

INDIVIDUAL ATTITUDES AND SOCIAL REPRESENTATIONS OF TAXATION, TAX AVOIDANCE AND TAX EVASION

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The avoidance of taxes is the only intellectual pursuit that still carries any reward.
John Maynard Keynes¹

Introduction

Conservative estimates indicate that tax avoidance accounts for annual losses of 100 to 240 billion USD in global corporate income taxes (OECD 2015). Against this background, various policy initiatives seek to impede multinationals' aggressive tax planning. Traditionally, these initiatives relied mainly on a command and control approach and advocated tighter laws and stricter sanctions for non-compliance (Allingham and Sandmo 1972). This approach, however, has significant drawbacks, because tax avoidance is not necessarily illegal. And while enacting and implementing tax law reform usually takes years, multinational corporations as well as wealthy individuals quickly adopt new strategies that shield their income from taxation.

Tax avoidance schemes often exploit differences between national tax laws. Therefore, national initiatives to fight tax avoidance are increasingly embedded in international efforts. The OECD/G20 BEPS project, for instance, aims to introduce new standards in international taxation. These include, among others, global models for automatic exchange of information and legal harmonization. The OECD defines tax avoidance as "the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow" (OECD, Glossary of Tax Terms).² But given the legal nature of many tax planning schemes, capacity building and traditional deterrence measures based on command and control regulation might not be sufficient to fight base erosion and profit shifting.

Apart from its economic effects, tax avoidance has significant psychological implications. While multinational corporations shift their profits to low tax jurisdictions in order to reduce their tax

¹ As quoted in *A Dictionary of Scientific Quotations* (1977) by A. L. MacKay, p. 140.

² Available at www.oecd.org/ctp/glossaryoftaxterms.htm

payments, most individual taxpayers have few opportunities to save on taxes. As a consequence, average taxpayers bear a greater share of the tax burden than international firms or the mobile group of high net worth individuals. This likely affects the tax compliance behaviour of the cooperative majority, as unequal opportunities to reduce ones' tax liability are perceived as unfair. Psychological research, for example indicates that unfair treatment undermines the willingness to comply (Barth et al. 2013). On the other hand, perceived distributional fairness through progressive taxation increases well-being if taxpayers are satisfied with the provision of public goods (Oishi et al. 2012). However, the provision of public goods is threatened by aggressive tax planning practices.

At the same time, global inequality rises. As developing countries rely heavily on revenues from direct taxes such as corporate income tax, they are particularly affected by multinationals' tax avoidance activities. And because they often lack capacities to protect their tax bases, developing countries are more vulnerable to aggressive tax planning. This exacerbates inequality between developed and developing countries and threatens economic growth. On the other hand, with tax avoidance intensifying inequality within societies, the debate over the role of taxes in protecting social stability gains momentum.

This development is reflected in the growing public interest in multinationals' tax planning activities. Many people perceive tax avoidance as unfair and morally wrong, so that corporate and wealthy individual taxpayers are confronted with growing social pressure to pay their fair share. In the UK, for instance, anti-tax avoidance protesters repeatedly targeted the aggressive tax planning schemes of multinational corporations such as Starbucks, Google or Amazon. Consequently, many firms are concerned with reputational risks related to their tax planning strategies. But while some empirical evidence indicates that public scrutiny reduces firms tax avoidance behaviour (Dyreg et al. 2016), other findings suggest that corporate social responsibility activities, which are often used to promote the public reputation of a firm, are positively correlated with investments in tax lobbying activities but negatively related to corporate tax payments (Davis et al. 2016).

In this chapter we discuss the socio-psychological dimension of tax avoidance and evasion behaviour. Specifically, we analyse the role of social norms and taxpayers' attitudes towards tax non-compliance because little is known about taxpayers' perceptions of different opportunities to save on taxes. We moreover investigate the perceptions and social acceptance of different types of taxpayers. As deterrence alone is apparently not sufficiently effective in reducing aggressive tax planning, a better understanding of the motives that drive taxpayer behaviour as well as the social norms underlying taxpayers' compliance decisions is needed in order to foster a high degree of tax compliance. In addressing these issues, we add to the understanding of factors that shape attitudes and social norms to pay taxes honestly.

This chapter is structured as follows. First, we describe the concept of social representations and introduce a method to define and evaluate social phenomena such as tax avoidance. Second, we discuss how fairness perceptions shape the social representations of tax avoidance, tax evasion and tax flight. Third, we present an empirical study on the social representations of taxes and the images of different types of taxpayers. Fourth, we present new and unpublished data on taxpayers' social representations of typical taxpayers, honest taxpayers, tax avoiders and tax evaders. Fifth, we discuss methods to promote tax compliance such as increasing perceptions of fairness and strengthening social norms.

Taxpayer behaviour and social representations

Individuals' beliefs, feelings and attitudes shape their perceptions of taxes (Kirchler, 2007). However, taxpayer behaviour is not exclusively driven by individual perceptions. As taxes are social

phenomena, collective attitudes and shared social norms affect compliance behaviour. In order to understand taxpayers' compliance decisions, it is thus necessary to analyse the dynamics between individuals and their social environment. Corporate tax planning, for instance, increases a firm's competitiveness and shareholder wealth. On the other hand, it erodes public revenues. This, in turn, might be perceived as unfair and thus undermine individuals' willingness to comply.

Social representation theory offers a theoretical framework to identify the social concepts that underlie individuals' perceptions of taxes. Values, attitudes, ideas, knowledge and practices that are shared within groups facilitate a collective understanding. These social representations can refer to concrete objects such as paintings or to abstract phenomena such as taxes. Social representations develop through discourse and group interaction. They alleviate social exchange and facilitate communication. Hence, they enable individuals to understand social objects and to orient themselves in their environment (Moscovici 1973, 1976).

