

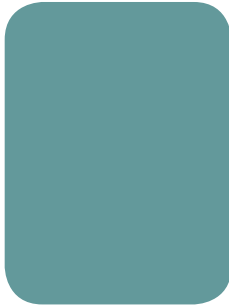
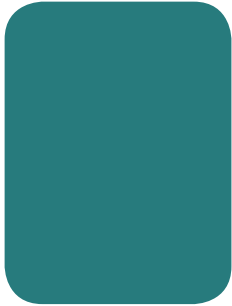


Tax Administration
Research Centre

Tax Administration Research Centre

Second Annual TARC Workshop

Monday 10 and Tuesday 11 March 2014





Schedule

MONDAY 10 MARCH

| | |
|---------------|---|
| 08:45 | Coach leaves Jurys Inn to take delegates to Business School |
| 09:00 – 10:00 | Registration and Welcome Remarks |
| 10:00 – 11:10 | Presentations |
| 11:10 – 11:40 | Break |
| 11:40 – 13:10 | Presentations |
| 13:10 – 14:30 | Lunch |
| 14:30 – 15:40 | Presentations |
| 15:40 – 16:10 | Afternoon tea |
| 16:10 – 17:30 | Presentations |
| 17:30 – 17:45 | Break |
| 17:45 – 18:45 | Keynote address |
| 18:50 | Coach leaves Business School to return delegates to Jurys Inn |
| 19:30 | Coach leaves Jurys Inn to take delegates to dinner at Reed Hall |
| 22:30 | Coach leaves Reed Hall to take delegates to Jurys Inn |

Schedule

TUESDAY 11 MARCH

| | |
|---------------|---|
| 09:00 | Coach leaves Jurys Inn Hotel to take delegates to Business School |
| 09:30 – 10:50 | Presentations |
| 10:50 – 11:20 | Break |
| 11:20 – 12:40 | Presentations |
| 12:40 – 13:50 | Lunch |
| 13:50 – 15:10 | Presentations |
| 15:10 – 15:40 | Afternoon tea |
| 15:40 – 17:00 | Presentations |
| 17:00 | Close |
| 17:15 | Coach leaves Business School to drop off at St David's Station and then on to Jurys Inn |



Welcome

Welcome to the second annual workshop of the Tax Administration Research Centre. We are very pleased that you have chosen to attend and hope that you have a thoroughly enjoyable visit to Exeter.

We are delighted that Joel Slemrod is presenting the keynote lecture. Joel is internationally renowned for his work on tax administration and taxation. In 1984-5 he was senior staff economist at the President's Council of Economic Advisers, and has been a consultant to the U.S. Department of the Treasury, the Canadian Department of Finance, the South African Ministry of Finance, the World Bank, the OECD, and several corporations. He is also a member of the Congressional Budget Office Panel of Economic Advisers. Joel is co-author with Jon Bakija of "Taxing Ourselves: A Citizen's Guide to the Great Debate over Tax Reform" and is editor of "Does Atlas Shrug? The Economic Consequences of Taxing the Rich." I am sure that he will provide an entertaining and informative lecture.

We also wish to welcome Harry Theoharis to the workshop. Harry is the Secretary General for Public Revenue at the Greek Ministry of Finance. Earlier in his career he was a technology manager for Lehmann Brothers, and then chief of the Ministry of Finance data service where, amongst other innovations, he introduced online payment of road taxes. He was appointed to the Greek government with the task of reducing tax evasion. His practical experience in this position will form the basis of his presentation on "Greek Tax Administration: Viewing Tangible Progress".

In addition to the academic activities we are also pleased to invite you to join us at the conference reception and dinner. This will be held in the ballroom of Reed Hall, which is the old country house to which the University grounds used to belong.

The Centre is a partnership between the University of Exeter and the Institute for Fiscal Studies. It brings together tax administration researchers from across the UK, and has worldwide connections through our International Fellows. Our funding is provided by the ESRC, HMRC, and HMT but we are independent of our funders and all research will be undertaken and reported impartially.

Gareth Myles
Director, Tax Administration Research Centre



Important Contacts

Kay Bishop (Event organiser)

01392 722110 or 07769 935806

Irene Rodger (Event organiser)

01392 726286

Workshop Venue

Business School Main Reception

01392 725269

Room: Bateman Lecture Theatre

Address: Building One, Streatham Court,

Rennes Drive, Exeter, EX4 4PU

Transportation

Carmel Coaches: 01392 214466

Gemini Taxis: 01392 666666

Accommodation

Jurys Inn: 01392 312400

Address: Western Way, Exeter EX1 2DB

Workshop Dinner Venue

Reed Hall: 01392 725219

Address: Streatham Drive, Exeter, EX4 4QR

Exeter City Restaurant Guide

Cathedral Yard

Ask Restaurant – Pizza and pasta

Cathedral Yard, Exeter

Tel: 01392 427127

Michael Caines Abode Exeter

Cathedral Yard, Exeter

Tel: 01392 319955

Southernhay

Rendezvous Wine Bar – Local

produce, fresh seafood

38 Southernhay East, Exeter

Tel: 01392 270222

Princesshay

Giraffe – Various foods

Princesshay, Exeter Tel: 01392 494222

Café Rouge – French dining restaurant

Bedford Street, Exeter

Tel: 01392 251042

Wagamama – Japanese restaurant

and noodle bar

Bedford St, Exeter Tel: 01392 274810

North Street

The Conservatory – Good selection of meat courses

18 North Street, Exeter

Tel: 01392 273858

Tiger Bills – Bar, wok and grill

Thai Cuisine vs Western Grill

7 North Street, Exeter

Tel: 01392 215499

Attractions

Visit – St Peter's Cathedral

Explore – Underground Passages

Relax – Rougemont Gardens

For more information, visit:

www.exeter.gov.uk

Building One Ground Floor



Conference Venue Information

Building One Facilities

- Lift access
- Projector screen
- Wheelchair access
- Hearing loop
- Wi-Fi access

