

# Perceived Distributive Fairness of EU Transfer Payments, Outcome Favorability, Identity, and EU-Tax Compliance

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*In a representative UK study (N = 1000) the link between distributive fairness perceptions, outcome favorability, identity, and tax compliance was researched in the context of European transfer payments. Results showed that both forms of tax compliance (i.e., individual and collective EU-tax compliance) were influenced by perceived distributive fairness judgments of EU transfer payments. Fairness itself was related to perceived outcome favorability (i.e., whether their own nation benefits from the EU in financial as well as socio-political terms). Additionally, national identifiers (i.e., people identifying with their own nation, but not with Europe) perceived EU membership as unbeneficial in financial as well as in socio-political terms and thus considered the transfer payments as less fair. Dual identifiers (i.e., people identifying with their own nation and with Europe) perceived the socio-political outcomes from EU membership as more beneficial and thus evaluated the transfer payments as fairer.*

## INTRODUCTION

Recently, politicians throughout the European Union discussed the implementation of a direct EU-tax. In order to successfully implement such a tax, it was wondered to what extent and in what way the public would accept it. Generally, people do not like to pay taxes and, in particular, not “new” ones. Taxes are seen as a “necessary evil” that clever people try to evade (Kirchler 1998). The range of possibilities to reduce taxes legally (i.e., tax avoidance) and illegally (i.e., tax evasion) is rather broad. Due to a greater social distance (cf.

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Harris, Middleton, and Joiner 2000; Bogardus 1928) to the European Union than to national tax authorities, more people might use those possibilities. Thus, taxpayers might show resistance against the implementation of an EU-tax, as the mere proposition of a direct EU-tax has already provoked big protest from the public. In the current study, we research influencing factors of compliance with such a direct EU-tax as well as with EU-tax morale.

When people are asked about taxes, the most frequently mentioned topics are fairness issues (e.g., Braithwaite 2003; Rawlings 2003; Taylor 2003). People show higher tax morale (Torgler 2007) and are more willing to comply with the tax laws when they perceive the tax system to be fair (Andreoni, Erard, and Feinstein 1998; Porcano 1988; Spicer and Becker 1980; Spicer and Lundstedt 1976). Based on that, EU-tax compliance probably depends on fairness perceptions of the national transfer payments to the European Union. When the current redistribution among the different EU member states is considered as fair, potential EU-tax compliance should be strengthened. However, this has not been empirically tested so far. Therefore, the aim of the current study is to look at how perceived distributive fairness of European transfer payments influences the intended compliance in paying direct taxes towards the European Union, as well as the willingness to pay a member state's national share to the EU budget.

What factors other than fairness perceptions are relevant in the current context? When investigating fairness perceptions, recent literature (e.g., Skitka, Winquist, and Hutchinson 2003) emphasizes the importance of differentiating outcome favorability (i.e., the benefit from an outcome) from outcome fairness (i.e., the fairness judgment of an outcome). Although these two concepts are closely related to each other (cf. Brockner and Wiesenfeld 1996), they are not interchangeable because an outcome can be favorable for one but does not necessarily have to be fair at the same time (cf. Verboon and van Dijke 2007; Wenzel 2002). Yet, it is expected that people who benefit from a resource distribution program are more likely to evaluate it as fair when compared to people feeling disadvantaged by it. Thus, the evaluation of distributive fairness is also influenced by the judgment of the outcome's favorability. In the current context, two types of outcome favorability can be looked at: in terms of financial payments and in terms of (long-term) socio-political advantages for the nation. Financial outcome favorability deals with the favorability regarding the ratio between payments made to the EU and payments received from the EU, whereas socio-political outcome favorability addresses social, political, or economic advantages gained by EU membership. Concrete examples for such advantages could be trans-European measures for environment protection, the common fight against terrorism, or increased trade due to free goods traffic within the European Union.

From social psychological research, we know that fairness perceptions also depend on social identification processes (e.g., de Cremer 2005; Wenzel 2000; Huo et al. 1996; Tyler and Degoey 1995). People highly identifying with Europe or the European Union should evaluate the transfer payments as

fairer than people who do not identify with it. However, paying the transfer payments might not seem in the national interest in everybody's view. Although it would be good to instill a European identity from a socio-political design perspective, such an attempt could be interpreted as a threat to national identity.

To sum up, the current article aims to broaden the understanding of EU-tax compliance. This is relevant from a theoretical as well as from a practical point of view. From a theoretical perspective, the study investigates the antecedents of distributive fairness and sheds light on the interplay with outcome favorability and social identity. From a practical perspective, the study addresses a new field of research that could serve as basis for the future policy-making process within the European Union. It is assumed that the willingness to pay the national contribution to the European Union as well as paying a direct EU-tax is influenced by the perceived fairness of the transfer payments to the European Union, which in turn is influenced by perceived financial and socio-political benefits for the country (i.e., the United Kingdom) as well as national and European identification.