The development of social representations involves two cognitive processes: anchoring and objectification. Anchoring is an ordering process that categorizes and classifies information (el Sehity and Kirchler 2006; Stark et al. 2017). Novel information about a social object is integrated into existing knowledge. This process conventionalises new information and changes preexisting knowledge (Wagner et al. 1999). While anchoring orders and familiarizes a social object, objectification transforms an abstract phenomenon into a concrete and specific form (el Sehity and Kirchler 2006; Stark et al. 2017). Terms, metaphors, symbols or images develop which typify the social object (Wagner et al. 1999).

Even though social representations consist of complex psychological content such as attitudes, feelings, values, ideals, traditions and attributions, they are clearly structured. Two organizational areas can be distinguished, namely the central core and the periphery (Abric 1984). The central core is the heart of the representation. It comprises the terms, names, metaphors and emotions that are immediately and frequently associated with a social object (Abric 1994), thereby defining the meaning of the object. They are normative and form a stable unit that is resistant to situational changes. Furthermore, they organize all other elements and thereby determine the meaning of the peripheral elements (Wagner et al. 1996). While core elements illustrate shared knowledge of a group, peripheral elements reflect the individual content of a social representation. Stemming from individual experiences, they are more loosely tied and less frequently associated with a social object. In different social contexts, their meaning and relationships to each other as well as to the core elements can change. This flexibility serves to specify and corroborate the core in a given context, to adjust to temporal developments and to protect the core by positioning new elements and attributes in the periphery (Wagner et al. 1996).

Social representations can be investigated by a multitude of methods (el Sehity and Kirchler 2006; Stark et al. 2017; Wagner et al. 1999) ranging from experiments, interviews, questionnaires to observations in the field. Free association tasks and Peabody's (1985) semantic differential constitute two popular approaches to investigate social representations because they are implicit and allow gathering qualitative as well as quantitative data.

In free association tasks people are presented with a stimulus word and asked to write down all thoughts and notions that come to their mind. The elicited associations comprise information about individuals' beliefs, thoughts and feelings with regard to the respective social object (Nelson et al. 2000; Vergès 1992). This method provides a great amount of freedom of expression, since individuals are not led into a predetermined direction by structured questions (Gangl et al. 2012). Additionally, participants have to evaluate their associations as positive, neutral or negative. The analysis offers insight into the content as well as organization and structure of the social representation, and core and peripheral elements can be identified (Vergès 1992). Finally, this method allows assessing the valence of a given social object (De Rosa 1995).

Originally developed to assess characterizations of nations, Peabody's (1985) semantic differential represents another popular method to explore social objects. It consists of 32 bipolar pairs of adjectives that are organized in tandems of two adjective pairs which allow the disentanglement of their descriptive and evaluative component. In order to illustrate the underlying rationale, we present an example tandem and explain how the descriptive component is separated from the evaluative component: Let us assume that a person named Joe is judged *thrifty* in the contrast of *extravagant* (-) vs. *thrifty* (+). *Thrifty* is a desirable attitude or behaviour and thus entails the evaluative positive aspect in this contrast. Therefore, the judgement of Joe being *thrifty* tells us "Joe is good". However, on a descriptive level it also implies that "Joe tends not to spend money". Based on this information we are left with the question whether the judgement of Joe should be understood as an evaluative or a descriptive one. Peabody (1967, 1985) proposes to disentangle this information by pairing a trait contrast that entails opposite evaluative and descriptive aspects. For instance, *extravagant* (-) vs. *thrifty* (+) (contrast a) is paired with a second contrast that reverses the evaluative aspect, but is similar with regard to the descriptive aspect, *generous* (+) vs. *stingy* (-) (contrast b) in this case. Both contrasts are measured on a scale from -3 to +3. Thus, one can compute the evaluative score $E = \frac{1}{2}(a + b)$, while the descriptive score is defined as $D = \frac{1}{2}(a - b)$. The analyses of these ratings give insight into how the stimulus, that is the social object, is described and evaluated.

In a nutshell, social representations are opinions, ideas and beliefs that are shared among members of groups (Moscovici 1981, 1984). They shape attitudes and thus affect behaviour. Analysing social representations therefore adds to the understanding of taxpayers' perceptions of non-compliance.

Fairness perceptions of tax avoidance, tax evasion and tax flight

Few people like paying taxes, but while most taxpayers have little opportunity to reduce their tax burden, business owners, for instance, might under-declare income or over-deduct expenses to increase their profits. Wealthy individuals, on the other hand, often move to low tax jurisdictions in order to pay less tax and multinational corporations use tax planning strategies that reduce their tax liabilities. Many taxpayers therefore believe that the tax burden is mostly born by the "ordinary people" (Kinsey 1984).

In order to gain a better understanding of the socio-psychological dimension of tax compliance behaviour it is important to investigate the social acceptance of different forms to save on taxes. Specifically, it is crucial to understand how taxpayers' efforts to avoid paying taxes affect fairness perceptions. The common economic effect of different attempts to reduce tax payments is a decline in public revenues. This is crucial as fairness in taxation is key in alleviating global inequality. However, not all means to reduce ones' tax burden are equally legal and it is often difficult to draw the line between legal tax avoidance and illegal tax evasion. Generally, employed taxpayers have relatively little opportunities to minimize their tax payments compared to business owners or corporations. This is often perceived as unfair, potentially undermines tax morale and might ultimately reduce taxpayers' intentions to comply. Therefore, fairness considerations are a key element in the debate on more efficient tax policies (cf. Wenzel 2003).

Kirchler et al. (2003) surveyed fiscal officers, business students, business lawyers and small business owners in order to investigate their social representations of different strategies to save on taxes: tax avoidance, tax evasion and tax flight. In this study, participants were confronted with tax avoidance referring to legal actions that reduce tax payments such as the exploitation of tax-loopholes. Tax evasion, on the other hand, represented illegal activities, for instance the under-declaration of income or the over-deduction of expenses, whereas tax flight described legal, tax-driven business relocation decisions.

