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Framing of information on the use of public finances, regulatory fit of recipients and tax compliance

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Abstract

Information campaigns to increase tax compliance could be framed in different ways. They can either highlight the potential gains when tax compliance is high, or the potential losses when compliance is low. According to regulatory focus theory, such framing should be most effective when it is congruent with the promotion or prevention focus of its recipients. Two studies confirmed the hypothesized interaction effects between recipients' regulatory focus and framing of information campaigns, with tax compliance being highest under conditions of regulatory fit. To address taxpayers effectively, information campaigns by tax authorities should consider the positive and negative framing of information, and the moderating effect of recipients' regulatory focus.

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Keywords: Regulatory focus; Regulatory fit; Goal-framing; Tax compliance

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Tax payments represent a social dilemma with colliding individual and collective interests. The financial basis for effective political and economic activities of the government is solid as long as the state succeeds in motivating citizens to cooperate rather than to defect. If a majority of citizens engages in tax avoidance and evasion, provision of public goods and services is at risk (e.g., van Lange, Liebrand, Messick, & Wilke, 1992). Despite temptations to cheat, people in many countries keep up relatively high tax morale and seem to accept their duty to pay taxes (Braithwaite, 2003; James & Alley, 2002; Kirchler, 2007). Nevertheless, "taxes" have a negative connotation, are associated with an expensive and inefficient management style of politicians and often linked not only to the loss of money but also – especially in the case of self-employment – to restrictions of personal freedom in deciding how to spend and invest one's "own" money (Kirchler, 1998). Information campaigns on taxes and spending policy of the government as well as the provision of public goods can improve both citizens' understanding and acceptance of taxes and their compliance. Tax compliance is likely to increase if the tax system is perceived as being transparent, fair, and trustworthy, and when tax knowledge increases (e.g., Kirchler, 2007). This article examines the differential effectiveness of information campaigns. It is assumed that information campaigns that focus on potential gains are more effective when recipients are under promotion focus, and that campaigns that focus on potential losses are more effective when recipients are under prevention focus.

1. Promoting tax compliance by information campaigns

Neoclassical economics postulates that taxpayers consider audit probability and fines in case of tax evasion and comply with the law only if audits are likely and fines are high (Allingham & Sandmo, 1972). The effect of audits and fines has, however, often been disputed (e.g., Andreoni, Erard, & Feinstein, 1998) and without doubt there are other than purely rational-economic variables determining tax behaviour. Moreover, under some circumstances, audits and fines may have the opposite effects than expected (e.g., Eichenberger & Frey, 2002; Kirchler, 2007). If the deterring effect of audits and fines is low, strategies which aim to promote tax compliance should be applied (Pommerehne & Weck-Hannemann, 1992). Cooperation with tax authorities could be promoted by various media. Information campaigns focusing on improving citizens' knowledge about taxes, the advantages of taxes for the collective and fairness of the tax system could be useful to improve acceptance of taxes, build a trustful relationship between citizens, government and tax authorities, and promote development of norms of cooperation and tax morale (Eichenberger & Frey, 2002).

Information campaigns and advertisement of public services in various media have sometimes been used to reach a broad cross-section of the population, with the aim to reach acceptance of political projects in general and tax issues in particular. Roberts (1994) created six 30-second announcements transmitted via TV, and successfully showed that taxpayers' attitudes changed towards fairness and compliance. McGraw and Scholz (1988) tested the effect of conscience appeals or sanction threats, sent via video tapes. Apart from information and advertisement spots sent via TV, letters sent out to households proved to be an adequate means for informing citizens and for promoting tax compliance. White, Curatola, and Samson (1990) demonstrated that information and explanation about legislative intents can positively influence taxpayers' acceptance of taxes and fairness perceptions. Taylor and Wenzel (2001) compared the effects of letters in an