

## THE ROLE OF TAXPAYERS' TAX EDUCATION IN FIGHTING TAX EVASION

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*Abstract: Voluntary tax noncompliance is a current, dynamic phenomenon of high or low intensity in most countries, irrespective of their level of economic development. The tools most frequently used by the tax authorities to model tax behavior seem to be control and punishment. The common tendencies aiming at an increased use of punishment as primary response to the identification of tax evasion have to be applied in a balanced manner, taking into account the circumstances in which the punishment has a positive, instructive impact and the situations in which its effects are harmful, contributing to the intensification of the voluntary tax noncompliance phenomenon. This paper is an attempt to shift focus from the excessive use of the traditional tax behavior modelling tools, namely control and punishment, to means by which taxpayers are supported and helped in the process of identifying and paying their tax obligations. Such a method, which is more readily and quickly accepted by taxpayers, will result in an increased level of tax education and voluntary compliance on the part of the latter.*

*Keywords: taxation system, tax authority, control, punishment, tax payer, tax education.*

### Introduction

Tax authorities have the role of implementing and adapting tax policy to the economic governmental strategy and to the international economic context. The main objective pursued is the effective collection of tax liabilities in a manner as efficient as possible in terms of administrative costs. To achieve these objectives, the tax authority seeks to identify and sanction those taxpayers who evade the payment of tax obligations by control and inspections schemes.

The taxpayer, as payer or taxable subject, feels the financial constraint on his/her revenue and properties for his/her earned income or for holding his/her ownership rights and is trying to understand and tries to understand and accept the contributions in favor of the state. A certain attitude of the taxpayer is thus born, embodied in his/her tax behavior as a way of reaction towards tax liabilities, tax policy and manner of interaction with the tax authorities.

Two types of fiscal behavior have emerged in the theory and practice of fiscal behavior, namely compliance and noncompliance. With regard to the behavior of voluntary compliance, this has, in its turn, two forms of manifestation: natural voluntary compliance and forced compliance. Voluntary compliance assumes payment of tax obligations on the grounds of moral motivations, supporting the state, and fulfilment of certain civic duties. Forced compliance occurs when payment of tax liabilities is made out of a desire to do not bear the negative consequences associated to unpaid taxes.

The tax noncompliance behavior also manifests by two forms: lawful noncompliance behavior, namely the phenomenon of tax evasion and unlawful noncompliance behavior by violation of tax laws.

The strategy of tax authorities in their relationships with taxpayers should firstly aim at strengthening voluntary tax compliance by preserving and strengthening civicism and tax morality of taxpayers and, secondly, at improving the tax noncompliance behavior by corrective measures thereof.

### **Possible ways of preserving the voluntary tax compliance behavior**

We are naturally wondering at the beginning of this section of the paper, which are the determinants of the voluntary tax compliance behavior of taxpayers?

We consider the fact that, at taxpayer level, the voluntary compliance is the result of a tax mentality arising from the positive belief of the taxpayer in relation to the application of the tax system and its results, materialized in the quality and quantity of public goods, in the credibility and fairness they are emanating. At the level of a group of taxpayers it is the individual tax morality that creates tax morality, implying their collective motivation to comply, characterized by the attitude of a group or of a majority of taxpayers to fulfill tax duties, attitude that constitutes the foundation for accepting tax duties and acknowledging the sovereignty of the state.

Besides tax mentality and morality, the tax behavior of voluntary compliance is based on a strong sense of civic duty. This means that taxpayers are not only motivated by their concern to increase welfare, but also by a sense of responsibility and loyalty towards society. Responsible taxpayers with a high degree of civic duty are cooperating, even if the system allows non-compliance in paying taxes, their behavior is not governed by external controls and sanctions, but by their concern for society, respectively by a strong sense of civic duty.

Having these “values”, tax authorities can develop and implement specific measures to strengthen and extend this majority group of taxpayers, who voluntarily comply with the payment of tax obligations. Such measures can materialize in:

- protecting and respecting the interests and right of the state in collection of taxes by the tax authority. Where the rights and interests of the state are not intimately respected, the tax laws lose their authority and their observance becomes relative even for honest taxpayers;
- organization and implementation of tax controls must be applied strictly for taxpayers who do not comply and evade the payment of tax obligations, not to feed to honest taxpayers the sense of tax authority’s complicity in perpetuating tax evaders;
- identifying possibilities for rewarding the voluntary tax compliance behavior, some of material or moral kind, which could consolidate the voluntary compliance behavior and lead to synergies also within the sphere of taxpayers that practice the tax noncompliance behavior.

