

Governmental policies to reduce tax evasion: coerced behavior versus services and values development

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Abstract. Governments generally have at their disposal two types of tax compliance policies. One set of policy options coerces tax compliance by increasing risks for practicing tax evasion, while a second set of policies emphasizes development of supportive taxpaying values among citizens through service improvement and informational strategies. Tax agencies tend to favor coercive policies, but empirical research suggests that such policies are not in themselves fully adequate to fight tax evasion. Four hypotheses are offered which suggest the utility of service and values based policies and the need for increased investment in those areas of tax administration.

Insuring compliance with tax laws is a constant governmental concern. Devising ways to strengthen compliance and depress tax evasion is always on the agenda of tax administrators.

Two broad behavioral strategies to affect citizen compliance are analyzed in empirical studies of tax evasion, and are carried out in the administrative practices of the federal government and the states. One strategy is directed at enacting statutes and adopting administrative powers and procedures that coerce compliant behavior. Coercive policies are based on increasing the risks incurred when practicing tax evasion. Among the most important risk enhancement strategies are improving evasion discovery capabilities, increasing evasion penalties and strengthening delinquent tax collections capabilities. Discovery capabilities are improved by hiring more auditors and supplying them with computer technology to cross-check individual tax return information with numerous other sources of taxpayer income information. Several states in recent years have made evasion penalties more stringent by increasing interest rates on delinquent accounts and raising fines, and by elevating tax evasion from misdemeanor to felony status. Payment of delinquent taxes are coerced by granting tax agencies the authority to seize property and assets, or to deny issuance of professional or business licenses. These practices are designed to alter taxpayers' mental calculations in such a way as to induce compliance.

The second behavioral strategy encourages compliance through a variety of services such as instructing taxpayers about tax regulations, and through instilling a strong sense of civic duty and moral obligation among citizens. In

opposition to the first strategy which constructs a threatening environment, the second seeks to establish a cooperative relationship between taxpayers and the government. Government desires to instill strong compliance values so that obedience to tax laws becomes more an automatic or natural act. Values are reinforced through promotional campaigns and other devices that inform citizens of the societal costs of tax evasion and which affirm the virtues of taxpaying. Broadening the scope of taxpayer services (toll-free phone information, volunteer programs assisting taxpayers in completing tax forms, easy to understand instructional material, and so forth) contributes to development of positive attitudes towards the tax system and government in general. Furthermore, improved service and tax education efforts empower citizens with the knowledge they need to comply and avoid mistakes in calculating taxes owed, and contribute to removing frustrations and the sense of mystery in taxpaying. The focus then of the service/values development strategy is on reinforcing and expanding honest behavior, rather than on prevention of dishonest behavior.

The purpose of this essay is to develop hypotheses respecting the utility of devoting more governmental resources to service and values development policies. Traditionally tax administration agencies tend to give greatest attention to coercive policies, but in doing so risk enactment of a comprehensive compliance program. The discussion begins with an examination of empirical studies which provide insights into understanding taxpayer behavior. Based upon the discussion of empirical studies, it will be suggested here that greater emphasis should be given to service/values development policies. Four hypotheses and suggested means for testing them are then detailed. The hypotheses are meant to stimulate dialogue on service/values based policies, and to suggest fruitful avenues for empirical research.

Coerced behavior

Governmental policies that attempt to coerce compliance are built on an economic model of human behavior. People are assumed to coolly and rationally calculate their actions so as to maximize self-interest. In the context of taxpaying, citizens devise strategies to minimize tax payments so as to maximize income. Opportunity costs are carefully weighed by the taxpayer contemplating underreporting income, claiming false deductions or selecting some other illegal means to reduce the tax burden. Variables taken into account in estimating the risks involved in cheating include the probability of being caught and prosecuted, and the stringency of monetary fines and jail sentences.

If monetary penalties are perceived to be low, taxpayers calculate that

evasion is profitable even if the probability of discovery is high (Friedland, Maital and Rutenberg, 1978). When penalties are high, taxpayers will then calculate the probability of discovery through audits and other administrative procedures. Low probability presumably encourages noncompliance despite the severity of penalties.

Allingham and Sandmo (1972) and Srinivansan (1973) have established a theoretical basis for this sort of calculative behavior. Using differential equations to represent mental calculations of the taxpayer, the authors model the effects of penalties and detection in deterring tax evasion. In each study, penalties and detection are reasoned to be powerful deterrents. Fairly simple tax systems are assumed in these models, unlike the complex tax systems citizens encounter. However, these theoretical works serve as a foundations upon which testable hypotheses can be constructed.

