

Behavioral Science Lessons for Taxpayer Compliance

INTRODUCTION

The National Taxpayer Advocate has long recommended the IRS conduct behavioral research on ways to improve voluntary tax compliance.¹ The President also recently issued an Executive Order encouraging agencies to apply behavioral science insights to advance policy goals.² For example, the IRS could use these insights (*i.e.*, insights from psychology, anthropology, sociology, market research, and behavioral economics) to improve tax compliance by making it easier, or by making the agency's messages clearer, more relevant, and more likely to resonate with taxpayers. These insights could improve the effectiveness of alternatives to "enforcement" (called "alternative treatments").

DISCUSSION

Taxpayers comply (or fail to do so) for a wide variety of reasons.³ In addition to economic deterrence, trust, social norms, fairness, reciprocity, tax morale, and similar non-economic factors also appear to drive tax compliance.⁴ Some tax administrators report that norms — what taxpayers believe their peers normally do — are the most important non-economic factor, though other factors can affect norms.⁵ For example, deterrence can either crowd out compliance norms or support them.⁶

When the IRS adopts fair procedures designed to help taxpayers comply, it sends the message that most people are trying to comply, supporting compliance norms. Fair procedures also support the view that

- 1 See, e.g., National Taxpayer Advocate 2007 Annual Report to Congress 156-61 (Most Serious Problem: *Taxpayer Service and Behavioral Research*); National Taxpayer Advocate 2007 Annual Report to Congress vol. 2, 138-50 (Marjorie E. Kornhauser, *Normative and Cognitive Aspects of Tax Compliance*); National Taxpayer Advocate 2014 Annual Report to Congress 112-22 (Most Serious Problem: *The IRS Does Not Sufficiently Incorporate the Findings of Applied and Behavioral Research into Audit Selection Processes as Part of an Overall Compliance Strategy*).
- 2 Exec. Order 13707, *Using Behavioral Science Insights to Better Serve the American People*, 80 Fed. Reg. 56365 (Sept. 15, 2015), <https://www.gpo.gov/fdsys/granule/FR-2015-09-18/2015-23630>.
- 3 Social scientists have identified at least eight types of noncompliance, including: Procedural – Failed to follow complicated rules, Lazy – Failed to follow burdensome rules, Unknowing – Misunderstood the legal rules, Asocial – Motivated by economic gain, Brokered – Acted on the advice of a professional, Symbolic – Perceived the law or the IRS as unfair, Social – Acted in accordance with social norms, and Habitual – Knowingly repeated previous noncompliance. See Robert Kidder & Craig McEwen, *Taxpayers' Behavior in Social Context: A Tentative Typology of Tax Compliance and Noncompliance*, in *TAXPAYER COMPLIANCE, VOL. 2: SOCIAL SCIENCE PERSPECTIVES* 47-72 (Jeffrey Roth and John Scholz, eds., 1989). Compliance norms may also vary by locale. See National Taxpayer Advocate 2012 Annual Report to Congress vol. 2, 1-70 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*).
- 4 See, e.g., National Taxpayer Advocate 2007 Annual Report to Congress vol. 2, 138-50 (Marjorie E. Kornhauser, *Normative and Cognitive Aspects of Tax Compliance*); National Taxpayer Advocate 2012 Annual Report to Congress vol. 2, 1 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*); Organization for Economic Co-operation and Development, (OECD), *Understanding and Influencing Taxpayers' Compliance Behaviour* (Nov. 2010); OECD, *Right from the Start: Influencing the Compliance Environment for Small and Medium Enterprises* (2012); Tom Tyler, *Why People Obey the Law* (2006); Tom Tyler, *Legitimacy and Criminal Justice: The Benefits of Self-Regulation*, 7 OHIO ST. J. CRIM. L. 307-359 (2009); Erich Kirchler, *The Economic Psychology of Tax Behaviour* (Cambridge Univ. Press, 2007).
- 5 OECD, *Understanding and Influencing Taxpayers' Compliance Behaviour* 21 (2010). This is consistent with studies finding that norms, trust for the government, and trust for the IRS are correlated with reporting compliance by small business. See National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 33-56 (Research Study: *Small Business Compliance: Further Analysis of Influential Factors*); National Taxpayer Advocate 2012 Annual Report to Congress vol. 2, 1-70 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*).
- 6 See, e.g., Steven Sheffrin & Robert Triest, *Can Brute Deterrence Backfire? Perceptions and Attitudes in Taxpayer Compliance*, in *WHY PEOPLE PAY TAXES* (Joel Slemrod, ed., 1992); Dan M. Kahn, *The Logic of Reciprocity: Trust, Collective Action, and Law*, 102 MICH. L. REV. 71 (2003). See also National Taxpayer Advocate 2012 Annual Report to Congress vol. 2, 1-70 (Research Study: *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*) (finding a correlation between trust for the IRS and estimated reporting compliance by small businesses).

the agency is legitimate and trustworthy, potentially making it more difficult for people to justify non-compliance.⁷ Perhaps because unnecessarily coercive “enforcement” erodes these perceptions, research suggests that it can reduce voluntary compliance.⁸ Tax agencies are increasingly using behavioral science insights to enhance the effectiveness of alternative treatments.

LITERATURE REVIEW

1. **Abigail B. Sussman & Christopher Y. Olivola**, *Axe the Tax: Taxes Are Disliked More than Equivalent Costs*, 48 J. MKT'G RES. S91, S100 (Nov. 2011), <http://www.russellsage.org/sites/all/files/u137/jmr-I-s091-s101-online.pdf>.

“Across five experiments, the authors provide evidence that people have a stronger preference to avoid tax related costs than to avoid equal-sized (or larger) monetary costs unrelated to taxes. Tax aversion affects consumer preferences in a variety of domains, including standard store purchases, financial investments, and job selection. Furthermore, this tendency is most prevalent among people who identify with political parties that generally favor less taxation. Finally, encouraging participants who identify with “antitax” parties to consider positive uses of their tax payments mitigates tax aversion. This article concludes with a discussion of the implications of these results for consumer behavior research and tax policies.... Dedicating resources to educating citizens about the positive roles the government plays and how it works could reduce tax aversion.”
2. **Agnar Sandmo**, *The Theory of Tax Evasion: A Retrospective View*, 58 NAT'L TAX J. 643, 643 (2005).

“The paper gives an overview of some main themes in the theory of tax evasion, starting from Allingham and Sandmo (1972). It reviews the comparative statics of the original model of individual behavior where the tax evasion decision is analogous to portfolio choice, and its extensions to incorporate socially conscious behavior, participation in the black labor market and tax evasion by firms. It also discusses the analysis of tax incidence and the problems involved in moving from individual to aggregate analysis. Finally, it reviews the issues that arise in formulating models of optimal taxation in the presence of tax evasion.”
3. **Alan H. Plumley**, *A Framework for Optimal Tax Administration*, IRS Research Conference 20 (2007), <https://www.irs.gov/pub/irs-soi/07/resconfplumley.pdf>.

“IRS can undoubtedly make better use of existing and new resources to achieve greater benefit and impose less cost on taxpayers. To do that, we need to be explicit about our ultimate objective and allocate resources at the margin accordingly. Developing that capability will likely take a concerted, long-term (10-year), cross-functional effort to gather the right data every year and to introduce extra variation in our activities, making it easier to estimate their direct and indirect impacts at

⁷ See generally Tom R. Tyler, *The Psychology of Self-Regulation: Normative Motivations for Compliance*, in EXPLAINING COMPLIANCE: BUSINESS RESPONSES TO REGULATION 78 (Christine Parker & Vibeke Lehmann Nielsen eds., 2011); Kristina Murphy, *Procedural Justice and the Regulation of Tax Compliance Behavior*, in DEVELOPING ALTERNATIVE FRAMEWORKS FOR EXPLAINING TAX COMPLIANCE 191, 208 (James Alm et al. eds., 2010).

⁸ See, e.g., National Taxpayer Advocate 2013 Annual Report to Congress vol. 2, 1-14 (*Do Accuracy-Related Penalties Improve Future Reporting Compliance by Schedule C Filers?*) (finding small businesses subject to an accuracy-related penalty had lower subsequent compliance if the penalty was assessed by default, was abated, or was appealed, potentially suggesting that penalties perceived as unfair reduce future compliance); Norman Gemmill & Marisa Ratto, *Behavioral Responses to Taxpayer Audits: Evidence from Random Taxpayer Inquiries*, 65 NAT. TAX J. 33-58 (Mar. 2012) (suggesting that audits of compliant taxpayers may reduce voluntary compliance); National Taxpayer Advocate 2015 Annual Report to Congress vol. 2, 1-100 (*Audit Impact Study*) (finding taxpayers who were audited but did not receive an additional assessment reduced their reported income following an audit).

the margin. We can take other steps in the short term to make some improvements. However, allocating resources according to the distribution of the tax gap is not the right approach.”

4. **Alan H. Plumley & C. Eugene Steuerle**, *Ultimate Objectives for the IRS: Balancing Revenue and Service*, in *THE CRISIS IN TAX ADMINISTRATION* 311, 338 (Henry J. Aaron & Joel Slemrod eds., 2004).

“IRS programs have not always sought the right outcomes, and resource allocation decisions have not always been based on the marginal effectiveness of those resources to collect the right amount of tax from each taxpayer at the least cost ... to the people. ... Although collecting tax revenue is an important purpose of a tax agency, more broadly it should be collecting the right amount of revenue from the right taxpayers, helping to get program benefits to the right taxpayers ..., and minimizing productive losses to the economy as a whole from filing, enforcement, and compliance efforts. Fortunately there are several practical ways that the IRS can progress toward fulfilling that mission.”

5. **Alex Raskolnikov**, *Revealing Choices: Using Taxpayer Choice to Target Tax Enforcement*, 109 *COLUM. L. REV.* 689, 689 (2009).

“Our tax enforcement system has ignored this variety of taxpaying motivations for decades. It continues to rely primarily on audits and penalties, at least where information reporting and withholding are impossible. Fines and audits deter those rationally playing the tax compliance game, but are wasteful or even counterproductive when applied to others. The shortcomings of the current one-size-fits-all approach to tax enforcement are well understood. They also appear to be insurmountable. This Article argues that it is possible to design a more tailored regime. The idea is to separate taxpayers based on their taxpaying motivations by creating two different enforcement regimes and inducing taxpayers to choose one when they file their annual returns. With this separation accomplished, the government can target enforcement by matching enforcement policies to taxpayer types. Those who choose to game the system will be deterred by higher penalties in one regime. Everyone else will be induced to comply by cooperative enforcement measures in the other. If successful, separation and targeted enforcement will improve tax compliance without raising its social cost, or keep the level of compliance unchanged while making tax administration more efficient.”

6. **Anders Stridh**, *The Strategic Plans and Tax Morale*, presented at 45th Inter-American Center of Tax Administrations General Assembly 79, 83 (Apr. 4-7, 2011).

“Taxpayers who have trust in the Swedish Tax Agency are more willing to comply than those who distrust us. Twelve percent of the Swedish taxpayers who trust the Swedish Tax Administration state that they would evade tax if they had the possibility compared to 28 percent concerning those who distrust the agency.”

7. **Andrew K. Woods**, *A Behavioral Approach to Human Rights*, 51 *HARV. INT’L L. J.* 51, 51 (2010).

“For the last sixty years, scholars and practitioners of international human rights have paid insufficient attention to the ground level social contexts in which human rights norms are imbued with or deprived of social meaning. During the same time period, social science insights have shown that social conditions can have a significant impact on human behavior. This Article ... investigate[s] the far-ranging implications of behaviorism — especially behavioral insights about social influence — for the international human rights regime. It explores design implications for

three broad components of the regime: the content, adjudication, and implementation of human rights. In addition, the Article addresses some of the advantages and limitations of the behavioral approach and outlines the rich but unexplored nexus of behaviorism, norms, and international law.”

8. **Ann Seidman & Robert B. Seidman**, *ILTAM: Drafting Evidence-Based Legislation for Democratic Social Change*, 89 B.U. L. REV. 435, 484-85 (2009).

“The fatal race, and the failure of drafters complicit in its too frequent loss by populists seeking to use state power and the law in the public interest, testify to the urgent need for a methodology likely to produce change-oriented legislation that achieves the desired social impact — in other words, that works.... ILTAM offers a guide to drafters who recognize the importance of accompanying a proposed bill with a research report that justifies a bill’s detailed provisions by presenting relevant, logically-organized evidence.”

9. **Annette Alstadster, Wojciech Kopczuk & Kjetil Telle**, *Social Networks and Tax Avoidance: Evidence from a Well-Defined Norwegian Tax Shelter* (Univ. Oslo Working Paper, 2014).
<http://www.bus.umich.edu/ConferenceFiles/Tax-Systems/files/Kopczuk.pdf>.

“Using detailed administrative data we identify family networks and describe how take up of tax avoidance progresses within a network. A feature of the reform was that the ability to set up a tax shelter changed discontinuously with individual shareholding of firm and we use this fact to estimate the causal effect of availability of tax avoidance for a taxpayer on tax avoidance by others in the network. We find that take up in a social network increases the likelihood that others will take up. This suggests that taxpayers affect each other’s decisions about tax avoidance, highlighting the importance of accounting for social interactions in understanding enforcement and tax avoidance behavior, and providing a concrete example of ‘optimization frictions’ in the context of behavioral responses to taxation.”

10. **Arturo Jacobs et al.**, Deloitte Consulting LLP, *Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean* 28-29 (U.S. Agency for Int’l Dev. (USAID), 2013),
https://www.usaid.gov/sites/default/files/LAC_TaxBook_Entire%20Book%20-%20ENGLISH.pdf.

- a. “For voluntary compliance to flourish, the tax administration must offer a wide variety of high-quality taxpayer services and taxpayer education programs with a dedicated staff to demonstrate that those taxpayers who comply voluntarily are respected and treated as valued customers by their government ... even compliance/enforcement staff engaged in their duties must encourage voluntary compliance. To do so, they must perform their duties in a manner that demonstrates all due respect and courtesy to taxpayers and third parties.
- b. Another taxpayer incentive for voluntary compliance is a strong but fair penalty system ... taxpayers who generally comply fully with their tax obligations are not selected for needless, time-consuming, and expensive audits and other verifications — an indirect but powerful message that taxpayers, who comply voluntarily, are treated as valued customers.
- c. A final incentive for taxpayers to comply voluntarily with the tax laws is to know that the tax administration has a reputation for administering fair and impartial administrative objections and appeals programs for taxpayers to dispute proposed tax assessments and other actions of the tax administration.”

11. **Arun Advani, William Elming & Jonathan Shaw**, *How Long-Lasting Are the Effects of Audits?* (Tax Admin. Res. Ctr., Discussion Paper 015-15, 2015), https://tarc.exeter.ac.uk/media/universityofexeter/businessschool/documents/centres/tarc/publications/discussionpapers/How_long_lasting_are_the_effects_of_audits_v3.pdf.

“In this paper we study the indirect benefits of conducting audits, focusing on how the reported tax liability of audited individuals changes over time after an audit. We exploit data from a random audit program covering income tax self-assessment returns in the UK. We find that audits have a large and persistent impact on reported tax liability that reaches around 26 percent on average by the fourth year following the tax year to which the audit relates.”

12. **Aur lie Barnay et al., McKinsey & Company**, *Tax Myths: Dispelling Myths About Tax Transformation in Rapidly Growing Economies* 5-10 (McKinsey Ctr. for Gov’t, 2015), http://www.mckinsey.com/-/media/mckinsey/dotcom/client_service/public%20sector/pdfs/tax%20myths.ashx.

“One of the tax myths that the administration has is that going digital is challenging. But, in reality, digitizing taxpayer services and back-office processes in a phased and segmented approach can be a cost-effective way to change the taxpayer experience from a time-consuming paper obligation, to a user-friendly electronic experience. A modular approach can help tax administrations overcome high infrastructure costs and help mitigate any lack of access to electronic channels the population may have. Another myth is that risk-based compliance tools are always complex. In reality, however, high-risk taxpayers can be identified and targeted using readily available data, with a simple but effective approach. It is also widely believed that the informal economy is a problem to be addressed in the future. However, gathering perfect information to tackle the US\$5 trillion dollars informal economy in the developing world can be time consuming and costly, but a few targeted and cost-effective actions can go a long way to reach part of it. Other common tax myths include that boosting the agency’s capabilities takes at least 10 years. But, targeted training for critical positions, combined with field-and-forum training for the rest of the organization, can significantly upgrade skills within 1 to 2 years. Lastly, it is thought that educating taxpayers to address the culture of non-compliance comes as a second priority. Actually, however, Communication is *sine qua non* to successful tax transformation, and must be done in parallel with other transformation initiatives.”

13. **Austan Goolsbee**, *The Turbo Tax Revolution: Can Technology Solve Tax Complexity?*, in *THE CRISIS IN TAX ADMINISTRATION* 124, 125 (Henry J. Aaron & Joel Slemrod eds., 2004).

This chapter considers “the economic issues associated with the rise of tax planning software by using data on more than 60,000 households, which includes information on whether they use such software. Specifically the chapter deals with three issues: whether the use of these programs is widespread or is restricted to a narrow class of people, whether consumers are actually using these programs to reduce complexity, and whether the gain from expanding the use of tax software, such as the recent Bush administration free-filing initiative, would be as large as pursuing other technology-based solutions, such as return-free filing of 1040EZ forms. The data essentially answer all three in the negative.”

14. **Behavioural Insights Team**, *Applying Behavioral Insights to Reduce Fraud, Error and Debt* 34 (2012), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/60539/BIT_FraudErrorDebt_accessible.pdf.

“This document is intended to offer a practical guide to those who design and administer taxes and fines, and whose job it is to make such systems simple and easy to use for businesses and citizens. This is the first time that the Government has explicitly sought to draw upon behavioral insights to tackle fraud, error and debt in a systematic way. The insights outlined in this document, applied in a range of different contexts and settings, show that not only is it possible to apply behavioral insights to reduce fraud, error and debt, but also that it can be done in a highly cost-effective way.”

15. **Behavioural Insights Team**, *EAST: Four Simple Ways to Apply Behavioural Insights* 4 (2014), http://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT-Publication-EAST_FA_WEB.pdf.

“If you want to encourage a behaviour, make it Easy, Attractive, Social and Timely (EAST). These four simple principles for applying behavioural insights are based on the Behavioural Insights Team’s own work and the wider academic literature.”

16. **Behavioural Insights Team**, *The Behavioural Insights Team: Update Report 2013-2015*, 16, 35-36, 44 (2015), http://38r8om2xjhl25mw24492dir.wpengine.netdna-cdn.com/wp-content/uploads/2015/08/BIT_Update-Report-Final-2013-2015.pdf.

The report finds that the messages of reciprocity such as “If you needed an organ transplant, would one be available? If so, consider donating yours” sometimes generated more donors than those appealing to social norms. It also finds that people who owed the most tax were most responsive to messages about how taxes fund public services, and speculating that these people understood the significant amount of tax they owed could actually make a difference in funding those services; after observing that past delinquencies are a good predictor of future delinquencies, established a program to remind them when their payments are due; finding that sending letters with a deterrence message, emphasizing that underreporting is a deliberate choice and a social norms message generated a 36:1 return on investment (ROI) and the increased compliance persisted for the following 12 months.

17. **Benjamin Ayers**, *Taxpayer Behavior Under Audit Certainty*, IRS Research Conference (2015), <https://www.irs.gov/pub/irs-soi/15rescontaxpayerbehavior.pptx>.

The presentation suggests that for large corporations under continuous audit, although audit certainty alters managers’ expectations regarding future tax payments, it does not have a significant deterrence effect on tax planning.

18. **Benno Torgler**, *Tax Morale, Eastern Europe and European Enlargement* 1 (Worldbank Policy Research Working Paper 5911, 2011), <http://documents.worldbank.org/curated/en/534681468034748125/pdf/WPS5911.pdf>.

“This study tries to remedy the current lack of tax compliance research analyzing tax morale in 10 Eastern European countries that joined the European Union in 2004 or 2007. By exploring tax morale differences between 1999 and 2008, it shows that tax morale has decreased in 7 out of 10 Eastern European countries. This lack of sustainability may support the incentive based

conditionality hypothesis that the European Union only has a limited ability to influence tax morale over time. The author observes that events and processes at the country level are crucial to understanding tax morale. Factors such as perceived government quality and trust in the justice system and the government are positively correlated with tax morale in 2008.”

19. **Benno Torgler**, *A Field Experiment in Moral Suasion and Tax Compliance Focusing on Under-declaration and Over-deduction*, 69 *FINANZARCHIV: PUB. FIN. ANALYSIS* 393-411 (2013).