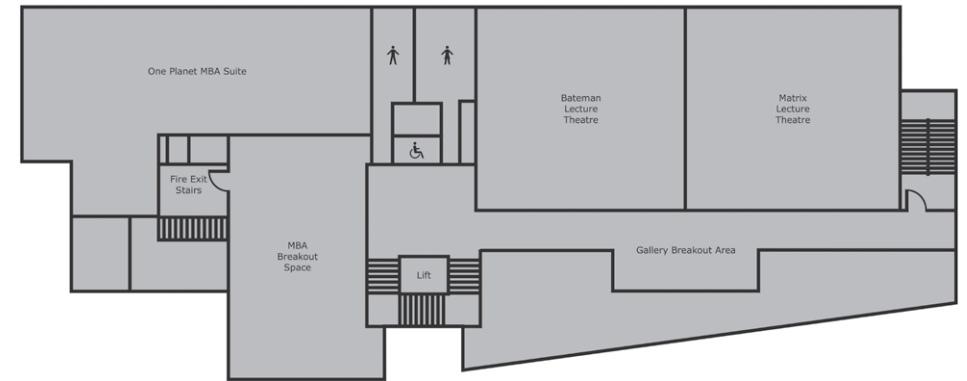
Coffee Breaks and Meals

Coffee breaks and lunch will be served on the balcony, outside the Bateman Lecture Theatre. The La Touché Café is located on the ground floor of Building One, which offers a wide variety of cooked to order dishes, sandwiches, baguettes, granolas, fruit salads, soft drinks and hot beverages.

Parking

Parking is limited on campus and most spaces are available on a first-come first-served basis. A coach transfer will be available from the Jurys Inn to take delegates to the Business School, conference dinner and St David's Station. If you require a parking permit please contact the event organisers.

Building One First Floor



Workshop Presenters

For those who have not submitted a final version of your paper, you will need to upload your presentation to the Bateman Lecture Theatre computer desktop, in advance of your presentation.

Wi-Fi Access

Free Wi-Fi will be available on both days of the workshop throughout the Business School. A username and password will be provided at the registration desk.

Registration

The registration desk will be located at the entrance of Building One, where you will be provided with your workshop packs, Wi-Fi code and name badge.

Programme

MONDAY 10 MARCH

ALL PRESENTATIONS WILL BE IN BATEMAN LECTURE THEATRE.

08:45 Coach leaves Jurys Inn to take delegates to Business School

- 09:00 – 10:00 Registration – Business School Main Reception
- 10:00 – 10:40 **Norman Gemmell** / John Creedy, Victoria University of Wellington
Measuring Revenue-Maximising Elasticities of Taxable Income: Evidence for the US Income Tax
- 10:40 – 11:10 **Matthew Rablen**, Brunel University / Amedeo Piolatto University of Barcelona
Prospect Theory and Tax Evasion: A Reconsideration of the Yitzaki Puzzle
- 11:10 – 11:40 COFFEE – Breakout area outside Bateman Lecture Theatre
- 11:40 – 12:10 **Océane Briand**, University of Mannheim
Unreported Labor, Inequalities, and Taxation
- 12:10 – 12:40 **Dejing Kong**, University of Birmingham / David Dickenson, University of Barcelona
The Impact of Taxation on the Riskiness of Portfolio Choice
- 12:40 – 13:10 **Brian Keegan** / Elaine Doyle / Eoin Reeves, University of Limerick
The Alienated Taxpayer – Who Really Makes the Tax Compliance Decisions in a Modern Economy?
- 13:10 – 14:30 LUNCH – Breakout area outside Bateman Lecture Theatre
- 14:30 – 15:00 **Christoph Esslinger** / Cornelius Müller, University of Mannheim
State Capacity and Public Debt: A Political Economy Analysis
- 15:00 – 15:40 **Matthew Gould** / Matthew Rablen, Brunel University
Incentivised Offshore Voluntary Disclosure Schemes: An Analysis
- 15:40 – 16:10 TEA – Breakout area outside Bateman Lecture Theatre
- 16:10 – 16:50 **Hans Gribnau** / Koos Boer, Leiden University
Judging Tax Nudging – A Research Into the Use of Nudges in the Area of Tax Administration
- 16:50 – 17:30 **Simon Yannick Fouda Ekobena**, University of Yaounde II
Tax Administration Reform and Economic Growth: Evidence from the Countries of the EMCCA
- 17:30 – 17:45 BREAK – Breakout area outside Bateman Lecture Theatre
- 17:45 – 18:45 **Joel Slemrod**, Keynote Address, University of Michigan
Tax Administration and Tax Systems
- 18:50** Coach leaves Business School to return to Jurys Inn

19:15 – 19:45 Drinks reception – Delegates can choose to head straight to drinks reception or return to the hotel – Reed Hall

19:30 Coach leaves Jurys Inn to take delegates to Dinner at Reed Hall

19:45 Workshop Gala Dinner – Reed Hall

TUESDAY 11 MARCH

ALL PRESENTATIONS WILL BE IN BATEMAN LECTURE THEATRE.