#### EU-TAX COMPLIANCE

Tax compliance is defined "in terms of complying with the spirit as well as with the letter of the law" (James and Alley 2002, 31) and, thus, refers not only to the aspect of legal or illegal tax filings, but also includes the willingness to comply with the spirit of tax law. However, on a European level, tax administration is currently done differently from that on the national level. Instead of a direct EU-tax paid by individuals, the European Union receives financial contributions from its twenty-seven member states mainly based on gross national income, value-added tax, and customs. Despite the fact that individuals cannot directly influence the sum of payments made by their state, their tax morale or willingness to pay the national contributions is of major importance here and represents the collective level of EU-tax compliance.

Recently, EU politicians have discussed a rearrangement of the EU-tax collection and proposed an EU-tax paid directly to EU authorities by individual taxpayers. The main arguments for implementing such a direct EU-tax are that it would lead to higher transparency of the EU budget for the taxpayers and to more efficiency in decisions on EU expenditures and revenues, as the European Parliament and/or the European Council has to vote on both simultaneously. A direct EU-tax might also reduce the debate on "net-contributors" and "net-receivers" of the European Union, and, finally, it is argued that the European Union with expanding responsibilities should have a central tax competence independent from national member states (Caeser 2001). Ideas for implementation were that taxes should be levied on corporate income tax or on people's savings (Castle and Grice 2001), on

energy consumptions, including petrol and aviation fuel (Waterfield 2004), on text messages and e-mails, or on financial transactions (cf. APA 2006; Heinemann, Mohl, and Osterloh 2008). For the current research purpose, we investigated hypothetical compliance with a direct income tax paid to the European Union that represents the individual perspective.

To conclude, two different perspectives can be taken in researching EU-tax compliance: on the one hand, the willingness of the member states' citizens to pay their national share to the EU budget and, on the other hand, individual taxpayers' compliance with a hypothetical EU-tax, which might be a reality in the future. Hence, we differentiated between *collective EU-tax compliance* on the collective or national level and *individual EU-tax compliance* on the personal level of analysis.

#### PERCEIVED DISTRIBUTIVE FAIRNESS

*Distributive fairness* is not an external criterion per se but refers to “*the perceived fairness of resources received*” (Cropanzano and Ambrose 2001, 121). It builds on the assumption that people compare the resources they receive themselves to resources others receive using some principle of fairness or deservedness (Tyler et al. 1997).

Distributive fairness plays also an important role in the EU context that is shown by the differentiation between net-paying and net-receiving countries among the twenty-seven EU member states. *Net-paying countries*<sup>1</sup> pay more contributions to the European Union than they receive from it, whereas *net-receiving countries*<sup>2</sup> obtain more payments from the European Union than they contribute to it.

When it comes to tax compliance, fairness research focuses mainly on the concepts of exchange fairness, horizontal fairness, and vertical fairness<sup>3</sup> (e.g., Kirchler 2007; Wenzel 2003; Kinsey and Grasmick 1993). *Exchange fairness* is based on equity theory (Walster, Berscheid, and Walster 1978; Homans 1972; Adams 1965) and describes a fair balance between tax paid and benefits obtained from public goods (e.g., Kim 2002; Porcano 1988; Spicer and Lundstedt 1976). From the exchange equity perspective, it is argued that people may evade taxes in order to reduce the perceived inequity regarding the exchange between government and taxpayer (Kirchler 2007).

Besides evaluating outcome fairness in regard to the exchange with the government, fairness issues are also judged with respect to comparisons with others. Others are regarded either on the horizontal level (i.e., same groups) or on the vertical level (i.e., different groups) (Kirchler 2007; Wenzel 2003). *Horizontal fairness* demands equal treatment of equals. In other words, people belonging to the same group compare each other and want to be treated or taxed in the same way (e.g., Moser, Evans, and Kim 1995; Dean, Keenan, and Kenney 1980; Spicer and Becker 1980). Applied to the current context, this could mean that EU member states with equal status—whether measured by

ability, economic strength, or some other appropriate index—should be treated in the same way and have to bear the same amount of tax or national contributions as well as receive the same amount of benefits or allocations (cf. Steuerle 2002). *Vertical fairness* asks for different treatments of different groups. Following this idea, it is considered as fair when differentiations are made among taxpayers with differing income, family status, expenses, or on other variables (e.g., Torgler 2002; Skinner and Slemrod 1985). Regarding the EU transfer payments, it means that member states with less ability or economic strength shall gain more outcome favorability and receive more allocations relative to those with greater ability. Thus, differences in outcome favorability are considered as fair under certain circumstances.

Outcome favorability can be looked at in the current context from several angles. On the one hand, it may relate to the positive financial benefit or disadvantage from the transfer payments. On the other hand, the socio-political advantages for one's own nation are a further form of outcome favorability gained by the EU membership. This second form of outcome favorability is probably not so concrete for most people, and variation among the citizens is expected to be higher. People might consider the provision of peace, prosperity, stability, safety in Europe, balanced economic and social development, concentrated actions towards the challenges of globalization, preservation of the diversity of the peoples of Europe, and maintenance of European values as benefits from the EU membership (cf. European Commission 2008).

