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: Am I supposed to be paying tax from my freelance design services? I'm not at the moment. lol

User2: [...] Honestly, it really isn't a complicated as a lot of people make out as long as you keep a record of all your incomings and outgoings, and certainly isn't worth risking getting caught not declaring income. [...] 

User3: [...] you need to register as self employed or the HMRC will take you to the cleaners LOL!

User4: Broadcasting that on a public forum isn't the smartest idea. HMRC have internet access too you know?

User1: Thank you for the helpful stuff guys. [in direct response:] There's no chance of them finding me, Andrew isn't even my name. They know nothing about me.

User4: It doesn't matter what your name is. If you're not paying tax, as you previously admitted, then it is only a matter of time before they find you and recover what is owed. 😞

User1: You have to declare in the first 3 months, 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

Am I supposed to be paying tax from my freelance design services?  I'm not at the moment. lol  Compliant?

There's no chance of them finding me  Compliant

I am now paying tax.  Compliant!
Results – social influence actions

- Normative information-giving
- Stating benefits
- Stating rules
- Stating behavioural norms
- Forming alliances
- Positive reinforcement
- Direct persuasion
- Warnings, threats

Responses to displays compliance to defiance
You register as self-employed with the HMRC. You keep a recording of your income (sales) and outgoing (things you buy for your business). […] they work out how much tax you pay - which you must pay.. and on time!!
That's a pretty simple description of your business tax. ☺

You will obviously need to inform the HMRC that you are also self-employed.

If you're self-employed you have to file a tax return at the end of the tax year.

It doesn't matter if it's personal. In the UK, all income you receive is taxable, period.

You bet online income is taxable. Whether you claim it on your tax form is completely up to you. If you're just making a few hundred online every month and it's not really a major income source then many people would tell you to write it off.
Results - types of interaction

**Stating injunctive norms (rules)**

- paying tax is part of life. There's no way to escape it.
- At the end of the day, even if you have to return $1 in tax, it's still the law.
- Making money is good, and paying taxes is part of making money. Seems simple enough. Is there more to this?

**Stating descriptive norms (behaviours)**

- welcome to our world..... [i.e. we all have to pay tax]
- You can always tell who pays their taxes and doesn't cheat by reading their strong responses to this kind of question! Honest taxpayers hate tax cheats!
Results - types of interaction

Forming alliances
- But I don't wanna pay it 😊
- Find me someone who does!

Stating benefits
- Open a bank account and deposit your tax money in it after you complete each job, then at the end of the year use this money to pay your tax bill (either part or full). The big bonus is that you'd earn a bit of interest on the money - probably not a lot but should cover a pizza or two 😊

Positive reinforcement
- You have to declare in the first 3 months, I have. I am now paying tax.
- You have nothing to worry about then ;)!
- It's not everyday you will find a 17 yr old asking advice on how to pay taxes on something he sold. I respect that a lot.
Direct persuasion

So just be honest and do the paperwork

But if they audit you for any reason, you might be in big trouble... it's probably a good idea to report all of your income...

Just claim it and save yourself a big headache down the road.
Results - types of interaction

Non-specific threats

one thing you NEVER do is mess around with the tax man - he will have your hide for his boots and leave your carcass out in the sun for the vultures. Doesn't matter where you are in the world - the taxman gets paid - end of.

Penalty threats

And don't think the IRS will let you get away with non-payment for long, because they won't, and the penalties will be severe to catastrophic.

If you have income that you don't report, then you might go to jail! 😊

Reputation threats

You are also creating a situation where you could cause grief 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
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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Discussion paper
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