“One of very few field experiments in tax compliance, this study generates a unique data set on Swiss taxpayers’ under-declaration of income and wealth and over-deductions of tax credits by obtaining exclusive access to tax return corrections made by the tax administration. Using this commune level data from Switzerland, it explores the influence on tax compliance of moral suasion, introduced through a treatment in which taxpayers receive a letter containing normative appeals signed by the commune’s fiscal commissioner. This letter also serves to operationalize elements of social identity and (mutual) trust. Interestingly, the results not only echo the earlier finding that moral suasion has barely any effect on taxpayer compliance but show clear differences between under-declaration and over-deduction

Obviously, the study has limitations; in particular, the inability to differentiate between *intentional* and *non-intentional* errors or deviations from compliance as I only had access to the completed individual tax declaration forms and the final figures reported by the tax administration after the auditing process. The tax administration did not inform me which non-compliant taxpayers were actually fined, nor did they advise what sort of information they relied on when making the corrections. The relatively large share of corrections made by the tax administration may well indicate that the observed deviations are more likely to be errors than intentional misreporting. For income and wealth under-declaration, especially, as opposed to deductions, the magnitude of these corrections is quite small, yet individuals can evade taxes on wealth and income in ways other than wrong declarations. Not only it is impossible to observe such activities using this type of data, but the study may suffer from a ceiling effect. That is, in Switzerland, tax compliance and procedural fairness are already very high, so trying to increase them with a moral suasion letter may simply have no additional effect. It is thus important to understand how such letters shape tax compliance in other countries with lower tax compliance. Moreover, there is no guarantee that the individuals in the treatment group actually read the letter although the experimental design tried to minimize such a problem. In addition, as both Blumenthal et al. (2001) and Torgler (2004) point out, more research is needed on the short-term versus the long-term effects of repeated moral suasion messages and communication with taxpayers, particularly with respect to different types of messages and different communication methods.”

20. **Bevan Murphy, Kristina Murhpy & Malcolm Mearns**, *The Australian Tax System Survey of Tax Scheme Investors: Methodology and Preliminary Findings for the Third Follow-Up Survey 7-9* (Alfred Deakin Res. Inst., Working Paper No. 13, 2010), <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.679.4134&rep=rep1&type=pdf>.

“The Australian Taxation Office (ATO) detected a striking increase in mass-marketed tax effective scheme investments in the mid to latter part of the 1990s [responding first with punitive assessments and then a settlement offer]. The *Investors’ Survey* was posted to a random sample of 6,000 scheme investors in January 2002. . . . An important finding from the survey was that investors’ resistance to the ATO was related to their perception that they had not received procedural justice from the ATO. That is, resistance expressed was less about the money investors

stood to lose, and more about how investors felt they had been treated by the ATO during the enforcement process. Investors also expressed that the ATO's actions had negatively impacted on their emotional well-being and on their family life. As a result of these findings, a follow-up investors' survey entitled *The Australian Tax System – Fair or Not? You be the Judge (i.e., Follow-up Survey)*; see Murphy and Murphy, 2010) was constructed in 2004 to see how taxpayers' attitudes and views towards the ATO and the tax system may have changed across time ... the majority of investors were committed to the tax system. However, investors continued to have high levels of resistance towards the ATO, which reflects doubts about the intentions of the ATO to behave cooperatively and benignly to taxpayers. Not surprising then, investors reported low levels of trust in the ATO, and felt that they had been treated poorly. Following on from these findings was that the majority of investors' believed an enforcement strategy should have an 'innocent until proven guilty' philosophy which would treat individuals with respect and dignity. It was also found that two years on from the ATO's scheme settlement offer, 80% of the respondents still reported a lot of built up emotion when contemplating the schemes matter. They expressed moderate levels of anger, anxiety and depression (anger being the dominant emotion) when thinking about the matter A third and final survey (hereafter titled *Final Survey*) was constructed in 2008 to extend the findings of the first two surveys and to assess respondents' current feelings when considering the ATO, the tax system and the schemes matter."

21. **Bridget M. Hutter**, *Negotiating Social, Economic and Political Environments: Compliance with Regulation Within and Beyond the State*, in *EXPLAINING COMPLIANCE: BUSINESS RESPONSES TO REGULATION 305* (Christine Parker & Vibeke Lehmann Nielsen eds., 2011).

"This chapter focuses on a key finding of sociolegal research into compliance, namely that it is a complex concept involving the negotiation of legal, economic, political and social environments by the various parties involved in regulatory dialogues. Compliance is the practical resolution of the tensions between risk and mainstream economic activities, which results in an approach to compliance that is complex, flexible and dynamic Regulation typically involves long term organizational compliance rather than transitory temporary encounters with individuals. The situated views and definitions of compliance generated in everyday encounters between regulators and business are in stark contrast to the perspectives of efficiency-driven politicians and policy makers who demand 'compliance rates,' presupposing that determining compliance with the law is a clear cut matter. Decades of sociolegal research have taught us that the very nature of regulation does not easily permit such clear cut decisions. This chapter draws on three empirical studies to illustrate the importance of understanding the situated and negotiated character of regulatory compliance."

22. **Bruno S. Frey & Lars P. Feld**, *Deterrence and Morale In Taxation: An Empirical Analysis* 7, 11 (CESifo Working Paper Series No. 760, 2002), <http://ssrn.com/abstract=341380>.

"We attempt to analyze the interaction between the tax authority and the taxpayers affecting tax morale by using a partial model of the behavior of the tax authority based on *Crowding Theory*. This approach establishes a systematic relationship between external intervention (in this case, how the tax officials deal with taxpayers) and intrinsic motivation (in this case, individuals' tax morale). The emphasis lies on the empirical analysis of the theoretical propositions derived. With a sample of Swiss cantons in the years 1970, 1978, 1985, 1990 and 1995, we show that the tax authorities in Switzerland do indeed behave as if they were aware of the reaction of taxpayers to being treated with respect or not. This result offers a perspective seldom taken into consideration with regard to

the issue of tax compliance: Deterrence is only one of the motivational forces in getting people to pay their taxes. Quite another is the set of policies available to the tax authority to bolster taxpayers' tax morale. A 'respectful' relationship of the tax authorities to the taxpayers bolsters or *crowds in* tax morale while an 'authoritarian' relationship using instruments of deterrence has two countervailing effects: on the one hand the change in relative prices (the higher probability of being punished) reduces the incentives to evade taxes but on the other hand tax morale is undermined or *crowded out*. Which effect dominates depends on specific circumstances. The paper presents empirical evidence that (a) an authoritarian approach *crowds out* tax morale more strongly when citizens have high participation rights; and (b) a respectful approach *crowds in* tax morale more strongly when the citizens have high participation rights."

"Respectful treatment can be split into two different components. First, the procedures used by auditors in their contact with taxpayers must be transparent and clear. In the case of arbitrary procedures, taxpayers feel helpless and get the impression that they are not taken seriously. Such behavior reduces the intrinsic motivation to pay taxes. Second, respectful treatment has a direct personal component in the sense of how the personality of taxpayers is respected by tax officials. If they treat taxpayers as partners in a psychological tax contract, instead of inferiors in a hierarchical relationship, taxpayers have incentives to pay taxes honestly."

23. **Bruno S. Frey & Benno Torgler**, *Tax Morale and Conditional Cooperation* 35 J. OF COMP. ECON. 136, 154, 156 (2007).

"In this paper ... [the authors] consider taxation to be a social act so that conditional cooperation is an important determinant of the extent of tax morale and of tax evasion. An individual taxpayer is influenced strongly by his perception of the behavior of other taxpayers. If taxpayers believe tax evasion to be common, their tax morale decreases. Alternatively, if they believe others to be honest, tax morale increases. Using recent data for Western and Eastern European countries ... [the authors] find strong empirical support for the hypothesis. ... [The] results also show that the quality of political institutions has a strong observable effect on tax morale. All six variables measuring this effect, namely, voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption, have a strong impact on tax morale. ... [The] analysis extends the standard economic theory of tax evasion, which is based on a narrow concept of *homo economicus* acting in isolation. The concept of tax morale bridges the perception individual taxpayers have about the behavior of other taxpayers and their own personal decision on whether, and to what extent, to evade their own taxes by stressing the importance of institutions."

24. **Calvin Blackwell**, *A Meta-Analysis of Incentive Effects in Tax Compliance Experiments*, in *DEVELOPING ALTERNATIVE FRAMEWORKS FOR EXPLAINING TAX COMPLIANCE* 97, 98 (James Alm *et al.* eds., 2010).

The author "examine[s] the impacts of the tax rate, the fine rate, the probability of audit, and the marginal-per-capita return to the public good upon tax compliance. The data set used for this analysis consists of all the research papers written in the economics and accounting literature that address this issue with an experiment. ... [The author] show[s] that the theoretical predictions made regarding the impact of the fine rate, the probability of audit and the marginal-per-capita return to the public good are confirmed. ... [The author] also show[s] that although most experimental papers examining the effect of the tax rate upon compliance find a negative relationship, this

relationship is not statistically significant. This indeterminate relationship is consistent with the theoretical prediction.”

25. **Caroline von Bose et al.**, *The Effect of Social Norms on Taxpayer Payment Compliance*, presented at the IRS-TPC Joint Research Conference on Tax Administration (2016) (abstract), http://www.taxpolicycenter.org/sites/default/files/paper_abstracts.pdf.

“We use laboratory experiments to examine the impact of appeals to social norms on individuals’ compliance decisions. We test the effects of two types of social norms: **descriptive norms** (*i.e.*, the type of behavior that is typical or most frequently enacted) and **injunctive norms** (*i.e.*, the type of behavior that “constitutes morally approved and disapproved conduct”). For injunctive norms, we introduce approval-framed and disapproval-framed injunctive norm messages. Our results indicate that appeals have a modest but statistically significant impact on tax compliance. The magnitude of both approval- and disapproval-framed injunctive norm messages is an increase of around 2 percent in taxes paid. If a similar response occurred for the US tax system with roughly a trillion dollars in taxes collected, the result would be a tax revenue increase of around \$20 billion.”

26. **Cass R. Sunstein**, *Social Norms and Social Roles*, 96 COLUM. L. REV. 903, 968 (1996).

“While social life would be impossible without norms, meanings, and roles, individual people have little control over these things. The result can be severe limits on human well-being. Certainly there is a problem with existing norms when all or almost all people would seek a change and when existing norms deny people the preconditions for autonomy. In fact lives are shortened and unjustified inequalities are perpetuated by the existence of many current norms. People need collective help if they want to change norms, meaning, or roles. Collective help may be futile or counterproductive; it may be illegitimately motivated. But these matters require an inquiry into context. The issue should not be foreclosed by resort to confusing claims about the need to respect private choice.”

27. **Chen-Bo Zhong, Vanessa K. Bohns, & Francesca Gino**, *A Good Lamp is the Best Police: Darkness Increases Dishonesty and Self-Interested Behavior*, 21 PSYCH. SCI. 311, 311 (2010).

“Darkness can conceal identity and encourage moral transgressions; it may also induce a psychological feeling of *illusory anonymity* that disinhibits dishonest and self-interested behavior regardless of actual anonymity. Three experiments provided empirical evidence supporting this prediction. In Experiment 1, participants in a room with slightly dimmed lighting cheated more and thus earned more undeserved money than those in a well-lit room. In Experiment 2, participants wearing sunglasses behaved more selfishly than those wearing clear glasses. Finally, in Experiment 3, an illusory sense of anonymity mediated the relationship between darkness and self-interested behaviors. Across all three experiments, darkness had no bearing on actual anonymity, yet it still increased morally questionable behaviors. We suggest that the experience of darkness, even when subtle, may induce a sense of anonymity that is not proportionate to actual anonymity in a given situation.”

28. **Christina M. Fong *et al.***, *Reciprocity and the Welfare State*, in *MORAL SENTIMENTS AND MATERIAL INTERESTS: THE FOUNDATIONS OF COOPERATION IN ECONOMIC LIFE* 277, 297 (Herbert Gintis *et al.*, eds., 2005).

“To mobilize rather than offend reciprocal values, public policies should recognize that there is substantial support for generosity towards the less well off as long as they have tried to make an effort to improve their situation and are in good moral standing. The task of politically viable egalitarian policy design might thus begin by identifying those behaviors that entitle an individual to reciprocation.”

29. **Christine Jolls, Cass R. Sunstein & Richard Thaler**, *A Behavioral Approach to Law and Economics*, 50 *STAN. L. REV.* 1471, 1548-50 (1998).

“This appendix summarizes our framework for behavioral law and economics....

A. Bounded rationality

Judgment errors

1. *self-serving bias*

reference: Linda Babcock & George Loewenstein, *Explaining Bargaining Impasse: The Role of Self-Serving Biases....*

2. *availability heuristic*

reference: Amos Tversky & Daniel Kahneman, *Judgment Under Uncertainty: Heuristics and Biases....*

3. *hindsight bias*

reference: Baruch Fischhoff, *Hindsight Foresight: The Effect of Outcome Knowledge on Judgment Under Uncertainty....*

4. *omission bias*

reference: Ilana Ritov & Jonathan Baron, *Reluctance to Vaccinate: Omission Bias and Ambiguity....*

5. *overoptimism*

reference: Neil D. Weinstein, *Unrealistic Optimism About Future Life Events....*

6. *inability to predict experience utility*

reference: Daniel Kahneman, *New Challenges to the Rationality Assumption....*

Decisionmaking behavior

1. *loss aversion*

reference: Daniel Kahneman & Amos Tversky, *Prospect Theory: An Analysis of Decision Under Risk....*

2. *endowment effect (a corollary of loss aversion)*

reference: Daniel Kahneman, Jack L. Knetsch & Richard H. Thaler, *Experimental Tests of the Endowment Effect and the Coase Theorem....*

B. Bounded willpower

1. *“hyperbolic” discounting*

reference: David Laibson, *Golden Eggs and Hyperbolic Discounting....*

C. Bounded self-interest

1. fairness behavior and spitefulness

reference: Colin Camerer & Richard H. Thaler, *Anomalies: Ultimatums, Dictators, and Manners...*”

30. **Christoph Kogler, Stephan Muehlbacher & Erich Kirchler**, *Trust, Power, and Tax Compliance: Testing the ‘Slippery Slope Framework’ Among Self-Employed Taxpayers 2* (WU Int’l Taxation Research Paper Series No. 2013-05, 2013), <http://ssrn.com/abstract=2294886>.

“The ‘slippery slope framework’ suggests two main determinants of tax compliance: trust in authorities and power of authorities. When both, trust and power, are low taxpayers aim at maximizing individual payoffs by evading taxes. Increasing power of authorities leads to enforced compliance, whereas boosting trust results in enhanced voluntary compliance. Hence, high compliance can be accomplished either by pronounced trust in authorities or under conditions of strong power of authorities, but the quality of cooperation differs. Testing these assumptions using questionnaire data based on a representative sample of 476 self-employed taxpayers clearly supports the main assumptions of the ‘slippery slope framework.’ In addition, the relation between perceptions of both, procedural justice and voluntary compliance as well as distributive justice and voluntary compliance were found to be mediated by trust. Furthermore, similar effects of both, trust and power were observed with regard to retributive justice and deterrence.”

31. **Colin Camerer & Richard H. Thaler**, *Anomalies: Ultimatums, Dictators and Manners*, 9 J. ECON. PERSP. 209, 216-18 (Spring 1995), <https://www.aeaweb.org/articles?id=10.1257/jep.9.2.209>.

“Why does game theory fail as a predictive model in ultimatum and dictator games? ... We conclude that the outcomes of ultimatum, dictatorship and many other bargaining games have more to do with manners than altruism.

Consider first the simple dictator game. Subjects are handed \$10 in manna from experimental heaven and asked whether they would like to share some of it with a stranger who is in the same room. Many do. However, if the first player is made to feel as if he earned the right to the \$10, or the relationship with the other player is made less personal, then sharing shrinks. Etiquette may require you to share a windfall with a friend, but it certainly does not require you to give up some of your hard-earned year-end bonus to a stranger.

In the ultimatum game, the Responder is primarily reacting to the manners of the first player. The Responders are willing to turn down rude offers, even at a cost to themselves. Rabin’s (1993) model, which captures this notion neatly, incorporates etiquette into economics. Though most economists have ignored manners and etiquette in their research — and, some would say, in their behavior — such factors can be very important. The perceived norms of fairness, investigated by Kahneman *et al.* (1986a), can be thought of as rules of polite business practice. It is rude to raise the price of snow shovels after a blizzard, and firms who are in business for the long term have the good sense to eschew short-run profits to protect the relationship they have built up with their customers. Similarly, firms that treat their workers fairly (politely) will be rewarded by greater effort as some gift-exchange and efficiency wage models predict (for example, Akerlof and Yellen, 1990). In a laboratory experiment, Fehr *et al.* (1993) find that “firms” who pay more than they have to are rewarded with voluntary effort contributions by their “workers.”...

Our goal in stressing manners is to distinguish this explanation from one based on altruism or other interdependent utility functions. Our view is similar to that of Hoffman *et al.* (1994a, b), who prefer to describe the behavior as a manifestation of rules of reciprocity that people learn in everyday life. In repeated encounters, it is rational to treat others fairly and punish those who behave unfairly, because long-run concerns outweigh the short-run costs. Of course, there are no long-run concerns in a one-shot ultimatum game, but Hoffman *et al.* (1994a, b, forthcoming) argue that subjects in such experimental settings cannot curb their repeated-game impulses. We find this view troubling for experimentalists. It says that subjects cannot accept a situation as being one shot, even when there is \$100 at stake. We prefer to think that people have simply adopted rules of behavior they think apply to themselves and others, regardless of the situation. They leave tips in restaurants that they never expect to visit again not because they believe this is really a repeated game, but because it would be rude to do otherwise.

We are excited by Rabin's attempt to incorporate fairness (or manners) into game theory. His model takes the experimental evidence seriously and tries to come to grips with it, rather than making excuses for it. We hope other game theorists will follow Rabin's lead and continue to develop models of how real people interact. And if a theorist is wondering how someone will play a certain game and no experiment has been run, we suggest asking Miss Manners."

32. *Conversations: Jeffrey Owens, Nina Olson, and Philip Baker*, 81 TAX NOTES INT'L 595, 599 (2016).
"Good tax administration and taxpayers' rights are compatible for at least two reasons. You can justify it on the grounds that it improves taxpayer administration. We are, as taxpayers, subject to supplying a huge amount of information, spending time filling in tax returns; if taxpayers disagree with the revenue, there's an independent tribunal. We aim for very high levels of voluntary compliance, and some of the best countries' voluntary compliance is well into the 90 percentile and, in a sense, that's part of the covenant with the taxpayer, that their rights will be observed if they're voluntarily compliant. On the other hand, you can come at it from a totally different view, which is simply to say compliant or noncompliant, taxpayers have rights. They are human beings or they are entities owned by, staffed by, human beings. There is a good in protecting human rights come what may, regardless of the advantages for tax administrations."
33. **Craig A. Max IV**, *Hand-Holding, Brow-Beating, and Shaming into Compliance: A Comparative Survey of Enforcement Mechanisms for Tax Compliance*, 40 VAND. J. TRANSNAT'L L. 541, 541 (2007).
"Tax authorities and policy planners have a variety of tools at their disposal to create mechanisms to encourage and enforce compliance with revenue collection systems. Traditionally, these mechanisms include the possibility of criminal prosecution as well as civil pecuniary sanctions. Despite the dominate [sic] role that prosecution and pecuniary sanctions hold internationally, there exists a range of alternative enforcement mechanisms utilized. The United States has recently started to implement nonpecuniary enforcement devices to achieve policy goals, namely the encouragement of participating with the federal taxing system. This Note attempts to take an initial step into exploring the range of international enforcement mechanisms available to policy planners. Then, it contrasts these histories with the more recent development of taxation in the United States. It concludes that given international harmonization, the United States is more likely on the forefront rather than behind the learning curve of enforcement devices. While nonpecuniary devices may hold promise to encourage participation, further research is needed to develop refined devices which live up to that promise."

34. **Damon Jones**, *Inertia and Overwithholding: Explaining the Prevalence of Income Tax Refunds* (Nat'l Bureau Econ. Res. (NBER) Working Paper No. 15963, May 2010), http://home.uchicago.edu/~j1s/Jones_Overwithholding_NBER.pdf.

“Over three-quarters of US taxpayers receive income tax refunds, which are effectively zero-interest loans to the government. Previous explanations include precautionary and/or forced savings motives. I present evidence on a third explanation: inertia. I find that following a change in tax liability, prepayments are only adjusted by 29 percent of the tax change after one year and 61 percent after three years. Adjustment increases with income and experience, and for EITC recipients, I rule out adjustment greater than 2 percent. Thus, policies affecting default withholding rules are no longer neutral decisions, but rather, may affect consumption smoothing, particularly for low-income taxpayers.”

35. **Dan Ariely**, *PREDICTABLY IRRATIONAL: THE HIDDEN FORCES THAT SHAPE OUR DECISIONS* (2008) (from the book jacket).

“In a series of illuminating, often surprising experiments, MIT behavioral economist Dan Ariely refutes the common assumption that we behave in fundamentally rational ways. Blending everyday experience with groundbreaking research, Ariely explains how expectations, emotions, social norms, and other invisible, seemingly illogical forces skew our reasoning abilities. Not only do we make astonishingly simple mistakes every day, but we make the same types of mistakes, Ariely discovers. We consistently overpay, underestimate, and procrastinate. We fail to understand the profound effects of our emotions on what we want, and we overvalue what we already own. Yet these misguided behaviors are neither random nor senseless. They're systematic and predictable — making us predictably irrational.”

36. **Dan Ariely**, *The End of Rational Economics*, *HARV. BUS. REV.* (July 2009), <https://hbr.org/2009/07/the-end-of-rational-economics>.

“most individuals, operating on their own and given the opportunity, will cheat — but just a little bit, all the while indulging in rationalization that allows them to live with themselves. ... [but] the simple act of asking people to think of their ethical foundations — say, the Ten Commandments — or their own moral code before they had the opportunity to cheat eliminated the dishonesty...”

if one person is clearly seen to be cheating, team members — particularly those who feel connected to the cheater — are likely to depart from their own moral compasses and increase their cheating. It seems that cheating is infectious... .

