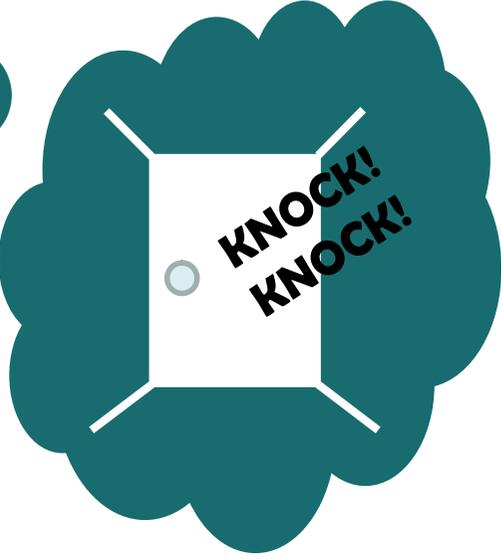
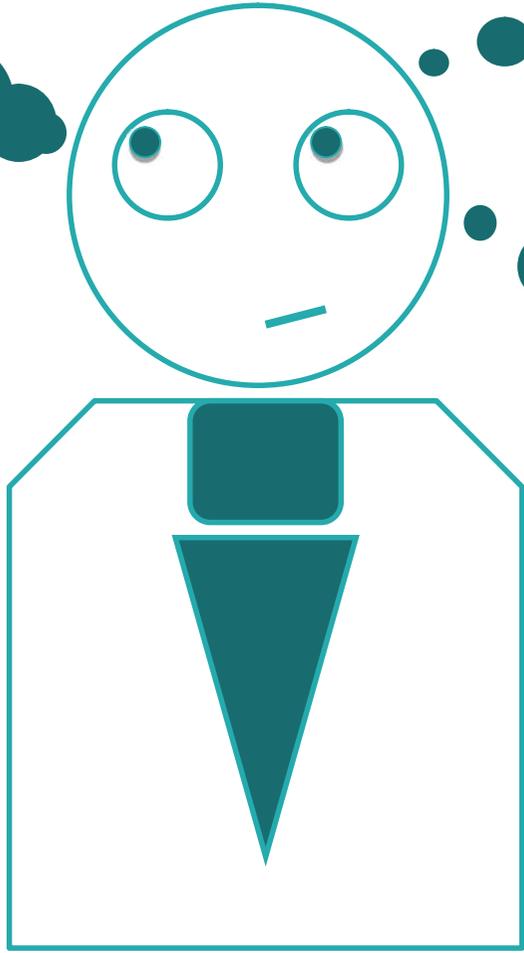




Tax Administration  
Research Centre

# Social influence and tax compliance

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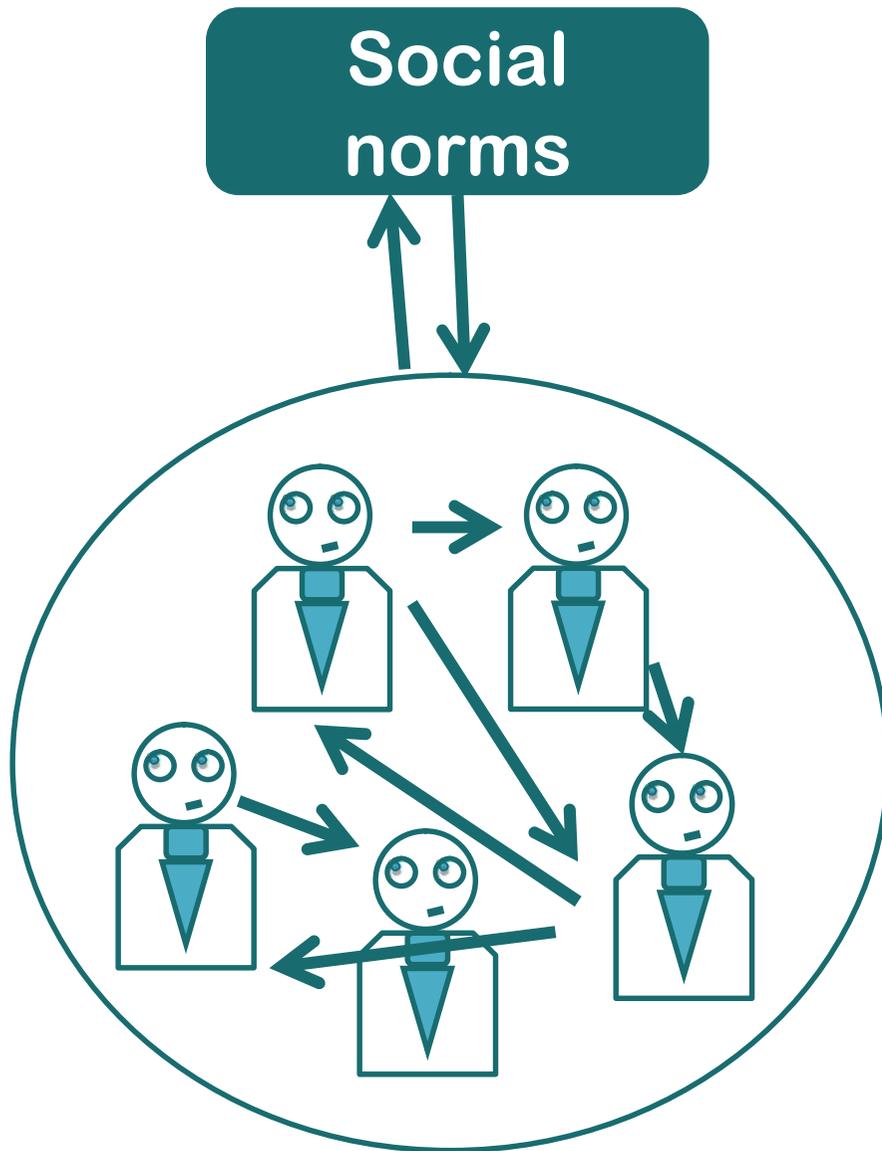


