

# **Benno Torgler, *Tax Compliance and Tax Morale***

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Why do people pay taxes? Or, more importantly, how willingly do they pay taxes? And what induces them to do so? Why do more people pay tax voluntarily than traditional economic models would predict? Do taxpayers comply simply because of the fear of being caught; or do other factors, such as religious beliefs or a sense of 'value for money' received from government services, play a role? In spite of taxation being a part of our lives, and of recorded history since Egyptian times, such issues have rarely been studied.

Benno Torgler's work on 'tax morale'<sup>2</sup> aims to rectify many of these 'knowledge gaps' in the field of tax compliance — a challenging task. The book is drawn from eight papers previously published mainly in economic or political economy journals. It not only integrates Torgler's previous work into a coherent body, but is also likely to bring it more prominently to the attention of tax researchers, administrators and policy-makers.

A significant feature of this book is that it contributes research from outside the United States (which has overwhelmingly dominated the compliance literature to date). Torgler's research is based upon behavioural data drawn from the World Values Survey based on 40 societies from around the world including diverse cultures such as Latin America (covering 17 countries), East and West Germany, and Switzerland.

Torgler's research is unlikely to appeal to traditional economists — his multi-faceted approach incorporates concepts from other social sciences (particularly psychology) within an economic framework. In methodological terms he uses both surveys and experiments; where different methodologies reach similar findings the robustness of conclusions is strengthened. Torgler's approach reflects a growing trend in tax research to use more widely two or more different methodologies within a single study.

A beneficial feature of the book is that the econometric analysis, a key component of Torgler's research, is supportive of the analysis, without actually being obtrusive: it is there for econometricians, but may be easily passed over

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<sup>2</sup> Tax morale is understood simply as the 'intrinsic motivation to pay taxes'.

by other readers. This much-to-be-admired approach, as Torgler acknowledges in the Preface, derives greatly from his mentor, Rene L. Frey, who emphasised '... avoiding complex structures that affect the readability, to see the relevance of an applied research focus, and to expose the research thoughts not only in academia but also a broader audience'. Research students note well!

Torgler is critical (on more than one occasion) of the traditional economics-of-crime approach to tax compliance that emphasises that tax evasion is negatively correlated with the probability of detection and the degree of punishment. He makes the useful point that, in many countries throughout the world, tax-compliance levels are far higher than an economics-of-crime model would predict. He is also critical — and rightly so — of the many tax-compliance games that use students as participants rather than people from the broader and more representative taxpaying population as a whole. Whilst rectifying this deficiency, Torgler emphasises the limitations of experiments in tax research and its iterative nature in getting closer to a clearer picture (but realistically never 100 per cent clear!).

The core of the book is explaining what helps determine tax morale, other than punishments. As might be expected, religious observance is a key factor, with only two known previous research papers investigating this aspect of tax morale/compliance. Based on a much larger data set covering over 30 countries, and controlling for other determinants such as corruption, trustworthiness, demographic and economic factors, religious observance, perhaps unsurprisingly, is found to have a significant positive effect on tax morale. What is interesting is that a belief in God is not specifically mentioned but religious observance is defined in terms of seven variables: 'church attendance', 'church participation', 'religious education (at home)', 'religious (beliefs)', 'importance of religion', 'religious guidance' and 'trust (in the) church'. Although the term 'church' is usually associated with Christians, the analysis includes all major religions found throughout the world including Catholic, Protestant, Jewish, Muslim, Hindu and Buddhist faiths, with results broken down accordingly. This could have been emphasised more clearly in the Introduction.

The effect of institutions on tax morale is also evaluated. Torgler investigates the effect of direct democracy, trust in government, the court and legal system, and federalism, based on Swiss data, and factors in traditional variables such as audit probability, legal fines and individual tax rates. Overall, there is strong support for the proposition that both formal and informal institutions positively influence tax morale. The critical issue here is the extent to which findings from Switzerland can be generalised to other tax jurisdictions.

The experience of Latin American countries shows that democracy and individual traits such as pride, financial satisfaction, personal satisfaction and happiness all contribute to tax morale. However, this section in particular

illustrates a weakness of Torgler's analysis: the lack of a clear distinction of the effects of tax morale upon tax *avoidance* versus its effects on tax *evasion*. Apart from basic taxpayer dishonesty, the other main reasons for tax evasion in Latin American countries are the size of the tax burden and, importantly, corruption (with little difference between these three).

The effect of culture and social norms upon tax morale is investigated in the chapter comparing former East and West German taxpayer data from 1990 and 1997 (following German reunification in 1989), in an interesting study of wider social and political relevance than just the tax sphere. The book ends with two chapters of particular interest to tax administrators and policy-makers: the role of moral suasion (based on a Swiss tax commune) and tax amnesties (worldwide review plus field experiments in Switzerland and Costa Rica).

One of the weaknesses of the tax compliance field overall is that a high proportion of work is focused on individuals who are generally subject to withholding tax (PAYE/PAYG) on most, if not all, of their income, with much less on the self-employed, who have much greater discretionary power as to how much tax they decide to pay, and very little on companies. In that respect this book is little different, although at several points Torgler notes that, overall, the self-employed have lower tax morale than other individual taxpayers.

A more pedantic criticism is that the Introduction (at 61 pages) is really an Overview as there is no concluding chapter: it usefully contains the tax policy implications of Torgler's research and indicates the many opportunities for further work in this specialist and hitherto neglected field of tax morale. The chapters that follow read almost as a detailed appendix.

The sentiments and findings of Torgler's book are likely to be well received by many tax administrators throughout the world. It has already been cited by Michael D'Ascenzo, the Australian Commissioner of Taxation, in a speech on small business and the cash economy.<sup>3</sup> It is only to be hoped that, in the years ahead, tax administrators become more supportive of further tax compliance/morale research, especially studies focusing on business taxpayers.

To sum up, Torgler's book is a valuable contribution to the tax field, especially as it pioneers research into tax morale that is in its infancy and helps redress the U.S. domination of the tax-compliance literature. It places econometric analysis where it rightly belongs — as the supporting act, not the main feature! — and takes a holistic approach in attempting to explain the complex area of human behaviour that tax compliance involves, whatever the country. There is much still to be done: this book points the way for researchers who wish to contribute to this endeavour.

<sup>3</sup> D'Ascenzo, M. 2008, 'The rogue cog in the wheel — The cash economy', Speech to the Council of Small Business of Australia, Sydney, 11 June 2008, at: [www.ato.gov.au](http://www.ato.gov.au).