09:00 Coach leaves Jurys Inn to take delegates to Business School

- 09:30 – 10:10 **Harry Theoharis**, Greek Ministry of Finance
Greek Tax Administration: Viewing Tangible Progress
- 10:10 – 10:50 **Miguel Almunia**, University of Warwick / David Lopez-Rodriguez, Banco de España
Firms' Responses to Tax Enforcement Strategies: Evidence from Spain
- 10:50 – 11:20 COFFEE – Breakout area outside Bateman Lecture Theatre
- 11:20 – 12:00 **Unal Zenginobuz**, Bogazici University / Fatos Goksen, Koç University
The Citizens' Perception on Taxation, Representation and Democracy in Turkey: Evidence From a Nationwide Survey
- 12:00 – 12:40 **Jonathan Farrar**, Ryerson University / Amedeo Piolatto, University of Barcelona
The Joint Effect of Interpersonal and Informational Tax Fairness on Compliance
- 12:40 – 13:50 LUNCH – Breakout area outside Bateman Lecture Theatre
- 13:50 – 14:30 **Matthias Petutschnig** / Eva Eberhartinger, WU Vienna
CCCTB – The Employment Factor Game
- 14:30 – 15:10 **Limor Riza**, Carmel Academic Centre
The Intrinsic Flaw in Taxation Impeding Tax Compliance
- 15:10 – 15:40 TEA – Breakout area outside Bateman Lecture Theatre
- 15:40 – 16:20 **Cécile Bazart**, Montpellier University / Cornelius Müller, University of Mannheim
On the efficiency of Whistleblowing-Based Audit Schemes: An Experimental Approach
- 16:20 – 17:00 **Michael Ben-Gad**, City University London
The Optimal Taxation of Asset Income When Government Consumption is Endogenous: Theory Estimation and Welfare
- 17:00 Close
- 17:15** Coach leaves Business School to drop off at St David's Station and then on to Jurys Inn

Measuring Revenue-Maximising Elasticities Of Taxable Income: Evidence For The US Income Tax

Discussions of tax revenues and rates are often framed in terms of the well-known Laffer curve relating total tax revenue to the tax rate, within a tax system which is implicitly thought of as having a single marginal rate. In this case, revenue changes in proportion to taxable income and an economy is on the 'wrong' side of the Laffer curve if the (Feldstein) elasticity of taxable income with respect to the net-of-tax rate, $1-\tau$, (ETI) is greater than $(1-\tau)/\tau$. It is in this context that Saez et al. (2012, p.42) conclude, for the top marginal tax rate, that 'the most reliable longer-run estimates range from 0.12 to 0.4, suggesting that the U.S. marginal top rate is far from the top of the Laffer curve'.

In practice, income tax structures typically have numerous marginal rates, with income ranges where effective marginal rates (EMTRs) are increasing, and where EMTRs are falling – e.g. where means-tested benefit payments or tax credits are subject to taper rates. Hence, there is no single ETI that applies to all individuals at all income levels. This raises the question of whether, or under what circumstances, ETI estimates for taxpayers across the full range of incomes and marginal rates can be expected to exceed values which generate revenue-reducing responses to marginal tax rate changes.

The present paper addressed this question. First, it establishes, in the context of a multi-rate income tax, expressions for the elasticity of taxable income, at any income level, above which an increase in the relevant marginal tax rate produces a decrease in tax revenue.

This elasticity, consistent with the maximum point on the Laffer curve, is labelled the 'revenue-maximizing elasticity of taxable income', ETI^L .

The paper shows that identifying the revenue-increasing side of the Laffer curve in this context is more complex than simply establishing where the ETI equals $(1-\tau)/\tau$. However, the key components of ETI^L can readily be calculated from details of the effective marginal tax rates and income thresholds describing the complete structure. This establishes that the ETI^L can take a wide range of values across individuals. With information on the complete distribution of taxable income, ETI^L values at aggregate levels or for sub-sets of taxpayers can also be obtained.

Secondly, the paper uses these expressions to illustrate ETI^L values for individual US taxpayers based on the Federal and state income tax systems which, via an array of deduction abatement rates, feature a multitude of effective marginal tax rates across a wide range of taxable incomes. We argue that, even if the Saez et al. (2012) conclusion above is correct *on average* for taxpayers in the top tax bracket, low ETI^L values appear relevant for many top rate taxpayers. More generally, low ETI^L estimates are consistent with revenue-reducing responses by many taxpayers across wide income ranges, and for groups of taxpayers in aggregate. Following Gietz (2009), the paper also considers values of *US revenue-maximizing tax rates* (for each tax bracket), for given values of the elasticity of taxable income.

Prospect Theory And Tax Evasion: A Reconsideration Of The Yitzhaki Puzzle

One of the central issues in the theoretical understanding of tax evasion is that the standard expected utility model of tax evasion predicts a negative relationship between tax rates and evasion. Much empirical and experimental evidence, however, finds the opposite; a positive relationship between evasion and the tax rate. This discrepancy has sometimes been termed the "Yitzhaki paradox" or "Yitzhaki puzzle".

The explanation of the paradox lies in the standard economic assumption that people become more willing to bear risks to wealth as they become richer, and less willing to bear risks to wealth as they get poorer. An increase in the tax rate makes people poorer after tax, which makes them less inclined to bear risk, and hence to comply more.

Our study re-examines the role of prospect theory – a new tool originating in behavioural economics – in reversing the Yitzhaki puzzle. In particular, prospect theory assumes that people frame decisions in terms of gains and losses from a reference level, and that people display different attitudes to risks when considering gains than when considering losses. In recent years, a number of studies have claimed that applying the insights of prospect theory to the tax evasion problem solves the Yitzhaki puzzle. For instance, Dhimi and al-Nowaihi claim in a 2007 article to "...show that prospect theory provides a much more satisfactory account

of tax evasion including an explanation of the Yitzhaki puzzle." In their recent review of this literature, however, Hashimzade, Myles and Tran-Nam conclude that, "Prospect theory does not necessarily reverse the direction of the tax effect: our examples show that certain choices of the reference level can affect the direction of the tax effect in some situations, but none of the examples is compelling." We seek to understand this dichotomy.

We analyse the tax evasion decision with variants of a general "Reference-Dependent" model which includes prospect theory as a special case. Our results in some cases extend, and in others contrast, with the existing literature. We find that the results under prospect theory hinge on the specification of what taxpayers use as the reference level of wealth against which gains and losses are judged. We find that prospect theory fails to reverse the Yitzhaki puzzle for various classes of the reference level. These classes include, as special cases, the most common specifications that have been used in the literature. As such, although we believe that prospect theory can improve our understanding of the tax evasion decision, the existing applications we review fail to do this decisively. We believe that more research is needed into how taxpayers frame the tax decision so as to propose better specifications of the reference level.