Participants were promised \$5 each for completing the task. On doing so, each signed a receipt and received a stack of \$1 bills. Daniel “mistakenly” overpaid some of them by two, three, or four dollars [He had annoyed some of them by rudely talking on the phone while they were completing the task] ... it was striking that a 15-second phone call vastly decreased the likelihood that the participants would return the cash... .

Would it make a difference whether Daniel claimed that he was working for someone else? Would participants punish the principal (the researchers behind the study) for the agent's misbehavior? Our results suggested that if people feel the need to take revenge, they don't differentiate between the two... . We were surprised to find that the show of regret was a perfect remedy. The percentage of people who returned the extra cash was the same in the “apology condition” as in the “no annoyance” condition...

one automobile insurer discovered that most people, when filling out forms that ask how many miles they've driven in a year, claimed that they drove less than they actually had. Building on the discovery that people are less inclined to cheat after being reminded of their own ethical standards, the company moved the signature line to the top of the form. Applicants who signed the form at the top reported driving an average of 2,700 more miles a year than those who signed at the end.”

37. **Dan Ariely**, *THE HONEST TRUTH ABOUT DISHONESTY* (2012).

After conducting a wide range of experiments, the author concludes the amount of reward to be gained and the probability of getting caught are not as important in explaining dishonest behavior as people think. Rather, dishonesty increases with a person's ability to rationalize it while maintaining a positive self-image, a prior dishonest act, observing others behave dishonestly, observing others benefit from our dishonesty, and being fatigued or stressed. On the other hand dishonesty declined after people pledged honesty, received moral reminders, or were supervised at key moments.

38. **Dan M. Kahan**, *Gentle Nudges vs. Hard Shoves: Solving the Sticky Norms Problem* 67 U. CHI. L. REV. 607, 607 (2000).

“According to this article, the resistance of law enforcers sometimes confounds the efforts of lawmakers to change social norms. For example, as legislators expand liability for date rape, domestic violence, and drunk driving, police become less likely to arrest, prosecutors to charge, jurors to convict, and judges to sentence severely. The conspicuous resistance of these decisionmakers, in turn, reinforces the norms that lawmakers intended to change. This article argues that when the law embodies a relatively mild degree of condemnation (*e.g.*, small penalties), the desire of most decisionmakers to discharge their civic duties will override their reluctance to enforce a law that attacks a widespread social norm. The willingness of most decisionmakers to enforce can initiate a self-reinforcing wave of condemnation, thereby allowing lawmakers to later increase the severity of the law in the future without prompting resistance from most decisionmakers.”

39. **Dan M. Kahan**, *Signaling or Reciprocating? A Response to Eric Posner's Law and Social Norms*, 36 U. RICH. L. REV. 367 (2002).

Reciprocity theory implies the most effective means to promote cooperative behavior is to promote trust — the shared beliefs that others can, in fact, be counted on to contribute their fair share to public goods, whether or not doing so is in their material self-interest. Under this theory, incentives can often backfire by implying that most individuals are not inclined to contribute to collective goods voluntarily. The author cites a study which found that taxpayers who were exposed to information emphasizing the severity of tax-evasion penalties claimed more deductions than similarly situated taxpayers exposed either to a moral appeal or to no information at all. He cites another study which found that individuals who were shown actual press accounts of an IRS plan to attack the “tax gap” with stepped-up auditing displayed a weaker commitment to paying their own taxes.

40. **Dan M. Kahan**, *The Logic of Reciprocity: Trust, Collective Action, and Law*, 102 MICH. L. REV. 71, 72 (2003), http://static1.1.sqspcdn.com/static/f/386437/3498490/1246594832157/logic_article.pdf?token=PpQWjMQKISDfX2baW53Hf1Xxt1k%3D.

“... incentive schemes tend to mask the extent to which individuals are inclined to contribute to public goods voluntarily, thereby weakening the tendency of observable cooperation to generate reciprocal cooperation by others. In short, manipulating material incentives may not only be an inefficient regulatory strategy for solving collective-action problems; it may often be a self-defeating one. This Essay will ... [show] how these dynamics can be used to analyze and improve policymaking in various regulatory fields, with a particular emphasis on tax compliance, the siting of noxious facilities, the production of ideas and technology, and the policing of street crime.”

41. **Daniel Kahneman**, *Maps of Bounded Rationality: Psychology for Behavioral Economics*, 93 AM. ECON. REV. 1449, 1469-70 (2003), https://www.princeton.edu/~kahneman/docs/Publications/Maps_bounded_rationality_DK_2003.pdf.

“What is natural and intuitive in a given situation is not the same for everyone: different cultural experiences favor different intuitions about the meaning of situations, and new behaviors become intuitive as skills are acquired. The present treatment has developed several themes: that intuition and reasoning are alternative ways to solve problems, that intuition resembles perception, that people sometimes answer a difficult question by answering an easier one instead, that the processing of information is often superficial, that categories are represented by prototypes... . Findings about the role of optimism in risk taking, the effects of emotion on decision weights, the role of fear in predictions of harm, and the role of liking and disliking in factual predictions — all indicate that the traditional separation between belief and preference in analyses of decision making is psychologically unrealistic. Incorporating a common sense psychology of the intuitive agent into economic models will present difficult challenges, especially for formal theorists.”

42. **Daniel Kahneman**, THINKING, FAST AND SLOW 10-13 (2011).

“The book is divided into five parts. Part 1 presents the two-systems approach to judgment and choice. It elaborates the distinction between the automatic operations of System 1 and the controlled operations of System 2, and shows how associative memory, the core of System 1, continually constructs a coherent interpretation of what is going on in our world at any instant. I attempt to give a sense of the complexity and richness of the automatic and often unconscious processes that underlie intuitive thinking, and of how these automatic processes explain the heuristics of judgment. A goal is to introduce a language for thinking and talking about the mind. Part 2 updates the study of judgment heuristics and explores a major puzzle: Why is it so difficult for us to think statistically? We easily think associatively, we think metaphorically, we think causally, but statistics requires thinking about many things at once, which is something that System 1 is not designed to do.

The difficulties of statistical thinking contribute to the main theme of Part 3, which describes a puzzling limitation of our mind: our excessive confidence in what we believe we know, and our apparent inability to acknowledge the full extent of our ignorance and the uncertainty of the world we live in. We are prone to overestimate how much we understand about the world and to underestimate the role of chance in events. Overconfidence is fed by the illusory certainty of hindsight. My views on this topic have been influenced by Nassim Taleb, the author of *The Black Swan*. I hope for watercooler conversations that intelligently explore the lessons that can be learned from the past while resisting the lure of hindsight and the illusion of certainty.

The focus of part 4 is a conversation with the discipline of economics on the nature of decision making and on the assumption that economic agents are rational. This section of the book provides a current view, informed by the two-system model, of the key concepts of prospect theory, the model of choice that Amos and I published in 1979. Subsequent chapters address several ways human choices deviate from the rules of rationality. I deal with the unfortunate tendency to treat problems in isolation, and with framing effects, where decisions are shaped by inconsequential features of choice problems. These observations, which are readily explained by the features of System 1, present a deep challenge to the rationality assumption favored in standard economics.

Part 5 describes recent research that has introduced a distinction between two selves, the experiencing self and the remembering self, which do not have the same interests. For example, we can expose people to two painful experiences. One of these experiences is strictly worse than the other, because it is longer. But the automatic formation of memories — a feature of System 1 — has its rules which we can exploit so that the worse episode leaves a better memory. When people later choose which episode to repeat, they are, naturally, guided by their remembering self and expose themselves (their experiencing self) to unnecessary pain.”

43. **Daniel Ortega & Carlos Scartascini**, *Don't Blame the Messenger: A Field Experiment on Delivery Methods for Increasing Tax Compliance* 3-4, 27 and 31 (CAF, Development Bank of Latin America, Working Paper No. 2015/09, 2015), <http://scioteca.caf.com/bitstream/handle/123456789/821/Ortega%20%26%20Scartascini,%202015.pdf?sequence=1&isAllowed=y>.

“For testing the effect of delivery mechanisms, we conducted a field experiment in Colombia in which taxpayers received a message about their due tax payments (declared but unpaid taxes). Around 21,000 taxpayers who had not paid their taxes on time (commonly referred as tax delinquencies) were randomly assigned to one of three different treatments (physical letter, e-mail, inspector visit), and to a control group ... [for delivering deterrence messages] sending a letter almost doubles the probability that the taxpayer would cancel part of the debt. Sending an email and scheduling a personal visit has an even larger impact (about 14 percentage points higher than doing nothing, three times higher impact.) Among those who were actually treated (TOT results) payment of outstanding debt was much higher: about 8 percent higher than the baseline scenario for those receiving a letter, 17 percentage points for those receiving an email, and about 88 points for those receiving a personal visit. That is, almost every person who received a visit by a tax inspector made some kind of payment. Overall, the economic relevance of the exercise was highly significant. The Agency recovered about 3 times more previously unpaid liabilities from the people they attempted to contact than from the people in the control group. These differences are almost ten times larger for those in the group of personal visits (attempted visits). Moreover, we find large spillover effects, with those treated making payments of other arrears too.

Of course, while reaching a taxpayer with an inspector has an impact about 10 times higher than sending a letter, the relative difference in marginal costs is higher (about 16 times). Still, in the case of Colombia, because the absolute cost is relatively low the net benefit favors the personal visit over the impersonal methods, conditional on actual delivery of treatment.”

Email may have been superior to letters because “[T]he agency had been moving many of its transactions online, so the email may have had a relatively higher salience, which may not export easily to other places. Additionally, given the fact that payments can be made online, the act of paying may have been more spontaneous than after receiving a letter (the person was already sitting at the computer).” (at 27 n31).

44. **David Halpern**, *INSIDE THE NUDGE UNIT: HOW SMALL CHANGES CAN MAKE A BIG DIFFERENCE* 349 (2015).

“Government, organizations and individuals across the world are starting to use behavioral insights to reshape what they do and how they do it. This varies from the simple rewording of letters so that people can understand them more easily, to the fundamental redesign of policies to promote healthier living, energy conservation or getting people back to work. This book ... introduce[s] a simple framework that can be used not only by policymakers, but by anyone: EAST. If ... [anyone] want[s] to encourage a behavior ... make it easy, attractive, harness social influence, and choose a time when most receptive.”

45. **David T. Welsh et al.**, *The Slippery Slope: How Small Ethical Transgressions Pave the Way for Larger Future Transgressions*, 100 *J. APPLIED PSYCH.* 114 (2014).

“Many recent corporate scandals have been described as resulting from a slippery slope in which a series of small infractions gradually increased over time (e.g., McLean & Elkind, 2003). However, behavioral ethics research has rarely considered how unethical behavior unfolds over time. In this study, we draw on theories of self-regulation to examine whether individuals engage in a slippery slope of increasingly unethical behavior. First, we extend Bandura’s (1991, 1999) social-cognitive theory by demonstrating how the mechanism of moral disengagement can reduce ethicality over a series of gradually increasing indiscretions. Second, we draw from recent research connecting regulatory focus theory and behavioral ethics (Gino & Margolis, 2011) to demonstrate that inducing a prevention focus moderates this mediated relationship by reducing one’s propensity to slide down the slippery slope. We find support for the developed model across 4 multiround studies.”

46. **David Weisburd et al.**, *Is Problem-Oriented Policing Effective in Reducing Crime and Disorder? Findings From a Campbell Systematic Review*, 9 *CRIMINOLOGY & PUB. POL.* 139, 140-41 (2010), http://www.smartpolicinginitiative.com/sites/all/files/POP%20Weisburd_et_al.pdf.

“We conducted a Campbell systematic review to examine the effectiveness of problem-oriented policing (POP) in reducing crime and disorder. After an exhaustive search strategy that identified more than 5,500 articles and reports, we found only ten methodologically rigorous evaluations that met our inclusion criteria. Using meta-analytic techniques, we found an overall modest but statistically significant impact of POP on crime and disorder. We also report on our analysis of pre/post comparison studies. Although these studies are less methodologically rigorous, they are more numerous. The results of these studies indicate an overwhelmingly positive impact from POP...”

Goldstein (1979) called for a paradigm shift in policing that would replace the primarily reactive, incident-driven “standard model of policing” (National Research Council [NRC], 2004; Weisburd and Eck, 2004) with a model that required the police to be proactive in identifying underlying problems that could be targeted to alleviate crime and disorder at their roots. He termed this new approach “problem-oriented policing” (POP) to accentuate its call for police to focus on problems and not on the everyday management of police agencies. Goldstein also expanded the traditional mandate of policing beyond crime and law enforcement. He argued that the police had to deal with an array of problems in the community, which not only includes crime but also social and physical disorders. He also called for police to expand the tactics of policing beyond the law enforcement powers that were perceived as the predominant tools of the standard model of policing. In Goldstein’s view, the police needed to draw on not only the criminal law but also on civil statutes and rely on other municipal and community resources if they were to ameliorate crime and disorder

problems successfully. ... the 2003 Law Enforcement Management and Administrative Statistics (LEMAS) survey reported that 66% of local police agencies (more than 100 officers) claimed to be using POP tactics (Bureau of Justice Statistics, 2006).”

47. **Diana Onu & Lynne Oats**, *Social Norms and Tax Compliance* 29 (Tax Administration Research Centre, Discussion Paper: 006-14, 2014), https://tarc.exeter.ac.uk/media/universityofexeter/businessschool/documents/centres/tarc/publications/discussionpapers/Social_norms_and_tax_compliance_May_14.pdf.

“Given that social norms campaigns have been employed in a range of fields over the last two decades (such as health prevention or environmental behaviour), we included a general discussion of the mechanisms underlying social norms campaigns, their success in other fields, but also their unintended consequences. Finally, we integrated the lessons on social norms campaigns from other fields and the theoretical insights on social norms from the tax literature, to propose potential avenues for future tax compliance campaigns.”

48. **Donald Morris**, *Tax Cheating: Illegal — But Is It Immoral?* at x (2012).

This book argues that “it is not complexity itself that results in the Code’s lack of moral grounding but unharnessed complexity beholden to no guiding principle or moral intuition.”

49. **Doreen McBarnet**, *When Compliance is Not the Solution but the Problem: From Changes in Law to Changes in Attitude*, in *TAXING DEMOCRACY: AN UNDERSTANDING OF TAX AVOIDANCE AND EVASION* 229, 241 (Valerie Braithwaite ed., 2003).

“Creative compliance is not just a tax problem but a law problem. The ATO [Australian Taxation Office] is working to change the general attitude towards tax. But if a change of attitude is required, it is not just in the attitude to tax, but in the attitude taken to law, policy, and compliance. What needs to be fostered is a change of attitude to the law, in which it is seen not as a game of words, a material to be worked on to one’s own or one’s client’s advantage, but as an instrument of legitimate policy to be respected, with the policy not just the words, looked to as the measure of compliance. That ... is itself problematic in many ways. But without some shift in that direction, the concern must be that compliance will remain not a solution but a problem for tax policy and tax enforcement, and, indeed, for legal policy and legal control in general.”

50. **Elaine Doyle & Jane Frecknall-Hughes**, *Cognitive Ethical Reasoning of Tax Practitioners: A Preliminary Investigation Using a Tax-Specific Version of the Defining Issues Test (DIT)* 35–52 (2007) (working paper).

This study examined the ethical reasoning of 649 individuals (343 tax practitioners, and 306 ordinary individuals called “non-specialists”) in Ireland in 2009 using a tax-context specific adaptation of the Defining Issues Test (DIT). The complete version of the DIT comprises six dilemmas: (i) whether a person should steal a drug that might save the life of his wife who is dying from cancer; (ii) university students’ freedom of speech and their right to protest; (iii) whether a man should pay for a past crime after living eight years of a virtuous existence that contributed to the well-being of the local community; (iv) the issue of euthanasia; (v) discrimination against minorities; and (vi) freedom of speech as it relates to the press. After controlling for gender, age, level of education, type of firm, the analysis found that tax practitioners had a significantly lower level of moral reasoning in the tax context than in the general social context.

51. **Elinor Ostrom**, *Policies That Crowd out Reciprocity and Collective Action*, in *MORAL SENTIMENTS AND MATERIAL INTERESTS: THE FOUNDATIONS OF COOPERATION IN ECONOMIC LIFE* 253, 270 (Herbert Gintis *et al.* eds., 2005).

“Much of contemporary policy analysis and the policies adopted in many modern democracies crowd out citizenship and voluntary levels of cooperation. They do this by crowding out norms of trust and reciprocity, by crowding out the knowledge of local circumstances, by crowding out the discussion of ethical issues with others who are affected, and by crowding out the experimentation needed to design effective institutions. Crowding out reciprocity, cooperation, and citizenship is a waste of human and material resources and presents a serious challenge to the sustainability of democratic institutions over time.”

52. **Eliza Ahmed & Valerie Braithwaite**, *Understanding Small Business Taxpayers: Issues of Deterrence, Tax Morale, Fairness and Work Practice*, 23 *INT’L SMALL BUS. J.* 539 (2005).

After surveying studies showing the self-employed have lower compliance rates, greater opportunity to cheat and higher compliance costs, and competitors who cheat (*i.e.*, social norm of cheating), but potentially higher tax morale, this study set out to discover if the self-employed have different views about taxes than the general population. The authors sent out 7,754 surveys to a random sample of Australians (the *Community Hopes, Fears and Actions Survey* (Braithwaite, 2000)) and received 2,040 responses (a 29% response rate). They concluded that the self-employed are distinguished by not receiving an annual tax refund, perceiving themselves as paying less than their fair share of tax, having less tax competence and independence, perceiving greater power in the tax office to elicit compliance, favoring small government and minimum government interference, and opposing tax expenditure for redistributive programs such as health, welfare and education.

53. **Emily Ann Satterthwaite**, *Can Audits Encourage Tax Evasion? An Experimental Assessment*, *FL. TAX L. REV.* (2016) (forthcoming), <http://ssrn.com/abstract=2724021> or <http://dx.doi.org/10.2139/ssrn.2724021>.

“Where audits were framed as being ‘random,’ participants increased their levels of evasion in the tax periods immediately following the audit. This effect, however, did not plague audits that were framed for participants as being non-random. When a separate group of participants faced audits in which detected evasion could “flag” a participant for one or more future audits, participants cheated less in the periods immediately following the audit. . . . By revealing strong behavioral responses to the way tax audits are presented, this paper (1) opens important new avenues for experimental and controlled field trial research on audit dynamics, and (2) underscores the potential benefits to tax administrators of being more transparent with taxpayers about the nature of audit selection.”

54. **Eric A. Posner**, *Law and Social Norms: The Case of Tax Compliance*, 86 *VA. L. REV.* 1781, 1807 (2000).

According to the author, who uses game theory to explain compliance behavior, obeying norms is a way of signaling to others that you are a person with a low discount rate. That is, someone who can be trusted to cooperate in a multi-player game. In this way, tax compliance is similar to shaking hands, wearing ties or high heels, eating with forks, giving money to charities, exchanging gifts with family members, or similar ritualized activities, which distinguish “good” types from “bad.” Under this theory, increasing penalties makes tax compliance cost less, thereby undermining its value in distinguishing “good” types from “bad.” In doing so, increasing penalties could undermine its value

as a signal — and in increasing noncompliance. The article does not explain how tax compliance can be a form of signaling if noncompliance often goes undetected and is generally confidential even when detected.

55. **Eric A. Posner**, *The Signaling Model of Social Norms: Further Thoughts*, 36 U. MICH. L. REV. 465 (2002).

This article surveys and critiques a wide range of articles and books that seek to explain social norms using game theory and behavioral economics. Some of these authors treat social norms as descriptions of behavioral regularities that exist in an “economic equilibrium” in which people pursue their rational self-interest. Others treat social norms as though they were preferences held by individuals. This article adopts the former view, suggesting that norms may be a form of signaling.

56. **Eric Fleisig-Greene**, *Law’s War with Conscience: The Psychological Limits of Enforcement*, 2007 B.Y.U. L. REV. 1203 (2007).

This article builds on deterrence and social norms literature by drawing on cognitive evaluation theory (CET). CET suggests an individual, subject to potential legal sanctions, may attribute *his own behavior* to such sanctions. When an individual perceives himself to be acting for an external reason (the law’s threat of punishment), that attribution will come at the expense of an internal, norm-based explanation. The external motivation will replace the internal motivation that previously prompted compliance. As a result, legal enforcement may produce a weaker effect than traditional cost-benefit analysis would suggest, and in extreme cases may even increase society-wide deviance.

57. **Eric M. Uslaner**, *Tax Evasion, Corruption, and the Social Contract in Transition*, in *DEVELOPING ALTERNATIVE FRAMEWORKS FOR EXPLAINING TAX COMPLIANCE* 174, 187 (James Alm *et al.* eds., 2010).

“Transition countries are marked by high levels of corruption and weak government services. People pay taxes and expect that the money they give to the state will go for public purposes — not into the pockets of public officials. When corruption is widespread and public services, especially those critical for business, are poor, people will be more likely to evade taxes. While there are sporadic effects of enforcement in the models ... [the author] estimated, the problem with tax enforcement in transition countries is that the bureaucrats who enforce the laws may well be corrupt themselves. The arm of the law seems to be bent rather than strong — as reflected in the powerful negative effect of time spent with bureaucrats on expected tax compliance in the aggregate results.”

58. **Eric M. Uslaner**, *Tax Evasion, Trust, and the Strong Arm of the Law*, in *TAX EVASION, TRUST AND STATE CAPACITIES* 17, 45 (Nicolas Hayoz & Simon Hug eds. 2007).