Elected officials and tax administrators are not so much interested in theory as they are in selecting enforcement mechanisms that are effective and politically defensible. The economic model is appealing to elected politicians and administrative personnel in that it suggests concrete administrative actions and public policies that frequently require only incremental change, and are at the present time less controversial means to collect additional revenues than raising taxes. Changing tax evasion from a misdemeanor to felony status along with raising monetary penalties, engenders little opposition and mimics trends towards harsher penalties in other areas of criminal activity. Investments in computer technology are well accepted now in government and can be easily justified as necessary to improve economy and efficiency in bureaucracy. Adding auditing and collections positions can be justified by arguments that computer systems process volumes of data therefore increasing the number of audit and collections cases.

Enforcement authority is attractive to the bureaucracy as a political resource. It has been demonstrated that budget-maximization is among the most important objectives behind IRS audit selection strategies (Erekson and Sullivan, 1988). High yields from audits, IRS officials believe, produce higher allocations to the department. To prove their worth, administrators generate data demonstrating growth in audit and collections cases, in the average number of dollars of liability established per auditor, in the average number of dollars collected per collection agent, and in the numbers of seizures, levies and liens imposed annually.

Experiences of tax departments in several states indicate that administrators have been fairly successful in selling the proposition that emboldened enforcement powers and increased departmental resources, pay off in the form of increased revenues. In a sense, revenue shortages have been the health of state tax agencies. In the midst of a state budget deficit and worried about continued decline in federal funding, the Vermont legislature author-

ized new audit and collection positions in the Department of Taxation and approved new collections powers. The investment was made in the belief that the Department of Taxation would bring in badly needed additional revenue (Gross, 1987). Similarly, the Minnesota Department of Revenue obtained new resources in 1987 in part due to revenue problems of the state.

While theoretical propositions suggest their effectiveness and government officials are favorably disposed to them, questions still remain about how effective policies based on coercion are in deterring tax evasion. Tax agents might be better able to identify the tax cheats, but to what extent do the stringent enforcement policies and tools alter behavior?

Several studies indicate that the discovery function does restrain cheating and that it has a far greater effect on behavior than penalties. Friedland (1982) reports that detection had a much greater effect on deterring evasion among participants in a laboratory experiment, than did severity of penalties. Witte and Woodbury (1985) found in their examination of a sample of IRS returns that audits and notices sent to taxpayers informing them of a deficiency in tax payments, were strongly associated with high levels of compliance. The probability of incurring severe criminal fraud penalties did not seem to have a strong effect.

Survey respondents in Oregon exhibited a marked decline between 1975 and 1980 in perceptions of fairness in the Oregon tax system, and the number of citizens who believed that people cheat because taxes are too high significantly increased (Mason and Calvin, 1984). Oregon would seem ripe for growth in tax evasion, yet there was no significant rise in admitted evasion among survey respondents. Evasion remained depressed, the authors found, because of fear of getting caught.

Detection's potentially powerful effect on evasion is further suggested by evidence about those who are most prone to evade taxes. Surveys have revealed that admitted tax evasion is relatively high among the self-employed (Mason and Lowrey, 1981). The self-employed have a much greater opportunity to hide income than persons whose income is subject to tax withholding. Evasion opportunities are also heightened for citizens who have multiple sources of income and use several tax reporting schedules. Underreporting of income from rents, interest and dividends, and from business income apparently exceeds underreporting of wages and salaries (Henry, 1983). Any discovery techniques that reduce the ability of individuals to conceal income is likely to discourage cheating among those who typically have had the greatest opportunity to evade taxation.

Clearly, it would be foolish to deny the value of tax policies that establish a threatening environment for tax cheaters. Policies that are coercive in nature can yield positive results. Yet, as explorations have proceeded into the realm of taxpayer behavior, very complex behavioral dimensions have been dis-

covered. The policies of risk have been criticized as insufficient tools to strengthen compliance with tax laws.

Values development

Various strands of empirical research challenging an economic model of behavior are brought together in Alan Lewis' provocative book, *The Psychology of Taxation* (1980). Lewis faults the rational actor conception of behavior and public policies built on that model, for focusing only on observed behavior without trying to understand the process that preceded the behavioral choice.

