



A Review of Factors for Tax Compliance

Nicoleta BĂRBUȚĂ-MIȘU*^a

^aFaculty of Economics and Business Administration, "Dunarea de Jos University of Galati, 59-61 Nicolae Balcescu Street, Galati, Romania

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ABSTRACT

The aim of this paper is to identify the variables of tax compliance analysed by researchers from various countries and adapting them to the Romanian conditions to create a model to include factors that influence decision of tax compliance. Tax compliance has been studied in economics by analysing the individual decision of a representative person between paying taxes and evading taxes. In the research of tax compliance have been done many empirical studies that emphasized the impact of a wide variety of potential determinants of voluntary compliance with individual income/profit tax filing and reporting obligations. The most important determinants identified are: economic factors as the level of income, audit probabilities, tax audit, tax rate, tax benefits, penalties, fines and other non-economic factors as attitudes toward taxes, personal, social and national norms, perceived fairness etc.

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1. Introduction

The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behaviour. Those factors which influence tax compliance and/or non-compliance behaviour are differing from one country to another and also from one individual to another (Kirchler, 2007). They include: taxpayers perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude / subjective norms; taxpayers' understanding of the tax system / tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey and Targler, 2006) and punishment such as penalties (Allingham and Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection; difference across - culture; perceived behavioural control (Furnharn, 1983); ethics / morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income (Murphy, 2004) and use of informants.

Tax compliance has evolved into a major research topic in economic psychology. The issue has been approached from various viewpoints shedding light on different aspects of taxpayers' behaviour. Attitudes were measured, prevailing social norms and lay theories explored, which people have in mind when fulfil their annual tax declarations (Kirchler, 2007).

The empirical results indicate that tax compliance leads to increases in income and audit rates and decreases in tax rates. Compliance is also greater when the individuals perceive some benefits from a public good funded by the tax payments while changes in fine rates appear to have little effect on tax compliance behaviour (Alm et al., 1992). It therefore appears that there are additional tax policy instruments beyond the standard prescription of enforcement actions that government can enact to achieve its desired degree of compliance with the tax laws. In fact, some of these standard instruments - greater penalties - may be largely ineffective in increasing tax compliance. In short, government should pursue a range of approaches in its efforts to promote compliance (Alm et al., 1992). Thus, the payment of fines and penalties appear for overdue taxes. Thus, there arises the need to allow audit by tax collectors if deemed necessary, especially if they suspect that there is some kind of some tax non-compliance.

The behaviour of tax compliance has been long explained by the policies oriented to punishment, like tax audit and penalty rate (Alm, McClelland, Schulze, 1992). However, the theoretical approach could not completely explain the behaviour of tax compliance. There have been many studies to explain the behaviour of tax compliance in a more realistic situation. They have been focused on the determinants of tax compliance, respectively on economic and non-economic factors. Non-economic factors, which had been neglected by economists, have been introduced to explain the tax compliance by using the economic framework (Smith and Stalans, 1991). They have tried to include many non-economic factors which are, for example, the willingness to pay for public provision, public education, tax morale etc. (Hyun, 2005).

* E-mail addresses: nicoleta.barbuta@ugal.ro

2. Economic factors of tax compliance

In the tradition of tax compliance research, a number of factors have been considered important for explaining tax compliance: the level of actual income, tax rate, tax benefits, tax audit, audit probabilities, fines and penalties.

The level of actual income. Spicer and Lundstedt (1976) point out that self-employed have more possibilities to avoid taxes than employed taxpayers. However, self-employed taxpayers have more opportunities for tax evasion and these opportunities might further increase with the number of different income sources. Hence, in tax compliance decisions the level of income might interact with its source. A different aspect of the income source, if income was earned by hard work or an effortless job - has been studied in experiments by Kirchler, Muehlbacher, Hölzl and Webley. Participants were less compliant when they reported income earned by low effort than when they reported hard-earned income. It seems that taxpayers are reluctant to lose their hard-earned money by "gambling" with tax authorities (Kirchler et al., 2007).

Given the present results on income and compliance, must be taken into account the practical implications for tax policy. The issue is important not only for designing proper audit strategies, but also for tax ethics, since a negative relation of income and compliance would put into question the intended or pretended distributional effects, respectively of progressive income taxation (Lang, Nöhrbaß & Stahl, 1997).