#### NATIONAL AND EUROPEAN IDENTITY

A prerequisite to categorize into net-payers and net-receivers of the European transfer payments is the grouping based upon nationality. Each person, however, might feel differently about the belongingness to his or her nation. National identity is explained by the social identity approach, which comprises the interconnected theories of self-categorization (Turner et al. 1987) and social identity (Tajfel and Turner 1986). The basic assumption of the social identity approach is that people can define themselves not only in terms of their individual characteristics, but also in terms of their membership to different groups or social categories (Turner et al. 1982).

People tend to evaluate their own group as more favorable, and they cooperate more with their fellow in-group members than with out-group members. This effect was termed intergroup bias in social psychological literature (for a review see Hewstone, Rubin, and Willis 2002). From a social identity perspective, the intergroup bias creates or protects the status of the in-group, which provides a positive social identity and satisfies the need for positive self-esteem for in-group members (Tajfel 1982; Tajfel and Turner 1979). Applied to the EU context, it could mean that usually one's own

national identity is perceived as positively distinctive to other nations. High status, power, or autonomy is wished for one's own nation, which also creates positive self-esteem.

According to the common in-group identity model (Gaertner and Dovidio 2000; Gaertner et al. 1993), intergroup bias can be reduced by changing the nature of categorical representation from "us" (e.g., the United Kingdom) and "them" (e.g., the other EU member states) towards a more inclusive "we" (e.g., the European Union). However, as Crisp, Stone, and Hall (2006) showed, recategorization into the superordinate category (i.e., Europe) could be perceived as threatening to the national identity. This could also lead to an increase of in-group bias when people are highly identified with the subgroup (i.e., the nation). Safeguarding subgroup identities was proposed as a way out of this dilemma (Hornsey and Hogg 2000). Thus, it is necessary to value and respect each nation on its own but also to focus on similarities in the broader context of the European Union. Licata (2003) showed that the prospective loss of cultural distinctiveness and national autonomy is perceived as threatening and that the complementary representation of the nation and Europe would, however, facilitate identification with the European Union. It is, thus, not sufficient to look at the two identity levels separately. Hence, we aimed in the current study to look at national and European identification more from a dual identity than from single identity perspectives. From Standard Eurobarometer studies (2002, 2004) we know that about half of the population (50 percent) identifies with Europe as well as the nation, nearly half of it (45 percent) identifies only with the nation, and only a very limited number of respondents (5 percent) identify with Europe alone. Because the group of people identifying only with Europe but not with their own nation is basically nonexistent, the focus of investigation targeted only the first two groups.

#### THE RESEARCH MODEL

The aim of the current study is to show that EU-tax compliance is influenced by the perceived distributive fairness of the transfer payments. EU-tax compliance is investigated on two different levels. First, the individual perspective is taken by investigating the hypothetical behavior in case of a direct EU-tax. Second, the collective or national perspective is taken by studying the willingness of a nation and its citizens to pay the current contributions to the European Union. It is assumed that both forms of EU-tax compliance are positively related to perceived distributive fairness of the European transfer payments. These distributive fairness perceptions are, in turn, influenced by outcome favorability. It is expected that the more people perceive EU membership as beneficial, the fairer they judge the EU transfer payments. We distinguish two forms of outcome favorability: the financial form of outcome favorability and the socio-political form of outcome favorability.

Furthermore, national and/or the European identification are expected to be related to distributive fairness perceptions and outcome favorability.

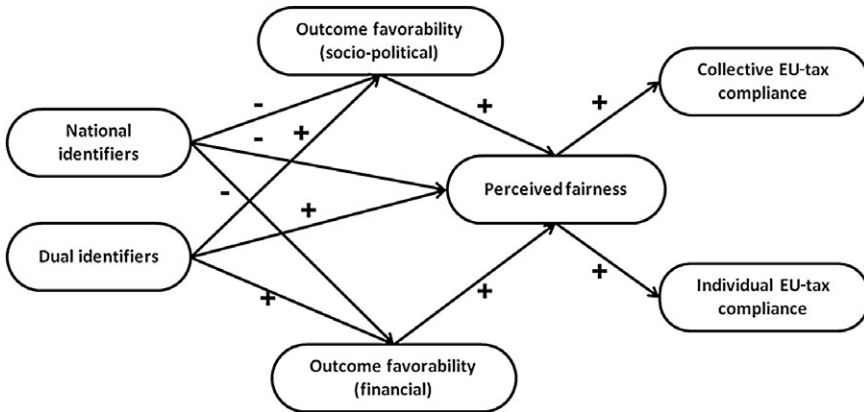


Figure 1. Research Model to be Tested.

People strongly identifying with their own nation should judge the outcome of EU membership as less favorable and evaluate European transfer payments as less fair than people not identifying with their nation. People strongly identifying with Europe (and their own nation), should judge the outcome of the European Union as more favorable and the transfer payments as fairer. As known from the literature (e.g., Rechberger, Hartner, and Kirchler 2009), people identifying with Europe but not with their own nation are very rare, and thus, we applied a dual perspective here investigating those people who identify with both the nation and Europe as well as those people who identify only with the nation and not with Europe. Figure 1 shows a graphical illustration of the assumed model just explained.