The proponents of behaviour therapy have often been accused of treating symptoms and not causes. The same could be said of tax policies aimed at reducing tax evasion by increasing fines or the likelihood of the detection of evaders. They are attempts to manipulate behaviour without discovering how and why that behaviour came about. Not only are they incomplete as explanations but treatment or tax policy directed only at curtailing symptoms may also be less effective (and may even have negative consequences) in the long run. (p. 127).

Lewis and others have extended the search for causes of taxpaying behavior to noneconomic variables. Thus it is hypothesized that significant variables include strength of moral commitment to taxpaying, perceptions of the fairness of the tax system, attitudes towards government in general, attitudinal influences imparted by family, friends and social institutions, and prospective social sanctions imposed against tax cheats.

Citizen's moral commitment to taxpaying is a key noneconomic variable for if that sense of moral or civic obligation is weak, cheating is likely to be considered a legitimate act. Studies of tax ethics have produced disturbing findings. For example, respondents to a North Carolina survey were rated by researchers as having a barely passing level of tax ethics (Song and Yarbrough, 1978). Apparently, tax evasion was not considered a particularly serious crime – hardly more serious than 'stealing a bicycle.'

Closely linked with a low level of tax ethics among respondents to the North Carolina survey were negative feelings towards politicians and government. Those who harbored a strong sense of political alienation tended to exhibit weak tax ethics. Attitudes towards government and the tax system can affect compliance behavior. A perception of inequity in the tax system motivates individuals to correct the system by cheating on taxes. Participants in one laboratory simulation who were made to believe that they paid a higher

tax rate than others of the same economic status, were more likely to evade taxes than those who were told that they were in an average or low tax rate category (Spicer and Becker, 1980). Swedish taxpayers hold strongly negative attitudes towards their tax system because of its complexity. (Vogel, 1974). Tax forms and tax regulations are so difficult, Vogel asserts, that the system contributes to a 'breakdown of preexisting compliance norms' (1974, p. 513).

A perception of inequity is also stimulated when citizens discern that there is an unequal exchange of governmental benefits received for taxes paid. When benefits obtained are perceived to be unequal to tax obligations, the taxpayer is perhaps more prone to justify evasion. Perceptions of inequity in the governmental exchange relationship have, in fact, been linked to the practice of tax evasion (Spicer and Lundstedt, 1976).

It is important to emphasize that perceptions of inequity are not necessarily accurate evaluations of the individual's situation. Citizens cannot normally attach a dollar value to governmental benefits and therefore cannot easily make comparisons with taxes paid. Tax evasion might in some cases be due to misperceptions about the tax system. Etzioni (1986) gives evidence of the problem of misperceptions in his study of citizen attitudes between 1960 and 1980 towards the federal tax system. While federal income tax rates remained fairly steady during that period of time, opinion polls indicate perceptions of unfairness in the tax system grew dramatically. At the same time, the nation experienced a tremendous increase in tax evasion.

Social relationships and interactions compose another set of noneconomic variables. Political attitudes, perceptions and learning are affected by one's peers, family and social institutions. Receptivity to committing tax evasion is influenced by social interactions in much the same way as other forms of political behavior. Persons who know of friends and family members who cheat on taxes are more likely to cheat themselves, than individuals who do not have such acquaintances. (Kaplan and Reckers, 1985; Vogel, 1974; Yankelovich, Skelley and White, 1984). Those friends and relatives somehow make evasion more acceptable. Furthermore, it has been found that interpersonal networks act to reduce an individual's fear of governmental sanctions (Mason, 1987). The combined messages often espoused in those networks that evasion is acceptable and government enforcement action is not to be feared, offer potent incentives to those predisposed towards non-compliance.

On the other hand, social relationships can also help deter tax evasion. Citizens can be dissuaded from engaging in illegal behavior out of fear of social sanctions obtained should their action be discovered and revealed publically (Grasmick and Green, 1980; Grasmick and Scott, 1982). This is a particularly fascinating noneconomic sanction. Conviction of tax crimes potentially damages a person's reputation as a professional, citizen, parent or

spouse. The convicted evader can quickly settle accounts with the government by paying monetary penalties, but social stigmas can be long lasting.