When considering economic implications exclusively, tax avoidance, tax evasion and tax flight should not be perceived differently. From a psychological perspective, however, the authors expected to find disparities in the social representations of these actions. Therefore, they assumed that tax avoidance, tax evasion and tax flight are perceived differently and unequally fair. As tax evasion implies breaking the law, Kirchler et al. (2003) conjectured that it would be seen as the least fair option to reduce ones' tax liability. Tax flight, on the other hand, is no criminal offense but violates the spirit of the law. Moreover, only few and potentially rather wealthy individuals have the opportunity to relocate their business activities only for tax purposes. This is why the authors expected tax flight to be perceived as less fair than tax avoidance, yet not as unfair as tax evasion. Tax avoidance, a legal means to save on taxes, was assumed to be rated as the least unfair of all three options.

In addition to fairness considerations, the study addressed the effects of tax knowledge on the evaluation of different tax planning strategies. The effects of knowledge about taxes on compliance behaviour are discussed controversially in the literature. While Groenland and van Veldhoven (1983) report that sound tax knowledge reduces compliance, Kirchler and Maciejovsky (2001) observed low tax compliance especially among study participants with little knowledge about taxes. A study by Eriksen and Fallan (1996) found that participants who gained tax knowledge considered the tax system in general as fairer and perceived their own as well as other people's tax evasion activities to be more serious. In the light of these findings, Kirchler et al. (2003) hypothesized that tax knowledge triggers different perceptions of tax avoidance and tax evasion: they expected that profound tax knowledge had positive effects on the fairness evaluation of tax avoidance, whereas they predicted opposite effects for tax evasion. Finally, they investigated the effects of opportunities to evade on intended tax compliance. In many cases business owners have more opportunities to reduce their tax payments than employed taxpayers. Therefore, the authors hypothesized that small business owners exhibit less intentions to comply than employed taxpayers.

The overall sample in the respective study comprised 252 fiscal officers, business students, business lawyers and small business owners from east Austria. All participants were randomly confronted with one fictitious scenario describing a person engaged in tax avoidance, tax evasion or tax flight. After reading the scenario subjects were instructed to produce spontaneous associations to the activities described in the text and to evaluate them as positive, neutral or negative. Moreover, participants were asked to rank the perceived fairness of tax avoidance, tax evasion and tax flight, as well as to complete a multiple-choice test on tax knowledge. Subjects who were assigned to a tax evasion scenario were also instructed to indicate how likely they expected the person described in the study to declare her taxes honestly.

To detect differences in subjects' perceptions of tax avoidance, tax evasion and tax flight, the authors first analysed the immediate associations after having read the scenario. While tax avoidance was often associated with the terms *legal*, *intentions to save taxes*, *cleverness* and *a good idea*, tax evasion was associated with notions such as *illegal*, *fraud*, *criminal prosecution*, *risk* and *black money*. Tax flight, on the other hand, was associated with *intentions to save taxes*, *lower taxes abroad* and *double tax agreement*. The findings indicate that participants clearly distinguished between different activities to save on taxes. In the second step, all associations were regrouped into a broad set of categories that had been identified by a group of experts. These categories were, for instance, *intentional tax evasion*, *personal advantage* and *risk tendency*. Based on this classification the authors conducted a correspondence analysis which revealed that the legality and morality factors accounted for a significant share of the variance in the data. While tax avoidance was considered to be legal and moral alike, tax evasion was seen as illegal and immoral, whereas tax flight was perceived to be legal and immoral.

In a third step, the authors analysed participants' evaluations of tax avoidance, tax evasion and tax flight. The results indicate that the strongest negative associations were elicited in the tax evasion condition and the most positive associations in the tax avoidance condition. Overall, tax flight was perceived as rather neutral. Moreover, participants were asked to indicate the subjective fairness of different means to reduce ones' tax liability. In all employment groups tax evasion was considered to be the least fair, while tax avoidance was seen as the fairest way to save on taxes. As depicted in Figure 19.1, fiscal officers found all forms of tax reduction significantly less fair than other participants and business owners perceived tax flight fairer than other employment groups.

In addition to these findings, Kirchler et al. (2003) observed significant disparities in tax knowledge between different professions. Fiscal officers were more knowledgeable than business students and business lawyers. Interestingly, business owners scored the lowest on tax knowledge. In contrast to their hypothesis, the authors did not find a correlation between tax knowledge and perceived fairness of tax avoidance or tax evasion. However, business owners as well as business lawyers with a sound understanding of taxes perceived tax avoidance fairer than other groups. Fiscal officers, on the other hand, who scored high on tax knowledge, perceived tax evasion less fair than their colleagues with less tax knowledge. Finally, the authors did not observe