# Social norms and tax compliance

**Survey work – social norms within the taxpayer population and occupational group (e.g., Wenzel, 2004; Torgler, 2005; Ashby, Webley, & Haslam, 2009)**

**Experimental evidence of social norms importance (e.g., Bosco & Mittone, 1996; Alm, McClelland, and Schulze, 1999)**

**Recent interest from tax administrations – survey and interview studies on social norms (e.g., HMRC, 2009, 2010; NTA, 2013)**



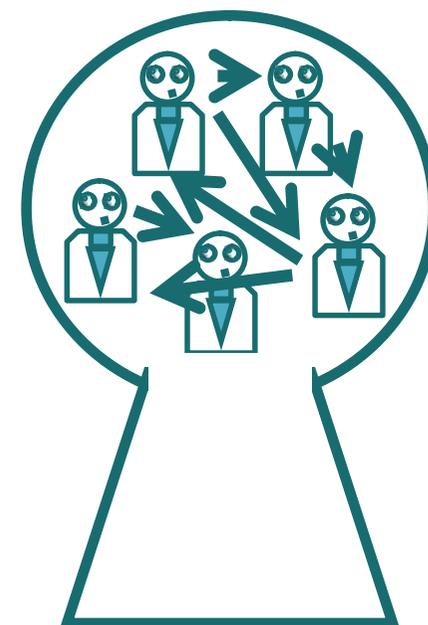
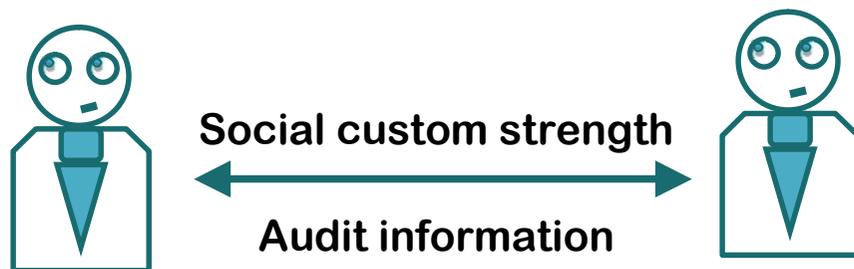
To understand how social norms change – we need to understand the dynamics of social interaction

# The dynamics of social influence

**Taxpayer interaction – essential to understanding compliance (Pickhardt & Prinz, 2013)**

**Taxpayer interaction can be understood using agent-based models**

**For instance, Hashimzade, Myles, Page, and Rablen (2013) model interaction:**



# Studying naturalistic interaction – Online discussions

**User1:** Should I be paying tax from web design earnings? I'm not currently. LOL

**User2:** [...] It's easy, just keep a record of all your income and expenses, certainly isn't worth the risk of getting caught not paying tax. [...]

