

THE SEVENTH CEEL WORKSHOP IN EXPERIMENTAL ECONOMICS “*DECISION-  
MAKING: PERSPECTIVES OF EXPERIMENTAL ECONOMICS AND PSYCHOLOGY*”

The economic psychology of tax compliance: some substantive findings  
and some methodological implications.

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Abstract

This paper has two aims (a) to give an overview of the psychological research into tax compliance (b) to consider some of the methodological issues raised by experimental studies of tax compliance.

Economic and psychological theories in the area will be briefly reviewed and five robust empirical findings identified. These are that non-compliance is associated with the tax system being seen as unfair, with people having opportunities to evade, and with taxpayers who are younger, male and egotistical. If a person believes that non-compliance is widespread he or she is more likely not to comply and if the tax authorities provide a poor service non-compliance is more likely.

Four different studies of VAT compliance will be described. In the first study, three groups of business people were interviewed (restaurant owners, flooring retailers and builders. Three important factors emerged from these interviews - feelings of inequity, the significance of sanctions and mental accounting (the 'ownership' of VAT monies). The second study (a large survey study of restaurant owners and floor retailers which combined information from questionnaires with information on compliance provided by Customs and Excise) showed that equity, mental accounting, and guilt are also important factors in predicting compliance. The third and fourth (ongoing) studies explored the role of mental accounting and equity experimentally, through a web-based simulation.

The methodological issues considered will include (a) the importance of embedding experiments within a multi-method approach (b) the use of post-experimental interviews (c) the role of paying participants 'by results' (d) the advantage of considering experiments as a form of role-play, and the three features good role plays should have ('presencing', 'personalization' and 'particularisation').

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