Condensation of all mentioned elements converge to generate strong effects on voluntary compliance, to strengthen fiscal culture at national level as a result of the interaction between taxation and cultural values related to honesty, equity and civic duty.

### **Possible ways of modeling the behavior of voluntary noncompliance**

As mentioned before, the voluntary noncompliance behavior has two forms of manifestation: noncompliance manifested in violation of the spirit of the law (tax evasion) and noncompliance that violates both the spirit and letter of the law (tax fraud).

Adam Smith is defending *tax evading taxpayers who violate the spirit of the tax law*, who argues in *The Wealth of Nations* “every man, as long as he does not violate the laws, has the full right to deal with his own personal profits in the manner that suits him”. Thus, we observe that the behavior of these taxpayers is one of opportunity, linked in particular to the possibilities of interpreting and adapting tax laws so as to minimize tax liabilities.

In this situation, the tax authorities should harmonize and compatibilize tax regulations so as to reduce the complexity of tax laws and maintain their stability.

“Laws should not be subtle, they are made for people with an average understanding, they are not the expression of the art of logic, but of the simple judgment of a father of a family”, asserted Montesquieu in his book “*The Spirit of the Laws*”. His plea, at least in the field of taxation is not applied by legislative authorities. The existence of a high degree of complexity of the tax laws is manifested in most economies, regardless of their level of economic development in the United Kingdom, Australia, the United States, but also in Romania. Instability of Romanian legislation is a known fact, the tax code was amended more than 60 times since its appearance in 2004 until now. In addition to the excessive frequency of changes, there is a multitude of emergency ordinances that occur annually, making “amendments” to the extension of tax bases or to methodologies for calculating different taxes owed by taxpayers.

The tax authority must assume the fiscal & budgetary responsibility according to which the tax policy must be transparent and stable on a medium term. Otherwise, this mode of regulating the tax field with regard to the organization and implementation of the tax policy can feed a sense of complicity of the tax authority in perpetuating a certain degree of tax noncompliance.

The stability of legislation takes different dynamics, depending on the level of development, thus, in developed countries the tax system reform is limited in terms of legislation to some “subtle adjustments” of a functional and stable system, while in developing countries amendments to enactments are still being made to ensure a better use of the tax system.

Euripides’ statement of legal stability “*There is nothing else better for the state than well-made laws*” should be a permanent and constant concern for the tax authorities.

A reform of the legislative process to mitigate the two features of the current tax legislation through a more specific, better organized public consultation on intentions to amend the Tax Code would generate a reduction in the gap between the tax laws and level of understanding, applicability and practicability among taxpayers. Such a situation can reduce the noncompliance opportunities offered by tax legislation and increase the level of tax knowledge / education of taxpayers by their involvement / consultation in the legislative process.

In the case of *taxpayers who exhibit a noncompliance behavior by willful violation of tax laws*, the tax authorities should intensify controls and focus on counseling and education. If taxpayers are not willing to cooperate and continue to oppose in observing tax laws, the authorities should enforce sanctions and penalties that would limit the manifestation of such behavior.

## Tax education versus tax (non)compliance behavior

We discussed up to this point of the paper about some reasons why a part of the taxpayers is practicing various forms of tax behavior to diminish or even not pay the tax obligations manifested particularly by manipulating tax laws. These discussed reasons are of a legislative-administrative nature and belong to tax administration, and taxpayer behavior may be one of compliance, among those who have a sense of responsibility and loyalty towards society, or one of noncompliance, speculating the opportunities or weaknesses offered by the tax system.

We are further on trying to assess, from a logical standpoint, the (non)compliance tax behavior from the perspective of the taxpayer, the factors that determine a particular tax behavior.