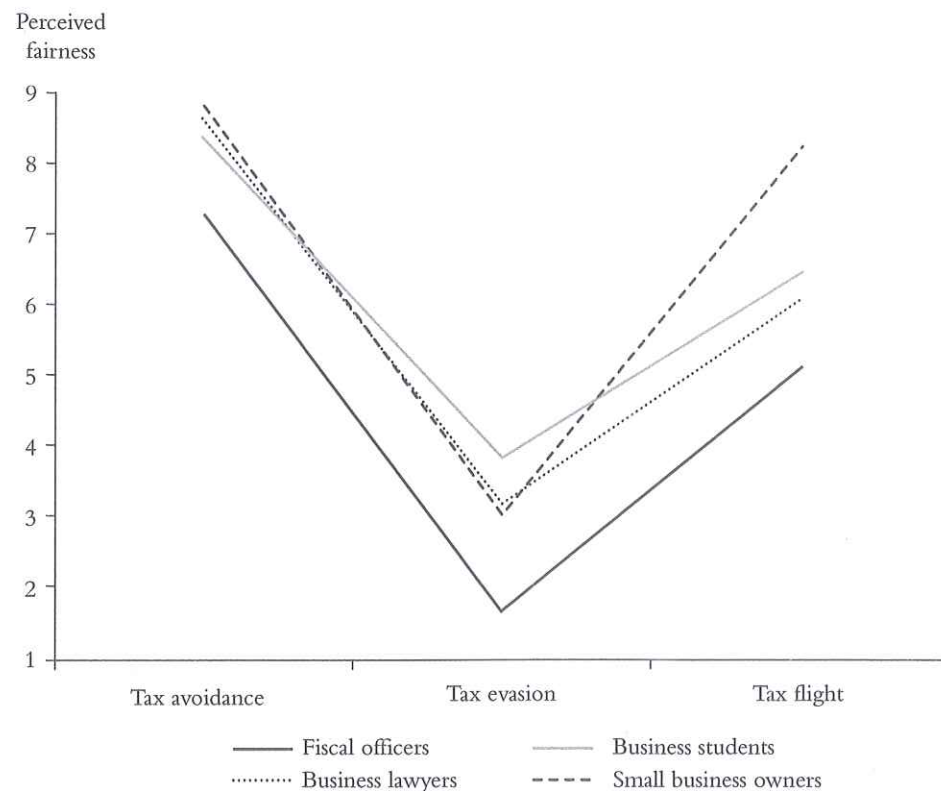


Figure 19.1 Perceived fairness of tax avoidance, tax evasion and tax flight among fiscal officers, business students, business lawyers and small business owners.

Source: Kirchler et al. 2003: 548.

any differences in intended tax compliance between the participants in different occupational groups who were assigned to the tax evasion treatment.

The findings from Kirchler et al. (2003) suggest that tax avoidance, tax evasion and tax flight are perceived differently, and that knowledge about taxes differs between employment groups. The discrimination between different activities to reduce ones' tax liability were based on legal as well as moral considerations and depended on personal affectedness, experience, occupational status and knowledge about taxes. Generally, legal forms to save on taxes were deemed more acceptable than illegal forms. And as many taxpayers considered saving on taxes to be a key motive for all actions that reduce ones' tax liability, the authors suggest that taxpayers should be informed in greater detail about their options to legally avoid paying taxes in order to strengthen their tax morale and to prevent illegal tax evasion. On a more general level, however, the findings indicate that tax policy reform should not only target tax planning schemes that have significant revenue effects, but also aim at those practices that are perceived as highly unfair by the majority of taxpayers.

Social representations of typical taxpayers, honest taxpayers and tax evaders

In order to gain a more nuanced understanding on the determinants of tax compliance behaviour Kirchler (1998) investigated social representations of taxes among five occupational groups: blue- and white-collar workers, civil servants, entrepreneurs and students. From a practical perspective, entrepreneurs are more likely to evade taxes than employees, because they have more discretion in the design of their tax returns. Informal labour, on the other hand, is usually more common among blue-collar workers. Consequently, they might find it relatively easy to under-declare income in order to avoid paying income tax and VAT. But while one might easily conjecture that opportunity makes a thief, the social representations of taxes may differ between professional groups, so that some groups of taxpayers feel more obliged to pay their taxes honestly than others.

Kirchler (1998) surveyed five different employment groups to identify potential disparities in their social representations of taxes. A sample of 171 Austrian residents completed a two-part questionnaire. First, applying a free association task, participants were asked to list all their spontaneous thoughts on *taxes*, to number them by order of production and to evaluate them as positive, neutral or negative. Second, participants were presented with Peabody's (1985) semantic differential, comprising 32 adjective pairs, and asked to judge *typical taxpayers*, *honest taxpayers* and *tax evaders* according to the tandems.

Overall, 1,003 free associations were produced, of which 547 were different words. The associations were categorized by two independent raters and then assigned to one of 25 categories, with an interrater agreement of 92%. A correspondence analysis revealed that when confronted with the stimulus *taxes*, entrepreneurs think of punishment and demotivation, public constraint, as well as a lack of transparency in tax law and the use of tax revenues. They perceive taxes as pressuring and impeding to their work. Furthermore, they find the administration of taxes too complex. Entrepreneurs must pay taxes out of their own pocket. Thus, they describe taxes as a form of punishment and a loss of personal freedom. According to Brehm (1966), real or perceived loss of freedom leads to reactance and individuals attempt to re-establish control by non-compliant behavior. Blue-collar workers, on the other hand, criticize the government and politicians. They accuse them of using taxes strategically and being responsible for the public deficit. Nevertheless, blue-collar workers are aware of the role of taxes in financing public goods. White-collar workers often think of social security and public welfare, but also

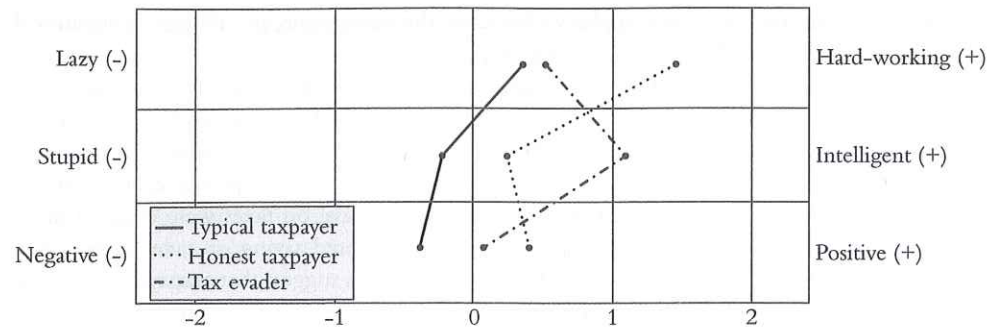


Figure 19.2 Mean judgements of typical taxpayers, honest taxpayers and tax evaders. Source: Data is from Kirchler 1998.

perceive taxes as a necessary burden and a financial loss. Civil servants, on the other hand, are aware of the importance of taxes in redistributing wealth and establishing social justice. They are concerned about tax avoiders and evaders, who maximize their income but still profit from public goods. Students, finally, note abstract theoretical and technical concepts and mention names of politicians and fictional or comic characters. These results go in line with exchange theories. Blue-collar workers, white-collar workers and civil servants, who receive an already tax-deducted net income, mention public goods, welfare, social security and justice, and seem to associate taxes with exchange relationships. They pay their taxes and in exchange receive access to public goods.

