

# TAX MORALE AND COMPLIANCE IN GREECE: A REVIEW OF EMPIRICAL EVIDENCE

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# 1. Motivation and Aim of the paper

- The main difficulty in the investigation of the level of tax compliance is the **lack of detailed and reliable information** regarding the behaviour of taxpayers.
- The **punishability and usually reprehensibility of non-tax compliance consist of the main obstacles** in the attempt of quantitative and qualitative assessments
- To review **the main methodologies used by empirical research** in assessing the levels of tax morale and compliance, such as laboratory experiments, surveys and field reviews.
- To summarize the **empirical evidence from research** that has been conducted in Greece and internationally.
- To **present preliminary results** from our questionnaire survey.

## 2. Introduction

- The concepts of tax compliance and tax ethics can not be explained and fully understood in purely economic terms. This means that **people - taxpayers can not act as purely economic entities** whose sole objective is that of maximizing profit or utility.
- It is a much more complex process and **requires the assistance of other sciences**, such as sociology, social psychology and political science.
- Furthermore, it requires **explicit knowledge** of the workings of the **political** and **social** system as well as the functioning of the **administrative mechanism of the country** under research.

### 3. Working concepts

- ***Tax evasion*** means any **unlawful act or omission** of the taxpayer, which aims at reducing the statutory tax liability and avoid paying the tax (Tatsos, 2001) and includes all illegal and deliberate actions designed to reduce the tax liability (Alm, 1999).
- ***Tax avoidance*** which also aims to reduce the taxable income from the taxpayer's side but **using legal means**.
- The general term of ***tax-escape*** to describe the broader effort of taxpayers seeking to reduce their tax liability and includes activities related to both tax evasion and tax avoidance (Drakos,1986).
- ***Ethics*** is a set of values and principles that exist within the consciousness of a person and act independently of any legal rule or any state-imposed compulsion. ***Tax ethics*** is an internal rule or moral obligation to pay taxes (Torgler & Schneider, 2006).

## 4. Empirical research

- Due the lack of detailed and reliable information regarding the behavior of taxpayers, the methods most commonly used to accumulate quantitative and qualitative data are the following:
  - The **laboratory experiment** is used in a large scale by the economic science during the last 30 years to estimate the extent of tax compliance and the degree of responsiveness or reaction in key economic variables. It consists of a **very technical approach**.
  - Only a limited number of **field experiments** have been attempted. The main reason is the **high cost of organization and coordination** between the administrative authorities and researchers. A further obstacle is that disclosure of tax data is **prohibited by some jurisdictions**, as these consist of sensitive information.
  - **Questionnaire survey** is the most widespread method. New empirical data are collected that can facilitate the assessment of the levels of tax compliance and morale, while by using appropriate scientific methods will be identified the main factors that influence it.

## 5. Summarized literature review

- The U.S. is leading in the research of tax compliance and tax consciousness.
- The purpose of research is to, firstly, **estimate the size** of the tax morale and, secondly, to **identify the social and demographic variables** that mainly affect it. In some of these studies the **degree of correlation** between tax ethics, informal economy, tax evasion and corruption is examined.
- Each survey focuses on those variables that are considered important for the country (or countries) under research.
- The **vast majority of data used is retrieved from international institutions with long experience** such as the World Values Survey, the European Value Survey (EVS) and Latinovarometro.

## 5. Summarized literature review (*cont.*)

- A questionnaire survey has been conducted in the **case of Austria** by **Torgler and Schneider (2005)**, who used data from the World Value Surveys for the periods 1990 and 1999. According to the survey results the country's citizens have indicated, in comparison with other European countries, a very high degree of tax morale, which increases when the confidence of citizens in the laws and judicial system is higher.
- **Torgler (2003)**, conducted a questionnaire survey in the U.S. The results indeed indicated a very high degree of **negative correlation between tax evasion and tax morale**, as also supported by theory, but can also lead to the conclusion that the investigation of tax morale can facilitate the identification of factors that affect tax compliance (and the opposite).