OCÉANE BRIAND, UNIVERSITY OF MANNHEIM

Unreported Labor, Inequalities, And Taxation

This model uses heterogeneity in productivity across and within firms to generate two types of informality - full and within-firm informality - in an economy where monitoring of compliance is imperfect. Within-firm informality - unreported labor by formal firms - arises because formal entrepreneurs increase the profitability of low-productivity segments of production by employing informal workers. Indeed, on a small scale of production, non-compliance costs are lower than formal labor costs. Agents self-select into entrepreneurship and employment - formal or informal - based on their entrepreneurial skills. I identify the welfare impact of informality on each type of individuals and evaluate inequalities among and

between occupational groups. I show that full and within-firm informality do not necessarily evolve similarly in reaction to changes in tax rates or labor regulations. It is then necessary to analyze them separately to understand the extent of informality in an economy. An important result of the paper is that both the degree of firms diversification in the relevant industry and the fiscal capacity of the government - its ability to increase the share of taxes in firms total revenues (formal and informal) - determines whether a given tax reform increases or decreases the welfare of informal workers.



DEJING KONG, UNIVERSITY OF BIRMINGHAM
DAVID DICKINSON, UNIVERSITY OF BARCELONA

The Impact Of Taxation On The Riskiness Of Portfolio Choice

This paper examines the impact of taxation on the riskiness of individual portfolio choice. We use the British Household Panel Survey for 1995, 2000 and 2005 to consider how changes in tax policies in 1999/2000 and 2000/2001 affected the holding of risky assets in portfolios. We use difference-in-differences estimators to identify the impact of tax changes. Our results

suggest that increases in income tax allowance has a positive impact on individual's risky asset holding while a higher capital gains tax allowance has a negative effect. We find no effect of marginal tax rates on individual risk-taking as measured by the proportion of risky assets held. We undertake a number of robustness checks and confirm the results.

BRIAN KEEGAN, UNIVERSITY OF LIMERICK
ELAINE DOYLE, UNIVERSITY OF LIMERICK
EOIN REEVES, UNIVERSITY OF LIMERICK

The Alienated Taxpayer – Who Really Makes The Tax Compliance Decisions In A Modern Economy?

Standard behavioural economics theories are lacking when it comes to explaining the compliance behaviour of taxpayers (Alm and McClellan, 2012). The new empirical research findings in this paper illuminate the gaps between the behaviours predicted by Expected Utility theory (as described by Allingham and Sandmo (1972), the Prospect Theory approach of Kahnemann and Tversky (1979) and measured levels of compliance.

Some of the literature suggests that the discrepancy between actual and predicted tax compliance behaviours might be explained through a variety of behavioural and societal factors. When grouped together, these behaviours are known as Tax Morale (Kornhauser, 2007). Related fields of research stress the importance of trust in the Revenue Authority, and respect for the powers wielded by them (Kirchler et al., 2008), (Rawlings, 2004).

This paper analyses the reporting and collection modes of taxation in Ireland and the UK, and shows that in these tax regimes, some 80% of all taxes are collected by commercial or other organisations using fiduciary models of compliance – payroll taxes, value-added tax, excise duties and the like. It follows that the bulk of income tax and other compliance decisions are taken by individuals who do not have a direct stake in the payment of the tax. This may be a critical distinction (Slemrod, 2007). There is a gap in the understanding of corporate compliance (Ariel, 2012).

We address this gap in the literature by conducting a large-scale survey to elicit the

influences on tax compliance behaviours within organisations and thus to contribute to the knowledge within this area through empirical research. Qualified accountants involved in tax work in two different tax jurisdictions, those of Ireland and the UK, were invited to participate in the survey during the summer of 2013. Some 400 responses were received, distributed equally across the two jurisdictions. The survey questions were devised to test for the relative importance of key variables associated with Expected Utility Theory, Prospect Theory and also Agency Theory paradigms (Jensen and Meckling, 1976).

Our results show that contrary to the assumptions of existing theories, the policing activity of the Revenue Authority is not the most important driver of compliance behaviour within organisations. Monetary penalties are not the most feared sanction; rather it is the loss of reputation. Fiduciary taxes are of more concern than the mainstream business income taxes.

Striking similarities in approach are evident among accountants operating in the two jurisdictions in which the survey was conducted. The results also illustrate that structures embedded within an organisation have a significant role to play in the promotion of tax compliance. The attitude of decision makers towards the Revenue Authority may be less important than previously has been suggested.

The paper concludes by identifying certain areas highlighted by the survey results where further research could shed more light on compliance behaviours by business taxpayers.



CHRISTOPH ESSLINGER, UNIVERSITY OF MANNHEIM
CORNELIUS MÜLLER, UNIVERSITY OF MANNHEIM

State Capacity And Public Debt: A Political Economy Analysis

High public debt combined with low capacities of the state to raise taxes and to support markets can put even developed countries into turmoil. However, the existing political economy literature of state capacity, pioneered by Besley and Persson (2009), does not investigate the interaction of these capacities with public debt. This paper studies the incentives behind raising debt and building state capacity in an integrated analytical framework. We examine the impact of political stability, cohesiveness of institutions, and income fluctuations on the political outcome, while allowing for sovereign default.

We investigate when public debt and state capacity investments move in the same or opposite directions in response to exogenous parameter changes. This allows us to show when a state will simultaneously accumulate high public debt and invest only little in its capacities to raise taxes and to support markets, leading to a positive probability of sovereign default.