In line with Peabody (1985), Kirchler (1998) analysed judgements on *typical taxpayers*, *honest taxpayers* and *tax evaders* and disentangled descriptive and evaluative aspects. The descriptions and evaluations of the three groups differed significantly. Tax evaders were described and evaluated rather positively, as highly intelligent and hard-working. Typical taxpayers were evaluated most negatively, as lazy and rather stupid, whereas honest taxpayers were evaluated most positively as hard-working and intelligent (see Figure 19.2). These descriptions and evaluations suggest that tax evasion was not perceived as a crime, but rather as a game played by intelligent people. While the social representations of all five employment groups differ regarding their content, all groups had equally negative attitudes towards taxes and did not regard tax evasion as a crime.

Tax avoidance: A recent study on social representations of different taxpayers

In order to investigate possible changes in the perception and evaluation of different types of taxpayers, we replicated Kirchler's (1998) study and added tax avoiders, an additional type of taxpayers. We incorporated tax avoiders because tax avoidance recently gained a lot of attention in the media and investigating social representations offers the possibility to identify how tax avoiders are perceived in comparison to other types of taxpayers. Similar to the original study, participants had to fill in a questionnaire measuring attitudes towards different types of taxpayers: (1) typical taxpayers, (2) honest taxpayers, (3) tax avoiders and (4) tax evaders. The study was based on a within-subject-repeated-measures design and the questionnaire was fully permuted and randomly administered in one of 24 possible orders.

Using convenience sampling, data from 235 individuals in Austria was collected. The median age of the sample was 33 (interquartile range = 21.75). Gender was equally distributed with 55.1% females. A share of 3.1% participants indicated compulsory school as highest education, while 50.0% of the sample stated to have finished high school or vocational education and another 46.9% indicated to hold a university degree. The majority (80.0%) were employed taxpayers, while 13.6% were self-employed. The remaining samples were either unemployed (0.5%), retired (2.3%) or students (3.6%). With respect to income most participants (72.2%) stated to earn a net income between €1,001 and €2,500. Data was collected between fall 2014 and winter 2015. The questionnaire was administered in paper-pencil form (81.3%) and online (18.7%). It took about 15 minutes to complete the questionnaire. Participation was voluntary and no monetary incentives were provided. In case of missing values, the pairwise deletion method was used in order to maximize the sample size for each analysis.

Attitudes towards the different types of taxpayers were measured applying Peabody's (1967, 1985) semantic differentials that consist of 32 adjective pairs, which allow the disentanglement of evaluative and descriptive aspects of participants' judgement. Therefore, for each domain of interest two pairs of adjectives (tandems) were used in a semantic differential. The analysis focuses on the descriptive aspects of each of the 15 tandems listed in the first and second column of Table 19.1. Additionally, two trait evaluations (*lazy vs. hard-working*, and *stupid vs. intelligent*) were assessed. All 32 resulting trait contrasts were used to compute one mean evaluation.

As indicated in Figure 19.3, on the aggregated level all types of taxpayers were evaluated as positive rather than negative. Tax evaders received the lowest, yet overall neutral score ($M = 0.05$). However, in relative terms, there are substantial differences between the types of taxpayers. Interestingly, honest taxpayers ($M = 0.52$) were not evaluated as the most positive, but were seen equally positive (in terms of statistical significance) as tax avoiders ($M = 0.60$). Typical taxpayers ($M = 0.20$), on the other hand, were evaluated more positive than tax evaders, but less positive than honest taxpayers and tax avoiders. Compared with Kirchler's (1998) finding, it is worth noting that tax evaders are not evaluated more positively than typical taxpayers anymore, as representations of both are rather neutral. However, tax avoiders are perceived as very similar to honest taxpayers and overall, both are perceived as clearly positive.

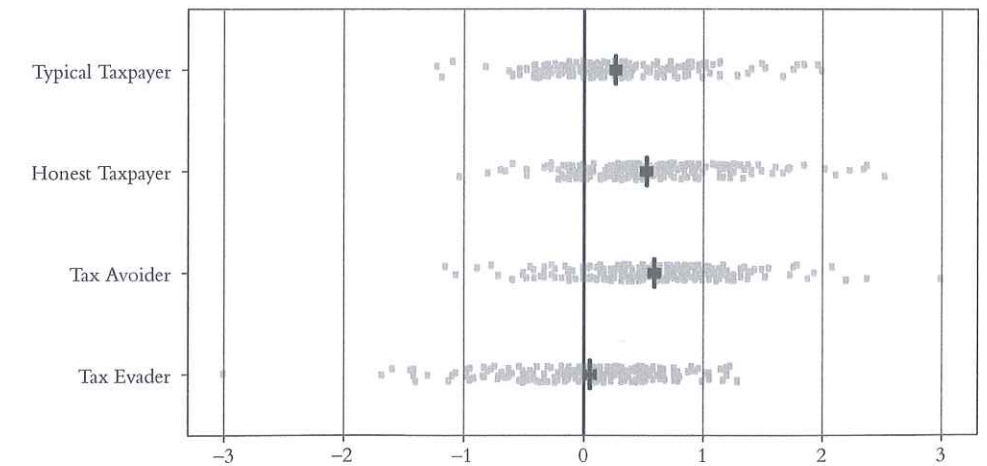


Figure 19.3 Mean overall judgements of typical taxpayers, honest taxpayers, tax avoiders and tax evaders.