## 5. Summarized literature review (*cont.*)

- In a **comparative survey conducted in the U.S. and Europe** by Alm and Torgler (2006), the results indicate a **significantly higher tax consciousness of the U.S. residents compared with those of Spain**. Also, **Switzerland** and **Austria** exhibit the highest tax consciousness within 14 European countries.
- In a survey conducted in **Latin America** by Torgler (2004), it is attempted a **first assessment of tax morale** of the inhabitants based on sample questions which were extracted from the material in the WVS extensive questionnaires and Latinovarometro.
- In empirical research conducted by Frey and Torgler (2007) using data from **Eastern and Western Europe**, it was found that **tax morale is reduced where there is a perception that tax evasion is widespread**.

## 6. Empirical research in Greece

- Tatsos (2001) has performed in the case of Greece research with the use of questionnaire survey.
- An attempt to identify the **factors that act as a deterrent to tax evasion and enhance tax morale** was based on the use of an **econometric model** in which tax evasion and tax ethics were treated as dependent variables. Main explanatory economic and fiscal variables were the probability of tax audit, the tax penalty, and the discomfort caused by the time consumed in a tax audit.
- **Factors** that act as deterrents to tax evasion included the following: low level of income, high tax penalties, high frequency of tax audits, reduced tax rates and the conduct of tax audits.
- As per the results, **tax ethics is significantly affected by the occupation.** Employees and retirees present higher tax consciousness.

## 6. Empirical research in Greece (*cont.*)

- On the **negative aspects** of the empirical research were:
  - (a) the **limited number of qualitative-social variables used in identifying the factors that affect tax morale**, while those utilized (such as the tax justice and the way the management of public revenues is performed) were found **statistically insignificant**;
  - (b) there is an **implicit assumption for the existence of a linear relationship** between independent and dependent variables by using the method of least squares, **in contrast with the other international empirical investigations** mentioned earlier, since most variables are of qualitative type.

## 7. Preliminary results from our research

- The decline in Greece's GDP due to the recession in the period 2008-2013 by ~25% (cumulative) has led to an **increase in the number of actions** of corruption, contribution evasion, undeclared employment, tax evasion, and unrecorded transactions in general.
- However, and as might be expected, **the average amount of money involved in corruption in all these cases has decreased.**
- **Although the Corruption Perception Index (CPI) ranks Greece among the biggest Corruption Perceptions Index improvers in 2013**, the deterioration of disposable income and living standards, and the perception that financial scandals and corruption by highly ranked Government officials has led to the debt crisis, all these have made the Authors of this paper, **based on the first results of our research, to disagree with the conclusions of the CPI.**

## 7. Preliminary results from our research (*cont.*)

- Instead we can argue that the **level of tax morale** in Greece during the crisis has **worsened**, as Greek citizens try to replace the loss of income by tax avoidance transactions, contribution evasion by employers and employees for Social Insurance and other-Auxiliary Funds, and concealment of income.
- On the other side we find that **the strict control mechanisms and electronic governance (e-governance) have contributed to the reduction of corruption associated with tax evasion** and social security contribution evasion, due to the risks and penalties associated with the higher possibilities of detection and the increased number of tax audits and inspections carried out.

## 7. Preliminary results from our research (*cont.*)

- As a result, and in contrast to the reduction of the shadow economy as a percentage of GDP from 28% before the crisis at 24% in 2013, as released by other Researchers (Bloomberg, Schneider), we estimate that at the end of our full research analysis, probably, this percentage will have exceeded 30% in 2013/2014.

## 8. Conclusions

- The paper reviews the main methodologies used by empirical research in assessing the levels of tax morale and compliance, such as laboratory experiments, surveys and field reviews.
- The empirical evidence from research that has been conducted in Greece and internationally is summarized. From the review performed a significant gap of comprehensive empirical research can be observed in the case of Greece.
- Finally, preliminary results from a questionnaire survey currently performed in Greece by the authors are presented. Accordingly, there is evidence that the level of shadow economy in Greece has increased in the period of economic crisis, and particularly during 2010-2013, in contrast with the indications of other relevant research and international published indicators.