MATTHEW GOULD, BRUNEL UNIVERSITY
MATTHEW D. RABLEN, BRUNEL UNIVERSITY

Incentivised Offshore Voluntary Disclosure Schemes: An Analysis

In recent years, tax authorities around the world have begun to enforce tax rules on offshore funds with forms of enforcement that combine aggressive information acquisition (through non-audit means) with amnesty-type incentives for voluntary disclosure. This form of enforcement may be broadly characterized by a two-stage process. In the first stage, the tax authority acquires (non-audit) information on the offshore assets of a set of taxpayers. In the second stage, the tax authority communicates the acquisition of information with a set of taxpayers (which will include, but may be larger than, the set of taxpayers on which it has information), and offers a one-off and time-limited opportunity to make a voluntary disclosure through a facility that offers overt incentives for honesty (in the form of lower fine or interest rates). We term schemes of this form Incentivized Offshore Voluntary Disclosure Schemes (IOVDS). IOVDS mix together what have so far been three largely distinct strands of literature: those on tax amnesties, optimal auditing, and whistleblower incentive schemes.

To date, tax authorities have found various means of acquiring information on offshore holdings. First, in some instances, tax authorities have aggressively exploited legal powers that impel financial organizations to reveal tax-related information. Second, tax authorities have co-operated with whistleblowers. Third, tax authorities have sometimes exploited changes to legislation. Last, tax authorities have taken steps to improve international co-operation through the signing of tax information exchange agreements.

IOVDS have proved highly effective net revenue raisers. For instance, one scheme in the United States raised some \$3.4 billion, and another in the UK raised nearly £500 million and cost £6 million to administer – implying a return of £67 for every £1 spent. This compares favorably with reported yield/cost ratios in the UK of around eight-to-one for traditional audit-based enforcement programs.

To our knowledge, however, little systematic is yet understood concerning the optimal design of IOVDS. In this paper we develop, and analyze with simulation, a two-stage principal agent model of an IOVDS. We examine both the initial decision by the taxpayer to evade, as well as the taxpayer's subsequent disclosure under the IOVDS. In the first period, taxpayers – who are heterogeneous in respect of risk preferences and initial wealth – make a reporting decision. At the start of the second period, the tax authority acquires information, and pre-commits to the design of an IOVDS. In the second stage, the taxpayers make a disclosure (which may be zero) under the IOVDS. Final payoffs are determined when the tax authority responds to each disclosure (accept, prosecute, etc.) according to its pre-committed rule. Within this setting it is possible to examine a rich range of design questions, including when an IOVDS is a cost effective enforcement strategy; how generous amnesty incentives should be; which taxpayers should be sent a letter; whether the tax authority should promote strategic ambiguity over how it will respond to disclosures; and the balance between civil and criminal sanctions.

KOOS BOER, LEIDEN UNIVERSITY
HANS GRIBNAU, LEIDEN UNIVERSITY

Judging Tax Nudging – A Research Into The Use Of Nudges In The Area Of Tax Administration

How can the Netherlands Tax and Customs Administration (NTCA) stimulate that taxpayers fulfill their tax obligations timely and correctly? The NTCA's traditional command-and-control paradigm, which translates in a deterrence approach with regard to law enforcement, is outdated. This system is imperfect and limited in its effectiveness (e.g. Frey, 2003). Above, this deterrence approach is costly and of doubtful effect (Happé, 2007).

An important element is a 'service-based' approach, enhancing a cooperative atmosphere of mutual trust and voluntary cooperation (Kirchler, 2007; Gangl et al., 2013). Responsive regulation demands an understanding of the taxpayer's perspective (OECD, 2012): "Applying these insights and terms to the context of compliance risk management, revenue bodies can look for ways to make changes to the choice architecture in the compliance environment that will serve as nudges increasing the likelihood of compliance." Attention is increasingly being devoted to other more psychologically grounded measures to promote tax compliance, i.e. nudging (Thaler & Sunstein, 2008). Behavioral insights promise (further) applications in the area of taxation as well (see the UK's Behavioural Insight Team reports (BIT, 2012)).

This sounds very promising but an important question is: 'What are the legal boundaries on the use of tax nudges?' This paper deals with the legal boundaries on nudging in environment of tax administration. It aims to provide a descriptive analysis of the concept of nudging, its application in the specific legal context of taxation and to determine the relevant legal boundaries.

Current literature does not offer a systematic answer to questions like: Which examples of guiding taxpayers' behavior can be regarded as a 'nudge'? Which nudges give rise to legal objections? Various forms of choice architecture in tax implementation can be identified: from the traditional 'blue envelope' (to make messages from the NTCA more obvious), horizontal monitoring and the Prefilled Tax Return (PTR), to the recent idea of a smartphone app to file a PTR. What is the distinction from a legal perspective between different types of nudges and which can legally be qualified as an impermissible restriction of freedom (Boer, 2013)?

Our paper is aimed at providing a definition, classification and a legal qualification of tax nudges. Furthermore, the permissibility of existing and proposed tax nudges is investigated ('judging tax nudging'). A review based on the assessment model, construed from legal principles, should answer questions like: How to deal with misinformation in a PTR (e.g. the prefilled income is too low)? And what about a 'nudge' to intentionally withhold too much wage taxes, without employees knowing, so they receive a refund when filing a tax return? Our conclusions provide a legal foundation for the objective of the use of nudges to enhance smart governance in the area of taxation.