We calculated a one-way repeated-measures ANOVA³ with the four types of taxpayers as within subject factors and the judgements as dependent variable for each tandem (15 in total) or trait evaluation (two in total plus the overall evaluation score. The results for each contrast are depicted in the last column of Table 19.1. The effects sizes for the significant effects vary considerably between $\eta^2_p = 0.01$ and $\eta^2_p = 0.49$, which correspond to the more commonly used Cohen's *d* from $d = 0.20$ to $d = 1.96$. We refer to results in the text that have effect sizes of $\eta^2_p \geq .13$ in descending order, which correspond to large effects with considerable practical relevance (see Figure 19.4). Detailed statistics and the remainder of results can be found in Table 19.1.

Four tandems show similar patterns with clear differences between typical and honest taxpayers on the one hand and tax avoiders and evaders on the other hand. In fact, the strongest effect was found for uncooperative and independent vs. cooperative and confirming (contrast 12). Here, all four types of taxpayers differ significantly from each other. Honest taxpayers ($M = 0.86$) are described as being the most cooperative and confirming ones, followed by typical taxpayers ($M = 0.56$). On the other hand, tax avoiders ($M = -0.57$) are characterized as uncooperative and independent, yet less so than tax evaders ($M = -1.29$). The same pattern of results holds true for conceited and self-confident vs. modest and unassured (contrast 11) with honest taxpayers ($M = 0.62$) and typical taxpayers ($M = 0.34$) attributed as modest and unassured, whereas tax avoiders ($M = -0.77$) and tax evaders ($M = -1.42$) are both regarded as rather conceited and self-confident. With respect to aggressive and forceful vs. peaceful and passive (contrast 10), honest taxpayers ($M = 0.71$) and typical taxpayers ($M = 0.47$) are described as peaceful and passive, while tax avoiders ($M = -0.45$) and tax evaders ($M = -0.93$) are seen as aggressive and forceful. Concerning the contrast rash and bold vs. cautious and timid (contrast 8), all four types differ significantly from each other. Honest taxpayers ($M = 1.00$), typical taxpayers ($M = 0.76$) and tax avoiders ($M = 0.19$) are regarded as cautious and timid, while tax evaders ($M = -0.69$) are described as rash and bold.

Subsequently, we identify one tandem where tax avoiders ($M = 0.98$) and tax evaders ($M = 1.08$) are described as clearly firm and severe (contrast 5), whereas no clear description becomes evident for typical taxpayers ($M = -0.01$) and honest taxpayers ($M = -0.05$). With regard to agitated and forceful vs. calm and inactive (contrast 9), all types differ significantly from each other and again we find a pattern of results where typical and honest taxpayers are described different from tax evaders and avoiders. Honest taxpayers ($M = 0.51$) and typical taxpayers ($M = 0.33$) are attributed as calm and inactive, whereas tax avoiders ($M = -0.26$) and tax evaders ($M = -0.58$) are seen as agitated and active.

Contrast 7 reveals a similar differentiation between typical and honest taxpayers on one side and tax evaders and avoiders on the other. Tax avoiders ($M = 0.79$) and tax evaders ($M = 0.94$) are described as relatively selective and choosy. Typical taxpayers, on the other hand, are described in the same direction, but to a significantly lesser extent ($M = 0.13$). Honest taxpayers ($M = -0.12$) are regarded as mildly indiscriminating and broad-minded. The same pattern of results can be found for gullible and trusting vs. skeptical and distrustful (contrast 4). Tax avoiders ($M = 0.92$) and tax evaders ($M = 0.97$) are described as significantly more skeptical and distrustful than typical taxpayers ($M = 0.15$). Honest taxpayers ($M = -0.14$), on the contrary, are seen as gullible and trusting.

³ In all models Mauchly's test of sphericity was violated, thus the degrees of freedom were corrected using the Greenhouse-Geiser estimation method.

Table 19.1 Mean description scores of typical taxpayers, honest taxpayers, tax avoiders and tax evaders

