



PROJECT BRIEFING

UK Micro-business: Determinants of Tax Compliance

Overview

In order to investigate different types of compliance and non-compliance in UK, 330 business owners of micro-businesses (sole traders and limited companies with less than 10 employees and less than £2million turnover) took part in an anonymous online questionnaire.

Two analyses were conducted - one focused on compliance and one on non-compliance.

Challenge

Much of tax compliance research focuses on the dichotomy between compliance and evasion. However, economic psychologists highlight the importance of differentiating two types of compliance (voluntary vs enforced) and two types of non-compliance (avoidance and evasion) (see Kirchler & Wahl, 2010).

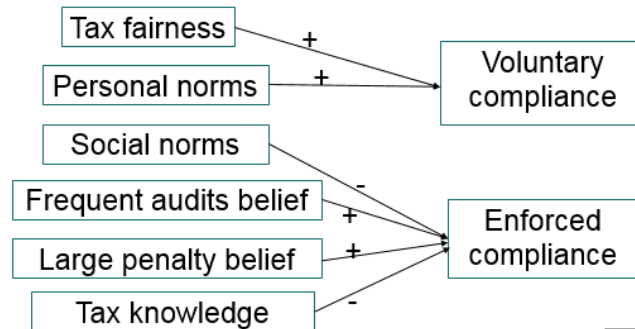
Voluntary vs Enforced Compliance

Types of Compliance:

Braithwaite (2003, 2009), Kircher & Wahl (2010) distinguish voluntary compliance (paying taxes because it's the right thing to do) and enforced compliance (paying because of fear of getting caught). The first is more difficult to build, but less costly to maintain and more sustainable in the long term.

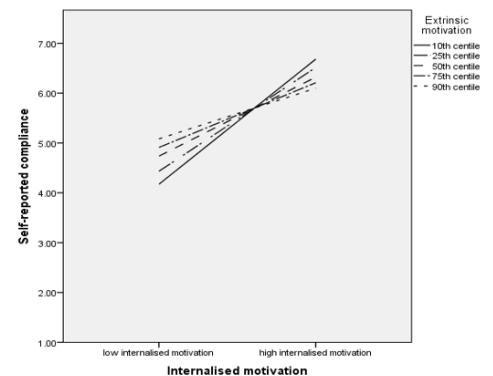
Compliance

Determinants of different compliance types:



Interaction of compliance types:

Potential 'undermining' effects by which the presence of extrinsic motivation undermines voluntary compliance. There is some evidence of an interaction at very high levels of extrinsic motivation.



Implications:

Findings show distinct types of compliance voluntary vs enforced which have different determinants and may interact.

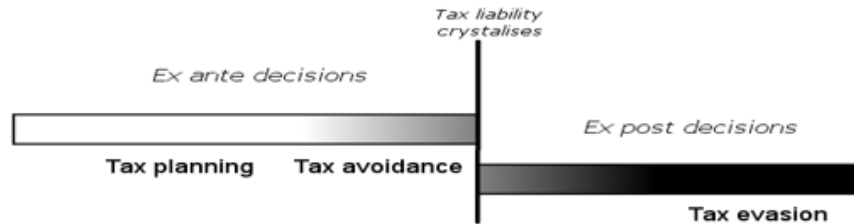
Interventions and policies targeting increased compliance should be aware of which compliance they want to effect.

Non-Compliance: Tax Avoidance and Tax Evasion

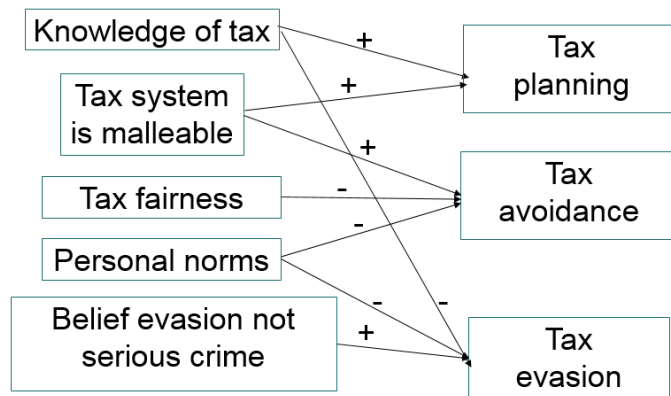
Types of Non-Compliance:

Respondents distinguished tax avoidance (based on an attitude of 'gaming the system') and tax evasion. They also distinguished legitimate tax planning as a separate behaviour (see also Braithwaite, 2003, 2009; Kircher & Wahl, 2010).

Non-compliance continuum:



Determinants of tax avoidance and evasion:



Implications:

Taxpayers distinguish tax avoidance and tax evasion as distinct constructs. The correlation between the two is low and they have different determinants, so it may not be the case that 'avoiders can slip into evasion'.

Distinct interventions should target the two behaviours.

Find out more:

Diana Onu, University of Exeter: D.Onu@exeter.ac.uk
Lynne Oats, University of Exeter: L.M.Oats@exeter.ac.uk
Erich Kirchner, University of Vienna: erich.kirchner@univie.ac.at