Tax rate. Economic models of rational compliance decisions provide either mixed predictions of the effect of the marginal *tax rate* on compliance, or predict that increased tax rates would increase compliance (Allingham and Sandmo, 1972). On the contrary, most empirical research finds that higher tax rates decrease compliance or provides mixed results. Some studies (Pommerehne and Weck-Hannemann, 1996) demonstrate that evasion increases with increasing marginal tax rates. Also Clotfelter (1983) and Slemrod (1985) found that the marginal tax rate has a significant effect on underreporting. In Porcano's (1988) study, the tax rate had no effect on evasion and underreporting (Kirchler et al., 2008).

Laboratory experiments with varying tax rates frequently found that tax rate increases leading to higher tax evasion (Alm, Jackson and McKee, 1992). However, Alm, Sanchez and deJuan (1995) found the opposite in a Spanish sample, and Baldry (1987) did not find a significant effect on any experiment.

Within the current framework, the impact of the tax rate would depend on the degree of trust. When trust is low, a high tax rate could be seen as an unfair treatment of taxpayers, as an attempt at taking from the taxpayers what is rightly theirs. When trust is high, the same level of tax rate would be interpreted as contribution to the community, which in turn again profits each individual. In the first case, the tax rate would be interpreted as the wielding of power by some tax offices and in the second case, as a joint agreement within the community (Kirchler et al., 2008).

A theoretical model for tax compliance shows that the tax rate has an ambiguous effect on the level of tax compliance, depending upon taxpayer's attitude toward risk. Furthermore, there have been contradictory empirical evidences on the effect of tax rate on the level of tax compliance. Thus it is so difficult to discuss the impact of tax rates on the level of tax compliance for achieving a comparative analysis (Hyun, 2005). For the individual income tax, diverse countries may have the similar structures in the statutory tax rate: flat tax system or the progressive tax system with multiple rates and instalments. If there is a little difference in the tax rates between two countries, we can assume that the effect of tax rate on the level of tax compliance is negligible (Hyun, 2005).

We wonder however if higher tax rates lead to lower tax compliance. No clear hypothesis emerges from the standard economic model. Two counteracting effects are proposed: on the one hand, a high tax rate reduces effective income and, therefore, makes tax evasion more profitable; on the other hand, by reducing effective income the aversion for risk increases. Consequently, tax evasion should be reduced. Both of the model's predictions on the impact of tax rates on compliance found empirical support; though most studies that show the compliance is lower at high tax rates.

The most empirical studies on the impact of tax rates support the assumption that high tax burdens have negative impact on compliance. However, the strong connection of income and tax rate makes final conclusions difficult (Andreoni, Erard și Feinstein, 1998). In experimental studies it is hard to separate the effects of tax rates and income, if both variables differ at the same time. In field studies, a similar critique as in the discussion on income effects can be made, i.e., opportunities for tax evasion or avoidance and source of income are likely to interact with tax rate (Kirchler et al., 2007).

Regarding the source of income, Boylan and Sprinkle (2001) report that participants in their experiment reacted to a tax rate increase with lower compliance if they were endowed with income by the experimenters, but reacted with higher compliance to a tax rate increase if they had to earn their income by performing in a one-hour multiplication exercise.

Findings by Moser, Evans III and Kim (1995) seem to suggest that perceived fairness of the tax rate is more important than its absolute level. Judging the fairness of taxation, however, requires comprehensive knowledge and correct interpretation of the tax law, and complex tax rate structures, such as progressive taxation, that are not perfectly understood by taxpayers. Roberts, Hite, and Bradley (1994) showed that

taxpayers' preferences for progressive, flat, and regressive taxation depend on the form the respective tax rates are presented, e.g., if tax rates are described as abstract concept or in concrete terms by giving hypothetical examples.

McCaffery and Baron (2004) asked their participants to indicate what they consider a fair tax for different levels of income. Preference for progressive taxation was stronger when the amount of taxes had to be indicated in absolute amounts. Such effects suggest that tax policies are hard to understand and can easily be misinterpreted. Knowledge about effects could help authorities in promoting changes in tax policy such as tax rate increases without undermining taxpayers' compliance (Kirchler et al., 2007).