**User3:** [...] you have to register as sole trader or HMRC will take everything you've got LOL!

**User4:** Announcing that on a public forum isn't wise is it? Tax man has internet access too.

**User1:** Thank you for the helpful info everyone.  
[in direct response:] There's no way they'll find me, Andrew isn't my real name.

**User4:** It's irrelevant what your real name is. If you're evading then they'll soon find you and recover what you owe. 💣

**User1:** You have register self-employed in 3 months and I have. I am now paying tax.

# Sample

**Discussions on two online forums of web designers  
(one UK, one international)**

**Selected 83 discussions where a novice asks for tax  
advice**

**And further selected interactions that had an element  
of *social influence* – 120 interactions pairs were  
selected to be analysed in depth**

# Method

Discourse analysis (Potter and Wetherell, 1987) and conversation analysis (e.g., Hutchby & Wooffitt, 2008; Sidnell, 2009)

Methods designed for understanding social interaction

Concerned with what people DO in communication rather than what they ARE

Should I be paying tax from web design earnings? I'm not currently.  
LOL

~~Noncompliant?~~

~~Compliant?~~

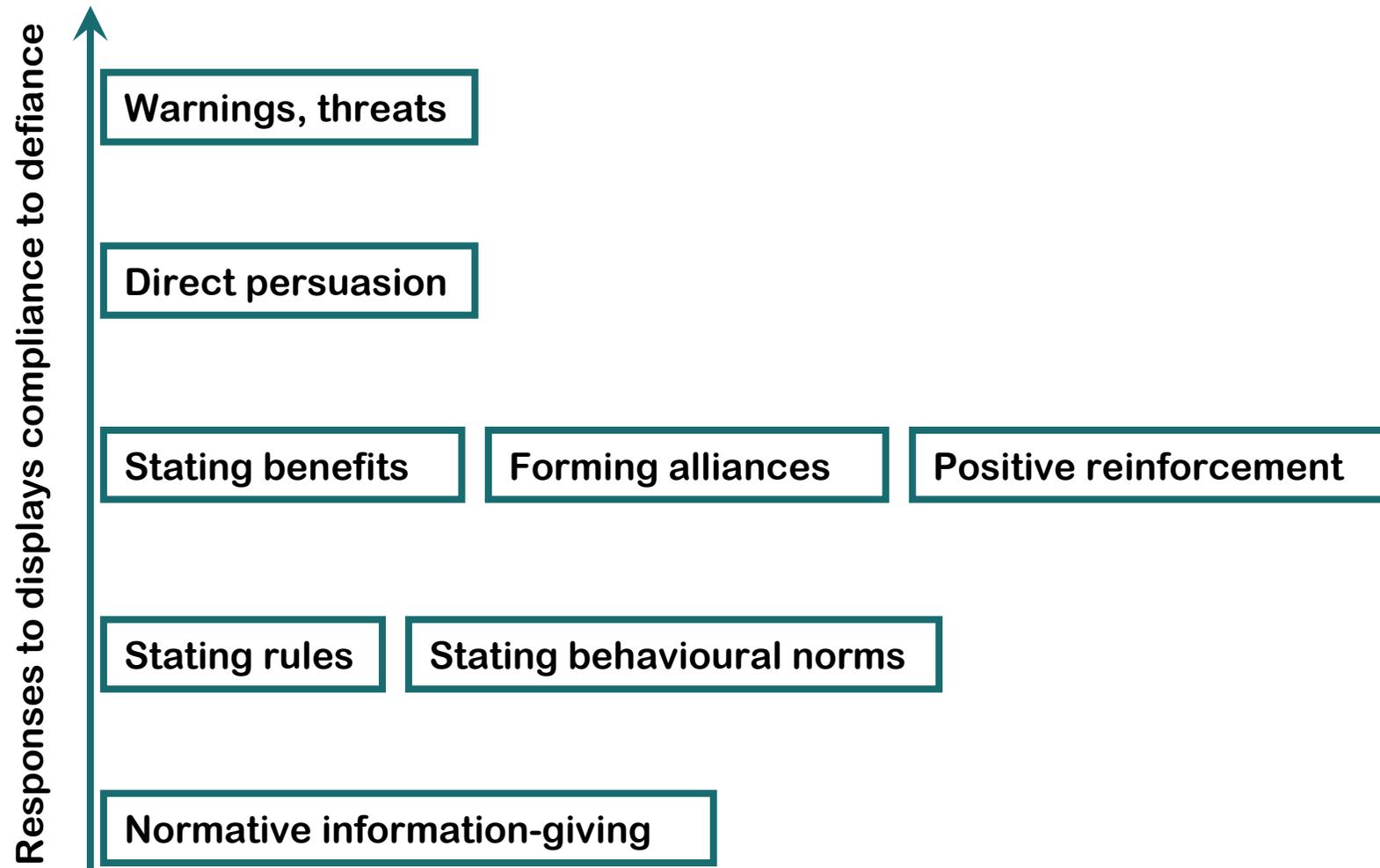
There's no way they'll find me

~~Noncompliant?~~

I am now paying tax.

~~Compliant!~~

# Results – social influence actions



# Results - types of interaction

## Normative information-giving

You contact HMRC to register as self-employed. You keep a record of your earnings and expenses (*for your business*).

[...], they calculate the amount of tax you owe – that you **must pay.. and on time!!**

Pretty simple description of taxes. 😊

You will **certainly need to** tell HMRC that you are trading

If you're a sole trader you **have to** complete a tax form when the tax year ends

It's irrelevant what to source is. All income you earn is taxable in the UK, **period.**

Of course you have to pay tax on online income.

Whether you declare this income to the tax man is completely up to you.

If you're not making much then many people would tell you not to bother.

# Results - types of interaction

## Stating injunctive norms (rules)

paying tax is part of life. You can't get away from it.

Even if you owe \$1 in tax, it's the law.

Doing business is good, and paying taxes is part of doing business. It's as simple as that.

## Stating descriptive norms (behaviours)

welcome to our world..... [i.e. we all have to pay tax]

You always know who's honest and pays taxes by reading their responses to such questions! Honest taxpayers can't stand those who don't pay!

# Results - types of interaction

## Forming alliances

I don't want to pay it 😞

None of us do!

## Stating benefits

Put part of your income in a separate bank account and at the end of the year pay your tax bill. The bonus is you earn some interest on the money - should cover a pizza 😊