While discoveries of the impacts of noneconomic variables challenge the economic model of taxpayer behavior, our understanding of the interworkings of the mind leading to selected behavior is still limited. Why do people find tax cheating more acceptable when close friends or family cheat? What steps take place in the mind of the individual between conception of tax inequity and the decision to evade or comply with tax laws? Studies have revealed certain factors tend to stimulate or discourage tax evasion, but more needs to be known about the sort of mental processes that take place once external stimuli have been internalized.

Two studies do provide insight into the matter of internal decision making processes. In the first, Thurman, St. John and Riggs (1984) explore the effects of guilt feelings experienced by persons contemplating illegal behavior. A feeling of guilt is very effective in preventing illegal behavior but, as neutralization theory suggests, individuals are capable of overcoming the restraints of guilt. The authors explain the 'neutralization theory is based on the notion of a before-the-fact justification process that reduces (neutralizes) the threat of guilt feelings which potentially arise from anticipated involvement in deviant behavior' (p. 311). Justifications often employed include denial that the behavior does any harm, ascription to others blame for unjust rules, or concluding that one's overall behavior is good.

A sample of taxpayers in an Oklahoma community were surveyed to assess anticipation of future evasion and feelings of guilt. Those who expressed a high level of guilt towards cheating were less likely to anticipate evading taxes in the future, than those with low levels of guilt. Respondents with low levels of guilt and who contemplated cheating justified their behavior using reasons like those cited above.

These findings are complemented by Hite's study (1987) of attribution theory. Once the evasion act has been committed, people are likely to attribute deviant behavior to external causes (a complex tax system, unfair legal loopholes, few government benefits, high taxes), than to internal causes (lack of ethics, poor economic situation, low sense of guilt, poor citizenship). The tax evader is able to preserve his or her personal integrity, while committing an illegal act. Other cheaters may not be so favorably conceived, but ones own self is protected from suffering personal recrimination.

These two studies suggest the linkages between external stimuli and an individual's determination to either evade taxes or abide by tax laws. Guilt feelings that normally work to restrain illegal behavior can be overcome by knowledge that someone who is loved and respected cheats on occasion. Somehow, evasion does not seem so bad. A belief that government wastes money or overtaxes people provide justification for acting illegally. If govern-

ment is corrupt or inept, it is not right to withhold income so as not to lend support to the system? Yet to be established is whether the perception actually precedes behavior, or a desire to evade taxation leads to finding fault with government.

Justifying values development policies

For the purpose of distinguishing policy types, the discussion so far has sought to draw sharp contrasts between coercive policies and service/values policies. In practice, administrators are not so much confronted with choosing one set of policies over another, as in integrating the two approaches. At times specific actions serve both types of policies. For example, a well-publicized campaign to close businesses with delinquent sales tax accounts not only strikes fear in the hearts of other business people who file inaccurate sales tax reports, but also educates citizens about the problem of tax evasion.

While the choice is not between one set of policies over another, tax departments do make decisions about the mix of policy alternatives. Until recently that mix has greatly favored risk based or coercive policies. However, there is a growing appreciation for service and values based policies, particularly among the states. State tax administrators have been giving greater priority to the service/values policy dimension, but the emphasis is fairly new.

To illustrate, Massachusetts has adopted a policy perspective that calls for expanding taxpayer services and molding the taxpaying values of the state's citizens (Jackson, 1985; Jackson and O'Hern, 1986). That policy direction did not come about until 1983.

Prior to reorganization in 1987 taxpayer services were scattered throughout the Minnesota Department of Revenue, with only a few departmental personnel devoting part of their time to services. Now the department maintains a Taxpayer Services Program with a full-time staff. Among its activities the service responds to citizen inquiries by phone and letter, and provides a number of outreach and educational programs. The revenue department has also developed a three pronged mission statement that includes service as an essential component along with leadership and teamwork (Minnesota, 1988).

Only since 1984 has Alabama's Department of Revenue invested a great deal of energy in 'front-end compliance' through services and education (Easterly, 1987). The department now seeks higher levels of voluntary compliance through improved media relations, distribution of information through various publications, and increased individual taxpayer assistance.

The growing commitment to service and values policies is impressive, but advocates of such strategies encounter significant obstacles. One problem is

demonstrating the productive value of services, education and values messages. Data on liability established by auditors, revenues taken in by collection agents and criminal cases established by tax fraud units easily demonstrate the value of enforcement activities. Public information and taxpayer assistance divisions can provide data on numbers of phone inquiries fielded by operators, letters written in response to citizen questions and requests, publications distributed, speeches made to organizations and groups, and walk-in clients served by field offices. These services are more now than in the past recognized as important, but it is most difficult to demonstrate the effect of such activities on compliance and revenue generation. Elected officials and administrators have to accept on a certain amount of faith that services and education produce significant positive results.

