Education regarding taxation from the attitude and intuition to experiment

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Abstract. This paper analyses students’ attitudes towards taxation. The literature in the field of tax compliance research shows that there is a relationship between tax knowledge and attitudes towards taxation, more specific, higher tax knowledge determines more favourable attitudes towards taxation. The more favourable attitudes are; the more favourable behaviour could possibly be. What is important in studying tax compliance is indeed the tax behaviour, but this paper has had the purpose to observe and analyze students’ attitudes as a possible prediction of the future taxpayers’ behaviour, more or less compliant.

The paper was designed in the spirit of behavioral economics approach. According to this approach tax compliance research focuses on the non-economic determinants of taxpayers’ behavior like tax education, tax knowledge and attitudes towards taxation.

After summarising the literature in the field of study, a survey was conducted among students who did or did not participate to a taxation course and did or did not pay taxes. The survey was designed using the American IRS Taxpayer Attitude Survey and other surveys developed by authors mentioned in the literature review. To measure attitudes towards taxation Likert scales were used. The respondents were asked to evaluate some statements and to express their level of agreement or disagreement with regard to those specific statements. The result are consistent with the previous research: there are differences in attitudes among the student groups and students who participated to a taxation course seem to have more favorable attitudes towards taxation.

Keywords: tax compliance, tax education, tax attitudes, taxpayer survey.

JEL Codes: H20, Z13.

1. Introduction

The scientific issue approached by the current study is tax compliance. The significance of research in the field of tax compliance derives from the target of any tax administration to increase the collection of income taxes. The factors influencing the taxpayers’ decision towards certain behaviour – compliance or evasion are even more important, although making the remark that noncompliance is not always intended. We need a more intricate approach than the focus on the „homo economicus” taxpayer.

In the current study we have analyzed the influence of tax education on the attitudes towards taxation. The question that arises is whether tax education, development of tax knowledge
determines favourable attitudes. But this is only the first part of a more intricate question which would as well answer to the question whether more favourable attitudes lead to a favourable behaviour (fiscally – the tax compliance).

Starting from the study on tax education – tax attitudes relationship in literature, we conducted and managed a survey for students, seen as future taxpayers, although in the current study a part of the students were in the capacity of taxpayers in the moment of the survey gathering. If, theoretically, the education – attitudes relationship was targeted, without leaving out the necessity of taking into consideration the attitudes – behaviour relationship, we believe that the analysis of the students’, young people attitudes is important, but without leaving out the importance of the analysis regarding the behaviour of the students becoming taxpayers.

In the second section we made a synthesis of the main aspects referring to the subjective knowledge, the subjective concepts relating to taxation and attitudes. The goal is to illustrate their connection with tax compliance. Practically, we proposed ourselves to give an answer to the question: is tax education a factor which delineates taxpayer’s behaviour? We start from the premise that tax education can change the attitudes related to taxation. Even if they aren’t in the position of taxpayers yet, students have certain attitudes towards the taxation process.

The research methodology is described in the third section of the study, the achieved results are illustrated in the fourth section, and certain conclusions will be underlined.

2. Literature review

The research in the field of tax compliance has as initial reference point the contribution of Schmölders (1970)[1] in the area of behavioral economics and economic psychology, distinguished in the study „Survey Research in Public Finance – A Behavioral Approach to Fiscal Theory”.

The research evolution in the field of tax compliance can be distinguished chronologically regarding two points of inflexion: at the beginning people started from the idea that a single taxpayer makes a rational decision choosing between paying his taxes or not, assuming the risk of being detected. This decision becomes a utility issue, respectively if the benefit of evasion covers the presumed cost in case of detection, then the taxpayer will make evasion. The models of Allingam and Sandmo (1972)[2] and Srinivasan (1973)[3] developed in this spirit.

On the other hand, Alm et al. (2012)[4] introduce three new paradigms: the compliance paradigm as a dilemma of social securities – the dilemma of social securities appears when the personal interest is in contrast with the collective one, the taxpayer considers that public incomes are spent ineffectually and that the other taxpayers do not comply with it; here interferes the importance of the interpersonal and institutional confidence, the paradigm of compliance as a behaviour of several different taxpayers – they take into account the fact that there are several types of taxpayers, being motivated both by financial aspects and by non-financial aspects and the paradigm of compliance as a psychological contract (between taxpayers, Government and tax authorities) – it is focused on the idea of social norm. As long as the group institutes compliance as a social norm, the taxpayers shall comply with, but if evasion is accepted by the group the compliance will no longer be considered a social norm.