## Positive reinforcement

You have register self-employed in 3 months and I have. I am now paying tax.

You don't have anything to worry about then ;)

It's not often that a 17 year-old asks advice on paying taxes. I respect that.

# Results - types of interaction

## Direct persuasion

Be honest and submit a tax return

If for any reason they audit you, you could be in trouble... it's best to report all your income...

Just declare it and save yourself any trouble in the future.

# Results - types of interaction

## Non-specific threats

NEVER mess around with the tax man - he will have your hide for his boots.

## Penalty threats

The IRS won't let you get away with it, and the penalties will be catastrophic.

If you don't report income, then you could just go to jail!

## Reputation threats

You could also cause problems for your clients

# Conclusions

**Social science theory - importance of social influence processes and social sanctions (e.g., Asch, 1955; Boyd, Gintis, Bowles, & Richerson, 2003; Fehr, Fischbacher, & Gächter, 2002; Ostrom, 2000)**

**Same processes should apply to tax compliance norms, but research has been largely concerned with influence from tax authority**

**Social influence from other taxpayers is equally (if not more!) important to maintenance of social norms**

# Conclusions

**Not much evidence of influence between compliant and noncompliant taxpayers - but potential of influence of taxpayers at early decision stage!**

**Experienced taxpayers will attempt a range of strategies to influence those at decision stage**

**Very little evidence of taxpayers discussing specific audit or penalty rates, and forming such beliefs in interaction – communication focused on norms**

# Implications

**For agent-based models – differentiate between compliant, noncompliant, and undecided (latter are likely to change their attitudes)**

**Audit and penalty beliefs may change due to social influence, even in the absence of any objective information**

**In experimental settings – allow newcomers into already established groups (realistic for professional norms)**

**Survey research – explore which categories of taxpayers are likely to exert influence on others – they can be a resource for compliance measures**

# Discussion – feedback please

**1) Is this approach useful to you? If so, in what way?**

**2) We have a growing database of hundreds of online discussions from various professions:**

**- What you be most interested to know from such data?**

**- Does this connect to hypotheses you are investigating? Multi-method collaboration?**

# Thank you!

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**Social Norms and Tax Compliance**  
Discussion paper  
on [tarc.exeter.ac.uk](http://tarc.exeter.ac.uk)