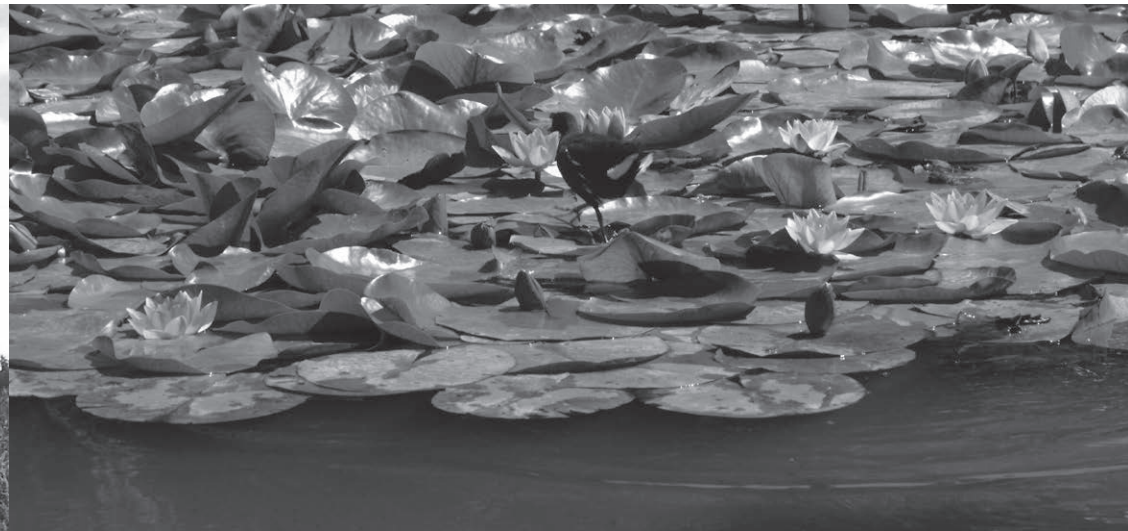


SIMON YANNICK FOU DA EKO BENA, UNIVERSITY OF YAO UNDE

Tax Administration Reform And Economic Growth: Evidence From The Countries Of The Emcca

At the beginning of the 1990s, major tax administration reforms have been implemented in many developing countries. Thus this paper investigates the impact of tax administration reform on economic growth. In order to take account of individual and temporal specificities phenomena of growth, we use the generalized method of moments in dynamic panel to estimate the growth equation of the EMCCA¹ countries under the 1986-2012's period. The resulting estimates indicate that

tax administration reforms have contributed to an increase in government revenues and economic growth. We also note that there are still some weaknesses in these countries' tax administrations. These results emphasize the need of significant changes to improve the governance and to provide the tax administrations with greater flexibility in managing their resources.



JOEL SLEMROD, KEYNOTE ADDRESS,
UNIVERSITY OF MICHIGAN

Tax Administration And Tax Systems

Policy makers are well advised to recognize the interrelationship among tax rates and tax bases on the one hand and tax enforcement and administration on the other. The burgeoning field of tax-systems analysis addresses these interactions and applies modern theoretical and empirical methodologies to understanding

these links and their implications for tax policy. In this address I will discuss these links, what has been learned in recent years, and map out a research agenda for further progress in understanding the role of tax administration in a tax system.



HARRY THEOHARIS, GENERAL SECRETARY - GENERAL
SECRETARIAT OF PUBLIC REVENUE

Greek Tax Administration: Viewing Tangible Progress

Harry Theoharis has worked during his career as a high level executive of both large organisations and start-ups. He holds a MEng in Software Engineering (Hon – 1993) from Imperial College of Science Technology and Medicine, London. He is experienced in designing analysis and implementation of large software systems. He has been a vice-president of Lehman Brothers, London, heading the European Equity Volatility Technology group. As CIO of Aspis Pronia Insurance, he worked in sourcing and contract management, process optimisation, and selective introduction of outsourcing.

With project - and systems - management experience, budgeting and controlling as well as cost cutting initiatives, he has been a special Advisor to the then Secretary General of Information Systems, Prof. Diomidis Spinellis since November 2009 until recently. In his tenure he oversaw the implementation of significant projects, including the establishment of the Single Payment Authority and the Civil Servant Census. For a brief stint before his selection as the SGIS, he worked as a Special Advisor to the Secretary General of the Ministry of Finance working on the MOU-MEFP progress monitoring.



MIGUEL ALMUNIA, UNIVERSITY OF WARWICK

Firms' Responses To Tax Enforcement Strategies: Evidence From Spain

We study the effects of tax enforcement policies on firm behavior in Spain. Firms with more than 6 million in reported revenue are monitored by the Large Taxpayers' Unit (LTU), which results in more frequent tax audits and more information requirements for those firms. We exploit this discontinuity in tax enforcement intensity to estimate the impact of different enforcement regimes on firms' reporting behavior, using financial statements from almost the universe of Spanish firms for the period 1999-2007. An excess mass of firms locates,

or "bunches", just below the revenue threshold. Using bunching estimation techniques, we calculate that the marginal firm reduces its reported revenue by up to 7.5% to avoid falling in the high enforcement regime. A dynamic analysis shows that firms' revenue growth rates decline substantially as firms approach the LTU threshold from below. We provide suggestive evidence that firms locating below the threshold also misreport their material and labor input costs to evade taxes.

UNAL ZENGINOBUZ, BOGAZICI UNIVERSITY
FATOS GOKSEN, KOÇ UNIVERSITY

The Citizens' Perception On Taxation, Representation And Democracy In Turkey: Evidence From A Nationwide Survey

The more a state earns its income through tax collection, the more it needs to enter into reciprocal arrangements with its citizens about provision of services and representation in exchange for tax contributions. The focus on taxation as a vehicle for democracy has only recently been brought into the debate about democracies in developing countries. Using a quantitative data set on Turkey (from a survey administered to a nationwide sample of 2,400), this paper explores the relationship between the perception of Turkish citizens on major themes that form the cultural context with regard to taxation: democracy, justice, equality, poverty and social exclusion, citizens' rights and duties, and accountability of government to citizens.

An overwhelming percent of participants thought that paying taxes gave them the right for representation in the governing of the country. However, perceptions on issues such as democratic representation, transparency of government, and accountability of government are on the overall rather negative. Average satisfaction from the way democracy functions in Turkey stood at a rating of 4.3 out of 10.