These paradigms introduce in the analysis of the taxpayer’s behaviour subjects such as psychology and sociology, and Alm (2013)[5] shows that this approach is specific to behavioral economics. As literature illustrates, tax compliance as behaviour of taxpayers is not influenced only by economic and legislative factors but also other factors such as tax education, personal, social or society norms – according to the classification made by Kirchler (2007)[6], tax morality other times called tax ethics (there is no clear distinction between the two concepts) connected with religiosity. Multiple studies treating the issue of the presence or absence of tax morality as an influence factor of certain attitudes or behaviors were also elaborated by Torgler (2002[7], 2005a[8], 2005b[9], 2006[10]).
Eagly and Chaiken (1993)[11] define the attitude as a psychological direction expressed through the assessment of a certain object or certain situation through a certain degree of favor or detriment (agreement or disagreement).

Kirchler (2007)[6] asserts that definition of the attitudes involves three dimensions: cognitive dimension, affective dimension and conative dimension. The cognitive dimension of the attitudes refers to the thoughts related to the characteristics and attributes of an event or situation. In taxation this thing could be illustrated in the following way: the consideration that taxes are useful in the achievement of public assets provision or the thought that taxes represent wasted money. Practically, cognitive dimension supposes the knowledge of the taxation issues.

The affective dimension of the attitudes refers to the emotions and feelings that arise related to specific events and situations, in the field of taxation they materialize into feelings about taxes as an expression of citizen-state cooperation, feelings about taxes as a loss of income, assessment of the taxes as a mean of income redistribution or in feelings about the government's allocation policy.

The conative dimension presumes behavioral intentions and actions related to certain stimuli, in taxation it can be the case of compliance or evasion, of the answers to the legislative doors. Tax knowledge is important in order to understand tax legislation which is complex. According to McKerchar (2001)[12], the complexity of law makes taxpayers feel incapable and lacking interest. Moscovici (2001)[13] affirms that taxation comprehension by the common people – the subjective comprehension, when it is taken as a part of the social representations it is not focused on checking if knowledge is correct, in accordance with legislation, but it is focused on the knowledge people have and on the way in which this knowledge forms a certain social representation.

Generally, according to Kirchler’s conclusions (2007)[6], the completed surveys prove a positive relationship between tax knowledge and favourable attitudes in taxation. The relationship between the two was also studied, among others, by Eriksen and Fallan (1996)[14]. They presumed both the information from tax legislation and the financial knowledge as tax knowledge being necessary to calculate the economic consequences. The question they tried to answer to was whether the improvement of the tax knowledge leads to more favourable attitudes. To this effect, the authors tested two groups of students regarding the knowledge on taxation and the attitudes towards evasion. The two groups of students were: a group of students who attended to a tax legislation course and a group of students who attended to a marketing course. The test took place before and after the attendance to the mentioned courses. The results showed that in the case of the students who attended to a tax legislation course, the tax ethics improved. In the same direction, Grasso and Kaplan (1998)[15] showed that students who attended to a preliminary taxation course had the ethical standards on taxation issues higher than the students who attended to a general ethics course. Other studies focusing on the issue of the attitudes towards taxation were elaborated by: Song and Yarbrough (1978)[16], Dornstein (1987)[17] and Fallan (1999)[18], the last being a thorough study of the previous one elaborated y the author in 1996 in which gender is also introduced as a demographical variable.

Kirchler (2007)[6] states that subjective knowledge related to taxation is important in order to understand why people behave like they do, and the wider tax knowledge is positively correlated with compliance. Generally, people do not feel they have control over the tax legislation, this thing being also caused by its complexity, a fact which stops the willing compliance, leading to involuntary errors but which do not imply a propensity for evasion. But the same author states that the weak comprehension or misapprehension leads to lack of confidence, and confidence is essential in the climate between taxpayers and authorities.

But a greater importance is given in literature to tax education. Torgler (2002)[7] states that in a system with educated taxpayers who are confident in their own knowledge and taxpayers who are aware of the public finance utilization, transparency becomes a condition of the citizen cooperation.