## RESEARCH METHODS

### SAMPLE

A representative sample of 1,000 respondents from the United Kingdom completed the survey "SIT-Tax: European transfer payments" in July and August 2008 (for a detailed description, see Hartner, Rechberger, and Kirchler 2009). Selection was confined to employed people paying income tax in the United Kingdom. Representativeness was aimed for the socio-demographic variables gender and age. Comparison with British workforce from national statistics (Eurostat 2008) showed that the sample was indeed representative in terms of gender ( $\chi^2 = 0.16$ ,  $p = .68$ ), but not for age ( $\chi^2 = 104.86$ ,  $p \leq .01$ ). In the current sample, the mean age was 40.78 years ( $SD = 11.99$ ), whereas the mean age of British workforce in 2007 with 39.36 years ( $SD = 12.60$ ) was slightly younger  $t(\infty) = 3.56$ ,  $p < .05$ . Table 1 gives a demographic overview of respondents.

Table 1. Overview of Gender and Age of the Sample Compared to National Statistics

	Current study		Eurostat (2008)		Std. Residuals
	f	%	f	%	
<b>Gender</b>					
Male	534	53.4	14,361,338	54.04	-0.28
Female	466	46.6	12,214,339	45.96	0.30
Total	1,000	100	26,575,677	100	
<b>Age</b>					
15 to 19 years	11	1.1	1,354,173	5.10	-5.59**
20 to 24 years	80	7.99	2,348,539	8.84	-0.87
25 to 29 years	104	10.39	2,995,984	11.27	-0.79
30 to 34 years	179	17.88	3,470,305	13.06	4.28**
35 to 39 years	137	13.69	3,619,668	13.62	0.10
40 to 44 years	88	8.79	3,301,907	12.42	-3.22**
45 to 49 years	152	15.18	2,954,201	11.12	3.91**
50 to 54 years	107	10.69	3,005,017	11.31	-0.54
55 to 59 years	58	5.79	2,079,603	7.83	-2.27*
60 to 64 years	69	6.89	1,037,522	3.90	4.83**
65 to 69 years	12	1.2	286,680	1.08	0.38
Total	997	100	26,575,677	100	

Note: \* $p < .05$ ; \*\* $p < .01$

Regarding the geographical distribution, a quota of at least 100 respondents was opted for each country of the United Kingdom (i.e., England, Scotland, Wales, and Northern Ireland), which results in an overrepresentation of respondents from Scotland, Wales, and Northern Ireland. Analyses were restricted to a sample of UK citizens (N = 901) in order to achieve homogeneity and to exclude other (noncontrolled) effects.

MATERIAL

In the following, the measures used in the analyses to test the antecedents and consequences of distributive fairness perceptions of the European transfer payments are illustrated. All items were presented on a 7-point Likert scale ranging from 1 (*completely disagree*) to 7 (*completely agree*). For the wording of the questions, see the Appendix, and for means, standard deviations, Cronbach’s alpha, factor loadings of confirmatory factor analyses, and correlations, see Table 2.

*National and European Identification*

Respondents were asked to which degree they identified with their nation and with Europe. The same questions were used for both concepts. Sample





Table 2. (Continued)

Code***	OSP	OSP	DJ	DJ1	DJ2	DJ3	DJ4	TC	TC1	TC2	TI	TI1	TI2	TI3
SN			-1.10**					-1.12**						
SN1	-.20**	-.19**		-.10**	-.13**	-.09**	-.12**		-.12**	-.14**	-.19**	-.11**	-.16**	-.16**
SN2	-.06	-.06		-.06	-.10**	-.04	-.06		-.06	-.07*		-.10**	-.16**	-.13**
SN3	-.12**	-.10**		-.05	-.07*	-.01	-.05		-.07*	-.09**		-.13**	-.18**	-.17**
SN4	-.14**	-.14**		-.08*	-.11**	-.04	-.07*		-.11**	-.11**		-.14**	-.20**	-.17**
SEU			.51**					.55**			.18**			
SEU1	.48**	.46**		.43**	.42**	.37**	.38**		.45**	.44**		.08*	.11**	.14**
SEU2	.45**	.45**		.37**	.33**	.33**	.33**		.41**	.38**		.13**	.11**	.15**
SEU3	.47**	.48**		.42**	.41**	.39**	.38**		.46**	.44**		.12**	.15**	.17**
SEU4	.62**	.62**		.49**	.49**	.47**	.46**		.53**	.53**		.18**	.20**	.23**
OF	.36**	.38**		.39**	.46**	.35**	.35**		.34**	.35**		.28**	.28**	.32**
OSP			.69**					.75**			.30ta**			
OSP1	.81**	.78**		.60**	.59**	.50**	.49**		.65**	.63**		.20**	.21**	.25**
OSP2	1	.86**		.62**	.63**	.55**	.55**		.68**	.68**		.22**	.27**	.30**
OSP3	1	1		.67**	.67**	.60**	.59**		.70**	.70**		.26**	.30**	.32**
DJ			1					.71**			.28**			
DJ1			[.85]	1	.80**	.78**	.75**		.65**	.62**		.20**	.24**	.26**
DJ2			[.82]	1	1	.75**	.73**		.66**	.63**		.22**	.25**	.29**
DJ3			[.92]	1	1	1	.81**		.62**	.59**		.19**	.25**	.25**
DJ4			[.89]	1	1	1	1		.62**	.60**		.20**	.23**	.25**
TC								1			.33**			
TC1								[.91]	1	.84**		.27**	.30**	.32**
TC2								[.93]	1	1		.26**	.30**	.33**
TI											1			
TI1											[.84]	1	.74**	.79**
TI2											[.88]	1	1	.83**
TI3											[.93]			1