“There are clearly elements of morality in the decision not to cheat on taxes ... But there is at least as large a contingency in the willingness of citizens to pay taxes, based upon government performance ... Citizens seem to respond rather rationally to their political, economic, and legal environment in making their decisions on tax compliance: Behave most fairly when the system treats you fairly, when elites don’t steal your money and when they spend it wisely, and when you have legal recourse. Having a strong legal system matters. People are less likely to evade taxes when they have property rights and when they believe that all people are equal before the law. But confidence in the legal system only seems to matter *when there is an effective judiciary*. Where the

legal system is weaker, as in Romania, perceptions that the courts and police are fair don't matter. Almost everywhere, people seem to base their commitment to pay taxes on how well the entire government works, not just the judiciary. And there is little indication of a spillover from trust in the law (or government more generally) to faith in fellow citizens.”

59. **Eric P. Bettinger et al.**, *The Role of Simplification and Information in College Decisions: Results from the H&R Block FAFSA Experiment* (Nat'l Bureau of Econ. Research, Working Paper No. 15361, 2009), <http://www.nber.org/papers/w15361.pdf>.

“Growing concerns about low awareness and take-up rates for government support programs like college financial aid have spurred calls to simplify the application process and enhance visibility. This project examines the effects of two experimental treatments designed to test of the importance of simplification and information using a random assignment research design. H&R Block tax professionals helped low- to moderate-income families complete the FAFSA, the federal application for financial aid. Families were then given an estimate of their eligibility for government aid as well as information about local postsecondary options. A second randomly-chosen group of individuals received only personalized aid eligibility information but did not receive help completing the FAFSA. Comparing the outcomes of participants in the treatment groups to a control group using multiple sources of administrative data, the analysis suggests that individuals who received assistance with the FAFSA and information about aid were substantially more likely to submit the aid application, enroll in college the following fall, and receive more financial aid. These results suggest that simplification and providing information could be effective ways to improve college access. However, only providing aid eligibility information without also giving assistance with the form had no significant effect on FAFSA submission rates.”

60. **Erich Kirchler**, *THE ECONOMIC PSYCHOLOGY OF TAX BEHAVIOUR* 203-05 (2007).

After comprehensively surveying tax compliance research, this book concludes that when tax authorities enforce compliance they foster a ‘cops and robbers’ mentality which deters noncompliance but also undermines trust, prompting taxpayers to comply only when they have no choice, a strategy requiring significant enforcement resources; but when authorities adopt a ‘service and client’ approach they stimulate trust, cooperation, and true voluntary compliance; a downward spiral of compliance or ‘slippery slope’ can occur when the authority’s enforcement power or taxpayer’s trust in the agency drop below threshold levels.

61. **Erich Kirchler, Erik Hoelzl & Ingrid Wahl**, *Enforced Versus Voluntary Tax Compliance: The “Slippery Slope” Framework*, 29 J. ECON. PSYCH. 210-25 (2008).

“A framework for tax compliance is suggested in which both the power of tax authorities and trust in the tax authorities are relevant dimensions for understanding enforced and voluntary compliance. Dynamic interactions between power and trust are considered. Using the framework as a conceptual tool, factors studied in previous research, such as fines, audit probabilities, tax rate, knowledge, attitudes, norms and fairness are reviewed and discussed with reference to the power and trust dimensions. Using the framework as an operational tool, approaches of responsive regulation to increase tax compliance are discussed.”

62. **Erich Kirchler**, *The Art of Dodging*, FinancialWorld, June/July 2015, at 40, 43.

This article summarizes the implications of the author's "slippery-slope" theory of tax compliance, which posits that taxpayers may be motivated to comply by both deterrence and trust for the government, concluding: "Reviews of empirical studies in economics and psychology provide evidence about strong determinants of tax compliance that have practical implications: (a) Audits and fines are necessary to protect cooperative taxpayers from free-riders and to make well-targeted resistant citizens contribute their share. (b) The power of tax authorities needs to be perceived as legitimate and professional. In particular, tax auditors need to be well trained and to cooperate intensively with legislators, judges and international authorities to combat evasion and aggressive avoidance. (c) Tax law must be simplified to be comprehensible for taxpayers. (d) Taxpayers need to be segmented according to their needs and appropriate services must be offered. (e) Trust in authorities needs to be high. Distributive justice and procedural justice, as well as retributive justice, are very important in establishing and maintaining trust. Revenue collection and investment need to be transparent, and the balance of contributions and participation in public goods by different income earners needs to be perceived as fair. All in all, measures need to be taken to strengthen people's identification with the community and cooperation must be established as the dominant social norm."

63. **Erich Kirchler & Ingrid Wahl**, *Tax Compliance Inventory: TAX-I Voluntary Tax Compliance, Enforced Tax Compliance, Tax Avoidance, and Tax Evasion*, 31 J. ECON. PSYCHOL. 331, 331 (2010).

"Surveys on tax compliance and non-compliance often rely on ad hoc formulated items which lack standardization and empirical validation. ... [The authors] present an inventory to assess tax compliance and distinguish between different forms of compliance and non-compliance: voluntary versus enforced compliance, tax avoidance, and tax evasion. First, items to measure voluntary and enforced compliance, avoidance, and evasion were drawn up (collected from past research and newly developed), and tested empirically with the aim of producing four validated scales with a clear factorial structure. Second, findings from the first analyses were replicated and extended to validation on the basis of motivational postures. A standardized inventory is provided which can be used in surveys in order to collect data which are comparable across research focusing on self-reports. The inventory can be used in either of two ways: either in its entirety, or by applying the single scales independently, allowing an economical and fast assessment of different facets of tax compliance."

64. **Erich Kirchler et al.**, *Why Pay Taxes?: A Review of Tax Compliance Decisions*, in DEVELOPING ALTERNATIVE FRAMEWORKS FOR EXPLAINING TAX COMPLIANCE 15, 24 (James Alm et al. eds., 2010), <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2874665/>.

"The standard economic model frames the tax compliance problem as a decision under uncertainty. Taxpayers are assumed to maximize income by weighing the pros and cons of evading taxes. Though the model provides useful tools for tax policy, and its publication stimulated a variety of tax research, empirical evidence for its validity is rather weak. Most of its parameters have unstable and unclear effects, and it is hard to draw definite conclusions from the studies we have reviewed. Whether high- or low-income earners are more prone to evading their taxes remains unclear."

65. **Eva Hofmann et. al.**, *Enhancing Tax Compliance Through Coercive and Legitimate Power of Tax Authorities by Concurrently Diminishing or Facilitating Trust in Tax Authorities*, 36 LAW & POL'Y 290 (2014), <http://www.ncbi.nlm.nih.gov/pubmed/26074656>.

“Both coercion, such as strict auditing and the use of fines, and legitimate procedures, such as assistance by tax authorities, are often discussed as means of enhancing tax compliance. However, the psychological mechanisms that determine the effectiveness of each strategy are not clear. Although highly relevant, there is rare empirical literature examining the effects of both strategies applied in combination. It is assumed that coercion decreases implicit trust in tax authorities, leading to the perception of a hostile antagonistic tax climate and enforced tax compliance. Conversely, it is suggested that legitimate power increases reason-based trust in the tax authorities, leading to the perception of a service climate and eventually to voluntary cooperation. The combination of both strategies is assumed to cause greater levels of intended compliance than each strategy alone. We conducted two experimental studies with convenience samples of 261 taxpayers overall. The studies describe tax authorities as having low or high coercive power (*e.g.*, imposing lenient or severe sanctions) and/or low or high legitimate power (*e.g.*, having nontransparent or transparent procedures). Data analyses provide supportive evidence for the assumptions regarding the impact on intended tax compliance. Coercive power did not reduce implicit trust in tax authorities; however, it had an effect on reason-based trust, interaction climate, and intended tax compliance if applied solely. When wielded in combination with legitimate power, it had no effect.”

66. **Exec. Order 13707**, *Using Behavioral Science Insights to Better Serve the American People*, 80 Fed. Reg. 56365, 56465 (2015), <https://federalregister.gov/a/2015-23630>.

“To more fully realize the benefits of behavioral insights and deliver better results at a lower cost for the American people, the Federal Government should design its policies and programs to reflect our best understanding of how people engage with, participate in, use, and respond to those policies and programs. By improving the effectiveness and efficiency of Government, behavioral science insights can support a range of national priorities, including helping workers to find better jobs; enabling Americans to lead longer, healthier lives; improving access to educational opportunities and support for success in school; and accelerating the transition to a low-carbon economy.”

67. **Frank Cowell**, *Carrots and Sticks in Enforcement*, in *THE CRISIS IN TAX ADMINISTRATION* 230, 230 (Henry J. Aaron & Joel Slemrod eds., 2004).

“This chapter is about the role of economic analysis in understanding the tax-compliance problem. The carrots and sticks in the title suggest a recalcitrant beast that needs to be seduced into cooperation by an elusive, dangling incentive or beaten into unwilling compliance. The story is, however, somewhat richer than that. The discussion shows that economic theory can play an important part in explaining the underlying mechanisms relating to the economic engagement of the citizen in the funding of public programs and why such engagement — or lack of it — may be an endemic problem for tax administration. It also shows what the natural limitations of the carrot-and-stick analogy may be and what alternative paradigms of compliance could usefully be employed.”

68. **Gabriel Badescu**, *Trust, Corruption, and Tax Evasion in Romania*, in *TAX EVASION, TRUST AND STATE CAPACITIES* 307 (Nicolas Hayoz & Simon Hug eds., 2007).

“This chapter ... investigates what are the attitudinal determinants of tax compliance, as well as of preferences for tax size and distribution in Romania, using data of four representative surveys, conducted between 1998 and 2004. More specifically ... [the author] analyze[s] several causal mechanisms through which low levels of trust and perception that state institutions are ineffective in fighting corruption could stimulate tax evasion. In addition ... [the author] discuss[es] how civil society development and attitudes towards social inequality mediate the effects of trust in tax evasion.”

69. **General Accounting Office**, GAO-02-509, *Tax Deductions: Further Estimates of Taxpayers Who May Have Overpaid Federal Taxes by Not Itemizing* 1-2 (Apr. 2002), <http://www.gao.gov/products/GAO-02-509>.

“When computing their federal taxes, taxpayers either claim a standard or itemized deduction. In recent years, about 70 percent of taxpayers have claimed the standard deduction. GAO found that on 948,000 tax returns for tax year 1998, taxpayers did not itemize their deductions yet had payments for mortgage interest and points and for state and local income tax that exceeded the standard deductions for their filing status. GAO estimated that these taxpayers are likely to have overpaid their taxes by about \$473 million. When charitable contributions, real estate and personal property tax payments are included, the total overpayment could reach \$945 million.”

70. **George O’Hanlon**, *The Role of the Internal Revenue Agent Then and Now*, 1993 FED. B. ASS’N. SEC. OF TAX’N REP’T 1, 1-5 (1993).

“In 1988 ... experts said that all aspects of the administration should support compliance, not just enforcement. This would enable the Service to save expensive enforcement resources to deal with intentional noncompliance. One effective way to do this is to identify the root causes of noncompliance in various broad tax-market segments and find solutions to reduce or eliminate the specific problems. This could mean simply changing a tax form; clarifying instructions; providing more education, information, and assistance; or even advocating changes to tax legislation that is just too difficult to administer ... The trend here is to use the examination process not only as a way to monitor and improve compliance, but also as a way to prevent noncompliance by identifying taxpayers’ needs and improving IRS’ products and services to fill those needs. ... Now a part of the agent’s job, with the help of Collection, is to consider present and future collectibility long before the examination actually begins. They are prompted to recognize prior payment problems of a taxpayer before proceeding with the examination. Throughout the examination process, agents encourage taxpayers and afford them opportunities to get and keep tax liabilities current. When problems are identified, agents are soliciting installment agreements and considering offers in compromise to improve compliance and reduce the incidents of future noncompliance. Agents are also taking part in the education, information, and assistance efforts to help taxpayers learn more about the tax system and their obligations in it.”

71. **H. Laurence Ross**, *Social Control Through Deterrence: Drinking-and-Driving Laws*, 10 ANN. REV. OF SOC. 21, 21 (1984).

“Efforts directed mainly at increasing potential drunk drivers’ perceived certainty of punishment frequently have a deterrent effect in the short run. In the long run, however, *i.e.* over several

months or a few years, indexes of drunk driving return to prior levels ... Most promising, in terms of feasibility and effectiveness, are technological measures that prevent driver errors from resulting in crashes or that reduce the forces experienced in those crashes that do occur.”

72. **Hadar Aviram & Daniel L. Portman**, *Inequitable Enforcement: Introducing the Concept of Equity into Constitutional Review of Law Enforcement*, 61 HASTINGS L.J. 413 (2009).

This article focuses on the exercise of police discretion, which passes current constitutional thresholds, but seems unfair. It explains why constitutional protections are inadequate for addressing the problem of inequitable enforcement. It suggests a set of considerations for assessing inequity and presents some ways in which those considerations can be integrated into constitutional doctrine. Considerations include: type and severity of offense, public familiarity with prohibition/enforcement, proportionality, and the danger of profiling, among others.

73. **Heather M. Field**, *Choosing Tax: Explicit Elections as an Element of Design in the Federal Income Tax System*, 47 HARV. J. ON LEGIS. 21 (2010).

Policymakers often focus on implicit taxpayer choice to engage in aggressive tax planning and seek to hinder it. This article raises questions about the extent to which elections and tax incentives, which encourage tax planning, reduce or eliminate any shame or moral qualms about aggressive tax planning.

74. **Henrik Jacobsen Kleven, et al.**, *Unwilling or Unable to Cheat? Evidence from a Tax Audit Experiment in Denmark*, 79 ECONOMETRICA 651 (2011), reproduced at, <https://eml.berkeley.edu/~saez/kleven-knudsen-kreiner-pedersen-saezEMA11taxaudit.pdf>.

“This paper analyzes a tax enforcement field experiment in Denmark. In the base year, a stratified and representative sample of over 40,000 individual income tax filers was selected for the experiment. Half of the tax filers were randomly selected to be thoroughly audited, while the rest were deliberately not audited. The following year, threat-of-audit letters were randomly assigned and sent to tax filers in both groups. We present three main empirical findings. First, using baseline audit data, we find that the tax evasion rate is close to zero for income subject to third-party reporting, but substantial for self-reported income. Since most income is subject to third-party reporting, the overall evasion rate is modest. Second, using quasi-experimental variation created by large kinks in the income tax schedule, we find that marginal tax rates have a positive impact on tax evasion for self-reported income, but that this effect is small in comparison to legal avoidance and behavioral responses. Third, using the randomization of enforcement, we find that prior audits and threat-of-audit letters have significant effects on self-reported income, but no effect on third-party reported income. All these empirical results can be explained by extending the standard model of (rational) tax evasion to allow for the key distinction between self-reported and third-party reported income.”

75. **Henrik Kleven**, *How Can Scandinavians Tax so Much?*, 28 J. ECON. PERSP. 77, 95-96 (Fall 2014), <https://www.aeaweb.org/articles?id=10.1257/jep.28.4.77>.

“How are Scandinavian countries able to combine exceptionally large tax takes with some of the strongest economic outcomes in the world? ... The descriptive cross-country evidence is consistent with social and cultural factors playing a role, although we are far from being able to interpret this evidence fully. But the discussion has also identified a set of concrete policies that can go some way

towards explaining the Scandinavian puzzle, namely the use of far-reaching information trails that facilitate tax compliance, broad tax bases that limit the scope of legal tax avoidance, and large public spending focused on complements to work. Indeed, these factors may intertwine: that is, the social and cultural factors may make it easier to enact these kinds of policies, and in turn the social and cultural norms may themselves be driven by the design of policies and institutions.”

76. **James Alm**, *Tax Compliance and Administration, Discussion Papers in Economics* 49 (Ctr. for Econ. Analysis, U. Colorado at Boulder, Working Paper No. 98-12, 1998), <http://www.colorado.edu/economics/papers/papers98/wp98-12.pdf>.

This paper summarizes existing tax compliance research and then concludes that “[p]eople exhibit a remarkable diversity in their behavior. There are individuals who always cheat and those who always comply, some who behave as if they maximize the expected utility of the tax evasion gamble, others who seem to overweight low probabilities, individuals who respond in different ways to changes in their tax burden, some who are at times cooperative and at other times free-riders, and many who seem to be guided by such things as social norms, moral sentiments, and tax equity. These findings suggest that it is unlikely that a single unifying theory of tax compliance can ever be devised, one that incorporates the incredible variation in individual behavior exhibited by the many analyses of taxpayer compliance, one that explains the behavior of all individuals at all times, or even one that explains the actions of the same person at all times. ... Any tax administration must also recognize that it must address this ‘full house’ of behaviors in devising policies to ensure compliance. Consequently, a government compliance strategy based only on detection and punishment may well be a reasonable starting point for tax administration but not a good ending point. Instead, what is needed is a multi-faceted approach that emphasizes enforcement, but that also emphasizes the much broader range of actual motivations that explain why people pay taxes.”

77. **James Alm et al.**, *Taxpayer Information Assistance Services and Tax Reporting Behavior* 1 (Tulane Univ., Working Paper 1101, 2011), <http://econ.tulane.edu/RePEc/pdf/tul1101.pdf>.

“Our basic experimental setting mimics the naturally occurring environment: subjects earn income, they must choose whether to file a tax return, and they then must choose how much of their net income to report to a tax authority that may audit the subject. To investigate the effects of taxpayer services, we ‘complicate’ these compliance decisions of subjects, and then provide ‘services’ from the ‘tax administration’ that allow subjects to compute more easily their tax liabilities. Our results indicate that uncertainty reduces both the filing and the reporting compliance of an individual. However, we also find that agency-provided information has a positive and significant impact on the tendency of an individual to file a tax return, and also on reporting for individuals who choose to file a return.”

78. **James Alm, Kim M. Bloomquist & Michael McKee**, *When You Know Your Neighbor Pays Taxes: Information, Peer Effects, and Tax Compliance* 1 (2013), http://www.tax.mpg.de/fileadmin/user_upload/Paper_James_Alm-_Kim_Bloomquist_and_Michael_McKee1.pdf.

“In one treatment setting, we inform individuals about the frequency that their neighbors submit a tax return. In a second treatment setting, we inform them about the number of their neighbors who are audited, together with the penalties that they pay. In both cases, we examine the impact of information on filing behavior and also on subsequent reporting behavior. We find that providing information on whether one’s neighbors are filing returns and/or reporting income has a statistically significant and economically large impact on individual filing and reporting decisions. However,

this ‘neighbor’ information does not always improve compliance, depending on the exact content of the information.”

79. **James Alm, Kim M. Bloomquist & Michael McKee**, *On the External Validity of Laboratory Tax Compliance Experiments*, 53 *ECON. INQUIRY* 1170 (2015), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2561691.

“An essential issue for laboratory experiments to inform policy debates is the ‘external validity’ of the experimental results; that is, does behavior in the laboratory apply to behavior that occurs in the naturally occurring world? We examine this issue of external validity in the specific context of laboratory experiments on tax compliance, using two different types of evidence. We find that the behavioral patterns of subjects in the laboratory conform to those of individuals making a similar decision in naturally occurring settings. We also find that the behavioral responses of students are largely the same as those of nonstudents in identical experiments.”

80. **James Andreoni, Brian Erard & Jonathan Feinstein**, *Tax Compliance*, 36 *J. OF ECON. LIT.* 818, 855 (1998), <http://econweb.ucsd.edu/~jandreoni/Publications/jel1998.pdf>.

After reviewing theoretical and empirical advances in tax compliance research, the author concludes: “First ... a greater synthesis of theory with empirical research might generate important insights. ... Second, more work needs to be done exploring the diverse psychological, moral, and social influences on compliance behavior, and integrating these factors into economic models of compliance. ...”

81. **James Guszczka**, *The Last-Mile Problem: How Data Science and Behavioral Science Can Work Together*, *DELOITTE REV.*, Jan. 26, 2015, at 63, 66-67, <http://dupress.com/articles/behavioral-economics-predictive-analytics/>.

“... since people tend to dislike making changes, set the default option to be the one that people would choose if they had more time, information, and mental energy. (For example, save paper by setting the office printer to the default of double-sided printing. Similarly, retirement savings and organ donation programs are more effective when the default is set to “opt in” rather than “opt out.”) Since people are influenced by what others are doing, make use of peer comparisons and “social proof” (for example, asking, “Did you know that you use more energy than 90 percent of your neighbors?”). Because people tend to ignore letters written in bureaucratese and fail to complete buggy computer forms, simplify the language and user interface. And since people tend to engage in “mental accounting,” allow people to maintain separate bank accounts for food money, holiday money, and so on. Richard Thaler and Cass Sunstein call this type of design thinking “choice architecture.” The idea is to design forms, programs, and policies that go with, rather than against, the grain of human psychology. Doing so does not restrict choices; rather, options are arranged and presented in ways that help people make day-to-day choices that are consistent with their long-term goals. In contrast with the hard incentives of classical economics, behavioral nudges are “soft” techniques for prompting desired behavior change. ... Proponents of this approach, such as the Behavioural Insights Team and ideas42, argue that behavioral nudges should be part of policymakers’ toolkits. This article goes further and argues that the science of behavioral nudges should be part of the toolkit of mainstream predictive analytics as well.”