Alm, Jackson and McKee (1990)[19] state that an increase of compliance takes place when taxpayers are aware of the direct connection between the taxes paid by them and the provision of desirable public assets. Moreover, when taxpayers were given the opportunity to decide by vote where
incomes from the taxes paid by them should be directed to, the compliance increased (in comparison with the situation in which taxpayers were simply taxed without knowing the destination of the incomes thus collected by state). Other multiple studies (Alm, Jackson and McKee (1993)[20], Feld and Tyran (2002)[21], Pommerehne and Frey (1992) ) show the importance of taxpayers’ involvement in the decision of income allocation. When they have a word to express in the decision-making process, the compliance increases but the satisfaction regarding the efficiency of public services also increases.

In regard to the attitudes, according to the theory of the planned behaviour, elaborated by Ajzen (1991)[23], the behaviour is only partially predicted by attitudes. Multiple empirical studies proved a significant connection, although weak, between attitudes and behaviour: Vogel (1974)[24], Dornstein (1976)[25], Porcano (1988)[26], Wahlund (1992)[27], Chan, Troutman and O’Bryan (2000)[28], Niemirowschi et al. (2002)[29]. Even if it’s not sure that the positive attitudes determine the compliance, Lewis (1982)[30] states that if attitudes worsen, tax evasion will increase. In conclusion, the relationship between attitudes and behaviour, being either compliance or evasion, is a complex relationship.

However, Lewis (1979)[31] showed that attitudes towards taxation depended mostly on income. In his study in 1979, there were used Likert scale-type items, items referring to tax avoidance, tax pressure, the adequate treatment of tax evaders, the progressive taxation interests and the relationship between evasion and taxation interests. The persons with high incomes had a more increased antipathy towards taxes generally and especially towards the progressive taxation interests. They considered the tax avoidance more reasonable than the persons with lower incomes and they also considered that tax evaders should be treated with more tolerance.

Below we analyzed if the results of the current study correspond to the majority of the studies proving a direct relationship between tax education and favorable attitudes in taxation.

3. Methodology and data

Andreoni el al. (1998)[32] has identified four information sources being necessary in the measurement and research in tax evasion area. It’s about: data obtained as a result of the tax controls, data obtained as a result of testing through surveys, data obtained as a result of the tax amnesties and data obtained as a result of the laboratory experiments. The survey advantage consists in the fact that they include socioeconomic, demographic and attitudinal variables. However, according to the previously mentioned authors, an issued is identified in case of survey: being based on what respondents state, information can be incorrect and the results of the surveys overestimate the compliance.

Under the aspect of the factors such us perceptions and attitudes, the issue of the measurement difficulty appears. According to Kirchler (2007)[6], most of the surveys use Likert scales in order to measure the degree of agreement of the taxpayers with tax evasion. A Likert-type item is a statement which the respondent is asked to assess considering any objective or subjective criteria; generally, the level of agreement or disagreement with the respective statement is tested. The scale is symmetric as it has an equal number of positive or negative positions in connection with a neutral position. In the current case, a five position scale has been used: totally agreement – code 5, mostly agreement – code 4, neither agreement nor disagreement – code 3, mostly disagreement – code 2, totally disagreement – code 1.

Starting from the concept and experiment made by Eriksen and Fallan (1996)[14], in order to identify and assess tax education influence on attitudes towards taxation we used the questionnaire method as research method. Internal Revenue Service Taxpayer Survey 2012 and the survey used by Song and Yarbrough (1978), World Values Survey and European Values Survey stayed at the base of the questionnaire construction.

We mention the agreement of Professor Lars Fallan to use this concept.

Internal Revenue Service represents the USA government agency for the tax income collection.
Given the certification of survey in literature, as a questionnaire of attitudes, we consider that this methodology comes to support adequately the empirical endeavor we propose.

The survey structure presumed its division in four sections, using nominal-type items (items 1,2,3) and the fourth section item. Sections I, II and III are built-up of Likert scale-type items, these representing the three dimensions of the specified dimensions: cognitive, affective and conative. The questionnaire can be seen at https://docs.google.com/forms/d/1XbPucDtrpGz6uQ18FipRg9PW9Xrxn40jV6R6ph8/viewform.

The questions applied test the opinions of two categories of students, those who attended a taxation course and those who didn’t attend to such a course, respectively.