39 of participants found very high consumption taxes as the main problem with the Turkish tax system, and then listed low taxes paid by high income earners (23%) and the existence of a large unregistered economy (16%) as important problems.

As to why tax collection is not at an adequate level, 24% marked the inequity of the tax system, followed by unregistered economy (22%) and failure of the government to convert taxes collected into satisfactory public services (16%).

As for what constitutes an equitable (fair, just) tax system, 68% of the subjects marked "according to ability to pay". Subjects' evaluation of the fairness of Turkish tax system stood at the low level of 3.15 (out of 10). Presented with a choice between a flat rate income tax and progressive income tax, 85% of subjects preferred progressive income tax.

An overwhelming majority of citizens (81%) believed that citizens ought to pay their taxes fully. On the other hand, 75% of subjects believed that those who pay their taxes fully in Turkey would have chosen to evade it had they had a chance to evade, pointing at a low level of trust in tax compliance of others.

On tax compliance, about 30% of subjects had a very high tendency to comply voluntarily with the tax system. This is a rather high figure, given that most of the subjects find the Turkish tax system inequitable, non-transparent, inefficient, and the Turkish public system unaccountable to citizens. It also points at the considerable amount of public support a tax reform would receive if it involves an equitable system that will be implemented in a transparent and efficient manner with accountability.



JONATHAN FARRAR, RYERSON UNIVERSITY
AMEDEO PIOLATTO, UNIVERSITY OF BARCELONA

The Joint Effect Of Interpersonal And Informational Tax Fairness On Compliance

The importance of the tax compliance literature stems from the substantial economic prize associated with increasing taxpayers' compliance. Prior tax compliance research has established that taxpayers' perceptions of fairness generally increase compliance (e.g., Worsham 1996, Slemrod 2007); however, most of the existing research has concentrated on distributive fairness, with little emphasis on other types of fairness (Kirchler 2007). While prior research has considered interpersonal and informational fairness separately (Wenzel 2006), normally they would occur in tandem.

Therefore, we consider the joint impact of interpersonal and informational fairness on taxpayers' income reporting compliance. We adopt a social-psychological perspective (e.g., Rutte and Messick 1995, Van den Bos et al. 2008) and conduct an experiment on 212 taxpayers in which we manipulate interpersonal and informational fairness. Our results show that interpersonal fairness inversely interacts with informational fairness to influence compliance. Implications for practice and research are discussed.



MATTHIAS PETUTSCHNIG, WU VIENNA
EVA EBERHARTINGER, VIENNA UNIVERSITY

CCCTB – The Employment Factor Game

The draft for a Common Consolidated Corporate Tax Base Directive in the European Union includes the suggestion for an apportionment formula which allocates taxable profits to group member corporations. These allocated profits shall then be taxed in the respective Member States. The draft directive delegates the right to define one factor of the apportionment formula, the term 'Employee' to the Member States, who are therefore free to choose a narrow or a broad definition, the latter including also atypical employment schemes. Using a game-theoretic approach the paper shows that the individually rational strategy of

any Member State to define 'Employee' so as to maximize the volume of the apportionment factor and thus maximize the allocated share of taxable income leads to the least preferable outcome collectively and individually for all Member States. This Prisoners'-Dilemma-like outcome can only be prevented when the Member States coordinate their domestic 'Employee' definitions and agree to use rather narrow 'Employee' definitions. Our paper differs from previous research on the economic effects of the CCCTB apportionment formula as it is the first paper identifying and analysing the employment factor and its distorting effects.

LIMOR RIZA, CARMEL ACADEMIC CENTRE

The Intrinsic Flaw In Taxation Impeding Tax Compliance

This paper offers a unique recommendation to enhance tax compliance based on the newly coined "de jure benefit principle". The principle suggests that taxpayers would be able to decide how their taxes are utilised.

The paper is interdisciplinary, relying on both behavioral economic insights and theoretical tax discourse, starting with a narrower instrumental question: Should we educate society to pay taxes through media campaigns? Through the discussion of this question I intend to shed light on a much more fundamental question, which is the intrinsic nature of taxation that impedes tax compliance. These apparently loosely related questions will be closely linked in what follows. The progression from the first question to the second is analogized to induction. Through behavioral economic lens, I examine the first question and for the second I utilise a theoretical discussion on the nature of taxation.

After introducing some cognitive biases, I claim that those campaigns are ineffective. Nevertheless, there are many interesting experiments revealing that there is correlation between tax compliance and the public good. This literature, combined with the "isolation effect", leads to the basic understanding of what tax is. Many studies tend to ignore one important ingredient in tax characterization which is their unrequitedness. This takes us back

to the first question: those media campaigns are ineffective with regard to taxes but can be very useful for other non-tax compulsory payments. The perceived remoteness of the compulsory payment from its benefit is critical to any compliance discussion. Although this is an intrinsic flaw in taxation, I do not think we should abandon the effort to enhance tax compliance. After understanding this flaw and individual cognitive biases (specified in the full paper) impeding tax obedience I propose a revolutionary mechanism that can dramatically increase compliance. This mechanism allows taxpayers to choose which public good they wish to finance, somewhat in line with the Wicksellian approach. This solution I have in mind is the "de jure benefit principle," which does not mean that people pay for the public goods they consume but that they choose how their tax dollars are spent without directly interfering with state sovereignty.

The model proposed here supports the public's right to know how government collects and uses its taxes which is vital to tax compliance. It facilitates a more transparent communication between government and taxpayers as suggested by Wicksell, informing the government on taxpayer wishes and the latter on government actions.



CÉCILE BAZART, MONTPELLIER UNIVERSITY
CORNELIUS MÜLLER, UNIVERSITY OF MANNHEIM

On The Efficiency Of Whistleblowing-Based Audit Schemes: An Experimental Approach

In the extensive literature on tax evasion, considerable efforts have been devoted to the analysis of deterrent policies to fight tax evasion. So far, however, little attention has been paid to tax informants. In this respect, an important question is that of the efficiency of audits targeted using information from whistleblowers. In the present paper, we present a between-subject lab experiment designed to explore the behavior of individuals facing a whistleblowing-based audit scheme and to assess its relative efficiency compared to a standard random audit scheme.