Tax benefits of various forms of taxation of legal entities / individuals. In Romania, given the many legislative changes, we can consider as a factor influencing tax compliance, the tax benefits of various forms of taxation of legal entities / individuals, as their form of constitution. Thus, entrepreneurs have done the migration from one form of organization to another, which offers tax advantages for purposes of paying lower taxes.

As an example, we present the case of limited liability companies and individual enterprises. In terms of the tax system, limited liability company shall pay a tax of 16%. Regardless of the option, the company earnings resulted after tax remains in its heritage. For profit to pass on its associates patrimony is necessary its distribution as dividends; it drew for itself another pay of tax amounting to 16% - tax on dividends.

The fiscal regime applied to individual businesses is more beneficial in terms of taxation. Thus, depending on the activity undertaken they can opt for income tax rule (rule set / year set by local authorities to professional office) or in real time tax (profit tax rate of 16% of the difference between income and expenditure). In addition, the gain realized from economic activity is found in the property of the individual enterprise owner, so a tax similar to any tax on dividends from companies is excluded.

Tax audit is one of the most effective policies to protect the behaviour of tax evasion. The level of tax audit can be determined by two elements: one is how many taxpayers are selected for audit and the second is how much intensive the audit is. The first element is easily measured by the number of audited taxpayers divided by the total number of taxpayers. However, the second element is so difficult to measure due to no published information about the process of tax audit. It is commonly measured by the first element to indicate the level of tax audit for practical comparison (Hyun, 2005). Tax audit generates administrative cost. As a constraint of the fixed administration cost, an increase in the level of tax audit is required to decrease the level of other administrative functions, like taxpayer service, tax collection etc.

Audit probabilities. Studies on the impact of audit probabilities on tax compliance have showed weak effects. Fischer, Wartick, and Mark's (1992) review summarizes inconsistent findings on audit probabilities and tax compliance. For example, threatening taxpayers in an experiment (Slemrod, Blumenthal and Christian, 2001) with "close examination" of their upcoming returns increased tax compliance just for low and middle-income taxpayers, but decreased it for high-income taxpayers. Furthermore, laboratory experiments varying audit probabilities found low negative effects of audit rates on evasion, especially for precise percentage information on audit probabilities instead of indicating high middle, and low probabilities (Spicer and Thomas, 1982). In contrast, other experiments report that imprecise information increases tax compliance (Friedland, 1982). Thus, it would be argued that not the objective audit probability is important, but the subjectively perceived probability and its interpretation. A review on tax compliance and audit probabilities (Andreoni, Erard and Feinstein, 1998) showed that objective audit probabilities have little effect on compliance and concluded that subjectively perceived probabilities may be mediated via psychological variables (Kirchler et al., 2008). Prior audits, from direct experience have a weak impact on tax compliance. An explanation is that prior audits may not turn out as badly as taxpayers initially feared (Andreoni et al., 1998). The subjective probability of being audited would be an indicator for the power of authorities; however, the same level would be interpreted differently depending on the trust in the authorities. An individual's risk aversion, in this context, would be of relevance primarily under conditions of low-trust; with high-trust in the authorities, it would become irrelevant because the tendency to calculate probabilities and payoffs is replaced by following the fiscal norms (Kirchler et al., 2008). The economic model assumes that taxpayers try to maximize the outcome of the compliance decision by weighing the gain of successful evasion against the risk of detection and punishment. The expected value of non-compliance depends on audit probabilities and fines. Allingham and Sandmo (1972) therefore conclude that an increase in the probability of detection will always lead to a larger income that will be declared by taxpayers. They assumed that the notification letter induced high income that determined taxpayers to seek help of professional tax advisors to minimize their tax liability. The effectiveness of frequent audits was proved in laboratory experiments (Kirchler et al., 2007). Subjective rather than objective probabilities should therefore be of greater interest in tax research. Survey research revealed that taxpayers who admitted to evade taxes perceive chances of being caught lower than honest taxpayers (Mason and Calvin, 1978). Frequently was observed in tax experiments that tax compliance sharply decreases after an audit (Guala and Mittone, 2005; Mittone, 2006). Such a reaction to an audit has