| Descriptive contrasts | | Types of taxpayers | | | | ANOVA results |
|---|--------------------------------------|--------------------|--------------------|--------------------|--------------------|---|
| A expressed by negative value | B expressed by positive value | Typical | Honest | Avoider | Evader | |
| 1a. Extravagant (-) b. Generous (+) | Thrifty (+) Stingy (-) | 0.42 _a | 0.32 _a | 1.21 _b | 0.53 _a | $F(2.4, 538.6) = 30.2$, $p < .001$, $\eta^2_p = 0.12$ |
| 2a. Impulsive (-) b. Spontaneous (+) | Self-controlled (+) Inhibited (-) | 0.33 _a | 0.64 _b | 0.33 _a | -0.31 _c | $F(2.6, 573.0) = 37.8$, $p < .001$, $\eta^2_p = 0.15$ |
| 3a. Frivolous (-) b. Gay (+) | Serious (+) Grim (-) | 0.31 | 0.36 | 0.37 | 0.30 | $F(2.6, 559.9) = 0.4$, $p = .721$, $\eta^2_p = 0.00$ |
| 4a. Gullible (-) b. Trusting (+) | Skeptical (+) Distrustful (-) | 0.15 _a | -0.14 _b | 0.92 _c | 0.97 _c | $F(2.6, 566.0) = 53.6$, $p < .001$, $\eta^2_p = 0.20$ |
| 5a. Lax (-) b. Lenient (+) | Firm (+) Severe (-) | -0.01 _a | -0.05 _a | 0.98 _b | 1.08 _b | $F(2.5, 539.7) = 91.1$, $p < .001$, $\eta^2_p = 0.30$ |
| 6a. Vacillating (-) b. Flexible (+) | Persistent (+) Inflexible (-) | 0.26 _a | 0.30 _{ab} | 0.50 _b | 0.45 _{ab} | $F(2.7, 574.6) = 3.1$, $p = .032$, $\eta^2_p = 0.01$ |
| 7a. Undiscriminating (-) b. Broad-minded (+) | Selective (+) Choosy (-) | 0.13 _a | -0.12 _b | 0.79 _c | 0.94 _c | $F(2.5, 545.9) = 63.1$, $p < .001$, $\eta^2_p = 0.23$ |
| 8a. Rash (-) b. Bold (+) | Cautious (+) Timid (-) | 0.76 _a | 1.00 _b | 0.19 _c | -0.69 _d | $F(2.7, 589.2) = 98.8$, $p < .001$, $\eta^2_p = 0.31$ |
| 9a. Agitated (-) b. Active (+) | Calm (+) Inactive (-) | 0.33 _a | 0.51 _b | -0.26 _c | -0.58 _d | $F(2.6, 570.4) = 71.5$, $p < .001$, $\eta^2_p = 0.25$ |
| 10a. Aggressive (-) b. Forceful (+) | Peaceful (+) Passive (-) | 0.47 _a | 0.71 _b | -0.45 _c | -0.93 _d | $F(2.4, 520.1) = 144.5$, $p < .001$, $\eta^2_p = 0.40$ |
| 11a. Conceited (-) b. Self-confident (+) | Modest (+) Unassured (-) | 0.34 _a | 0.62 _b | -0.77 _c | -1.42 _d | $F(2.7, 595.6) = 204.5$, $p < .001$, $\eta^2_p = 0.48$ |
| 12a. Uncooperative (-) b. Independent (+) | Cooperative (+) Confirming (-) | 0.56 _a | 0.86 _b | -0.57 _c | -1.29 _d | $F(2.2, 471.8) = 207.5$, $p < .001$, $\eta^2_p = 0.49$ |
| 13a. Tactless (-) b. Frank (+) | Tactful (+) Devious (-) | 0.08 | 0.05 | -0.11 | 0.00 | $F(2.8, 613.1) = 2.6$, $p = .053$, $\eta^2_p = 0.01$ |
| 14a. Impractical (-) b. Idealistic (+) | Practical (+) Opportunistic (-) | 0.25 _a | 0.13 _a | 0.59 _b | 0.27 _a | $F(2.4, 532.1) = 8.9$, $p < .001$, $\eta^2_p = 0.04$ |
| 15a. Deplorable (-) b. Likeable (+) | Admirable (+) Not likeable (-) | -0.13 _a | -0.17 _a | 0.22 _b | 0.11 _b | $F(2.7, 607.3) = 15.0$, $p < .001$, $\eta^2_p = 0.06$ |
| 16a. Lazy (-) | Hard-working (+) | 0.84 _a | 1.07 _a | 1.00 _a | 0.30 _b | $F(2.6, 578.2) = 16.7$, $p < .001$, $\eta^2_p = 0.07$ |
| 17a. Stupid (-) | Intelligent (+) | 0.20 _a | 0.33 _a | 1.40 _b | 0.72 _c | $F(2.4, 522.8) = 38.5$, $p < .001$, $\eta^2_p = 0.15$ |
| Mean of all 32 evaluations | | 0.26 _a | 0.52 _b | 0.60 _b | 0.05 _c | $F(2.4, 531.5) = 44.2$, $p < .001$, $\eta^2_p = 0.16$ |

Note. The descriptive scores were computed by inverting the score of every second contrast of a tandem before taking the mean, which disentangles the evaluative aspect of the tandem and reveals the descriptive component. Cells with differing superscripts in one line indicate significant differences ($p < .05$) based on post-hoc analyses (Bonferroni method).