The results show that significantly less tax evasion is obtained under the whistleblowing-based audit scheme, because evaders are more efficiently targeted by audits. At the individual level, our main findings can be summarised as follows: (i) two main profiles of taxpayers dominate, (ii) a positive correlation between evasion and whistleblowing, and (iii) players in most cases denounce those who declare less than themselves.

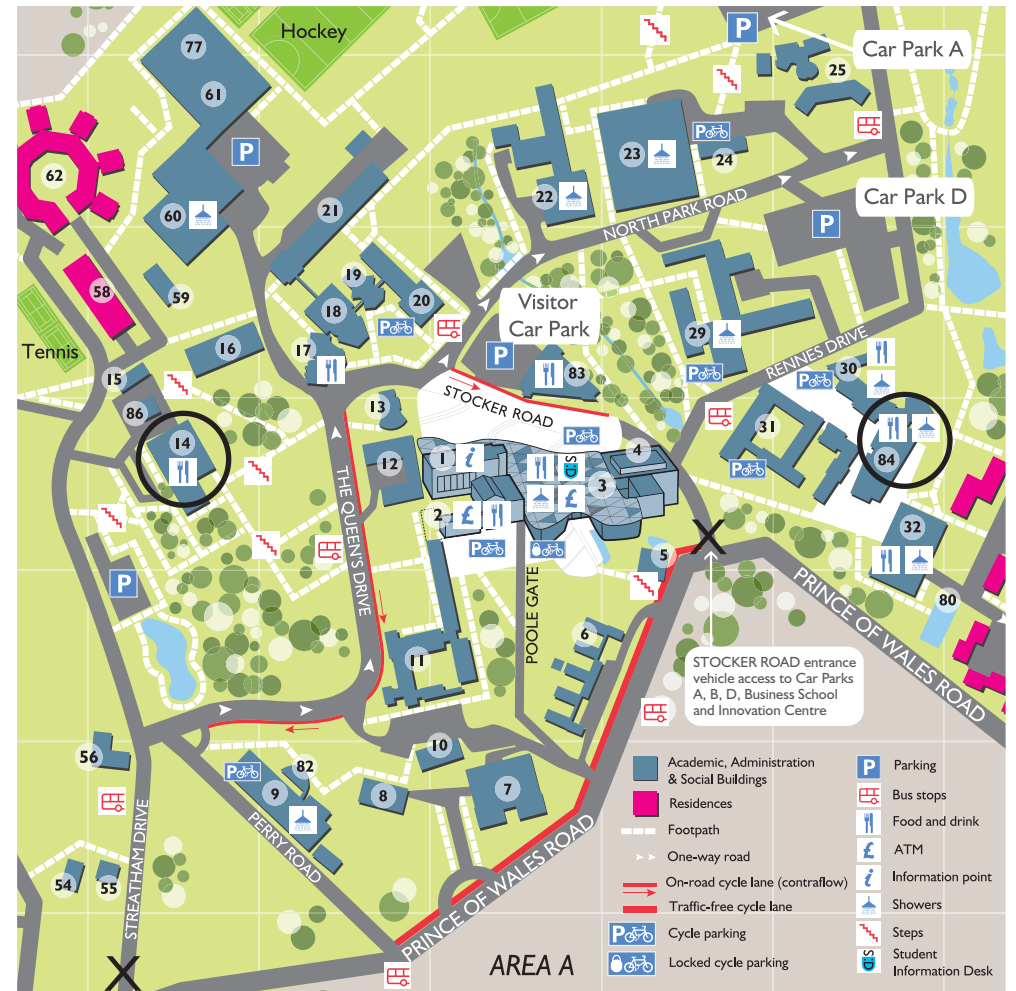
MICHAEL BEN-GAD, CITY UNIVERSITY LONDON

The Optimal Taxation Of Asset Income When Government Consumption Is Endogenous: Theory Estimation And Welfare

This paper derives the Ramsey optimal policy for taxing asset income in a model where government expenditure is a function of net output or the inputs that produce it. Extending Judd (1999), I demonstrate that the canonical result that the optimal tax on capital income is zero in the medium to long term is a special case of a more general model. Employing a vector error correction model to estimate the relationship between government consumption and net output for the United States between 1947Q1 to 2013Q2, I demonstrate that this special case is empirically implausible, and show how the estimated cointegrating vector can be used to determine the optimal tax schedule. I simulate a version of the model using the empirical estimates to measure the welfare implications of changing the tax rate on asset income, and contrast these results with those generated in a version of the model where government consumption is purely exogenous.

The shifting pattern of welfare measurements confirms the theoretical results. Given that the prevailing tax rate on asset income in the US is measured at 0.441, abolishing the tax completely still generates welfare improvements, though only by the equivalent of less than a 1% permanent increase in consumption—less than a third the implied welfare benefit when the endogeneity of the government consumption is ignored. The maximum welfare improvement from shifting part of the burden of tax from capital to labour is the equivalent of a permanent increase in consumption of between only 1.173% and 1.304% and is attained when the tax on asset income is lowered to between 0.18 and 0.2. Allowing the tax rate to vary over time raises the maximum welfare benefit to 1.31%. All the results are very robust to a wide range of elasticities of labour supply.

Notes



- 84 Building One, University of Exeter Business School, Rennes Drive
- 14 Reed Hall, Streatham Drive, Exeter
- X Main Entrances



Tax Administration Research Centre
University of Exeter Business School
Rennes Drive, Exeter
EX4 4PU
+44 (0)1392 725269
+44 (0)1392 723242
tarc@exeter.ac.uk