Introduction to the Special Issue 'New Perspectives on Tax Administration Research[1]'

by

Christos Kotsogiannis
Tax Administration Research Centre (TARC)
Department of Economics
University of Exeter Business School
Streatham Court
Rennes Drive
Exeter, EX4 4PU
England, UK and CESifo Munich, Germany
Email: c.kotsogiannis@exeter.ac.uk

Introduction

Tax administration reforms have been central on the policy agenda of many countries (both developing and developed) around the world, and they have become much more prominent recently as countries struggle to reduce public deficits. The six papers in this special issue look at a wide range of important and topical aspects related to tax administration. Issues that are discussed and analysed concern the identification and measurement of 'ghosts', the role of digital payments penetration in VAT compliance and collection, whether audits deter future tax compliance, the extent to which gender matters in tax compliance and the role of social value orientation in the interplay between the two, and the role of amnesties. In the following, a brief summary of these papers is provided which we hope will encourage the reader to have a careful read of this excellent selection of contributions.

Flying beneath a tax administration's radar

Erard, Langetieg, Payne, and Plumley investigate a surprisingly neglected issue, despite its significant importance for public revenues: 'ghosts', defined to be those who fail to file a tax return and hence they 'fly beneath a tax administration's radar'. Utilising administrative and census data, the authors show that, interestingly, around 8 to 10 million of US taxpayers do not file a tax return when they should. Taxes owed to the government by this non-filing population are significant too: between US$17 to US$20 billion per year go unpaid by 'ghosts' who never filed, over the tax year 2008 through 2010 period. Surprisingly, however, although 'ghosts' as a group have a substantial tax balance due on net, many of them are actually entitled to tax refunds, owing to their excessive prepayment of taxes and their eligibility for refundable credits. This, as shown by the authors, is due to the significant burden with filing a return relative to the benefit derived from doing so.

Digital penetration and VAT performance

A lot of discussion in the public finance literature has recently taken place regarding the role of third-party information on VAT compliance, as well as whether incentivising consumers through, for example, tax lotteries, might improve tax compliance. The contribution by **Danchev, Gatopoulos and**

[1] The papers that appear in this special issue were all contributed papers to the conference "New Perspectives on Tax Administration Research" that took place at CESifo, Munich, Germany, in November 2018. All papers have been subjected to the standard *CESifo Economic Studies* refereeing process. We thank the participants of the conference and the CESifo for its generous support and, certainly not least, the referees who provided invaluable help in the evaluation process of these papers. Finally, we would like to thank Katja Gramann for assistance with the organisation of the event and the Managing Editor of the journal, Panu Putvaara, for his support and advice throughout the process, from conception to completion.

Vettas contributes to this literature showing that penetration of electronic transactions can have a significant impact on tax compliance. Their analysis is based on the 'natural experiment' occurred in Greece following the imposition of capital controls in 2015, and the subsequent legislated measures to promote digital payments. Interestingly, and as output significantly declined following the 2008 global economic crisis, the strong positive effect on fiscal revenues in Greece was due to improved VAT compliance which is attributed to the growth of electronic transactions. This is consistent with the view that electronic transactions, and the third-party reporting associated with them, improves compliance by increasing the perceived probability of auditing by taxable businesses/persons. This result reconfirms the belief that digitalization—here in the form of digital payments penetration—can generate significant revenues. The contribution by **Madzharova** also sheds light on whether penetration of digital payments enhances VAT revenue performance as measured by the VAT revenue ratio (the ratio of collected VAT revenue to net consumption divided by the standard VAT rate). Using country-level data for the European Union, this contribution shows that a 1% increase in the value of payments made with cards as a proportion of GDP improves VAT performance by 0.05 to 0.09% This effect is found to be strongest in economies characterized by low level of trust in public institutions, but it does not, rather surprisingly, vary with the extent of third-party reported information used by tax administrations, or the presence of a large-scale VAT invoice matching system.

Dynamic impact of tax audits

A well targeted program of selective audits and other verification checks is needed to validate taxpayers' liabilities and detect and deter noncompliance with the laws. But how do audits affect subsequent tax payment behaviour by the audited taxpayers? Do they deter or enhance tax noncompliance? One could, clearly, find intuitive arguments for both: Audits deter future noncompliance because, conditionally on being found non-compliant, they increase the (perceived) probability of the taxpayer of being audited again. Audits may increase noncompliance if taxpayers believe that the likelihood of being audited again is very small, irrespective of whether a taxpayer has been found noncompliant or not. This is something that resonates with the belief that 'lighting cannot strike twice!'. The contribution by **Beer, Kasper, Kirchler and Erard** addresses precisely this issue by analysing data on US tax returns and tax administrative data over the period 2005-2010 and tax implemented on the tax returns declared in fiscal year 2007. The authors show that audits on average have a moderate pro-deterrence effect of 15% one year after the operational audit has taken place. But interestingly, this average aggregate effect masks considerable heterogeneity among taxpayers who do and do not receive an additional assessment as a result of the audit. The authors find a very substantial pro-deterrence effect on future noncompliance within the former group that translates into an increase of about 64% in reported income after one year and about 44% after 3 years. In contrast, the authors show evidence of a counter-deterrence effect among the second group of taxpayers that translates in approximately 15% decrease in reported income after one year and about 21% after three years.

Social value orientation, gender and tax compliance

Motivated by the view that tax compliance is a decision affected by a number of personal and psychological motivations as well as by institutional constraints and context, the contribution by **D'Attoma, Volintiru and Malézieux** investigates whether prosocial individuals are more tax compliant, women are more tax compliant than men, and whether social value orientation interacts with gender tax compliance. Through a tax compliance experiment conducted in Italy, Romania, Sweden, UK and US, they show that social value orientation is an important aspect of the tax compliance decision, and women are also more tax compliant than men (in all countries). Interestingly, however, prosocial values seem to be context (and country) dependent, while gender differences in tax compliance are much more consistent across countries.

Tax amnesties

Do tax amnesties (that is, a limited-time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability as well as freedom from legal prosecution) generate tax revenue that would not otherwise be collected by bringing taxpayers back into the tax net? Or do they weaken incentives for tax compliance thereby generating less revenue than intended in the long run? Tax amnesties have been common practice over the last fifty years in many countries, especially those which have been troubled by economic financial crisis, and large public debt. The contribution by **Yücedoğru and Sarisoy** investigates the effect of tax amnesties on tax compliance decisions of taxpayers by focusing on fairness perceptions and their voluntary tax compliance following a tax amnesty provided by the Turkish government. Making use of survey data and structural modelling they show that the introduction of a tax amnesty significantly and negatively affects the fairness perception of taxpayers.

Order of papers to appear in the special issue:

1. **Flying Under the Radar: Ghosts and the Income Tax**

Brian Erard, Patrick Langetieg, Mark Payne, and Alan Plumley

2. **Penetration of digital payments in Greece after capital controls: Determinants and impact on VAT revenues**

Svetoslav Danchev, Georgios Gatopoulos, and Nikolaos Vettas

3. **The impact of cash and card transactions on VAT collection efficiency**

Boryana Madzharova

4. **Do audits deter future non-compliance? Evidence on self-employed taxpayers**

Sebastian Beer, Matthias Kasper, Erich Kirchler, and Brian Erard

5. **Gender, Social Value Orientation, and Tax Compliance**

John D’Attoma, Clara Volintiru, and Antoine Malézieux

6. **Is tax amnesties good for us all? Understanding influence of tax amnesties on between benefiters and non-benefiters**

Recep Yücedoğru and Idris Sarisoy