82. **James Heyman & Dan Ariely**, *Effort for Payment: A Tale of Two Markets*, 15 *PSYCHOL. SCI.* 787, 792-93 (2004), <http://people.duke.edu/~dandan/webfiles/PapersPI/Effort%20for%20Payment.pdf>.
“When payments were given in the form of gifts (candy) or when payments were not mentioned, effort seemed to stem from altruistic motives and was largely insensitive to the magnitude of the payment. In contrast, when payments were given in the form of cash, effort seemed to stem from reciprocation motives and was sensitive to the magnitude of the payment. Finally, in mixed markets (payment was in the form of gifts but cost was also mentioned), the mere mention of monetary payment was sufficient to switch the perceived relationship from a social-market relationship to a money-market relationship. That is, money itself can be a cue to the type of exchange that individuals consider themselves to be in, which in turn influences their propensity to exert effort.
A long history of research has demonstrated that rewards can decrease motivation and attitudes (Festinger & Carlsmith, 1959), alter self-perception (Bem, 1965), increase overjustification (Lepper *et al.*, 1973), and turn feelings of competence into feelings of being controlled (Deci & Ryan, 1985). The debate over these findings (Eisenberger & Cameron, 1996; Ryan & Deci, 2000) has generally shifted to the question of what specific circumstances give rise to these counterintuitive effects. The current work sheds some light on this debate by pointing out an additional factor that can influence the relationship between reward and motivation — the type of market in which the exchange takes place.”
83. **Jan Schnellenbach**, *Vertical and Horizontal Reciprocity in a Theory of Taxpayer Compliance*, in *DEVELOPING ALTERNATIVE FRAMEWORKS FOR EXPLAINING TAX COMPLIANCE* 56, 71-72 (James Alm *et al.* eds., 2010).
The authors “sketched the interaction of two types of reciprocity in decision-making, regarding tax evasion. ... [the authors] argued that the feeling of guilt by taxpayers is crucial as a precondition for vertical reciprocity.”
84. **Jason Matthew DeBacker *et al.***, *Legal Enforcement and Corporate Behavior: An Analysis of Tax Aggressiveness After an Audit*, 58 *J. LAW AND ECON.*, 291 (2013), <https://ssrn.com/abstract=2262586>.
“Contrary to common expectations, this paper shows that legal enforcement may increase subsequent corporate misbehavior. Using IRS data, we find that corporations gradually increase their tax aggressiveness after an audit for a few years and then reduce it sharply. We show that this U-shaped impact is consistent with strategic responses on the part of firms and Bayesian updating of audit risk. This adverse effect on corporate behavior calls for reexamining both theory and policy of legal enforcement.”
85. **Jay A. Soled**, *Homage to Information Returns*, 27 *VA. TAX REV.* 371, 384 (2007).
“Given the greater psychological discomfort that people typically experience when lying (which constitutes an act of commission) as compared to not filing a return (which constitutes an act of omission), a question of this sort [“*During the course of the prior calendar year, did you make gifts to or receive gifts from another taxpayer that exceeded X dollars ...*”] may induce taxpayers to fulfill their gift tax return filing obligations.”

86. **Jenny Job & David Honaker**, *Short-term Experience with Responsive Regulation in the Australian Taxation Office*, in *TAXING DEMOCRACY: AN UNDERSTANDING OF TAX AVOIDANCE AND EVASION* 111, 126 (Valerie Braithwaite ed., 2003).

The authors conclude that the barriers to acceptance and use of a new compliance model “by staff of the ATO [Australian Taxation Office] were cultural, organizational and personal. Taken together, they amount to a need for revamping the way the organization ‘thinks.’ ... Change was required in formerly routine practices, in the way tasks were accomplished and in the way tax officers interact with taxpayers, colleagues and managers. More open communication and negotiation at all levels of ATO staff were needed. The promised layoffs would include continuous learning, smarter regulatory practice, and improved performance in managing compliance.”

87. **Joana Sousa Lourenço et al.**, *Behavioural Insights Applied to Policy, European Report 2016*, EUR 27726 EN (2016), http://publications.jrc.ec.europa.eu/repository/bitstream/JRC100146/kjna27726enn_new.pdf.

“The report covers a wealth of policy applications either implicitly or explicitly informed by behavioural insights (BIs). It reviews institutional developments and puts forward a comparative framework (PRECIS) describing behavioural insight teams with six key features. The report reaches four main conclusions: 1. in terms of capacity-building, there is significant dynamism and growing appetite to apply BIs to policy-making; 2. links between policy-making and academy communities can be strengthened and analyzing large datasets offers great potential; 3. systematic application of BIs throughout the policy cycle can advance evidence-based policy-making; 4. need of more research on the long-term impacts of policy interventions.” This report includes a synopsis of various behavioral insights being used by governments in Europe, including tax authorities.

88. **Joel Slemrod, Marsha Blumenthal & Charles Christian**, *Taxpayer Response to an Increased Probability of Audit: Evidence from a Controlled Field Experiment in Minnesota*, 79 J. PUB. ECON. 455, 455 (2000).

“In 1995 a group of 1724 randomly selected Minnesota taxpayers was informed by letter that the returns they were about to file would be ‘closely examined’. Compared to a control group that did not receive this letter, low and middle-income taxpayers in the treatment group on average increased tax payments compared to the previous year, which we interpret as indicating the presence of noncompliance. The effect was much stronger for those with more opportunity to evade; in fact, the difference in differences is not statistically significant for those who do not have self-employment or farm income, and do not pay estimated tax. Surprisingly, however, the reported tax liability of the high income treatment group *fell* sharply relative to the control group.”

89. **Joel Slemrod**, *Cheating Ourselves: The Economics of Tax Evasion*, 21 J. ECON. PERSP. 25, 45 (Winter 2007), <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.21.1.25>.

“Variations in dutifulness and honesty can explain some of the across-individual and, perhaps, across-country heterogeneity of evasion. But the stark differences in compliance rates across taxable items that line up closely with detection rates suggest strongly that deterrence is a powerful factor in evasion decisions. The overall net noncompliance rate for all U.S. federal taxes and the individual income tax seems to stand at about 14 percent. But given the current state of theory and evidence on tax evasion, it isn’t clear in what way or how much enforcement might most efficiently be increased. Although the normative theory of taxation has been extended to tax system instruments

such as the intensity of enforcement, the empirical knowledge to put these rules into operation is sparse. Furthermore, theory is only beginning to address core issues such as the role of third-party reporting of information that facilitates enforcement of the taxation of wages and salaries, but helps little for self-employment income. Modeling these information flows — and the critical role played by firms — is an important item in the future research agenda.”

90. **John Braithwaite**, *Large Business and the Compliance Model*, in *Taxing Democracy: An Understanding of Tax Avoidance and Evasion* 177, 199 (Valerie Braithwaite ed., 2003).
- “The four elements of the ATO [Australian Taxation Office] Compliance Model: (a) understanding taxpayer behavior; (b) building community partnership; (c) increased flexibility; and (d) more and escalating regulatory options have been found to have relevant meanings for large business tax policy. ... An egg-shaped form of compliance behavior where most enforcement effort is directed at grey areas of avoidance rather than evasion makes the challenge especially difficult. It also makes it a challenge where law enforcement and law reform must be integrated instead of separated functions. ... [The author’s] argument is that a combination of escalated responsive enforcement integrated with responsive law reform has some hope of shifting much of the grey bulge of tax avoidance into tax compliance.”
91. **John Cullis, Philip Jones & Alan Lewis**, *Tax Compliance: Social Norms, Culture, and Endogeneity*, in *DEVELOPING ALTERNATIVE FRAMEWORKS FOR EXPLAINING TAX COMPLIANCE* 35, 52 (James Alm *et al.* eds., 2010).
- This chapter highlights “a number of important questions that are relevant when attempting to explain levels of tax compliance. A fundamental observation is that once analysis goes beyond the relative safety of “*homo or femina economicus*,” the tax evasion waters get muddier and (perhaps misplaced) clarity is lost. ... There is now a raft of competing labels for ‘amending/intervening’ behavior. The question raised in this chapter is the extent to which different labels are helpful. Analysts now refer to ‘altruism,’ ‘intrinsic action,’ ‘civic duty’ and ‘social norm.’ The objective is to provide a consistent analysis of behavioral response that will explain tax morality/tax mentality.”
92. **John Guyton *et al.***, *Reminders & Recidivism: Evidence from Tax Filing & EITC Participation Among Low-Income Nonfilers* (Nat’l Bureau of Econ. Research, Working Paper No. 21904, 2016), <http://www.nber.org/papers/w21904>.
- “This project examines how reminders affect tax filing among lower-income nonfilers (individuals who did not appear on a filed tax return but had income reported by third parties to the Internal Revenue Service). We present novel data on this population and results from two randomized controlled trials. The results demonstrate that one-time reminders increase tax filing, both to claim tax refunds based in part on withholdings and Earned Income Tax Credit benefits, as well as to voluntarily pay balances owed to the IRS. However, these effects do not persist. Consistent with recency effects, individuals who owe a balance due appear more likely to recidivate into nonfiling than those who receive refunds. Follow-up reminders continue to increase tax filing, particularly among individuals who previously had to pay balances to the IRS instead of receive refunds.”

93. **John Hasseldine et al.**, *Persuasive Communications: Tax Compliance Enforcement Strategies for Sole Proprietors*, 24 CONTEMP. ACCOUNTING RES. 171, 172 (2007), <http://onlinelibrary.wiley.com/doi/10.1506/P207-004L-4205-7NX0/pdf>.

“This paper makes its contribution through an innovative, controlled field experiment that analyzes how actual tax-reporting behavior is affected by exposure to one of five treatments: simple offer of assistance, citizenship appeal, threat of audit, threat of audit with possible penalties, and virtual guarantee of forthcoming audit once the return is filed. Sales and net profit data are analyzed for a nationwide sample of over 7,300 UK sole proprietors who, for two consecutive tax years, reported a turnover (sales) level just below a fixed threshold of £15,000. Taxpayers with turnover below the threshold qualify for a simplified format for tax reporting, allowing them to reduce their costs of compliance. Thus, temptation to reduce tax liability, as well as costs of compliance, makes the sole proprietors an intriguing and appropriate population to target for this research. Consequently, we focus on two dependent variables: (a) whether turnover exceeded the reporting threshold and (b) the monetary increase in net profit reported on the tax returns filed after the treatment letters were received.

Our results show evidence of a significant overall treatment effect for both normative and sanction groups. Specifically, when we measure whether taxpayers reported increases in turnover (over the £15,000 threshold for simplified reporting) after receipt of the letter, there are significant differences for each treatment group on one or both of the dependent variables [w]e find that the communications are particularly effective for self-preparers when reporting turnover. We also find that the sanction letters are generally more effective than the normative citizenship letter for reported turnover. In addition, the sanction letters are more effective than the normative letter for change in net profit but only for the self-prepared returns, not for the paid-preparer returns.”

94. **John T. Scholz**, *Contractual Compliance: Tax Institutions and Tax Morale in the U.S.*, in TAX EVASION, TRUST AND STATE CAPACITIES 51, 51-52 (Nicolas Hayoz & Simon Hug eds., 2007).

The paper considers “how tax morale (or ‘duty’ as the concept is commonly referred to in the compliance literature) influences compliance with tax laws and, more importantly, how the institutional capacities of the State shape and are shaped by tax morale. ... [The] primary concern is to provide an integrated theoretical perspective that explains the role of tax morale in maintaining tax compliance system as well as in terms of the psychology of the citizen. Historical accounts of the American tax system and summaries of empirical research on tax compliance in the United States are used to support and illustrate the theoretical argument.”

95. **John T. Scholz & Neil Pinney**, *Duty, Fear and Tax Compliance: The Heuristic Basis of Citizenship Behavior*, 39 AM. J. OF POL. SCI. 490, 490 (1995).

“The costs imposed by income tax and other citizenship duties provide powerful incentives to free ride, yet the likelihood of getting caught — the primary self-interested deterrent to free-riding — is unlikely to be known with much accuracy by most citizens. Thus the duty heuristic provides not only a direct motivation to comply, but also influences behavior through cognitive processes that bias self-interested beliefs about the advantages of free-riding. Citizens’ beliefs about their duty to obey laws of the state bias their information processing and judgments about the fear of getting caught and punished for disobedience, so citizens reporting greater commitment to obey tax laws systematically overestimate the expected penalty for noncompliance. Regression analysis of survey and tax-return data for 445 taxpayers [*sic*]. Subjective risk of getting caught is more closely related

to duty than to objective risk factors. Objective audit probabilities affect only taxpayers with greater temptation to cheat, but duty influences tempted taxpayers as much as ordinary taxpayers.”

96. **Jonah Berger**, *INVISIBLE INFLUENCE: THE HIDDEN FORCES THAT SHAPE BEHAVIOR* 1-2 (2016).

“Think about a choice you made recently. Any choice. Which breakfast cereal to buy, movie to see, or place to have lunch. Or even a more important decision: which person to date, political candidate to support, or career to pursue.

Why did you make that choice? Why did you pick the particular option you ended up choosing?

Seems like an easy question. While various idiosyncratic reasons may come to mind, in general, they all point in the same direction: you. Your personal tastes and preferences. Your likes and dislikes. Which potential mate you found funny or attractive. Whether the candidate’s policy stance matches your own. The notion that our choices are driven by our own personal thoughts and opinions seems so obvious that it is not even worth mentioning.

Except that it’s wrong.

Without our realizing it, others have a huge influence on almost every aspect of life. People vote because others are voting, eat more when others are eating, and buy a new car because their neighbors have recently done the same. Social influence affects the products people buy, health plans they choose, grades they get in school, and careers they follow. It shapes whether people save for retirement, invest in the stock market, donate money, join a fraternity, save energy, or adopt new innovations. Social influence even affects whether people engage in criminal activity or are satisfied with their job. Ninety-nine-point-nine percent of all decisions are shaped by others. It’s hard to find a decision or behavior that isn’t affected by other people.

In fact, looking across all domains of our lives, there is only one place we don’t seem to see social influence.

Ourselves.”

97. **Joseph Bankman, Clifford Nass & Joel B. Slemrod**, *Using the “Smart Return” to Reduce Tax Evasion* 1-2 (Stan. Pub. L. Working Paper No. 2578432, Mar. 14, 2015), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2578432.

“... This explosion of research in social psychology over the past few decades, along with industry experience with data-driven interactive systems, suggests a different approach to the [tax compliance] problem: redesign the tax forms and on-line filing process to elicit more truthful responses from taxpayers. To illustrate the potential of this approach, in this paper we propose three categories of changes that merit testing through pilot studies. The first involves changing the wording on existing returns to increase the psychological cost of evasion and increase the perceived expectation of detection. The second builds appeals to morality in the return itself through the use of a short phrase containing a “self-relevant” noun. The third uses on-line “conversational agents” to ask adaptive questions. Adaptive questions incorporate information known about the taxpayer, including information from previous questions. Adaptive questioning is commonly used in e-commerce because it is more efficient. In the tax context, it would allow the IRS to ask more focused questions, which should reduce evasion and audit costs. It could also benefit taxpayers by reducing filing time and eliminating the risk of subsequent audit. Adaptive questioning that is part of a data-driven system allows for continuous experimentation and real-time modification of algorithms to incorporate the results of that experimentation. A data-driven adaptive questioning

system can incorporate and optimize a mix of taxpayer filing experience and revenue need. It can co-exist with the existing tax preparation industry, including commercial e-filing systems such as TurboTax. In the future, as now, the industry can help clients plan for taxes, take advantage of deductions and complete returns.”

98. **Josh Bowers & Paul Robinson**, *Perceptions of Fairness and Justice: The Shared Aims and Occasional Conflicts of Legitimacy and Moral Credibility*, 47 WAKE FOREST L. REV. 211, 212-13 (2012), http://heinonline.org/HOL/Page?handle=hein.journals/wflr47&g_sent=1&collection=journals&id=215.

“This article examines the shared aims and overlaps in operation and effect of these two criminal justice dynamics—the ‘legitimacy’ that derives from fair adjudication and professional enforcement and the ‘moral credibility’ that derives from just results — as well as the occasional potential for conflict. ... Particularly, we anticipate significant crime-control advantages for a system that enjoys perceptions of both moral credibility and legitimacy, but we conclude that — for empirical and theoretical reasons — moral credibility ought to be the principal objective in uncommon circumstances in which a system may effectively pursue only one.”

99. **Joshua Blank**, *Collateral Compliance*, 162 U. PA L. REV. 719, 720 (2014), http://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=7688&context=penn_law_review.

“After considering the effects of collateral tax sanctions under the predominant theories of voluntary compliance, I propose principles that governments should consider when designing collateral tax sanctions. These principles suggest, for example, that initiatives to revoke driver’s licenses or professional licenses from individuals who fail to file tax returns or pay outstanding taxes would likely promote tax compliance. However, whether the sanction of deportation for tax offenses involving fraud or deceit will have positive compliance effects is far less certain. Finally, I suggest how taxing authorities should publicize these sanctions to foster voluntary compliance.”

100. **Joy Forehand & Michael Greene**, *Nudging New Mexico, Kindling Compliance Among Unemployment Claimants*, DELOITTE REV., No 18, 2016, at 143-63.

The authors worked with the New Mexico Department of Workforce Solutions (DWS) to use behavioral science insights to reduce improper unemployment insurance claims. This discussion suggests they leveraged timing (providing nudges at critical moments), norms (telling applicants that 9 out of 10 applicants are honest), pre-commitment (asking people to identify the steps they will take next week to find a job), and clarity (describing the requirements and penalties in simple language), among other behavioral insights.

101. **Karen Masken**, *IRS Preparer-Level Treatment Tests*, IRS Research Conference 18 (2015), <https://www.irs.gov/pub/irs-soi/15resconreturnpreparer.pptx>.

The author finds that “an educational visit to a preparer was a highly effective method for improving compliance by his clients concerning advanced child tax credit claims, but that a letter was almost as effective and presented a higher return on investment.”

102. **Katharina Gangl, Eva Hofmann & Erich Kirchler**, *Tax Authorities' Interaction With Taxpayers: A Conception of Compliance in Social Dilemmas by Power and Trust*, 37 *NEW IDEAS IN PSYCHOL.* 13, 13 (2015).

“Tax compliance represents a social dilemma in which the short-term self-interest to minimize tax payments is at odds with the collective long-term interest to provide sufficient tax funds for public goods. According to the Slippery Slope Framework, the social dilemma can be solved and tax compliance can be guaranteed by power of tax authorities and trust in tax authorities. The framework, however, remains silent on the dynamics between power and trust. The aim of the present theoretical paper is to conceptualize the dynamics between power and trust by differentiating coercive and legitimate power and reason-based and implicit trust. Insights into this dynamic are derived from an integration of a wide range of literature such as on organizational behavior and social influence. Conclusions on the effect of the dynamics between power and trust on the interaction climate between authorities and individuals and subsequent individual motivation of cooperation in social dilemmas such as tax contributions are drawn. Practically, the assumptions on the dynamics can be utilized by authorities to increase cooperation and to change the interaction climate from an antagonistic climate to a service and confidence climate.”

103. **Kathleen D. Vohs, Nicole L. Mead & Miranda R. Goode**, *The Psychological Consequences of Money*, 314 *SCI.* 1154 (2006).

“Money has been said to change people’s motivation (mainly for the better) and their behavior toward others (mainly for the worse). The results of nine experiments suggest that money brings about a self-sufficient orientation in which people prefer to be free of dependency and dependents. Reminders of money, relative to nonmoney reminders, led to reduced requests for help and reduced helpfulness toward others. Relative to participants primed with neutral concepts, participants primed with money preferred to play alone, work alone, and put more physical distance between themselves and a new acquaintance.”

104. **Kathleen DeLaney Thomas**, *Presumptive Collection: A Prospect Theory Approach to Increasing Small Business Tax Compliance*, 67 *TAX L. REV.* 111, 168 (2013), <http://ssrn.com/abstract=2316233>.

“Although a number of economists and psychologists have argued that prospect theory is a relevant predictor of taxpayer behavior, this Article offers the first concrete proposal for using prospect theory to increase tax compliance where information reporting and withholding are not viable. Presumptive collection achieves this by reframing the tax compliance decision for small business owners so that, like wage earners, they will be in a gains frame when they decide how much tax to report. By relying on external factors to *collect* tax throughout the year, rather than to calculate year-end tax liability, presumptive collection would increase compliance among small business owners in a manner that is fairer and more efficient than true presumptive tax regimes. While presumptive collection is not a universal solution, it can be another important tool aimed at reducing the tax gap, which would complement current compliance initiatives. If presumptive collection could be applied to groups of identifiable cash businesses that are currently able to avoid information reporting, then policymakers could make significant gains in reducing small business tax noncompliance.”

105. **Kathleen DeLaney Thomas**, *The Psychic Cost of Tax Evasion*, 56 B.C. L. REV. 617, 617 (2015), <http://ssrn.com/abstract=2494489>.

“This article proposes employing subtle behavioral interventions that encourage more honest tax reporting by raising the level of psychological discomfort experienced from underreporting. ... [The author] refer[s] to this approach as increasing the ‘psychic cost’ of tax evasion. Adopting measures designed to increase the psychic cost of tax evasion, such as making small adjustments to the way that taxpayers fill out their tax forms, could generate much needed tax revenue. Moreover, these measures would impose very little administrative expense to the government as compared to traditional deterrence mechanisms like audits and penalties. While further empirical research is needed to test how to increase the psychic cost of tax evasion in the most cost-effective manner, this article proposes a roadmap for beginning that process.”

106. **Kathleen DeLaney Thomas**, *User-Friendly Taxpaying 1* (UNC Legal Studies Research Paper No. 2660218, 2015) (forthcoming in Ind. L. J.), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2660218.

