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# Social esteem versus social stigma: The role of anonymity in an income reporting game

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## ABSTRACT

This paper aims at experimentally testing the role of different non-monetary (dis)incentives on tax compliance. Participants were subjected to different experimental conditions where the role played by anonymity differed. As expected, anonymity does play an important role in the decision to pay taxes. In addition, we found that a negative non-monetary incentive increases tax compliance more effectively than a positive non-monetary incentive. We also found that the effect of these non-monetary incentives is mitigated when too much information is made available. Results show that, when evasion is made public, tax fraudsters are willing to pay in order to keep their dishonest behaviour undisclosed and to avoid public shame. Interestingly we found a misalignment on the impact of stigmatization, namely that the judgement of an individual's evasion is perceived, by the individual, more harshly than a judgement made by the said individual regarding evasion carried out by other parties.

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## 1. Introduction

The Allingham and Sandmo (1972) model is the starting point of almost all the studies on tax evasion: both empirical and experimental research have analyzed the model's variables in order to better understand the role of income, tax rate, audit probability and fine rate.<sup>2</sup> Findings, in some cases, are contradictory. Even if there is no general consensus on the role played by tax rate and income (e.g., the contradictory conclusions of Yitzhaki, 1974; Pommerehne and Weck-Hannemann, 1996; Park and Hyun, 2003; Baldry, 1987; Alm et al., 1995; Anderhub et al., 2001), the literature does provide agreement on the deterrent impact of the "audit scheme" which comprises audit probabilities, sequences of audits, endogenous or exogenous audits, and fine rates (Alm et al., 1993; Slemrod et al., 2001; Kastlunger et al., 2009).

Regardless of the consensus or the disagreement on the effect of some of these variables, it is important to notice that researchers do agree that it is necessary to consider and include other variables when studying tax compliance. If based only on economic disincentives, not only does the model fail in describing the taxpayer behaviour, it also, paradoxically, poses the question of why people pay taxes rather than evade them (Alm et al., 1992).

It is our opinion that not enough emphasis has been placed on the role played by social pressure (not necessarily used in a negative sense) on tax compliance. Only recently, and years after the pioneer work on blame carried out by Bosco and Mittone (1997), some studies have started to fill this gap (Coricelli et al., 2010, 2014; Maciejovsky et al., 2012).

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<sup>2</sup> Comprehensive reviews of this topic are Andreoni et al. (1998) and Kirchler (2007).

However, this is not the case in public good games literature, where social pressure was studied first by Masclot et al. (2003) and only thereafter was a large corpus of literature produced.<sup>2</sup> In public good literature, Rege and Telle (2004) is an example of a study centred on sustaining cooperation without monetary punishments and making use of both social approval and disapproval.

It is important to state that essentially all studies on tax compliance have the following in common, namely an emphasis on tax evasion and the idea that taxpayers are, by definition, potential criminals. Generally, the focus point is to prevent a potential crime instead of pursuing tax compliance through promoting and facilitating the correct behaviour of taxpayers. Contrary to Rege and Telle (2004), in tax compliance literature cooperation (compliance) is rarely supported by the idea that taxpayers can also be honest and social approval has seldom been used to rise compliance.

In a recent paper, Alm and Torgler (2011) propose, among other alternatives, to “publicize tax evasion convictions in the media as an alternative, nonmonetary type of penalty” (Alm and Torgler, 2011, p. 646). This disincentive perfectly fits what has been implemented in the UK where since 2012 Her Majesty’s Revenue and Customs (HMRC) has posted the pictures of the most-wanted tax evaders on its official webpages and asked citizens for help with their identification and localization. Coricelli et al. (2010, 2014) claim that social stigmatization can sustain compliance because taxpayers anticipate negative emotions like shame and blame.

On the other hand, it is also plausible to expect that they also anticipate positive emotions, like respect and esteem, which can be induced with positive non-monetary incentives. Following the same line of reasoning, the mass-media could also be used to publicize full contributors and full compliance<sup>3</sup> which could induce a possible twofold result: sustaining compliance via the anticipation of positive emotions and triggering the idea that tax compliance is a widespread phenomenon in the society (Alm and Torgler, 2011).

Our paper contributes to research on social pressure and tax compliance in the following innovative ways: first, we compare the impact of negative and positive non-monetary incentives on tax behaviour linked to the loss of anonymity and related to different kinds of social pressure; and second, we measure the (monetary) value that taxpayers associate with the loss of anonymity when asked to pay taxes.

More precisely, we measure: (i) the tax evaders’ willingness to pay a fee to avoid publicity of their evasion (value attributed to individual anonymity, VIA); and (ii) the taxpayers’ willingness to pay a fee to identify tax evaders (value attributed to the others anonymity, VOA).

Several questions obviously arise: (i) Are positive non-monetary incentives or negative non-monetary disincentives more effective in sustaining tax compliance? (ii) Do people care about the loss of anonymity through a public announcement of their tax behaviour, and do they care about the judgements of other members of the community? (iii) Is there a gap between VIA and VOA or, more precisely, is there a misalignment in evaluating the same phenomenon (evasion) when its consequences (social blame) affect either the individual or others?

In Section 2, we present the experimental protocol used to answer these questions. Section 3 contains experimental data, analysis and tests. Finally, Section 4 concludes with a discussion of the results.

## 2. Method

### 2.1. Design

We investigate behaviour in an income reporting game and test the effect of non-monetary (dis)incentives on tax compliance.

Non-monetary (dis)incentives consist in the public announcements of audited taxpayers’ behaviour via the publication of their photographs.

The experiment consists of seven treatments: baseline (*B*), control (*C*), esteem (*E*), public (*P*), stigma (*S*), anonymous stigma (*AS*) and curiosity (*CU*). We used a between-subjects design: each session had 16 participants and consisted of 20 rounds. Participants were informed that the experimental session had several rounds but the exact number was not specified.

At the beginning of each round, participants were randomly assigned to groups of four and each received an initial endowment (*IE*) of 1500 experimental currency units (ECU). They were required to declare the endowment: a tax rate ( $\tau = 55\%$ <sup>4</sup>) was applied to the declared income (*DI*), and taxes were collected. Participants were informed about the probability to be audited ( $p = 20\%$ ) and the amount of fine for evasion ( $\theta = 125\%$  of evaded taxes). Collected taxes were then redistributed among the members of the group, after being multiplied by the factor 1.4 ( $\alpha$ ).

<sup>2</sup> Chaudhuri (2011) examines the latest developments in public good experiments in detail.

<sup>3</sup> In March 2012, the Italian tax authority began to consider the possibility of introducing a type of “certificate of fiscal conformity”. Businesses which resulted in having complied with their fiscal duties would receive the certificate. These businesses could then use the certificate to publicize their status to the public.

<sup>4</sup> The tax rate was set according to a study released in 2012 by Confcommercio (Italian General Confederation of Commerce, Tourism and Services) in which it was pointed out that, taking into account the size of the Italian shadow economy, the actual average tax burden for a compliant Italian taxpayer was around 55%.

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