



# PROJECT BRIEFING

## The Behavioural Impact of Pre-populating Self-Assessment Forms

### Overview

In 2015, the UK Budget announced the introduction of online digital tax accounts, which removed the need to file a tax return.

The UK Government planned that by the end of 2016, five million businesses and one million individuals would have switched to the new digital accounts, and that by 2020 every individual and small business should be able to access their digital tax account (HMRC 2015).

The proposed benefits of the new system included offering certainty and control over one's tax position, the removal of duplicated data entry, quicker responses from the tax authority and the ability to share information with third parties, including employers, banks or pension companies.

### Challenge

Previously, UK taxpayers were required to enter data into their tax form obtainable from other sources (e.g. employment income, income from the ownership of property, or interest on bank accounts; tax-liable or tax-relieving expenses, such as medical insurance benefits or private pension contributions). Under the proposal for new digital tax accounts, the tax authority will use the information from third parties it already has in taxpayers' accounts. This means taxpayers will not need to enter that data when filing their taxes. This amounts to the tax authority pre-populating the taxpayer's tax form.

On the one hand, taxpayers may simply accept the pre-populated values, which could lead to unanticipated non-compliance if the tax authority's information underestimates a taxpayer's tax liability, leaving the taxpayer open to an audit and any associated penalties from their non-compliance. Importantly, the pre-population of tax forms does not change the fact that the legal responsibility for the correct filing and payment of taxes remains with the taxpayer. Potentially increased levels of non-compliance arising from under pre-population would leave the tax authority with a larger revenue shortfall. Increased over-compliance arising from over pre-population would instead result in a public relations issue from the routine over-charging of taxpayers.

On the other hand, pre-populating tax forms reveals what the tax agency knows (and importantly, what it does not know) about taxpayers' affairs, thus extending the opportunity for deliberate evasion. Such an opportunity for tax evasion would obviously apply to those taxpayers considering evasion under the old tax return system, but worse still, the incorrect pre-population of the tax form could make those that would have been compliant without pre-population now consider evasion.

### Analysis

This project shows the results of an online experiment using a combination of experimental economics and survey methodologies to study the impact of pre-population of tax forms using UK taxpayers as experimental subjects.

The experiment was designed to answer the following questions:

- Does pre-populating tax returns with correct values increase compliance?
- Does pre-populating tax returns with incorrect values decrease compliance?
- If the answer to the second question is affirmative, can that effect be mitigated by behavioural prompts imbedded in the tax form?

## Research Outcomes

The findings showed that partially pre-populating forms with correct data improves compliance. However, the use of inaccurate information significantly decreases compliance. This is due to the fact that some individuals accept the pre-populated value, while others engage in additional non-compliance. Nudges that displayed a normative message about compliance in response to people's inputs raised average declared tax liabilities close to baseline levels.

Evidence of different motivations for why and when defaults are difficult to override, is more apparent when they are incorrect. For a small subset of people in the sample, defaults reduced the cognitive cost of engagement with the filing task. This indicates those people will be compliant if the default is correct but will be under- or over-compliant if the default is incorrect. This behavior is therefore consistent with the heuristics approach in decision making and supports the claim by Kotakorpi and Laamanen (2015) that prepopulated tax forms reduce the cognitive costs of tax filing.

A large proportion of participants, when faced with an incorrect default (either under/over-estimating tax liabilities), responded by evading even more. Participants may have interpreted incorrect pre-population as incompetence, which could signal greater opportunities for evasion, which is a key determinant of non-compliance in the field (Kleven et al. 2012).

Defaults are extremely powerful and their effect dominates the power of normative messages, which have been shown to be particularly effective in other policy contexts (Cialdini et al. 2006). Only a normative message that was responsive to actual behavior was able to mitigate the adverse effect of an incorrect default, thus providing strong support to Smith, Goldstein and Johnson's (2013) proposal for using reactive defaults. Even then, the effectiveness of reactive nudges was primarily on the extent to which participants evaded, rather than on the proportion of evaders.

The reactive nudge increases response times by compliant types while having a limited effect on those who underreport their tax liabilities, both in terms of reducing their number or changing their deliberation time. The experiment considered measures that the tax authority can implement to mitigate the potentially increased levels of noncompliance, but they should be carefully considered. For example, a lock on the pre-populated field with a nudge for honesty actually caused compliance to worsen if the pre-populated value was below the true level of income. In addition, a static nudge containing a descriptive norm message on compliance that was always present had no discernible effect on compliance or revenue.

More generally, the findings indicated an important scope for nudges that react to users' behaviour. The fact that these nudges react to user behaviour may lead users to perceive that the nudge is directed at them, thus further increasing their potential. This is seen as a promising area for future policy implementation.

**Fonseca MA, Grimshaw SB** (2017). Do Behavioral Nudges in Prepopulated Tax Forms Affect Compliance? Experimental Evidence with Real Taxpayers. *Journal of Public Policy & Marketing*, jppm.15.128- jppm.15.128. [Full text](#).

### Findings

- Partially pre-populating forms with correct data improves compliance.
- However, the use of inaccurate information significantly decreases compliance.
- A reactive nudge reminding users that a lower declaration of income leads to a higher probability of audit was much more effective in increasing compliance, particularly in relation to the major income item in participants' profiles.