“[T]he Article draws upon behavioral science research showing that complexity impacts individuals’ decision making and encourages dishonesty. The Article then offers a number of proposals for how policymakers could simplify individuals’ interactions with the tax system. For example, the IRS could allow taxpayers to easily record their income and deductions online during the year using smart phones or tablets. Those items could be stored in an online personal taxpayer account and, at the end of the year, automatically uploaded to an electronic return. Easing the burden of taxpaying should encourage more taxpayers to report honestly, in addition to reducing their compliance costs. In the same way that designing products or websites to be user-friendly encourages their use, making the tax system more user-friendly should attract more voluntary participation.”

107. **Kristina Murphy**, *Procedural Justice and Tax Compliance* iv, 22 (Ctr. For Tax Sys. Integrity, Working Paper No. 56, 2004), <https://digitalcollections.anu.edu.au/bitstream/1885/42014/2/WP56.pdf>.

“Data were taken from in-depth interviews conducted with 29 scheme investors. Consistent with the procedural justice literature, the findings revealed that many of the scheme investors interviewed defied the Tax Office’s demands because the procedures the Tax Office used to handle the situation were perceived to be unfair. Given these findings, it will be argued that to effectively shape desired behaviour, regulators will need to move beyond enforcement strategies linked purely to deterrence ...

While this has not been the first study to show that the use of threat and legal coercion can produce the opposite behaviour from that sought, it has been one of the first studies to highlight the importance of procedural justice when dealing with non-compliant individuals in the taxation context. In particular, the findings from the present study have shown that if taxpayers feel poorly treated by a tax authority as a result of their infractions, this can lead to them questioning the legitimacy of the tax authority. This can then go on to affect their willingness to comply, and can in fact lead to active resistance. It has been proposed here that by using a regulatory strategy based on mutual respect and cooperation in the first instance, regulators will be more likely to prevent widespread resistance towards their decisions, while at the same time nurturing the good will of those with a commitment to compliance.”

108. **Kristina Murphy**, *The Role of Trust in Nurturing Compliance: A Study of Accused Tax Avoiders*, 28 *LAW & HUM. BEHAV.* 187, 187 (2004), <http://link.springer.com/article/10.1023/B:LAHU.0000022322.94776.ca>.
- “Why an institution’s rules and regulations are obeyed or disobeyed is an important question for regulatory agencies. This paper discusses the findings of an empirical study that shows that the use of threat and legal coercion as a regulatory tool — in addition to being more expensive to implement — can sometimes be ineffective in gaining compliance. Using survey data collected from 2,292 taxpayers accused of tax avoidance, it will be demonstrated that variables such as trust need to be considered when managing noncompliance. If regulators are seen to be acting fairly, people will trust the motives of that authority, and will defer to their decisions voluntarily. This paper therefore argues that to shape desired behavior, regulators will need to move beyond motivation linked purely to deterrence. Strategies directed at reducing levels of distrust between the two sides may prove particularly effective in gaining voluntary compliance with an organization’s rules and regulations.”
109. **Kristina Murphy**, *Procedural Justice and the Regulation of Tax Compliance Behavior: The Moderating Role of Personal Norms*, in *DEVELOPING ALTERNATIVE FRAMEWORKS FOR EXPLAINING TAX COMPLIANCE* 191, 208 (James Alm *et al.* eds., 2010).
- “[T]he aim of regulatory enforcement is to gain future compliance from offenders. The findings of ... [this chapter show] that a regulatory enforcement strategy that places persuasion and fair treatment of the taxpayer in the foreground shows much promise in doing just that. In fact, the findings also suggest that a process-based enforcement approach may be particularly effective for those who have weaker respect for the law than for those who have a strong commitment to do the right thing. A social distancing framework was presented to offer a possible theoretical explanation for these results.”
110. **Kristina Murphy & Karen Byng**, *Preliminary Findings from ‘The Australian Tax System Survey of Tax Scheme Investors’* vii (Ctr. For Tax Sys. Integrity, Working Paper No. 40, 2002), <https://digitalcollections.anu.edu.au/bitstream/1885/42665/2/40.pdf>.
- “Between January and July 2002, researchers at the Centre for Tax System Integrity conducted a national survey of 6000 Australian taxpayers involved in tax planning schemes. ... The survey was also designed to identify the possible reasons why taxpayers invested in tax minimization schemes, why there was such widespread taxpayer resistance against the Tax Office’s debt recovery procedures, and perhaps more importantly, whether the aggressive tax planning market in Australia is supply or demand driven. This report provides a descriptive analysis of some of the more important findings from the survey, followed by a discussion of the key findings and their implications.”
111. **Lars P. Feld & Bruno S. Frey**, *Tax Evasion in Switzerland: The Roles of Deterrence and Tax Morale*, in *TAX EVASION, TRUST AND STATE CAPACITIES* 123 (Nicolas Hayoz & Simon Hug eds. 2007).
- “The traditional economic approach to tax evasion does not appear to be particularly successful in explaining the extent of tax compliance. ... [The authors] argue instead that a psychological tax contract which establishes a fiscal exchange between the state and the citizens shapes tax compliance to a large extent. In that respect, a case study of Switzerland is useful because the small size of the cantons and their direct democratic political systems procedurally establish a close exchange relationship between taxpayers and tax authorities. In this paper, evidence is discussed on how tax

evasion and tax morale in Switzerland evolved over time. In addition, the impact of economic, legal, socio-demographic, psychological and institutional factors on Swiss tax evasion is discussed.”

112. **Lars P. Feld & Bruno S. Frey**, *Tax Compliance as the Result of a Psychological Tax Contract: The Role of Incentives and Responsive Regulation*, 29 *LAW & POL’Y* 102 (2007).

“A psychological tax contract goes beyond the traditional deterrence model and explains tax morale as a complicated interaction between taxpayers and the government. As a contractual relationship implies duties and rights for each contract party, tax compliance is increased by sticking to the fiscal exchange paradigm between citizens and the state. Citizens are willing to honestly declare income even if they do not receive a full public good equivalent to tax payments as long as the political process is perceived to be fair and legitimate. Moreover, friendly treatment of taxpayers by the tax office in auditing processes increases tax compliance.”

113. **Lars P. Feld & Bruno S. Frey**, *Tax Evasion and the Psychological Tax Contract*, in *DEVELOPING ALTERNATIVE FRAMEWORKS FOR EXPLAINING TAX COMPLIANCE* 74, 88 (James Alm *et al.* eds., 2010).

“Tax compliance is the result of a complicated interaction of deterrence measures and responsive regulation. Citizens and the state develop their fiscal relationships according to a psychological tax contract that establishes fiscal exchange between taxpayers and tax authorities. It reaches beyond pure exchanges, and involves loyalties and ties between the contract partners. Tax morale is therefore a function of (i) the fiscal exchange where taxpayers get public services of the tax prices they pay, (ii) the political procedures that lead to this exchange, and (iii) the personal relationship between the taxpayers and the tax administrators.”

114. **Laura Haynes *et al.***, *Test, Learn, Adapt: Developing Public Policy with Randomized Controlled Trials* 5 (2012), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/62529/TLA-1906126.pdf.

“With the right academic and policy support, RCTs [Randomized Controlled Trials] can be much cheaper and simpler to put in place than is often supposed. By enabling us to demonstrate just how well a policy is working, RCTs can save money in the long term — they are a powerful tool to help policymakers and practitioners decide which of several policies is the most cost effective, and also which interventions are not as effective as might have been supposed. It is especially important in times of shrinking public sector budgets to be confident that public money is spent on policies shown to deliver value for money. ... [The authors] have identified nine separate steps that are required to set up any RCT. Many of these steps will be familiar to anyone putting in place a well-designed policy evaluation — for example, the need to be clear, from the outset, about what the policy is seeking to achieve. Some — in particular the need to randomly allocate individuals or institutions to different groups which receive different treatment — are what lend RCTs their power.”

115. **Lauren B. Edelman & Shauhin A. Talesh**, *To Comply or Not to Comply — That Isn’t the Question: How Organizations Construct the Meaning of Compliance*, in *EXPLAINING COMPLIANCE: BUSINESS RESPONSES TO REGULATION* 103 (Christine Parker & Vibeke Lehmann Nielsen eds., 2011).

The authors “argue that the nature of organizational compliance is best illustrated not by a compliance versus noncompliance dichotomy, but rather by a processual model in which organizations construct the meaning of both compliance and law. Further ... [the authors] argue

that organizations must be understood as social actors that are influenced by widely institutionalized beliefs about legality, morality, and rationality. ... [The authors] show how institutionalized conceptions of law and compliance first become widely accepted within the business community and eventually — as these conceptions become widely institutionalized — come to be seen as rational and legitimate by public legal actors and institutions and thus influence the very meaning of law.”

116. **Leslie Book**, *The Poor and Tax Compliance: One Size Does not Fit All*, 51 U. KAN. L. REV. 1145, 1194 (2003).

“While research indicates that the traditional deterrence model of taxpayer compliance does not completely explain all facets of taxpayer compliance, among groups of taxpayers who may not identify with society at large, it appears that the deterrence model is a better tool for reducing noncompliance. My sense is that among taxpayers who are considered asocially noncompliant or socially noncompliant, there is little sense of identity with society at large. Yet, detecting and punishing those noncompliant taxpayers, on an individual basis, is expensive, but will likely have indirect benefits beyond the taxpayers detected. IRS efforts to rely on internal and external databases to identify likely suspect EITC claimants can help reduce the government’s costs and the burdens on eligible taxpayers. Yet, that approach is dependent on the quality of the IRS’s information. Inaccurate information, combined with fewer procedural rights for taxpayers identified as being suspect, can lead to a dangerous situation.”

117. **Leslie Book**, *Refund Anticipation Loans and the Tax Gap*, 20 Stan. L. & Pol’y Rev. 85, 115-16 (2009), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1349908.

“Encouraging good behavior must start with the IRS knowing and acting on information about how certain preparers are interacting with taxpayers. Changing preparer conduct through audits, or even heightened penalties or due diligence rules, should come only after the IRS encourages more positive steps, and only after the IRS directs disapproval with what it perceives to be improper preparer conduct. For example, rather than default to audit when faced with information about likely errors associated with a geographic region of a national chain, one approach would involve the IRS visiting preparers to discuss best practices and reveal that there is information suggesting impermissible error rates associated with those preparers’ returns. The IRS could ask that the preparer report back on its internal quality control measures, review corporate culture and education, and encourage self-regulation before the IRS diverts to resource-intensive exercise of audits, and potential use of civil penalties and injunctions. The compliance stick would come at the tail end of government interaction.”

118. **Lisa L. Shu et al.**, *Signing at the Beginning Makes Ethics Salient and Decreases Dishonest Self-Reports in Comparison to Signing at the End*, 109 PROC. OF THE NAT’L ACAD. OF SCI. 15197 (2012), <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3458378/>.

“Many written forms required by businesses and governments rely on honest reporting. Proof of honest intent is typically provided through signature at the end of, *e.g.*, tax returns or insurance policy forms. Still, people sometimes cheat to advance their financial self-interests — at great costs to society. ... [The authors] test an easy-to-implement method to discourage dishonesty: signing at the beginning rather than at the end of a self-report, thereby reversing the order of the current practice. Using laboratory and field experiments ... [the authors] find that signing before — rather

than after — the opportunity to cheat makes ethics salient when they are needed most and significantly reduces dishonesty.”

119. **Luigi A. Franzoni**, *Tax Compliance*, in *ENCYCLOPEDIA OF L. & ECON.* 25 (Boudewijn Bouckaert & Gerrit De Geest eds., 2008).

“Many features of the enforcement process remain unexamined, despite their great impact on the incentives for compliance. Among these, the most important are the structure of withholding and information reporting, the procedure for proof of violation (*e.g.*, the burden of proof and the standard of proof), the determinants of the taxpayer’s culpability, the structure of the audit process and the litigation procedure, the actual powers of the tax administration to investigate and decide cases. There is a particularly great need for empirical inquiry into the impact of procedural specifications.”

120. **Malcolm Sparrow**, *HANDCUFFED, WHAT HOLDS POLICING BACK, AND THE KEYS TO REFORM* 21-22 (2016).

“... even though the NYPD and the Ferguson Police Department had settled on quite different central imperatives, the fact that they each had a single central imperative [minimizing reported crime rates or maximizing revenue from tickets, respectively], strongly emphasized and highly quantitative in nature, leads both departments into similarly dangerous waters. A dominant focus on one dimension of performance suppresses other legitimate concerns. A focus on ends, in not matched by effective controls on means, can lead to behaviors that are unwise, risky or illegal. Officers who perform well in achieving numerical goals may be rewarded or promoted even when the legitimacy or legality of the means they use to get those results is questionable. The organizational culture might even end up making heroes and heroines of those ‘prepared to do whatever it takes’ to hit ambitious targets and make their bosses and organizations look good. This phenomenon is by no means limited to policing. It has long been recognized within both private sector and public management literature as a potentially corrupting influence, producing organizational deviance of various kinds. Diane Vaughan, who has studied many forms of organizational misconduct, says that trouble arises when the social context puts greater emphasis on achieving the ends than on restricting the means ... we will never affect or transform the behavior of the offending organization until we understand what is really happening inside it, what motivates the improper behaviors, and what mechanisms are being used to shield the improper conduct from outside scrutiny or intervention.”

121. **Margaret M. Richardson**, *Reinventing the Internal Revenue Service*, Fed. B. Ass’n. Sec. of Tax’n Rep’t 1, 6 (1994).

This paper argues that the IRS should shift resources from post-filing enforcement to pre-filing assistance, explaining: “We can enhance voluntary compliance by making our tax system one that encourages people to comply. Such a system provides taxpayers with the information and assistance they need to meet their obligations and reserves enforcement resources for use when all else fails. We want to utilize more ‘up-front’ approaches to compliance. Up-front approaches include designing less burdensome procedures and providing guidance that is both timely and understandable. Enforcement programs — including Exam, Collection, and Criminal Investigation — are the most expensive resources at our disposal, and we must only use them when necessary and apply them wisely.”

122. **Margaret McKerchar**, *Why Do Taxpayers Comply? Past Lessons and Future Directions in Developing a Model of Compliance Behaviour*, in *TAX ADMINISTRATION IN THE 21ST CENTURY* 225, 242 (Michael Walpole & Chris Evans eds., 2001).

“This article discusses two widely accepted findings in regards to compliance. The first is that it is difficult to gauge how large the problem is of non-compliance. The second is why do some people comply and others do not.” The author “emphasiz[ed] the importance of identifying the various typologies of noncompliance and urging that additional studies be made relating to actual taxpayer and preparer behavior.”

123. **Marina Bornman**, *The Determinants and Measurement of Trust in Tax Authorities as a Factor Influencing Tax Compliance Behaviour*, 8 *J. OF ECON. & FIN. SCI.* 773, 773 (2015).

“To trust is to believe that another person will cooperate for your benefit and will not take advantage of you if an opportunity to do so arises. Trust is valued as a relational variable providing the base for voluntary cooperation. This article aims to determine, by reviewing studies on the effect of trust in tax authorities on tax compliance, the determinants, effect and measurement of trust in this context. Findings from a number of studies indicated that trust in tax authorities is positively related to tax compliance, and it was found that perceptions of fairness, treatment by authorities, norms and attitudes, and subjective tax knowledge are the main factors determining trust in tax authorities. However, many studies use very limited descriptors when measuring perceptions of trust in authorities, and it is suggested that a standardized survey instrument could be developed to measure such perceptions.”

124. **Marina Bornman & Lilla Stack**, *Rewarding Tax Compliance: Taxpayers' Attitudes and Beliefs*, 8 *J. OF ECON. & FIN. SCI.* 791, 791 (2015).

“In a society the tax climate is determined by the interaction between taxpayers and tax authorities. In a ‘service and client’ climate, taxpayers do not expect authorities to automatically suspect them of being tax evaders. Evidence suggests that recognizing good tax behaviour with strategies of rewards has a positive effect on voluntary tax compliance. Principles derived from the cognitive evaluation theory predict that when feelings of competence are affirmed and this is accompanied by a sense of autonomy it can enhance the intrinsic motivation for an action. The present research surveyed the attitudes and beliefs of taxpayers involved in small business on being rewarded for tax compliance. Results were corroborated with the principles of the cognitive evaluation theory and it was found that that the principles of the theory are applicable to rewarding tax compliance behavior.”

125. **Mark Muraven, Dianne M. Tice & Roy F. Baumeister**, *Self-Control as Limited Resource: Regulatory Depletion Patterns*, 74 *J. PERSONALITY & SOC. PSYCHOL.* 774 (1998), <http://persweb.wabash.edu/facstaff/hortonr/articles%20for%20class/Muraven%20self-regulatoin.pdf>.

“If self-regulation conforms to an energy or strength model, then self-control should be impaired by prior exertion. In Study 1, trying to regulate one’s emotional response to an upsetting movie was followed by a decrease in physical stamina. In Study 2, suppressing forbidden thoughts led to a subsequent tendency to give up quickly on unsolvable anagrams. In Study 3, suppressing thoughts impaired subsequent efforts to control the expression of amusement and enjoyment. In Study 4, autobiographical accounts of successful versus failed emotional control linked prior regulatory demands and fatigue to self-regulatory failure. A strength model of self-regulation fits the data better than activation, priming, skill, or constant capacity models of self-regulation.”

126. **Marsha Blumenthal & Charles Christian**, *Tax Preparers*, in *THE CRISIS IN TAX ADMINISTRATION*, 201, 217 (Henry J. Aaron & Joel Slemrod eds., 2004).

“Before implementing any new tax policy intended to affect voluntary compliance ... [the authors] recommend that tax administrators consider how the new policy might affect both practitioner use and practitioner fees. This is important for two reasons. First, and most obviously, practitioner fees are an important element of taxpayers’ compliance burden. Any policy change that results in higher fees ... also increases compliance costs. Second, policy changes may affect the propensity of taxpayers to use practitioners. The evidence reviewed here suggests that, in some cases, greater practitioner use is associated with reduced compliance.”

127. **Marsha Blumenthal**, Charles Christian & Joel Slemrod, *Do Normative Appeals Affect Tax Compliance? Evidence from a Controlled Experiment in Minnesota*, 54 *NAT’L TAX J.* 125, 125 (2001).

“This paper explores one part of a 1994 Minnesota Department of Revenue field experiment designed to study the effectiveness of alternative enforcement strategies. Two letters containing different normative appeals were sent to two large groups of taxpayers; a control group received no letter. The impact of the letters on voluntary compliance is measured by comparing the change (for tax years 1994–93) in reported income and in taxes paid for treated versus control taxpayers (a difference-in-difference approach). ... [The authors] find little evidence of an overall treatment effect. However, the letters do appear to impact the compliance behavior of some groups of taxpayers.”

128. **Marsha Blumenthal, Charles Christian & Joel Slemrod**, *The Determinants of Income Tax Compliance: Evidence from a Controlled Experiment in Minnesota 1* (Nat’l Bureau of Econ. Research, Working Paper No. 6575, 1998), <http://www.nber.org/papers/w6575>.

“This paper reports on the results of a controlled experiment in Minnesota in which a random sample of taxpayers was informed that their income tax returns would be closely examined. ... [The authors] analyze reported income of this sample of taxpayers, reported income on their previous year’s returns, and reported income from the two corresponding years’ returns of a control group of taxpayers that did not receive the letter. ... [The authors] find that the treatment effect varies depending on the level of income. Low and middle income taxpayers increased reported income and tax liability relative to the control group, which ... [the authors] interpret as indicating the presence of noncompliance. The effect was much stronger for those with more opportunity’ to evade, as measured by their source of income. However, the reported income of the high-income treatment group fell sharply relative to the control group. ... [The authors] suggest a model based on tax audits as a negotiation that can explain this apparently perverse result.”

129. **Martina Hartner et al.**, *Procedural Fairness and Tax Compliance*, 38 *ECON. ANALYSIS & POL’Y* 137 (2008).

“Overall, and despite the limitations of the findings in terms of ‘extrapolatibility,’ the analysis shows a clear direct effect of procedural justice on motivational postures ... when people feel treated in a procedurally fair manner by the tax authority and procedurally fair decision rules are employed, motivational postures of deference increase whereas motivational postures of defiance decrease. This effect is additionally mediated by national identity judgments. Receiving fair treatment and fair decision making processes communicate identity relevant information regarding peoples’ status within the group (*i.e.*, respect) as well as the status of the group (*i.e.*, pride). These identity

judgments, in turn, affect motivational postures of deference positively and those of defiance negatively. The results also indicate that defiance-oriented motivational postures are associated with tax non-compliance. However, the assumed negative influence of deference-oriented motivational postures on tax non-compliance could not be shown. A possible interpretation for this unexpected result might be that unfavorable attitudes towards taxation have a stronger impact on behavior than favorable attitudes.”

130. **Michael Hallsworth *et al.***, *The Behaviorist as Tax Collector: Using Natural Field Experiments to Enhance Tax Compliance* 1 (Nat'l Bureau of Econ. Research, Working Paper No. 20007, 2014), <http://www.nber.org/papers/w20007>.

“Using administrative data from more than 200,000 individuals in the UK ... [the authors] show that including social norms and public goods messages in standard tax payment reminder letters considerably enhances tax compliance. The field experiments increased taxes collected by the Government in the sample period and were cost-free to implement, demonstrating the potential importance of such interventions in increasing tax compliance.”

131. **Michael Hallsworth**, *The Use of Field Experiments to Increase Tax Compliance*, 30 OXFORD REV. OF ECON. POL'Y 658, 658 (2014).