Taxpayers that are inclined towards a tax noncompliance behavior, practicing tax evasion are generally characterized by the following attributes:

- a low level of education, which makes the understanding and compliance of tax rules/norms complicated;
- a relatively low level of tax morality with some behavioral instability;
- willingness to engage in easily maneuverable economic activities in order to avoid taxation;
- a low perception of the risks generated by conducting a tax audit and discovering the deeds of tax evasion and fraud;
- a certain degree of aversion towards the public sector, in this case, the tax authority;
- a consolidated culture of corruption that generates a sense of self-confidence in “solving” some potential situations to discover tax evasion and fraud.

Among the characteristics that are specific to taxpayers who are inclined to tax noncompliance, we shall analyze in this study the role of education in shaping the tax noncompliance behavior.

In this study, education refers to the capacity of taxpayers to understand and interpret tax legislation and, consequently, compliance as result of understanding legislation or tax noncompliance, as result of identifying methods of tax avoidance or of insufficient understanding of the law.

Starting our exploratory approach of the literature on the role of education in shaping the tax noncompliance behavior, we distinguished two relevant aspects:

- a high level of tax education, characterized by an excellent knowledge and understanding of tax language may generate speculative opportunities for tax noncompliance;
- a relatively low level of tax education, characterized by difficulties in understanding the complexity of tax information can generate involuntary noncompliance.

Taxpayers with a high level of tax education, having a sufficient amount of knowledge and information from the fiscal sphere, could adopt a behavior of voluntary compliance or an opportunistic, speculative behavior of tax noncompliance.

The category of educated taxpayers that adopt a behavior of voluntary compliance are characterized by a strong tax mentality and morality but also by a strong sense of civic duty.

However, for a part of taxpayers with a high level of tax education this can be an important factor for engaging in the avoidance or decrease of some tax obligations. They have the ability to interpret the law so as to exploit certain areas that are insufficiently “covered” or interpretations of some relative terms, which do not precisely express the nature of the tax base, calculation methodology, any deductions or declaration and payment deadlines.

Thus, we find that a high level of tax education is a relevant factor of voluntary tax compliance. However, this situation may also give rise to adverse effects, respectively the making of some connections with other fiscal provisions, favorable interpretations of the legislation’s incidence on some activities and identification of opportunities for avoiding taxes etc., which might represent an important noncompliance factor.

Taxpayers with a relatively low level of tax education, with an insufficient baggage of knowledge and information from the fiscal sphere, might adopt an involuntary noncompliance behavior.

This part of the taxpayers, which may have an unintentional noncompliance behavior, are characterized by minimum knowledge about how to collect and calculate taxes and their role on the individual, community and society in its entirety. The compliance of these taxpayers is costly, whether because of the fact that they appeal to specialists to ensure the legality of actions taken and tax compliance, or because they are discovered and will bear both the damage caused and the related penalties.

In the dealing with this category of taxpayers, tax authorities use coercive instruments and mechanisms applied “top-down”, having less durable effects, which do not induce educational accumulations, but which may also accentuate a certain social distance between tax authorities and taxpayers.

### **Possibilities of enhancing the tax education of taxpayers**

The strategy of modeling tax compliance of taxpayers that uses coercive instruments (control and sanction) is costly for both tax authorities and taxpayers with a relatively low degree of effectiveness.

A more promising alternative for tax authorities can be the formation of this part of taxpayers in a target group, which can implement some measures to increase the educational level on the need for tax payments, payment procedures, and guidance for understanding some legislative parts that are more complex. Such measures may materialize in:

- design of seminars on taxation in secondary schools and the introduction of fiscal education subjects as educational measures for preparing the future taxpayers;
- creation of specialized tax consulting cells for taxpayers that are specialized on certain activities;
- use of alternative information techniques such as: mass media and material, schools, universities and cultural communities;
- implementation of techniques for measuring and assessing of implemented educational programs and dissemination of results.

We consider that legal sanctions and controls are not sufficient to reduce the degree of noncompliance and that these measures have to be accentuated by increasing tax education, tax counseling and the conviction of taxpayers on the advantages of compliance in terms of

quality and quantity of public goods and services. The literature confirms that the sensitivity and positive effects on modeling taxpayer behavior are determined by the perception of fiscal policy, the assessment of costs and resulting benefits, the authorities' degree of involvement in advising taxpayers. Such a strategy, implemented from the taxpayer towards the authority, namely to firstly provide assistance to the taxpayer for the latter's understanding and then to evaluate his/her behavior, will ensure a sustainable growth of their degree of voluntary compliance.

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