been coined “bomb-crater” effect by Mittone (2006). In a recent study Kastlunger, Kirchler, Mittone and Pitters investigated if the “bomb-crater” effect is caused by misperception of chance or by the attempt to repair losses from paying penalties/fines. Results suggest that misperception of chance is the major cause for the strong decrease in compliance immediately after an audit. At least in some cases, loss repair tendencies seem to reduce compliance. The “bomb-crater” effect affects only the first periods after an audit before compliance increases again. After a “bomb-crater” occurred in an experiment by Kirchler, Maciejovsky, and Schwarzenberger (2005) compliance increased faster to its baseline in a condition with a high audit rate than in a condition with a lower audit rate. Thus the duration of this effect seems to depend on when the next audit is expected. In practice, tax audits are costly and research consequently changes its focus towards alternative control mechanisms. Reinganum and Wilde (1985), and Alm, Cronshaw, and McKee (1993) contrasted random audits schemes with several alternatives (Kirchler et al., 2007).

They tested the effectiveness of a cut-off rule (i.e., when the declaration falls below a certain threshold), a retrospective audit scheme (i.e., when the random detection of noncompliance results in examination of previous tax files), and a prospective audit scheme (i.e., when the detection of non-compliance increases future audit probability). Alternative audit mechanisms lead to higher tax compliance even if the audit rules implicated fewer audits than random control systems. Also the findings by Guala and Mittone (Guala and Mittone, 2005; Mittone, 2006) can be used to design an efficient audit-scheme. According to their results it might be advisable to audit particularly young and inexperienced taxpayers. Probably they will “learn” to be compliant if their first tax file is checked by authorities (Kirchler et al., 2007).

Fines. Empirical studies on the impact of fines on tax compliance did not find the clear picture theoretical analyses provide. In sum, the relation of fines and tax compliance also shows inconsistent findings (Fischer et al., 1992). Some experiments showed that fines are slightly higher related to tax compliance than audit probabilities are (Park and Hyun, 2003). Keeping constant the expected value of a tax but changing audit probabilities and fines for non-compliance, it showed that compliance increased significantly with higher fines, but not with higher audit probabilities (Friedland, Maital and Rutenberg, 1978). Other experiments, on the contrary, showed that fines and tax compliance are not related, but audit probabilities and tax compliance are (Friedland, 1982; Webley, Robben, Elffers, and Helsing, 1991). In the current framework, it would be argued that the interpretation of fines matters. In an antagonistic climate, fines can be a part of the game of “cops and robbers”; in a synergistic climate, they can be perceived as an adequate retribution for behavior that harms the community. Fines are therefore connected to trust and power. Fines that are too low could be perceived as indicator that the authorities are weak and unable to control the wrongdoers, undermining trust among honest taxpayers. Fines that are inappropriate because a taxpayer involuntarily made a mistake resulting from ambiguous tax laws, or fines that are exorbitantly high, would undermine the perception of retributive justice and induce tax evaders to try even harder to regain their “losses” incurred by those fines (Kirchler et al., 2008).

The increasing tax avoidance and tax resistance due to an increase of fines puts into question how fines should be assessed to be effective. On the one hand, fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on taxpayers. On the other hand, if fines are too high, the tax system would be perceived as unjust and unfair and taxpayers would use any possibility to legally avoid their taxes. In most countries, fines are relative to the evaded tax. However, depending on the income of the accused such a system might yield too low fines to have deterrent effects. An alternative would be to adjust the fine to the income of taxpayers. In an experimental survey study by Muehlbacher, Hölzl and Kirchler income-adjusted fines had more impact on the sentenced taxpayer’s intention to commit the same offense again than fines which were solely adjusted to severity of evasion fact (Kirchler et al., 2007).