“Governments have become increasingly interested in the ‘explosion’ of research into taxpayer behaviour. This article briefly reviews two main theories of tax compliance (‘deterrence’ and ‘non-deterrence’), before discussing the recent rapid rise of natural field experiments (NFEs) in this area. These NFEs represent a ‘win–win’ for policy-makers and academics, since they can test theories while also evaluating the impact of a specific intervention in the real world. The evidence from NFEs shows that deterrence approaches improve compliance, while the case for non-deterrence approaches is less conclusive at the moment. NFEs could be improved by paying more attention to findings from behavioural science that apparently incidental factors, such as timing, framing, and complexity, substantially affect whether compliance occurs or not. New directions for future studies include: network effects, tax payments (in addition to declarations), the behaviour of firms, the provision of public goods, and the relationship between attitudes and behaviour.”

132. **Michael Howlett**, *Matching Policy Tools & Their Targets: Beyond Nudges and Utility Maximization in Policy Design*, European Consortium for Political Research Joint Session of Workshops (2016).

“Studies of policy tools traditionally have focused on the effective use of governing resources to attain policy ends, without devoting a great deal of attention to the behavioural characteristics of the objects of policy interventions. These “policy targets” are often assumed to act as simple rational utility maximizers susceptible to shifts in apparent gains and losses linked to policy incentives and disincentives. Although this is beginning to change with recent work examining policy ‘nudges’ and the effects of co-production and social marketing efforts which both suggest or are based on alternative logics of target behaviour, analysis of policy targets still all too often retains a crude concept of the subject inspired by utilitarianism and related assumptions about self-maximizing activity on the part of citizens. This thinking has led to many considerations of policy design focusing on the calibrations of policy tools — such as the relative size of penalties or rewards — rather than upon the nature of the tools themselves and whether the appropriate type or mix of tools is being used to match the nature of compliance and co-operation required or demanded by a design situation. This paper reviews the literature on the subjects of compliance and policy tools,

proposing a new research and practice agenda focused on better understanding and matching tool resources to target behaviour.”

133. **Michael Keen & Joel Slemrod**, *Optimal Tax Administration*, 1, 19 (Nat’l Bureau of Econ. Research, Working Paper No. 22408, 2016), <http://www.nber.org/papers/w22408.pdf>.

“This paper sets out a framework for analyzing optimal interventions by a tax administration, one that parallels and can be closely integrated with established frameworks for thinking about optimal tax policy. At its heart is a summary measure of the impact of administrative interventions — the “enforcement elasticity of tax revenue” — that is a sufficient statistic for the behavioral response to such interventions, much as the elasticity of taxable income serves as a sufficient statistic for the response to tax rates. Amongst the applications are characterizations of the optimal balance between policy and administrative measures, and of the optimal compliance gap.”

“An extensive and long-established literature has produced much information on compliance and, especially, administration costs, but has focused much more on their levels than on how they vary with alternative interventions, which is what matters for the efficient design of those interventions and their comparison with policy measures. Most fundamental, however, is the lack of empirical information on enforcement elasticities. While tax administrations often recognize the importance of these elasticities in their budget submissions, they have received almost no direct attention in the academic literature, and the information that can be inferred indirectly is very limited.”

134. **Michael McKee & Christian Vossler**, *Tax Withholding, Taxpayer Segmentation and Tax Reporting Behavior: Effects of Taxpayer Services* (2014).

Theoretical and empirical evidence suggests that taxpayer information services improve tax compliance. Thus, targeting information to those less likely to report truthfully would, *a priori*, be more efficient than an information service that was not so targeted. This report suggests that the following factors are associated with less truthful reporting: being in a tax under-withholding position; having faced an unexpected, positive increase in tax liability; having a higher tax liability; having a greater opportunity for underreporting (as through non-matched income and higher level of itemized deductions); being male; and, being young.

135. **Michael Wenzel**, *The Social Side of Sanctions: Personal and Social Norms as Moderators of Deterrence*, 28(5) *LAW AND HUM. BEHAV.* 547, 547 (Oct. 2004).

“In a survey of Australian citizens (valid $N = 1,406$), personal and social norms were found to moderate effects of deterrence on tax evasion. Personal, internalized norms of tax honesty were negatively related to tax evasion and moderated the effects of deterrence variables (*i.e.*, sanction severity), suggesting deterrence effects only when individual ethics were weak. Perceived social norms, beyond those internalized as personal norms, were not directly related to tax evasion but moderated the effects of sanction severity. Only when social norms were seen as strongly in favor of tax honesty was sanction severity negatively related to tax evasion. This result held only for respondents who did not identify strongly as Australians. Hence, when internalized, norms delimit effects of deterrence; when considered external to one’s self, norms boost deterrence effects, giving social meaning to formal sanctions.”

136. **Nadja Dwenger et al.**, *Extrinsic and Intrinsic Motivations for Tax Compliance: Evidence from a Field Experiment in Germany*, 8 AM. ECON. J. 203, 204-05 (2016), <https://www.aeaweb.org/articles?id=10.1257/pol.20150083>.

“Our setting is the local church tax in a metropolitan region of Bavaria, Germany. Three features of this setting are important for the empirical analysis. First, it combines taxation with charitable giving: the church tax is compulsory and non-compliance represents a violation of tax law, but the church highlights the good cause and encourages overpayments that are defined as donations. Hence, tax evaders and donors can coexist in this system. Second, the true tax base relevant for the church is defined as reported taxable income to the government, which we can perfectly observe for each individual by linking church tax records to administrative income tax records. This allows us to compare actual church taxes paid with true taxes owed for each individual, and thus precisely distinguish between evaders, compliers, and donors. This overcomes a key limitation of most tax evasion studies, namely that the outcome of interest is not observed (Slemrod and Weber, 2012). Third, even though the church has the legal right to cross-check filed taxes against income tax returns (which would detect evasion with certainty), they have not previously exercised this right. In other words, prior to our field experiment there is zero deterrence in this tax system. Together with the previous point, this implies we can observe compliance in a baseline with zero deterrence, providing a direct measure of intrinsically motivated tax compliance ...

Around 20 percent of individuals pay at least the true taxes owed, while the remaining 80 percent of individuals evade taxes and most of them fully evade ... there is sharp bunching at exact compliance in the zero deterrence baseline ... announcing a zero audit probability (the *status quo*) has only a small impact on compliance, suggesting there is little misperception on average.”

137. **Natalie Taylor**, *Understanding Taxpayer Attitudes Through Understanding Taxpayer Identities*, in *TAXING DEMOCRACY: AN UNDERSTANDING OF TAX AVOIDANCE AND EVASION* 71, 89 (Valerie Braithwaite ed., 2003).

This chapter argues “that an understating of social identity processes is fundamental to understanding why particular factors might motivate behavior in some situations not others ... that to treat taxpayers as rational, self-interested, utility-maximizing actors in all situations is to limit our ability to understand the processes involved in taxpaying behavior, and ... that taxpayer social identities vary according to the situational and psychological contexts in which taxpayer find themselves. Resulting differences in attitudes and perceptions of fairness are natural outcomes of this self-categorization process.”

138. **Nat'l Comm'n on Restructuring the IRS**, *A Vision for a New IRS* 23 (June 25, 1997), <http://www.house.gov/natcommirs/report1.pdf>.

“The Commission believes that good customer service and taxpayer education, which assists taxpayers in meeting their tax obligations to the government, leads to increased compliance. Two initiatives in the past decade — Compliance 2000 and the compliance research approach — embody IRS efforts to turn away from high-cost enforcement solutions to noncompliance to lower-cost, non-enforcement solutions. The traditional enforcement approach to compliance was focused on one-by-one enforcement of taxpayers through audit and examination of individual taxpayers. Not only was this approach expensive, but it did not identify patterns of noncompliance. The new approach shifts emphasis to preventing noncompliance by identifying areas in which noncompliance is most likely to occur. By integrating these research efforts with other IRS compliance programs,

and ensuring proper training and technology resources, the result will be an IRS that better serves the needs of the American people.”

139. **Nat’l Sci. & Tech. Council**, Exec. Off. of the President, *Soc. & Behav. Sci. Team, Annual Report 15-16* (2015), https://www.whitehouse.gov/sites/default/files/microsites/ostp/sbst_2015_annual_report_final_9_14_15.pdf.

The Social and Behavioral Sciences Team (SBST) moved an online signature box from the bottom to the top of the form. By doing so, they improved the accuracy of government contractors’ self-reported sales to the General Services Administration (GSA). It concluded “[T]he signature box was effective; the Federal Government collected an additional \$1.59 million in fees within a single quarter as a result of the box. The median self-reported sales amount was \$445 higher for vendors signing at the top of the form compared with those vendors who were not required to make this confirmation. ...

SBST [also] worked with the Department of the Treasury’s Debt Management Service (DMS) to increase collections from individuals with outstanding non-tax debt. ... Individuals sent the new letter [did not pay significantly more than a control group], however, were significantly more likely to make a payment online (2.16 percent of those sent the new letter made a payment online, versus 1.49 percent of those sent the standard letter). This was likely due to the fact the web address was shortened in the new letter and was changed from a long string of meaningless characters to a shorter set of meaningful words (see Figure 11).”

140. **National Taxpayer Advocate 2012 Annual Report to Congress vol. 2**, 1-70 (*Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*), <http://www.taxpayeradvocate.irs.gov/2012-Annual-Report/downloads/Volume-2.pdf>.

This discussion reports survey results suggesting that trust in government, the tax laws, and the IRS are more significantly associated with voluntary compliance by small businesses than most other factors including economic deterrence.

141. **National Taxpayer Advocate 2013 Annual Report to Congress vol. 2**, 1-14 (*Do Accuracy-Related Penalties Improve Future Reporting Compliance by Schedule C Filers?*), <http://www.taxpayeradvocate.irs.gov/2013-Annual-Report/downloads/Volume-2-TAS-Research-And-Related-Studies.pdf>.

This analysis shows that examination assessments were correlated with improved reporting compliance by small businesses (as estimated by an IRS model), but those subject to an accuracy-related penalty had no better subsequent reporting compliance than those who were not and had lower subsequent compliance if the penalty was assessed by default, was abated, or was appealed, potentially suggesting that penalties perceived as unfair reduce voluntary compliance.

142. **National Taxpayer Advocate 2013 Annual Report to Congress vol. 2**, 33-56 (*Small Business Compliance: Further Analysis of Influential Factors*), <http://www.taxpayeradvocate.irs.gov/2013-Annual-Report/downloads/Volume-2-TAS-Research-And-Related-Studies.pdf>.

This analysis of survey data suggests that taxpayer service is the principal component of trust in government, which is associated with voluntary compliance, lending further support to the suggestion in the National Taxpayer Advocate 2012 Report to Congress that improvements in

taxpayer service could increase voluntary compliance by small businesses. It also observed that noncompliance was geographically concentrated, whereas compliance was more dispersed.

143. **National Taxpayer Advocate 2014 Annual Report to Congress vol. 2**, 27-42 (Research Study: *Estimating the Impact of Audits on the Subsequent Reporting Compliance of Small Business Taxpayers: Preliminary Results*), <http://www.taxpayeradvocate.irs.gov/Media/Default/Documents/2014-Annual-Report/Volume-Two.pdf>.

This analysis suggests that IRS audits of small business taxpayers have a modest deterrent effect that diminishes in the years following the audit, disappearing altogether by year five, and that field and office audits are more effective than correspondence audits in promoting subsequent reporting compliance.

144. **National Taxpayer Advocate 2015 Annual Report to Congress vol. 2**, 68, 70 (*Audit Impact Study*), http://www.taxpayeradvocate.irs.gov/Media/Default/Documents/2015ARC/ARC15_Volume2.pdf.

Small business “taxpayers who receive a positive additional recommended tax assessment increase their subsequent reporting of taxable income dramatically (+120%), while those who receive no additional tax assessment actually report less (-35%) three years later.” The report explained that the reduction in reporting compliance could be because (1) the audit is a coercive enforcement activity that may reduce tax morale among honest taxpayers, (2) the audit process might provide currently compliant taxpayers with a “window” on potential opportunities for tax avoidance, and (3) taxpayers may infer that the risk of a future examination is low given that no adjustments were made during the recent audit.

145. **Neil Gunningham**, *Strategizing Compliance and Enforcement: Responsive Regulation and Beyond*, in *EXPLAINING COMPLIANCE: BUSINESS RESPONSES TO REGULATION 199* (Christine Parker & Vibeke Lehmann Nielsen eds., 2011).

“The evidence suggests that neither compliance nor deterrence has proved an effective or efficient enforcement strategy. Responsive regulators have found that they will gain better results by developing more sophisticated strategies, which employ a judicious blend of persuasion and coercion, the actual mix being adjusted to the particular circumstances and motivations of the entity with which they are dealing. In thinking about how best to tailor enforcement strategy to individual circumstances, a valuable heuristic is the enforcement pyramid. This embraces an approach which rewards virtue and punishes vice. Likewise, with this approach the regulator is responsive to the past actions of the regulated entity. Thus although it is not possible for the regulator to be confident, at the outset, of a duty holder’s motivation, or of whether they are an industry leader, a reluctant complier, a recalcitrant or incompetent — that will gradually become apparent through the tit for tat strategy of pyramidal enforcement.”

146. **Nina Mazar, On Amir & Dan Ariely**, *The Dishonesty of Honest People: A Theory of Self-Concept Maintenance*, 45 *J. MARKETING RES.* 633-644 (2008), <http://ssrn.com/abstract=979648>.

According to the abstract, “results show that (1) given the opportunity to engage in beneficial dishonesty, people will engage in such behaviors; (2) the amount of dishonesty is largely insensitive to either the expected external benefits or the costs associated with the deceptive acts; (3) people know about their actions but do not update their self-concepts; (4) causing people to become

more aware of their internal standards for honesty decreases their tendency for deception; and (5) increasing the ‘degrees of freedom’ that people have to interpret their actions increases their tendency for deception. We suggest that dishonesty governed by self-concept maintenance is likely to be prevalent in the economy, and understanding it has important implications for designing effective methods to curb dishonesty.”

147. **OECD**, *Measures of Tax Compliance Outcomes: A Practical Guide* (2014), <http://taxwatch.org.au/wp-content/uploads/2014/10/Measures-of-tax-compliance-outcomes.pdf>.
“This report provides an overview of strategic compliance approaches for measuring tax compliance outcomes and the effectiveness of compliance activities designed to prevent non-compliance.”

148. **OECD**, *Right from the Start: Influencing the Compliance Environment for Small and Medium Enterprises* 7-8 (2012), <http://www.oecd.org/site/ctpfta/49428016.pdf>.

This report suggests that to be effective, tax agencies should adopt the “right from the start” approach to promote tax compliance, explaining: “Working with a ‘Right from the Start’ approach will shift the attention of a revenue body in important ways: (1) From focusing on the past (for example the report on the previous fiscal year) to focusing on the present (the ongoing tax-related processes in the businesses); (2) From focusing mostly on the internal process of the revenue bodies to also considering the external processes of taxpayers and stakeholders; and (3) From mostly focusing on the taxpayer to focusing also on factors in the taxpayer’s environment that influence compliance behaviour.”

149. **Paul Corcoro & Peter Adelsheim**, *A Balance Due Before Remittance: The Effect on Reporting Compliance*, IRS Research Conference 18 (2010), <https://www.irs.gov/pub/irs-soi/10rpresonsmallbus.pdf>.

“Taxpayers’ reporting compliance behavior is different depending on prepayment position, holding all else constant ... For every dollar balance due increases the amount of underreporting by about \$0.38 ... For every dollar refund due decreases the amount of underreporting by about \$0.09”

150. **Peter John, Michael Sanders & Jennifer Wang**, *The Use of Descriptive Norms in Public Administration: A Panacea for Improving Citizen Behaviours?* 17 (2014), <http://ssrn.com/abstract=2514536>.

“In this paper ... [the authors] have mapped the growing use of social norms in public administration and in academic fields that have a ready application to public administration settings. ... [The authors] noted that there is an information asymmetry between citizens and administrators as administrators often have greater access to information relative to citizens. The act of rectifying the asymmetry is low cost and can usually have beneficial effects as citizens can update their beliefs to reflect a reality which is often in the public’s, and therefore the administrator’s interest.”

151. **Premier & Cabinet Behavioural Insights Unit**, *Understanding People, Better Outcomes: Behavioural Insights in NSW*, 11 (2014), <http://bi.dpc.nsw.gov.au/assets/Behavioural-Insights/Library/Understanding-People-Better-Outcomes.pdf>.
- “It is still very early days for the application of BI [Behavioral Insights] in government, particularly in Australia. So it wasn’t clear whether behavioural techniques and frameworks developed in the UK would work in the NSW [New South Wales] context. ... [However, the BI Unit] has successfully replicated established techniques from the UK, for instance, the use of social norms and simplification of tax letters. This has enriched the international evidence base, demonstrating that similar techniques can work in different countries. ... [The] trial results also demonstrate that low-cost, subtle changes to communications and delivery mechanisms can substantially improve policy interventions, and can offer an alternative to more expensive regulatory approaches.”
152. **Press Release, The White House**, *Fact Sheet: President Obama Signs Executive Order; White House Announces New Steps to Improve Federal Programs by Leveraging Research Insights* (Sept. 15, 2015), <https://www.whitehouse.gov/the-press-office/2015/09/15/fact-sheet-president-obama-signs-executive-order-white-house-announces>.
- “Behavioral science insights — research insights about how people make decisions — not only identify aspects of programs that can act as barriers to engagement, but also provide policymakers with insight into how those barriers can be removed through commonsense steps, such as simplifying communications and making choices more clear. That same study on financial aid found that streamlining the process of applying — by providing families with assistance and enabling families to automatically fill parts of the application using information from their tax return — increased the rates of both aid applications and college enrollment.”
153. **Raj Chetty, John N. Friedman & Emmanuel Saez**, *Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings*, 103 AM. ECON. REV. 2683 (2013), <https://eml.berkeley.edu/~saez/chetty-friedman-saezAER13EITC.pdf>.
- “We estimate the impacts of the Earned Income Tax Credit on labor supply using local variation in knowledge about the EITC schedule. We proxy for EITC knowledge in a Zip code with the fraction of individuals who manipulate reported self-employment income to maximize their EITC refund. This measure varies significantly across areas. We exploit changes in EITC eligibility at the birth of a child to estimate labor supply effects. Individuals in high-knowledge areas change wage earnings sharply to obtain larger EITC refunds relative to those in low-knowledge areas. These responses come primarily from intensive-margin earnings increases in the phase-in region.”
154. **Richard D. Schwartz & Sonya Orleans**, *On Legal Sanctions*, 34 U. CHI. L. REV. 274, 299 (1967).
- “The study reported was a field experiment aimed at determining the effectiveness of sanction, as compared with an appeal to conscience and with a placebo control, in increasing normative sentiments about compliance and in heightening actual compliance in the payment of federal income taxes. The findings indicate that motivations of various kinds make a difference in taxpaying. They suggest that the two types of appeal affect normative orientation differently according to the status of those subjected to the appeals. Sanction threat increases normative orientation most markedly among the upper class, the better educated, and non-Catholics. Appeals to conscience change attitudes toward tax compliance most among the best and least well-educated, those employed by others, and Protestants and Jews. As to actual changes in tax compliance, returns

currently available for the gross treatment groups suggest that conscience appeals are more effective than sanction threats, though both have some effect. The conscience appeal appears, moreover, to produce less loss through resistance, an effect implied by the increase in aggregate deductions noted in the sanction-treated group.”

155. **Richard H. Thaler & Cass R. Sunstein**, *NUDGE, IMPROVING DECISIONS ABOUT HEALTH, WEALTH, AND HAPPINESS* 232-233 (2009).

The authors “demonstrate how thoughtful ‘choice architecture’ can be established to nudge us in beneficial directions without restricting freedom of choice.” In particular, they cite “Austan Goolsbee’s 2006 estimate that the IRS could improve compliance while saving taxpayers 225 million hours and \$2 billion in tax preparation costs by providing taxpayers with returns that were already filled out with any income and deductions reported to the IRS by third parties, allowing taxpayers to make any changes necessary and then sign and return the forms on paper or online, as is already being done in other countries.” The authors also suggest that the “government authorize banks to issue debit cards that could only be used for charitable giving, and to provide both the IRS and taxpayers an end-of-year statement, which would simplify record keeping and serve as verification.”

156. **Richard Lavoie**, *Flying Above the Law and Below the Radar: Instilling a Taxpaying Ethos in those Playing by their Own Rules*, 29 *PACE L. REV.* 637, 687 (2009), http://heinonline.org/HOL/Page?handle=hein.journals/pace29&g_sent=1&collection=journals&id=645.

“This Article has demonstrated that a broad array of factors beyond the traditional deterrence approach is necessary to explain the puzzle of tax compliance. The high level of compliance seen in most Western democracies is attributable to the existence of a taxpaying ethos within those societies. ... Based on this understanding of the factors that shape a taxpaying ethos, it is possible to posit steps that governments can take to cultivate a taxpaying ethos or strengthen an existing one. Lastly, the Article argues that using this approach the Service could significantly reduce the level of noncompliance in the United States by focusing on measures aimed at flipping the noncompliance norm in segments of society that have been reticent to embrace the country’s generally strong taxpaying ethos.”

157. **Richard Thaler**, *MISBEHAVING: THE MAKING OF BEHAVIORAL ECONOMICS* 7-10 (2015).

