the appropriate administration and enforcement of complex transfer pricing systems requires additional tax authorities' resources, both in terms of the number of employees and their education. Finally, the evaluation of transfer pricing in these countries is subject to a variety of potentially different objectives, resulting in behavioral responses, i.e., corruptive behavior etc. In the article, the authors also suggest viable options by which to address these challenges. "Direct" responses counteract a lack of tax authority capacity via capacity-building measures and counteract the lack of comparable data by permitting the use of indirectly comparable data in order to construct arm's length prices. Another option is to foster the availability and use of advance pricing agreements (APAs) between one or more taxpayers and one or more tax administrations. It is also suggested that developing countries implement the comprehensive safe harbor provisions into transfer pricing regimes in order to relax the arm's length principle and the more formulary international apportionment of the income of multinational enterprises (MNEs). These proposals may help to lower compliance and administration costs as well as reduce the scope for corrupt behavior.

**Collier, R. (2018). The Impact of the OECD/G20 Base Erosion and Profit Shifting Project on the Task for Developing Countries of Applying the Arm's Length Principle in Practice.**

In this paper, the author reviews the history of OECD engagement with developing countries and highlights the difficulties now faced, particularly by developing countries, as a result of the new transfer pricing analyses required by the BEPS project. It is noted that the BEPS project has led to the "single biggest rewrite (and rethink) and expansion of the Transfer Pricing Guidelines since their introduction". Much more attention is now paid to the actual conduct of the parties, going behind the contractual terms, which makes the process of finding appropriate arm's length prices considerably more difficult and therefore onerous.

Collier concludes that, notwithstanding the considerable guidance provided, for example, by the Platform for Collaboration on Tax, the challenges facing developing countries will continue to grow and expand, calling into question the sustainability of the current system for allocation of corporate profits for tax purposes.

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