Penalty. The structure of *penalty* system may be different in the countries: can be various types of penalty rate by the different tax subjects or different structure of penalty rates by the types of taxpayer. So, penalty rates have been separately applied by the different tax subjects like the individual income tax, capital income tax, value added tax etc. Furthermore, the penalty rates for each tax subject are differentiated by the different types of evasion, like non-filing, timely filing but under-reporting, no bookkeeping of invoices, receipts etc. Or, the penalty rates are differently applied to the types of taxpayers, depending upon their evaded behaviours. If some taxpayers had the intentional evasions, the penalty rate is much higher than that of unintentional evasions (Hyun, 2005). As two kinds of evaded behaviour are most common in analyze of tax compliance and are timely filing but underreporting, and non-filing. If the countries have the same system that tax authority prosecutes some intentional and malicious tax evaders for criminal responsibility, after tax audit. This system might play an important role in increasing the level of penalty rates for the behaviour of tax evasion. The number of prosecuted cases by tax authority might be an important indicator to compare an additional penalty rate between countries.

3. Non-economic factors for compliance

There are many non-economic factors to affect the level of tax compliance. Many researches have been done to include these non-economic factors to explain the behaviour of tax compliance under the framework of economic analysis (Alm, Sanchez and DeJuan, 1995). These non-economic factors include the willingness to pay for public provision, public education, tax morale, tax information etc. As there are some limitations to include all non-economic factors for the analysis of behaviour of tax compliance, most studies pay attention on just one or several factors for rigorous analysis. Even though we understand that non-economic factors are the important determinants for the level of tax compliance, it is hard to compare these non-economic factors between two or more countries, due to the limitation of information available. We just focus on one non-economic factor to partly explain the difference of the levels of tax compliance between diverse countries, which is the policy of tax information disclosure. The release of tax information might be one important determinant for tax compliance, as it gives taxpayers an exact figure about tax evasion. However, there is few empirical evidence whether or not the release of tax information has an effect on the level of tax compliance. Most of developed countries release much tax information for taxpayers' right to know, but not for inducing more tax compliance of taxpayers. For discussing the tax information disclosure, we conceptually divide the tax information into two components: one is the tax statistics, and the second is the tax return information for each taxpayer. There are so many types of information in tax statistics. One of the most important statistics for the purpose of increasing the level of tax compliance is the exact amounts of tax evasion (Hyun, 2005). The other information is given by the tax return information for each taxpayer. There are some exceptional countries, like Finland and Norway, which release the tax return information for each taxpayer to the public. However, in most developed economies, the tax return information for each taxpayer is strictly prohibited to release to the public for the protection of private information. The statistics about tax evasion has been released to the public for most developed countries. This information disclosure might be not only for taxpayers' rights to know, but also for inducing more tax compliance. Furthermore, some private information for the richest group of individuals and corporations has been released to the public under the legal basis. There are three tax subjects under this public notification system, which are individual income tax, corporate income tax and inheritance tax (Hyun, 2005). Related to non-economic factors for tax compliance, in this paper we analyse: attitudes toward taxes; personal, social and national norms and perceived fairness of tax system.

Attitudes toward taxes. Attitudes represent the positive and negative evaluations that an individual holds of objects. It is assumed that attitudes encourage individuals to act according to them. Thus, a taxpayer with positive attitudes toward tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Attitudes towards tax evasion are often found to be quite positive (Kirchler et al., 2008). Many studies on tax evasion found significant, but weak relationships between attitudes and self-reported tax evasion (Trivedi, Shehata, and Mestelman, 2004). A model of tax evasion behavior developed by Weigel, Hessing and Elffers (1987) considers social and psychological conditions, including attitudes and moral beliefs about tax evasion's propriety, as antecedents of tax compliance. Data collected from fined tax evaders and honest tax payers showed that attitudes explain in part self-reported tax evasion, but are insignificant predictors of actual behavior. However, the correlations between self-reported tax non-compliance and attitudes are significant but fairly weak. These findings suggest a rather complicated relationship between tax evasion and attitudes, nevertheless we can be confident in our general prediction that if tax attitudes become worse, tax evasion will increase (Lewis, 1982).

The attitudes are important for both the power and the trust dimension. On the one hand, favorable attitudes will contribute to trust in authorities and consequently will enhance voluntary tax compliance. On the other hand, attitudes towards the authorities will be relevant for the interpretation of the use of power as benevolent or malicious. Tax attitudes in general also depend on the perceived use of the money collected and therefore are connected to knowledge (Kirchler et al., 2008).