“Econs do not have passions; they are cold-blooded optimizers. Think of Mr. Spock in *Star Trek*. Nevertheless, this model of economic behavior based on a population consisting only of Econs has flourished, raising economics to that pinnacle of influence on which it now rests. Critiques over the years have been brushed aside with a gauntlet of poor excuses and implausible alternative explanations of embarrassing empirical evidence. ...

It is time to stop making excuses. We need an enriched approach to doing economic research, one that acknowledges the existence and relevance of Humans.

... recently behavioral economists and behavioral scientists more generally are becoming a small part of the policy-making establishment. In 2010 the government of the United Kingdom formed a Behavioural Insights Team, and now other countries around the world are joining the movement to create special teams with the mandate to incorporate the findings of other social sciences into the formulation of public policy. Businesses are catching on as well, realizing that a deeper understanding of human behavior is every bit as important to running a successful business as

is an understanding of financial statements and operations management. After all, Humans run companies, and their employees and customers are also Humans.

This book is the story of how this happened, at least as I have seen it. Although I did not do all the research — as you know, I am too lazy for that — I was around at the beginning and have been part of the movement that created this field. Following Amos's dictum, there will be many stories to come, but my main goals are to tell the tale of how it all happened, and to explain some of the things we learned along the way."

158. **Robert A. Kagan, Neil Gunningham & Dorothy Thornton**, *Fear, Duty, and Regulatory Compliance: Lessons from Three Research Projects*, in EXPLAINING COMPLIANCE: BUSINESS RESPONSES TO REGULATION 37, 52 (Christine Parker & Vibeke Lehmann Nielsen eds., 2011).

"[S]ome significant level of legal enforcement — although it is not clear quite how much — is undoubtedly essential in generating and assuring compliance. Enforcement is important first of all in communicating regulatory norms and threatening credible levels of monitoring and legal sanctions for noncompliance; second for its reminder effect ... and third, for its reassurance effect ... The research ... shows that in addition to legal deterrence, compliance gets a large boost from the desire of most business managers to build and preserve their firm's reputation for being a 'good corporate citizen,' as well as their own personal reputation as a good citizen. Moreover, in addition to these legal and social pressures, many, although not all, businesses are motivated by the internalized sense of duty of their managers or influential in house professionals to obey the law and to avoid doing harm."

159. **Robert Kidder & Craig McEwen**, *Taxpaying Behavior in Social Context: A Tentative Typology of Tax Compliance and Noncompliance*, in TAXPAYER COMPLIANCE VOL. 2: SOCIAL SCIENCE PERSPECTIVES 47 (Jeffrey Roth *et al.* eds., 1989).

This discussion identifies a typology of noncompliance and concludes that the IRS is more likely to be viewed as trustworthy and effective if it understands the population it is interacting with, and designs its communications and procedures to meet that population's needs and to address the reasons for any noncompliance.

160. **Sagit Leviner**, *A New Era of Tax Enforcement: From 'Big Stick' to Responsive Regulation*, 42 U. MICH. J.L. REFORM 381, 426-27 (2009).

"Drawing on the principles of responsive regulation and the motivational posturing doctrine, the Australian model conceptualizes behavior not only as a result of the needs, desires, and constraints of an autonomous taxpayer but it also considers that the taxpayer is heavily influenced by environmental conditions, including norms, values, and habits, and by the nature of the taxpayer/tax-authority interaction. By emphasizing the role that this interaction plays in shaping taxpayer behavior, the tax administration is empowered to own up to its administrative responsibilities and explores the different ways in which it can manage this relationship. ... With growing interest around the world in tax administration that focuses on customer service, and embracing a dynamic approach to the study and enforcement of compliance, the Australian compliance model has the potential to generate different — possibly more effective — conclusions regarding tax enforcement than what we have seen thus far from the traditional economic analysis of compliance."

161. **Sagit Leviner**, *The Role Tax Preparers Play in Taxpayer Compliance: An Empirical Investigation with Policy Implications*, 60 BUFF. L. REV. 1079, 1134 (2012), <http://ssrn.com/abstract=1454795>.
“This article empirically explores the strengths and challenges of tax preparer usage and, particularly, the role preparers play in taxpayer compliance and administration.”
162. **Sandro Casal et al.**, *Tax Compliance Depends on Voice of Taxpayers*, 56 J. ECON. PSYCHOL. 141 (2016).
“Reducing the social distance between taxpayers and tax authorities boosts taxpayers’ acceptance of tax load and tax compliance. In the present experiment participants had the opportunity to pay their tax due either as one single compliance decision or as separate compliance decisions for each type of requested contribution (coined voice on contributions). In addition, contributions were either distributed according to a fixed scheme exogenously chosen, or participants had the possibility to change the distribution pattern (coined voice on distribution). Furthermore, information about participants’ contributions was either clearly related to the tax context or related to government public expenditures (coined context). Besides analyzing the effect of voice and context on compliance, order of tax payments was controlled for in the analyses. Results show that having voice on tax contributions and on tax distribution leads to higher compliance. Moreover, compliance was higher in the context avoiding tax framing.”
163. **Saurabh Bhargava & Dayanand Manoli**, *Psychological Frictions and the Incomplete Take-Up of Social Benefits: Evidence from an IRS Field Experiment*, 105 AM. ECON. REV. 3489 (2015), https://www.cmu.edu/dietrich/sds/docs/bhargava/Bhargava_Takeup%20AER%202015.pdf.
“We address the role of ‘psychological frictions’ in the incomplete take-up of EITC benefits with an IRS field experiment. We specifically assess the influence of program confusion, informational complexity, and stigma by evaluating response to experimental mailings distributed to 35,050 tax filers who failed to claim \$26 million despite an initial notice. While the mere receipt of the mailing, simplification, and the heightened salience of benefits led to substantial additional claiming, attempts to reduce perceived costs of stigma, application, and audits did not. The study, and accompanying surveys, suggests that low program awareness/understanding and informational complexity contribute to the puzzle of low take-up.”
164. **Shai Danziger, Jonathan Levav & Liora Avnaim-Pesso**, *Extraneous Factors In Judicial Decisions*, 108 PROC. NAT. ACAD. SCI. 6889 (2011), <http://www.pnas.org/content/108/17/6889.full.pdf>.
“We record the judges’ two daily food breaks, which result in segmenting the deliberations of the day into three distinct ‘decision sessions.’ We find that the percentage of favorable rulings drops gradually from ≈65% to nearly zero within each decision session and returns abruptly to ≈65% after a break.”
165. **Steven Klepper, Mark Mazur & Daniel Nagin**, *Expert Intermediaries and Legal Compliance: The Case of Tax Preparers*, 34 J. L. ECON. 205, 228 (1991).
The authors “probed the factors influencing a taxpayer’s decision to engage expert assistance in tax return preparation and the influence of the expert on the taxpayer’s compliance. The authors’ model predicts that the expert participation will discourage noncompliance on legally unambiguous income sources but encourage noncompliance on ambiguous sources. This dualism, which we call

the enforcer/ambiguity-exploiter effect, stems from the preparer's unique knowledge of reporting strategies for reducing penalties for noncompliance on ambiguous income, coupled with penalties that can be imposed on preparers for preparing returns that are noncompliant in some respect. Further, the model predicts that the magnitude of the enforcer/ambiguity-exploiter influence will be directly related to the quality of an evasion opportunity. The empirical analysis reveals general support for the theory among those taxpayers whose incentives for engaging a preparer reasonably accord with those emphasized in the model."

166. **Stewart Kettle *et al.***, *Behavioral Interventions in Tax Compliance: Evidence from Guatemala*, IRS Research Conference (2015), <https://www.irs.gov/pub/irs-soi/15resconhemandez.pdf>.

In this report, the author found that letters emphasizing compliance norms (*e.g.*, "According to our records, 64.5 percent of Guatemalans declared their income tax for the year 2013 on time. You are part of the minority of Guatemalans who are yet to declare for this tax.") increased the payment rate by 67 percent more than a control group.

167. **Susan C. Morse**, *Using Salience and Influence to Narrow the Tax Gap*, 40 *Loy. U. CHI. L.J.* 483, 483 (2009).

"This Article argues that more salient government communications and greater attention to principles of influence would improve existing and proposed policies to encourage self-employed and small business taxpayers to pay their taxes. Reversing widespread tax evasion among self-employed and small business taxpayers requires changing the existing social norm of noncompliance, which in turn demands a better connection between the government's message and the experience of the taxpayers. Policymakers should recraft their anti-tax-gap messages so that they grab the attention of the target audience. Policymakers should also take advantage of established influence tools to leverage predictable taxpayer heuristics such as conformity to the compliance behavior of similar peers and availability bias."

168. **Susan C. Morse**, *Tax Compliance and Norm Formation Under High-Penalty Regimes*, 44 *CONN. L. REV.* 675, 735-36 (2012).

"For the compliance mechanisms of deterrence, separation, and/or signaling to succeed, a high-penalty regime should feature the supports of persuasive penalties, an effective mechanism for detecting noncompliers who attempt to masquerade as compliers, and a lack of close-substitute choices. The [Foreign Bank Account Report] FBAR offshore account self-reporting regime could include all of these features ... an expressive law strategy might generate a norm that can then support reputational signaling, which can in turn foster deterrence and separation mechanisms if grounded in a robust reputation market. The Foreign Account Tax Compliance Act [FATCA] ... provides an example of a situation appropriate for an expressive law strategy. The U.S. tax administrators enforcing FATCA should articulate a norm with reputational content; one likely subtext is "good banks tell the truth." FATCA administrators should ... persuade non-U.S. financial institutions that compliance can enhance their reputation and because it may help persuade other countries to join the project of developing an enforced, automatic, and global information reporting system."

169. **Swedish Tax Agency**, *Right from the Start: Research and Strategies* 127 (2005), <https://www.skatteverket.se/download/18.612143fd10702ea567b80002569/rapport200501eng.pdf>.
“Audit activity should not be viewed as *a single* tool but audit activity can be used in different ways to achieve different purposes. Influencing norms and attitudes is neither audit activity nor service but one of the most important tasks for a tax administration. Such work can also be integrated with other work by ensuring that brochures, forms, decisions and similar are framed in the light of their norm-influencing function. Writing letters to taxpayers with information about rules or about audit activity is also an activity that can be substantially developed.”
170. **Theodore Black et al.**, *Federal Tax Compliance Research: Tax Year 2006 Tax Gap Estimation* 2-3 (IRS Research, Analysis & Statistics Working Paper, March, 2012), <https://www.irs.gov/pub/irs-soi/06rastg12workppr.pdf>.
“The gross tax gap is defined as the amount of true tax liability faced by taxpayers that is not paid on time. The voluntary compliance rate (VCR, defined as 1 minus the ratio of the gross tax gap to total liabilities) for TY2006 is estimated to be 83.1%. The VCR for TY2006 is not substantially different from the estimated 83.7% VCR for TY2001.
The net tax gap is defined as the portion of the gross tax gap that is never paid, even after enforced and other late payments. The net tax gap for TY2006 is estimated to be \$385 billion. The estimated net compliance rate (NCR) for TY2006 is 85.5%. (The NCR is defined as 1 minus the ratio of the net tax gap to total liabilities.) The 85.5% NCR means that 14.5% of the estimated total tax liability for TY2006 will never be paid.
The \$65 billion difference between the net and gross tax gap estimates for TY2006 represents the amount of the gross tax gap that will eventually be collected through IRS enforcement efforts and other late tax payments ...
As with the TY2001 tax gap, IRS determined that compliance is far higher when reported amounts are subject to information reporting and, even more so, when subject to withholding. For example, as depicted in Chart 1, the net misreporting percentage, or NMP (defined as the net misreported amount expressed as a ratio of the true amount), for amounts subject to substantial information reporting and withholding is 1%; for amounts subject to substantial information reporting but no withholding, it is 8%; and for amounts subject to little or no information reporting, such as business income, it is 56%.”
171. **Thomas Baker et al.**, *Shared Race/Ethnicity, Court Procedural Justice, and Self-Regulating Beliefs: A Study of Female Offenders*, 49 *LAW & SOC’Y REV.* 433, 433 (2015).
“Using survey data from a sample of white, black, and Hispanic incarcerated females ... [the authors find] that female offenders who perceive the courts as more procedurally just report a significantly greater obligation to obey the law.”
172. **Thomas Dohrmann & Gary Pinshaw, McKinsey & Company**, *The Road to Improved Compliance: A McKinsey Benchmarking Study of Tax Administrations 2008-2009* (2009), http://www.mckinsey.com/-/media/mckinsey/dotcom/client_service/public%20sector/pdfs/road_improved_compliance.ashx.
a. The report found based on a surveying tax administration in 13 countries that “most top performers pre-populate all of the fields for individuals’ tax forms and have extensive

pre-certification initiatives for businesses, thereby helping taxpayers improve the accuracy of their submissions by ensuring the forms are correct from the beginning ... conduct extensive research on the nature and prevalence of noncompliance and regularly refine their segmentation [tailoring their approach based on the needs of each distinct taxpayer group] based on these insights...” (at 4).

- b. “[T]op performers mount integrated awareness campaigns targeted at the taxpayer segments that pose the highest risk of noncompliance. For example, they send issue specific letters to targeted taxpayer groups (*e.g.*, reminding restaurant owners to report gratuities as income), or they partner with industry associations and labor groups to provide guidelines on how to be compliant.” (at 18).
- c. “[M]ost top performers focus [prefiling agreements] on large business but at least one tax administration also has pre-filing certification activities for small and medium-sized businesses. ... They publish issue-specific guidelines in historically-confusing areas of the tax code and spell out positions that, if adhered to in the filing process, will not be challenged by the tax administration.” (at 19).
- d. Ireland’s pay as you earn withholding system “not only withholds taxes but also adjusts, at regular pay intervals, the amount of tax withheld from individuals.” (at 24).
- e. “[C]ustomized [debt collection] letters are significantly more effective than standard form letters ...” (at 26).
- f. “[T]ax administrations with extensive pre-population and distinctive practices in [service] channel management have 52 percent lower service costs than other tax administrations” (at 30).

173. **Tom R. Tyler**, *Legitimacy and Criminal Justice: The Benefits of Self-Regulation*, 7 OHIO ST. J. CRIM. L. 307, 307 (2009).

This article reviews studies showing that in the context of law and criminal justice the deterrence model “is costly and minimally effective in securing compliance with the law and motivating the acceptance of decisions made by police officers and judges. ... outline[s] a different, self-regulatory model which focuses on engaging people’s values as a basis for motivating voluntary deference to the law. ... [and] review[s] empirical research suggesting that this strategy is both viable and more desirable than current sanction-based approaches.”

174. **Tom R. Tyler**, *The Psychology of Self-Regulation: Normative Motivations for Compliance*, in EXPLAINING COMPLIANCE: BUSINESS RESPONSES TO REGULATION 78 (Christine Parker & Vibeke Lehmann Nielsen eds., 2011).

“The results outlined in this chapter support two key empirical propositions. First ... values lead to voluntary behavior, including both voluntary decision acceptance and cooperation with legal and managerial authorities. Second, procedural justice shapes values. If authority is exercised fairly, management, and law and legal authorities are viewed as legitimate and entitled to be obeyed.”

175. **Tom R. Tyler**, WHY PEOPLE OBEY THE LAW 178 (2006).

The author concludes, based on analysis of prior research and two surveys in Chicago that “people obey the law [including tax laws] because they believe that it is proper to do so, they react to their experiences by evaluating their justice or injustice, and in evaluating the justice of their experiences

they consider factors unrelated to outcome, such as whether they have had a chance to state their case and been treated with dignity and respect ... This image differs strikingly from that of the self-interest models which dominate current thinking. ... People are more responsive to normative judgments and appeals than is typically recognized by legal authorities. Their responsiveness leads people to evaluate laws and the decisions of legal authorities in normative terms, obeying the law if it is legitimate and moral and accepting decisions if they are fairly arrived at. Police officers and judges who recognize and respond to people's normative concerns can exercise their authority more effectively; their rules and decisions will be accepted and obeyed voluntarily." The author argues that trust in and perceived legitimacy of the laws, the government, and the enforcers, which may be fostered by providing due process, promote compliance in a wide variety of contexts.

176. **Uri Gneezy & Aldo Rustichini**, *A Fine is a Price*, 29 J. LEGAL STUD. 1 (2000).

"The deterrence hypothesis predicts that the introduction of a penalty that leaves everything else unchanged will reduce the occurrence of the behavior subject to the fine. We present the result of a field study in a group of day-care centers that contradicts this prediction. Parents used to arrive late to collect their children, forcing a teacher to stay after closing time. We introduced a monetary fine for late-coming parents. As a result the number of late-coming parents increased significantly. After the fine was removed no reduction occurred. We argue that penalties are usually introduced into an incomplete contract, social or private. They may change the information that agents have and therefore the effect on behavior may be opposite than expected [*sic*]. If this is true, the deterrence hypothesis loses its predictive strength, since the clause 'everything else is left unchanged' might be hard to satisfy."

177. **Uri Gneezy & Aldo Rustichini**, *Pay Enough or Don't Pay at All*, 115 Q. J. ECON. 791 (2000), <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.399.562&rep=rep1&type=pdf>.

"Economists usually assume that monetary incentives improve performance, and psychologists claim that the opposite may happen. We present and discuss a set of experiments designed to test these contrasting claims.

We found that the effect of monetary compensation on performance was not monotonic. In the treatments in which money was offered, a larger amount yielded a higher performance. However, offering money did not always produce an improvement: subjects who were offered monetary incentives performed more poorly than those who were offered no compensation. Several possible interpretations of the results are discussed."

178. **Valerie Braithwaite**, *Dancing with Tax Authorities: Motivational Postures and Non-compliant Actions*, in *TAXING DEMOCRACY: AN UNDERSTANDING OF TAX AVOIDANCE AND EVASION* 15, 34-35 (Valerie Braithwaite ed., 2003).

"This chapter theoretically and empirically differentiates the compliance related actions of taxpayers from their evaluation of the tax system and the tax office, expressed in terms of motivational postures. Motivational postures reflect the social distance that individuals wish to place between themselves and the tax authority. Increasing social distance indicates increasing dislike for the authority and a lowering of the status ascribed to that authority. It does not, necessarily, signal disobedience. In some ways, motivational postures can be thought of as an indicator of the degree to which an individual is giving consent to the authority: Consent to consider that individual as a

participant in the tax system and consent to being regulated by the authority. Giving consent is a different phenomenon from obeying a request from a legally designated authority.”

179. **Valerie Braithwaite et al.**, *Charting the Shoals of the Cash Economy*, in *TAXING DEMOCRACY: AN UNDERSTANDING OF TAX AVOIDANCE AND EVASION* 93, 93 (Valerie Braithwaite ed., 2003).

The authors “examine the issue of movement into and out of the cash economy. ... An increasing economic literature is addressing the factors that drive its development and map its effects on the official economy, and society at large. Less widely researched is the behavior of those moving into and out of the cash economy, what motivates them to take part, and what keeps them at a distance from this kind of activity. ... The literature on individual tax evasion points to a number of possible explanatory variables, among them perceptions of justice, civic virtue ... [S]ome of these ideas are drawn together through the concept of motivational postures.”

180. **W&I Research & Analysis Group 4**, Project No. 4-09-01-S-019, *SPEC Outreach Study: Final Report 5* (Oct. 2010).

The report finds that “outreach did not significantly affect compliance because participants did not understand why the information was important to them or what steps they should take following the event.”

181. **W&I Research & Analysis**, Project No. 4-09-01-S-006, *SPEC’s Senior Math Error Direct Mail Marketing Campaign 5* (Jan. 2010).

The report finds that “mailing a brochure of common math errors during February 2009 to a sample of senior taxpayers who had at least one error in their tax return in TY 2007, did not significantly reduce math errors for most segments of seniors.”

182. **William G. Gale & Jeffrey Rohaly**, *Effects of Tax Simplification Options: A Quantitative Analysis*, in *THE CRISIS IN TAX ADMINISTRATION* 276, 287 (Henry J. Aaron & Joel Slemrod eds., 2004).

This chapter provides “a unified set of quantitative estimates of the impact of simplification proposals on selected aspects of equity, efficiency, and complexity. ... [The] results suggest that simplification proposals that fall well short of fundamental tax reform nevertheless can have a significant impact on the distribution average tax burdens, the level of marginal tax rates, and the use of tax preparers. That is, different ways of simplifying taxes provide widely disparate benefits to different income groups and can have significantly different effects on tax complexity and the incentives work and save.”

183. **World Bank Group**, *World Development Report 2015: Mind, Society, and Behavior* 52 (2015), <http://www.worldbank.org/en/publication/wdr2015>.

“Some behaviors that are important for development, such as paying taxes and using toilets, vary within a population. And sometimes, people misperceive how common or how accepted certain behaviors are within their community. Where this is the case, ‘marketing’ social norms can be an effective and low-cost means of increasing awareness of the number of people engaging in a behavior and correcting misperceptions about the frequency of a behavior. If people understand what others think and do, they may shift their understanding of existing social norms and in turn change their own behavior. For instance, many policies aimed at increasing tax revenues are based

on the assumption that people are wealth maximizers who will evade their taxes unless they face the right incentives, such as financial penalties and the possibility of jail time. Yet expected penalties explain very little of the variation in tax compliance across countries or over time (Cowell 1990). One reason is that taxpaying is a social norm involving conditional cooperation. ... When people feel that the tax system is fair and that others are obeying the law, they are much more likely to comply with their obligations (Rothstein 1998). And since most individuals are reciprocators, their decisions in a collective setting feed on one another, setting a society on a trend toward either higher or lower tax compliance (Kahan 2005).”