Note: \*p < .05, \*\*p < .01, \*\*\*for wording of items see appendix

statements for identification would be “*I am a typical Briton [EU citizen]*” for the cognitive aspect and “*I feel closely connected to other British people [EU citizens]*” for the evaluative aspect of identification. Generally, the level of *national identification* was higher ( $M = 5.17$ ,  $SD = 1.39$ ,  $\alpha = .87$ ) than *European identification* ( $M = 3.47$ ,  $SD = 1.48$ ,  $\alpha = .89$ ) with  $t(900) = -26.07$ ,  $p < .001$ . Construct validity of the variables was tested by a confirmatory factor analysis applying a two-factor model (i.e., national and European identification) with Mplus (Version 5, Muthén and Muthén 1998–2007). After correlating all four items of national identification with the respective items of European identification, obtained fit indices were satisfactory with  $\chi^2(15, n = 901) = 80.59$ ,  $p < .001$ ,<sup>4</sup> comparative fit index (CFI) = .98,<sup>5</sup> and the root mean square error of approximation (RMSEA) = .07<sup>6</sup> (probability of RMSEA being below .05 is .01). For factor loadings see Table 2.

### *Outcome Favorability*

Two dimensions of outcome favorability were measured: (1) *financial outcome favorability* regarding the transfer payments and (2) *socio-political outcome favorability* in terms of social, political, and economic consequences of the EU membership. The one item used for outcome favorability in financial terms is “*The UK pays more into the EU than it receives from the EU.*” A sample item for socio-political outcome favorability would be “*Overall, the UK benefits from the political, economic and social consequences of the EU.*”

Socio-political outcomes of the EU membership ( $M = 4.00$ ,  $SD = 1.68$ ,  $\alpha = .93$ ) were perceived as more favorable than financial outcomes regarding the transfer payments ( $M = 2.61$ ,  $SD = 1.45$ ) with  $t(900) = -23.55$ ,  $p < .001$ . Construct validity was again tested with a two-factor model (i.e., financial and socio-political outcome favorability). Variance of financial outcome favorability was fixed at 1 due to the one item construct. Obtained fit indices were good with  $\chi^2(2, n = 901) = 11.04$ ,  $p < .01$ , CFI = 1.00, and RMSEA = .07 (probability of RMSEA being below .05 is .16).

### *Distributive Fairness Perception of Transfer Payments*

The items measuring perceived fairness of transfer payments focused on both the contributions to the European Union and the allocations from the European Union. An exchange fairness perspective was adopted by asking the respondents whether the amount of the UK contributions is fair in regard to the payments received from the European Union. A sample statement for distributive fairness perception is “*Compared with the contributions that the UK makes to the EU, the payments it receives from the EU are fair.*” Overall, the UK respondents perceived the transfer payments as rather unfair ( $M = 3.25$ ,  $SD = 1.41$ ,  $\alpha = .93$ ). Construct validity was tested allowing the correlation of two items (last two in the list of distributive

justice in the appendix), both of which addressed the fair distribution among member states, resulting in good fit indices with  $\chi^2(1, n = 901) = .50$ ,  $p = .48$ , CFI = 1.00, and RMSEA = .00 (probability of RMSEA being below .05 is .80).

### 1. EU-Tax Compliance

We distinguished between two forms of EU-tax compliance: (1) collective EU-tax compliance and (2) individual EU-tax compliance. The *collective EU-tax compliance* ( $M = 3.33$ ,  $SD = 1.71$ ,  $\alpha = .91$ ) can be understood as EU-tax morale or willingness to pay on a collective or national level. It addresses whether the nation and its citizens should feel morally obliged to pay the EU contribution. A sample statement is “*The UK and its citizens should willingly pay their share of money to the EU.*”

In contrast, the *individual EU-tax compliance* ( $M = 3.36$ ,  $SD = 1.88$ ,  $\alpha = .92$ ) deals with reported individual (and hypothetical) tax behavior, that is, whether the individual is willing to pay income tax directly to the European Union. To measure the individual EU-tax compliance a scenario technique was used, as the direct EU-tax is an issue of discussion but has not been introduced so far. Respondents were asked whether they would be tax compliant if a part of the income tax had to be paid directly to the European Union, for example, “*I would capitalize on the ‘grey areas’ of the EU-tax system as much as possible.*” A test of construct validity with two factors (collective and individual tax compliance) resulted in good fit indices with  $\chi^2(4, n = 901) = 3.10$ ,  $p = .54$ , CFI = 1.00, and RMSEA = .00 (probability of RMSEA being below .05 is .97).