Personal, social and national norms. Besides attitudes, norms are important determinants of tax compliance. Behavioral intentions are determined also by subjective norms (Ajzen, 1991). Norms are behavioral standards on three different levels: the individual level, the social level and the national level (Kirchler et al., 2008). On the *individual level*, norms define internalized standards on how to behave. Individual norms are related to moral reasoning, authoritarianism and Machiavellianism, egoism, norm dependency and values. There is considerable overlap between individual norms, values and tax ethics: the more developed the moral reasoning or tax ethics, the more likely is voluntary compliance (Trivedi et al., 2003). On the *social level*, norms are usually defined as prevalence or acceptance of tax evasion among a reference group (Wenzel, 2005). Social norms are related to the behavior of reference groups, for example friends, acquaintances or vocational group. If taxpayers believe that non-compliance is widespread and approved behavior in their reference group, they are likely to be non-compliant as well. The relationship between social norms and tax compliance is complex. Wenzel (2004) argues that social norms should elicit

concurring behavior only when taxpayers identify with the group to whom the norms are ascribed. Taxpayers then internalize the social norms and act accordingly. On the level of *national norms*, norms become cultural standards, often mirrored in the actual law. Several authors suggest that trust in political leadership and administration will lead to voluntary tax compliance when favorable national norms are established (Fjeldstad, 2004). In general, if the norms held by taxpayers favor tax compliance, voluntary tax compliance will result. Thus, norms encompass both power and trust. First, national norms find their expression in tax laws and the role given to tax authorities, having a direct influence on their power. Second, social norms such as the belief that tax evasion is a petty crime and widespread hinder the work of tax authorities, in particular when there is no countervailing norm of community. A norm where all citizens are perceived as contributing their fair share would certainly help to increase trust in the authorities (Kirchler et al., 2008).

Perceived fairness of tax system. Another factor that citizens most often communicate is referring to tax system fairness concerns (Rawlings, 2003; Taylor, 2003). A conceptual framework for fairness considerations suggests differentiating three areas of fairness, as in social psychology: distributive justice, which refers to the exchange of resources, both benefits and cost; procedural justice, which refers to the process of resource distribution; and retributive justice, which refers to the perceived appropriateness of sanctions in the case of norm-breaking (Kirchler et al., 2008).

Related to *distributive justice*, comparisons are made on the individual, the group, and the societal level. On the individual level, taxpayers are concerned about the fairness of their outcomes, and they want to be treated relative to their merits, efforts and needs. If an individual's tax burden is heavier than that of comparable other individuals, tax compliance is likely to decrease. On the group level, taxpayers are concerned about the fairness of outcomes of the group and want a fair treatment of their group relative to other (income) groups (Spicer and Lundstedt, 1976). If a specific group perceives its tax burden as heavier than that of another group, tax non-compliance is likely to increase within this group (Juan, Lasheras and Mayo, 1994). On the societal level, taxpayers are concerned about the fairness of the outcomes of the whole nation. If the tax system is perceived as unfair, tax non-compliance is likely to increase (Cowell, 1992), whereas a system experienced as fair might increase trust and consequently increase voluntary tax compliance.

Related to *procedural justice*, the components essential for perceived fairness are neutrality of the procedure, trustworthiness of the tax authorities and polite, dignified, and respectful treatment (Tyler and Lind, 1992). Comparisons again are made on the individual, group and societal level. On the individual level, taxpayers consider the treatment by the tax authorities, information provided, costs regarding compliance and administration, and the dynamics of allocation of revenues. It is argued that increased information related to tax law and explanations for changes can increase fairness perceptions of tax system (Carnes and Cuccia, 1996; Wartick, 1994). Perceived procedural justice on the individual level and a culture of interaction are important for building up trust (Job, Stout and Smith, 2007). On the group and societal level, taxpayers consider the neutrality of tax officers regarding subgroups, such as vocational groups or income groups. If tax authorities and officers treat taxpayers equally, in a respectful and responsible way, trust in the government and thus voluntary tax compliance is likely to increase on the individual, group and societal level.

Related to *retributive justice*, unreasonable and intrusive audits and unfair penalties lead to negative attitudes toward the tax office and taxes in general (Spicer and Lundstedt, 1976; Wenzel and Thielmann, 2006). Thus, unfavourable retributive justice perceptions could lead to increased distrust and consequently to increased tax non-compliance. Although justice research has not always yielded consistent evidence for the impact of justice perceptions on tax compliance, perceived justice might increase voluntary tax compliance.