Taking into consideration the hypothesis of the tax education importance but also the experience importance as a taxpayer in the delineation of the attitudes towards taxation, the formulated explorative questions were structured on 2 levels in order to analyze students’ opinions regarding:
- their attendance or not to a taxation course;
- the possession or not of the capacity of taxpayer.

The assessment of the tax education influence on the attitudes towards taxation was made on the basis of the answers received from the respondent students, which were selected on four groups, in this manner:
- group I - „Yes, Yes”;
- group II - „Yes, No”;
- group III - „No, No”;
- group IV - „No, Yes”.

The temporal interval taken into account is the period April 7th 2013- April 19th 2013.

The respondent sample taken into account was made of a number of 152 persons. In the applied questionnaires, 63% of the respondents attended to a taxation course and 62% were or are in the position of taxpayers. In regard to the current study cycle, 8% of the respondents are bachelor’s degree students in I year, 12% in II year, 19% in III year, 25% are Master’s degree students in I year, 35% in II year and there was an answer from the PhD cycle.

The question “To which extent you agree with the following statements?” is specific to each section, allowing for each item partly the presentation of the percentage in which each group of students agrees or not with the given statement.

4. Results

Data was processed at the level of the whole sample and according to the four groups of answers received from the respondent students, these being transformed in relative measures.

The influence of cognitive dimension on the definition of the attitudes results from the answer to questions regarding the complexity of the Romanian tax legislation, the difficulty of acquiring knowledge related to taxation, the importance of the correct statement and the payment of tax obligations by the different categories of taxpayers, the veracity of the tax information sources, the perception on the ampleness of tax evasion phenomenon, the equity of the Romanian tax system or the reduction of the tax pressure, reflect a similar distribution of the respondents’ opinions.

The refinement of the analysis shows that in all four groups we can notice a strong agreement with the statements underlining the importance of the income collection in the case of the taxpayers – natural or legal persons with high incomes. Regarding the veracity of the tax information sources, almost half of the respondents agree in a great measure with the fact that ANAF (National Agency for Tax Administration) information sources are very useful but tax advisers represent a more useful source of tax assistance and information than the ANAF (National Agency for Tax Administration) sources. The perception of the “withholding tax” system importance is strong (65.79%) in the case of the respondents who attended to a taxation course possessing the capacity of taxpayer, but neutral answers can be distinguished in relatively high percentages in the case of the groups which didn’t attend to a taxation
course. Regarding the tax evasion perception, a stronger agreement is shown in the case of the students who attended to a taxation course than the others and we can also notice the absence of total disagreement answers in the case of those who either didn’t attend to a taxation course or they do not possess the capacity of taxpayers or none of the two.

We also remark the perception on the inland tax system as an inequitable one, which is most strongly shown (63.16%) in the case of the students who didn’t attend to a taxation course and who weren’t in the position of taxpayers, a very close percentage (60.53%) emphasizing in the case of those who attended to a taxation course but who aren’t in the position of taxpayers.

Synthetically, we can estimate that the influence of the affective dimension on the attitudes’ definition is the result of the emotional and sentimental perception of the respondents concerning the uncertainty state generated by the frequent changes in the Romanian tax legislation matter, the degree of willing confrontation on tax payment, the degree of taxpayers’ satisfaction regarding the expert assistance offered by the representatives of the tax authorities but also regarding their behaviour in the relation with the taxpayer.

We can therefore remark, after an analysis refinement, a relatively high percentage (55.26%) of partial agreement of the respondents who acquired taxation knowledge, with the fact that legislative changes cause a state of uncertainty, but the most intensive agreement with the previous statement was shown by those who possessed the capacity of taxpayers. The feeling that taxpayers bring a contribution to society through the willingness to tax payment appears to all four groups of respondents, although there are also strong disagreements, especially in the case of group 1 and neutral answers as well, especially in the case of group 4. regarding the satisfaction related to the interaction with the employees of the tax authorities, strong disagreements are shown, the most intensive (31.58%) being shown in the case of respondents who neither attended to a taxation course nor possessed the capacity of taxpayers.

The most intensive agreement (21.5%) regarding the ethical behaviour and competence of the employees in tax institutions can be noticed at groups 2 and 3.