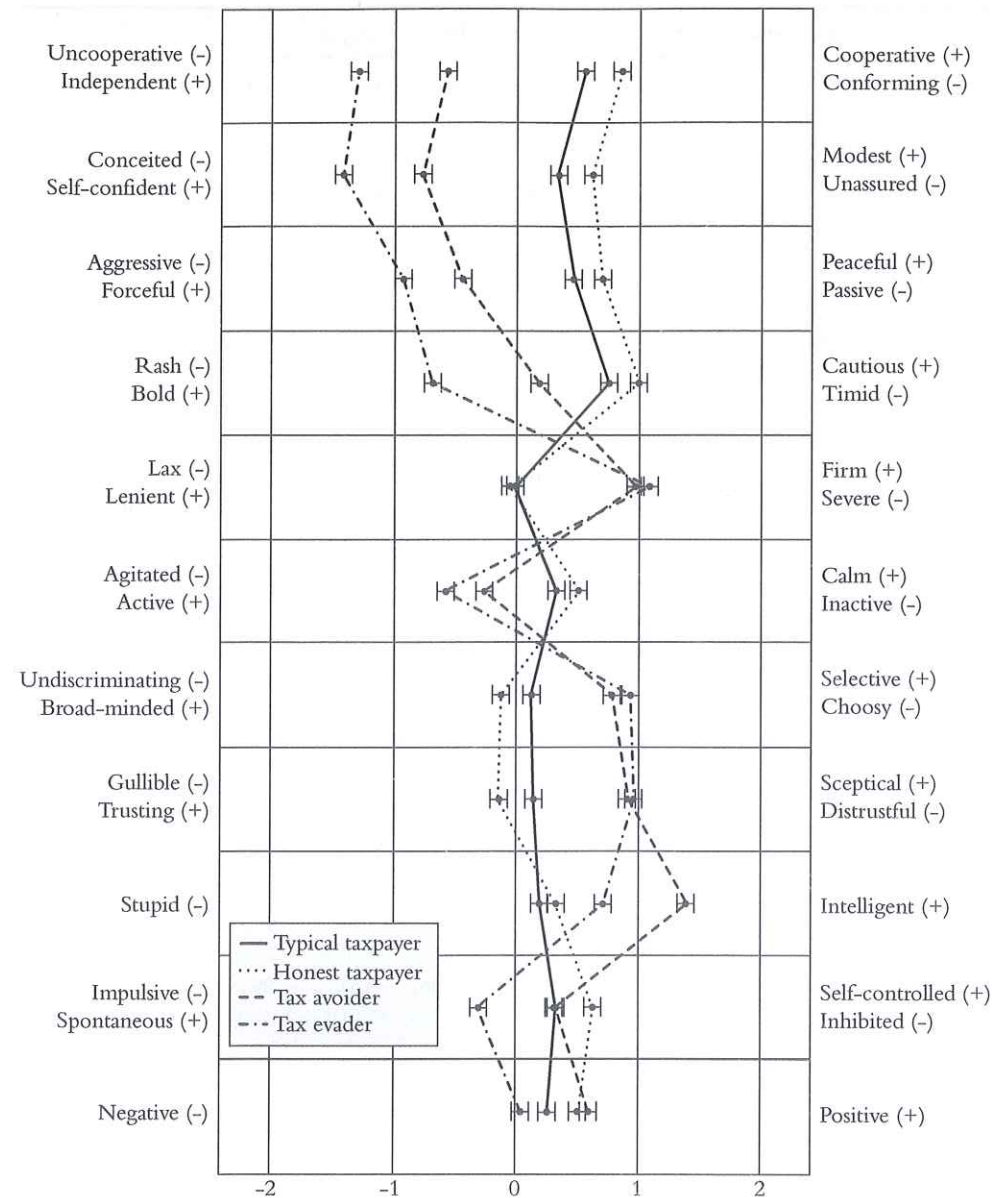


Figure 19.4 Mean descriptions of typical taxpayers, honest taxpayers, tax avoiders and tax evaders for selected contrasts.

The evaluation on the single dimension stupid vs. intelligent reveals an interesting result. While typical ($M = 0.20$) and honest taxpayers ($M = 0.33$) are judged as mildly intelligent (contrast 17), tax evaders are seen as significantly more intelligent ($M = 0.72$). However, tax avoiders are judged as most intelligent ($M = 1.40$).

With regard to the tandem impulsive and spontaneous vs. self-controlled and inhibited (contrast 2), typical taxpayers ($M = 0.33$), honest taxpayers ($M = 0.64$) and tax avoiders ($M = 0.33$)

are described as more self-controlled and inhibited than tax evaders, who are described as impulsive and spontaneous ($M = -0.31$), with both honest taxpayers and evaders differing significantly from all other types.

Discussion

Multinational corporations minimize their tax payments to increase their competitiveness. But while corporate tax planning aims at increasing shareholder value, it also threatens public revenues. As a consequence, international efforts are taken to reduce base erosion and profit shifting. Fighting tax avoidance is difficult, however, because many corporate structures that shield firms' income from taxation violate the spirit rather than the letter of the law. The vast majority of taxpayers, on the other hand, has only few opportunities to save on taxes and perceives multinationals' tax avoidance as unfair. As a result, public pressure rises and corporations are increasingly expected to pay their fair share. This elevates the reputational risk of firms' tax planning. Although empirical findings on the effects of reputational risk on compliance behaviour are ambiguous, corporations' efforts to exploit legal loopholes to save on taxes likely affect the compliance behaviour of the cooperative majority. Perceived injustice, for instance, might undermine tax morale and thus increase individuals' propensity to evade taxes.

However, as the public opinion also affects corporate behaviour, a better understanding of the socio-psychological dimension of tax avoidance is much needed in order to establish a high degree of tax compliance. Analysing the social representations of taxes provides insights into the motives for tax compliance behaviour. According to Kirchler et al. (2003) taxpayers evaluate tax avoidance, tax evasion and tax flight along the dimensions legality and morality. While tax avoidance is perceived as legal and moral, tax flight is seen as legal and immoral, whereas tax evasion is regarded as illegal and immoral alike. Accordingly, taxpayers find tax evasion less fair than tax flight and tax avoidance. Regarding the tax knowledge of different occupational groups, the results from Kirchler et al. (2003) indicate that small business owners score significantly lower on tax literacy than other study participants such as fiscal officers or business students. As tax knowledge is apparently correlated with the acceptance of taxes, this finding contributes to the understanding of low observed compliance rates among small firms.

Other findings (Kirchler 1998) suggest that individuals' experiences with paying taxes and the characteristics of their working environment, such as the opportunity to report income from self-employment, shape the social representations of taxes. Interestingly, typical taxpayers have a rather poor image compared to other groups of taxpayers. While tax evaders were evaluated more positively than typical taxpayers in an older study, recent data suggests that this order has turned around. However, our results show that tax avoiders are evaluated more positively than typical taxpayers and tax evaders. Altogether, these results indicate that cheating on taxes is not necessarily perceived as a crime, but rather as a game played by smart people. Tax policies that aim at increasing compliance should thus not only diminish the opportunities to evade or evade taxes, but also highlight the negative social effects of tax avoidance.

Overall, socio-psychological findings indicate that considering the social determinants of compliance behaviour adds to the understanding of tax avoidance. Since not all strategies to save on taxes are perceived as equally unfair, the legal nature of many tax avoidance schemes might be used to justify tax avoidance. One could argue that as long as it is legal, it cannot be morally wrong to avoid paying taxes. While the legal distinction between tax evasion and tax avoidance is often difficult, tax avoidance appears to be more socially accepted. It is therefore necessary to tackle the social acceptance of tax avoidance in order to establish a social and reputational disincentive for profit shifting activities. The findings of Kirchler et al. (2003) suggest that legal and

moral considerations do not overlap regarding the categorization of different forms to save on taxes. While the legal perspective can be addressed by stricter laws, more international coordination and capacity building, the moral perspective results from the dynamics between personal and social factors. It is thus important to understand taxpayers' attitudes and social norms in order to increase compliance.

Socio-psychological research identified several measures to fight avoidance and to establish norms of high tax compliance: (1) The positive impact of effective tax systems must be highlighted and communicated more efficiently just as benefits from public goods have to be made more salient. (2) Negative effects of tax avoidance on public revenues and the provision of public goods and services have to be addressed in public. (3) Successful efforts to fight multinationals' tax planning activities have to be visible for average taxpayers, in order to emphasize that also MNEs have to pay their fair share. (4) Tax compliance should be facilitated through education, easy access to information, the provision of taxpayer services and by clearly indicating the potential and legal boundaries of different methods to save on taxes.

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