In the current framework, perceived fairness is connected to the trust dimension because a just treatment of taxpayers (i.e., distributive and procedural fairness) helps to build and maintain trust. Retributive justice is connected to the power dimension, because it depends also on detecting and fining wrongdoers. In turn, an inconsiderate exertion of power that is perceived as intrusive can reduce trust. In conclusion, some of the major factors discussed on tax compliance would gain from considering them within the "slippery slope" framework and its interaction of the power and trust dimension (Kirchler et al., 2008).

This paper provided an overview of the economic and non-economic factors for tax compliance that previous researchers have used to examine individual or corporate tax compliance. The factors reviewed in this paper are not considered to be exhaustive as there are many other factors that can be analysed. Nevertheless they were selected out of the most frequently used ones by researchers and if they are applicable to Romanian tax conditions.

Based on the factors reviewed we propose variables that should be included in a model for predicting tax compliance. The factors are shown in the Figure 1. After pooling of data from companies and individuals to be interviewed, it can crystallize the factors that have the most influence on tax compliance and may be created a mathematical model for tax compliance.

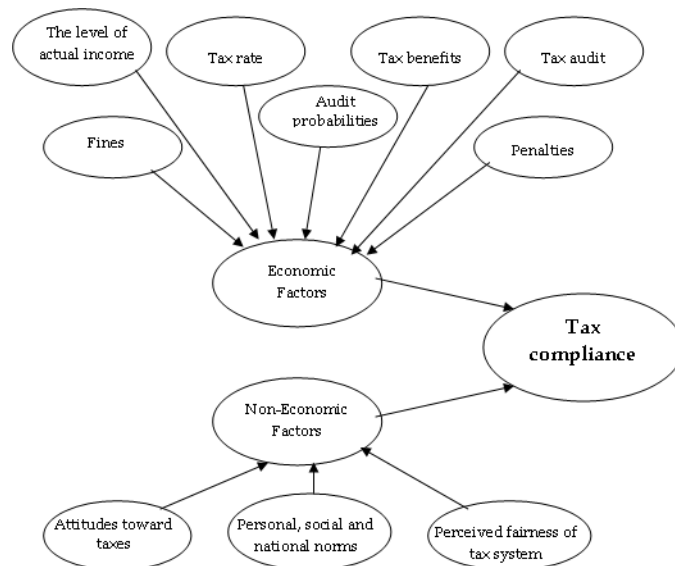


Figure 1. Economic and non-economic factors for tax compliance

4. Conclusions

Measuring compliance behaviour would seem to be simple, but the problem is to find a measure which allows the researcher to directly study how compliance is changed with a change in an underlying tax-related parameter, such as the audit rate. Thus, directly asking addressed to the participants about their own past involvement in tax evasion is not sufficient. What is needed is a compliance indicator which can be repeatedly measured with changes in policy parameters. One possibility is to ask hypothetically about tax evasion behaviour (possibly with a case situation to describe the context in detail) and how it would differ if a specific change occurred.

The study of tax compliance is related to avoided tax as a measure of reporting compliance because several of the potential determinants of voluntary compliance (e.g., marginal tax rates, filing thresholds, marital status and allowable child exemptions) also have a direct role in the calculation of tax from gross income, making it difficult to separate their impact on compliance (Plumley, 2002). The findings of many studies suggest that taxpayers' attitudes towards the tax system and the way taxpayers feel treated by a tax authority are important in explaining taxpayer non-compliance. Related to the tax system itself, there is specific evidence to suggest that perceptions of unfair tax burdens can affect taxpayers' views about paying tax and can go on to affect their compliance decisions.

Tax fairness seems to involve at least two different dimensions (Jackson and Milliron, 1986): the first relates to the benefits one receives for the tax given; the second dimension involves the perceived equity of the taxpayer's burden in reference to that of other individuals. This second dimension relates to taxpayers' perceptions of the vertical equity of the tax system. If a taxpayer were to feel that they pay more than their fair share of tax when comparing themselves to wealthy taxpayers, they are more likely to see paying tax as a burden than a taxpayer not concerned about these issues.

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