Equally, the influence of affective dimension in defining the attitudes, also resulted from the answer to questions regarding the perception on the liability in the case of committing certain tax evasion actions, on the degree of taxpayers’ willing tax compliance generated by the fear of control and applicable sanctions, by the feeling of guilt, by the personal integrity or the fear of exclusion from a group membership. The fear of sanctions’ analysis as a factor of influence on the taxpayers’ decision to state and pay the tax obligation correctly allows us to notice that the strongest agreement is shown in the case of group 2 (39.47%) and the strongest disagreement in the case of group 4 (8.11%). The same trend can be also identified in regard to the feeling of guilt, the strongest agreement being shown in the case of group 2 (18.42%) and the strongest disagreement in the case of group 4 (21.62%). The influence of taxpayers’ personal integrity is shown in a pregnant manner in the case of group 3.

Overall, we can conclude that groups 1 and 2 consider the fear of sanctions as the strongest factor while groups 3 and 4 estimate the personal integrity as being the factor with the strongest influence.

Last but not least, the behavioral intentions and actions related to certain stimuli give content to the conative dimension as influence factor in defining the taxpayers’ attitudes, reflected by the answer to questions regarding the agreement or not with the ideas that the civic duty of each Romanian citizen is to pay taxes but equally the responsibility of each one is to denounce any person committing tax evasion, to inform the legal authorities on noticed aspects of illegality.

The analysis of the collected data led us to the conclusion that perception of the tax payment as a civic duty is strongly shown in the case of groups 1 and 2, the strongest disagreement being shown in the case of group 3. In regard to the responsibility of denouncing any person committing tax evasion, the most intensive agreement is shown in the case of groups 1 and 2 (29.31% and 36.84% respectively).

Referring to the assertion that the taxpayer has no need to willingly offer information about illegal activities, if tax administration doesn’t request such information, the strongest agreement is shown in the case of group 2 (23.68%), high percentages of the neutral answers being noticed in the case of groups 1 and 4 and a partial agreement with this statement in the case of group 3.
The question whether any person has to report to the tax administration any person committing tax evasion, even if it’s about a member of his family, the strongest agreements were shown in groups 1 and 2 (17.24% and 21.05% respectively), although neutral answers which are not to be neglected, and a stronger partial agreement in the case of group 3 appeared.

Regarding the semantic association of the tax notion, we notice the frequent association with the following words:

- Group 1 semantically associates the tax notion with: 21% „money”, 7% „state”. There also appear words such as „community”, „statement”, „state budget”, „compliance”, „necessary evil” and „control”.
- Group 2 semantically associates the tax notion with: 23.68% cu „money”, 15.78% cu „payment”, 13.15% cu „obligation”, 10.52% „taxes”.
- Group 3 semantically associates the tax notion with: 42.10% cu „money”, 16% cu „debt”. There also appear words such as „theft”, „abuse” and „to queue” or „donation”.
- Group 4 semantically associates the tax notion with: 29.72% „money”, 27% „taxes”, 8% „evasion”.

5. Conclusion

As shown above, a part of the results confirms the fact that tax education would lead to more favourable attitudes. Even if not each item shows it, in a great measure, we can notice differences between the answers and agreements of the respondents from the group who attended to a taxation course and the answers and agreements of the respondents from the group who didn’t attend to such a course. The differences are noticed both in the case of the cognitive dimension of attitudes and in the case of affective and conative dimensions.

More favourable attitudes of the students who attended to a taxation course in comparison with those who weren’t in this position, can be noticed regarding the perception on the difficulty of acquiring knowledge related to taxation, the importance of the withholding tax system, the equity of the tax system but also regarding the intention of considering tax as a civic duty and to denounce any person committing tax evasion, but also regarding the interest towards the aspects related to taxation.

Given the fact that the survey was interpreted according to the observation of differences between the results of the four groups of students, we must mention that the following step of the research is intended to be a statistical test of the following hypothesis: “Tax education leads to the improvement of the taxpayers’ attitudes”. What we believe it is important is the taxpayers’ behaviour which can be predicted or not by attitudes, as it has been illustrated in the literature synthesis. It remains to be seen whether the improvement of the tax knowledge leads to compliance or, on the contrary, to the avoidance or tax evasion, in other words whether tax education leads to the improvement of the tax behaviour.

6. References

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