## RESULTS

Within the data set, missing observations occurred from .07 percent per variable (“*When the British are praised, I am pleased*”) to 25.3 percent per variable (“*Compared with the contributions that the UK makes to the EU, the payments it receives from the EU are fair*”). Before testing the proposed model, missing values were completed applying imputation technique because of the potential negative effects of not including all available data in the analysis. Based on the recommendations by Lüdtke et al. (2007), we decided to use NORM (Version 2.03, Schafer and Olsen 1998), a program for multiple imputations, to complete the data. All analyses were conducted with the imputed missing values.

### NATIONAL AND EUROPEAN IDENTIFICATION

One focus of interest was the functioning of dual identification (i.e., people who highly identify with the nation as well as with the European Union). In

order to receive several groups of identifiers, cluster analysis was used. Due to the large dataset and the continuous nature of the variables, k-means cluster analysis was opted for. First, by adopting a two-step cluster analysis, the number of clusters was evaluated. Three clusters were suggested. Second, k-means cluster analysis was calculated with the three clusters indicated. Evaluating the centers of the clusters, the following clusters could be identified: (1) national identifiers (i.e., people identifying highly with the United Kingdom and low with Europe [ $n = 277$ ]), (2) dual identifiers (i.e., people identifying with both Europe and the United Kingdom [ $n = 355$ ]), and (3) nonidentifiers (i.e., people indicating low identification with Europe and the United Kingdom [ $n = 269$ ]). In a third step, the quality of cluster building was checked adopting a discriminant function analysis. Results showed that 96.7 percent were correctly classified to their cluster. Therefore, the three clusters were considered as valid representations of national and European identification and were recoded into three dichotomous variables. For the later analyses the clusters were treated as dummy coding with the variable “non-identifiers” serving as reference category.

#### STRUCTURAL MODEL

To test the hypothesized model, the two forms of outcome favorability were correlated in the structural equation model (SEM) using Mplus (Muthén and Muthén 1998–2007). Fixation of variance for financial outcome favorability was not necessary. Results obtained showed good fit indices with  $\chi^2(79, n = 901) = 375.05, p < .001, CFI = .97,$  and  $RMSEA = .06$  (probability of being below .05 is .00) for the assumed model (M1) shown in Figure 1. Since the direct path from identification to distributive fairness showed nonsignificant regression weights, a second model (M2) without this direct connection was calculated. The fit indices of M2 were also good with  $\chi^2(81, n = 901) = 378.39, p < .001, CFI = .97,$  and  $RMSEA = .06$  (probability of being below .05 is .00). A  $\chi^2$  difference test between models M1 and M2 showed that the more restrictive model M2 does not fit the data significantly worse than M1 ( $\Delta\chi^2 = 3.34, \Delta df = 2; p = .19$ ). The more parsimonious model M2 was therefore preferred (cf. Reinecke 2005). Results of M2 are illustrated in Figure 2.

As the results show in Figure 2, EU-tax compliance is influenced by perceived distributive fairness of transfer payments. This holds true for both forms of tax compliance, although the influence on collective EU-tax compliance ( $\beta = .82, p < .001$ ) is stronger than on individual EU-tax compliance ( $\beta = .34, p < .001$ ). Distributive fairness, in turn, is influenced by outcome favorability. Here, the socio-political benefits ( $\beta = .73, p < .001$ ) seem to be more important than the financial benefits ( $\beta = .18, p < .001$ ) for predicting fairness perceptions. People who think that the European Union brings a benefit for their country (in financial terms, but even more in socio-political terms) perceive the transfer payments as more fair. Regarding the impact of

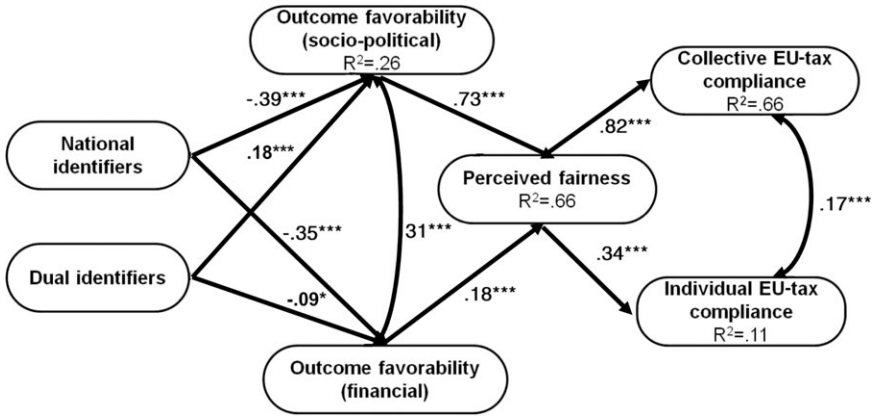


Figure 2. Results of SEM Model (M2).  
 Notes: \* $p < .05$ , \*\*\* $p < .001$

Table 3. Standardized Indirect Effects of Identification by Distributive Fairness

	Financial outcome favorability	Socio-political outcome favorability
National identifiers	$-.06; p < .001$	$-.28; p < .001$
Dual identifiers	$-.02; p < .05$	$.13; p < .001$

national identifiers and dual identifiers compared to nonidentifiers, results showed that national identification negatively influences socio-political outcome favorability ( $\beta = -.39, p < .001$ ) as well as financial outcome favorability ( $\beta = -.35, p < .001$ ). Dual identification, however, has only a rather weak negative effect on the financial outcome favorability ( $\beta = -.09, p < .05$ ) and a positive effect on the socio-political outcome favorability ( $\beta = .18, p < .001$ ).

Identification showed an indirect influence on distributive fairness as illustrated in Table 3. National identification resulted in a negative indirect effect on distributive fairness, which was mediated by financial outcome favorability ( $\beta = -.06, p < .001$ ) as well as socio-political outcome favorability ( $\beta = -.28, p < .001$ ). The indirect effect of dual identification on distributive justice was negative and rather small via financial outcome favorability ( $\beta = -.02, p < .05$ ) and positive via socio-political outcome favorability ( $\beta = .13, p < .001$ ).

Regarding the explained variance, the explanatory power of the model for collective EU-tax compliance is quite high with  $R^2 = .66$ . However, for individual EU-tax compliance ( $R^2 = .11$ ), it is moderate to low, which indicates that further variables not included in the current model might have an additional effect on individual EU-tax compliance. Explained variance

for distributive fairness is quite high with  $R^2 = .66$ , and for socio-political outcome favorability ( $R^2 = .26$ ) it is moderate.

#### DISCUSSION AND CONCLUSION

This article addresses the study of taxpaying intentions and taxpayers' acceptance of a discussed but not yet realized EU-tax. Although the concept of an "EU-tax" might currently seem quite abstract and theoretical, politicians have discussed it repeatedly; the more the integration process of the EU progresses, the more likely direct payments might become reality in the future in order to establish an independent EU budget. However, the implementation of a direct EU-tax was discussed controversially in the media, and, therefore, it is even more important to assess its potential impact before starting the implementation process. By means of structural equation modeling, the interplay of individual and collective EU-tax compliance, distributive fairness of transfer payments, outcome favorability, and national as well as European identification was tested.

Results showed that distributive fairness has a positive influence on hypothesized individual EU-tax compliance and even a stronger positive influence on collective EU-tax compliance. Thus, people who think that the current redistribution of the payments to the European Union is done fairly also think that their country (i.e., the United Kingdom) and its citizens should pay their share and feel morally obliged to do so. Additionally, people thinking that the EU budget is redistributed fairly among its member states report that they would also declare their tax more honestly when they have to pay a part of their income tax directly to the European Union instead of the national tax authorities.

Distributive fairness is positively related with both forms of outcome favorability. The more people think that they or their nation have a benefit from the European Union and its membership, the more they perceive the transfer payments as fair. However, this effect is particularly true and even stronger for the socio-political benefits from the European Union. Fairness perceptions are, thus, more influenced by indirect factors such as social, political, and economic (long-term) consequences of the EU membership than by the direct factor of payments received minus payments made to the European Union. This result was not assumed in advance; however, it reflects the general idea of the European Union to provide peace, prosperity, and stability throughout Europe and seems therefore quite reasonable.

Regarding the influence of identification, three groups were formed: people identifying with the nation, but not with Europe (i.e., national identifiers), and people identifying with both the nation and Europe (i.e., dual identifiers) were compared to people identifying neither with the nation nor with Europe. Consistent with expectations, results showed that the national identifiers do not perceive the EU membership as beneficial and thus, consider the transfer

payments as less fair. A negative indirect effect of national identifiers on distributive fairness has been obtained via both forms of outcome favorability. Dual identifiers, however, regard the European Union as beneficial in socio-political terms, but not in financial terms, which might be due to the fact that the United Kingdom is a net-paying country within the European Union. A positive indirect effect of dual identification on distributive fairness was only obtained via socio-political outcome favorability, whereas a negative indirect effect via financial outcome favorability was obtained.

Methodologically, the current model is based on cross-sectional data, which does not allow conclusions about causal relations but shows the correlative structure of the proposed model. Furthermore, the model is based on data collected from one EU member state (however, in a representative nature), having a net-paying perspective with a particular role in the European Union due to the UK discount.<sup>7</sup> Thus, results cannot be generalized to the other EU member states. Therefore, it would be beneficial in future research to validate the model and look whether it applies also to other countries, for example, from a net-receiving perspective.

Despite these limitations, it could be derived from the results that before implementing a direct EU-tax, policymakers should first take steps to improve fairness perceptions regarding the redistribution of the EU budget. These measures should not target perceived financial outcome favorability, which is hard to alter as there is only a certain budget available. It seems sufficient and even more promising to try and influence the perceived socio-political outcome favorability, which has a stronger effect on fairness perceptions.

Furthermore, measures to improve levels of identification with the European Union shall be taken, as they probably improve the perceived socio-political outcome favorability. The results show that dual identification improves perception of socio-political outcome favorability, whereas national identification reduces it. However, from social psychological literature, we know that both identities need to be valued and respected in order to avoid backfiring from perceiving national identity as threatened.

Redistribution of the EU budget is organized on a rather high level, and citizens in the member states are rarely in direct contact with the EU institutions and authorities. This might create social distance towards the European Union. Nonetheless, or even because of that, citizens should be informed about the distribution principles in order to make the contributions to the European Union and the allocations from the European Union transparent for them. Due to the rather high amount of missing data for evaluating distributive fairness of the transfer payments (up to 25 percent), it is assumed that this is not sufficiently accomplished yet. However, in the current financial framework of the European Union, transparency and accountability of EU funds are aimed to be increased (European Commission 2008). Having started in 2005 with the European Transparency Initiative, the European Union wants to strengthen the trust of its citizens in the



EU institutions by increasing information to the public, the transparency of lobbying processes, and the use of EU funds (European Communities 1995–2009). Names and amounts of money received from grants and other forms of support are, for example, published on a Web site accessible by everyone (e.g., [http://ec.europa.eu/beneficiaries/fts/index\\_en.htm](http://ec.europa.eu/beneficiaries/fts/index_en.htm) or [http://ec.europa.eu/agriculture/funding/index\\_en.htm](http://ec.europa.eu/agriculture/funding/index_en.htm) for further details).

It is argued that the knowledge about the distribution among the beneficiaries is just one step forward towards a fairer policy-making process. The introduced measures not only aim at increasing the perceived fairness of the EU budget in terms of redistribution, but also in terms of procedures applied for the decision-making process (i.e., procedural fairness). Thus, further research should be conducted on perceived procedural fairness regarding the EU decision-making process. An additional perspective worth looking at would be the inclusion of retributive fairness. In more detail, the effect of imposed EU sanctions on its member states could be investigated.

#### NOTES

1. Net-paying EU countries were, in 2007, Germany, United Kingdom, France, The Netherlands, Italy, Sweden, Belgium, Denmark, Austria, Finland, Luxembourg, and Cyprus (European Commission 2008).
2. Net-receiving EU countries were, in 2007, Greece, Poland, Spain, Portugal, Hungary, Lithuania, Ireland, Czech Republic, Slovakia, Romania, Latvia, Bulgaria, Estonia, Slovenia, and Malta (European Commission 2008).
3. In tax literature, the terms exchange equity, horizontal equity, and vertical equity are also used. For reasons of better understanding the term “fairness” is used throughout the text.
4.  $\chi^2$  is known to be sensitive to sample size. Due to the large sample size, statistical significance of  $\chi^2$  is considered irrelevant (cf. Byrne 2001).
5. A cutoff value close to .95 or greater indicates a good model fit between the hypothesized model and the observed data (Hu and Bentler 1999).
6. A value of .08 and smaller for RMSEA indicates a good model fit (Reinecke 2005; Byrne 2001).
7. The UK discount amounted to EUR 5.19 billion in 2007 (European Commission 2008).

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#### APPENDIX

#### MEASURES OF IDENTITY, OUTCOME FAVORABILITY, FAIRNESS, AND EU-TAX COMPLIANCE

##### *Identity*

##### — *SN: National identity:*

SN1: I am a typical Briton.

SN2: When the British are praised, I am pleased.

SN3: I feel closely connected to other British people.

SN4: I like being British.

##### — *SEU: European identity:*

SEU1: I am a typical EU citizen.

SEU2: When the EU citizens are praised, I am pleased.

SEU3: I feel closely connected to other EU citizens.

SEU4: I like being an EU citizen.

*Outcome Favorability*

— *in financial terms:*

OF: The United Kingdom pays more into the European Union than it receives from the EU. [*reversed*]

— *OSP: in social and political terms:*

OSP1: The EU should be seen as a good investment for the United Kingdom in the long run.

OSP2: In the long run, the United Kingdom will benefit from membership of the European Union.

OSP3: Overall, the United Kingdom benefits from the political, economic, and social consequences of the European Union.

*DJ: Distributive Fairness*

DJ1: On balance, the amount of the contributions made by member states to the European Union is fair.

DJ2: Compared with the contributions that the United Kingdom makes to the European Union, the payments it receives from the European Union are fair.

DJ3: Contributions to the European Union are distributed fairly among member states.

DJ4: Payments from the European Union are distributed fairly among member states.

*EU-Tax Compliance*

— *TC: on a collective level:*

TC1: The United Kingdom and its citizens should feel morally obliged to pay their contributions to the European Union.

TC2: The United Kingdom and its citizens should willingly pay their share of money to the EU.

— *TI: on an individual level:*

TI1: I would capitalise on the “grey areas” of the EU-tax system as much as possible. [*reversed*]

TI2: I would actively seek to minimise the amount of my EU-tax within the existing possibilities. [*reversed*]

TI3: I would look for loopholes in order to reduce the amount of my EU-tax. [*reversed*]