A second related obstacle is that in the competition within tax departments for a limited amount of revenue, service and values activities are at a competitive disadvantage. Since enforcement programs produce quantifiable results it is likely that the greatest share of new investments in personnel and computer systems will go to auditing, investigations and collections functions.

A third potential obstacle is fear of risk-taking. Ira Jackson relates from his experience in Massachusetts that one of the most imposing difficulties in accomplishing innovation is 'the common risk-averse attitude in tax administration' (1986, p. 345). Many of the service/values policies are untried and represent a significant departure from traditional routines. Overcoming bureaucratic inertia is no small task.

Proponents of service/values policies not only must be aware of the potential roadblocks, but must be able to offer sound justifications for investment in those programs. Empirical studies of taxpayer behavior have suggested the potential value of education, service and molding citizen attitudes, but more work needs to be done toward achieving an understanding of the relationship between noncoercive tax policies and taxpaying decisions. To contribute to that dialogue, the following hypotheses regarding the benefits and strengths of service/value policies are offered.

1. Compliance policies based on instilling values are effective in that they have longer lasting effects on taxpayer behavior than do policies based on risk. Kenneth Boulding's concept of grants is instructive here. Boulding defines a grant as a 'one way transfer' from one party to another in which there is no exchange of economic goods, but in which 'non-exchangeable' or 'noneconomic' goods may pass (1981, pp. 2-3). By defining grants in this way, the strict concept of exchange found in much of the economic literature is rejected. Relationships among individuals are not perceived as zero sum events in which tangible goods of equal value are exchanged. Instead, grants are

often made that benefit the recipient but not necessarily the grantor. Grants in society arise out of 'love' (*A* voluntarily makes a gift to *B* to improve *B*'s welfare) and 'threat' (*A* exacts a grant from *B* by threatening some sort of harm if *B* does not comply).

Grants are no small part of the economy, Boulding asserts; rather, grants are pervasive and include, among numerous other interactions, the tax system. While an exchange of sorts occurs in the tax system – citizens exchange money for services – the payment of taxes often takes on the character of a grant. Taxpayers pay for roads, dams, educational services, scientific research, foreign aid, social services, and a host of other governmental programs which do not transfer direct benefits to them. Taxes paid contribute primarily to the good of the society and secondarily to the good of the individual.

An economic model of behavior would predict that if taxes are grants, then they are the type made possible by fear. Individuals want to maximize self-interest, thus they must be compelled to pay taxes by a government that threatens undesirable sanctions for noncompliance. Credible threats are effective and necessary, but if we believe as Boulding does that benevolence in human relationships is required to achieve the greatest public good, as opposed to social relationships resting on individual self-interest, then government would be quite right in developing compliance policies around the dimension of love.

Reflecting on the question as to why people are motivated to sacrifice for future posterity, Boulding writes that 'in order to establish a satisfactory identity one must maintain some sort of community, however uncertain and discounted, not only with one's own day but with the whole human race as it stretches out through time and space' (1981, p. 122). In emphasizing tax-paying values, tax agencies appeal to that sense of community identity and human capability for benevolent behavior. Internal norms which value actions beneficial to the community are reinforced and strengthened. Community and citizenship values become a permanent part of the psyche, making compliance more a reflexive action. Furthermore, the power of rationalization strategies to justify evasion are diminished through reduction of fear of taxing authorities, and improving knowledge of administrative processes and legal obligations. It becomes harder to establish perceptions of an inhumane tax system that tries to trick people into paying higher taxes through hiding information. Consequently, transfer of blame for deviant behavior becomes increasingly difficult.

Penalty threats have no long lasting effects. In a situation in which threat is the only motivation behind taxpaying, any lapse in sanction credibility produces an automatic evasion response. When presented the opportunity, taxpayers will hide earned income from tax authorities or take false deductions.

Certainly, threat cannot be absent from tax policy and love will have its limitations. People will always be tempted to cheat on taxes, and community interest will not be so dominant as to preclude the questions always on the taxpayer's mind, 'What's in it for me?' Values policies, however, offer a behavioral dimension too often ignored by tax agencies – the willingness of citizens to contribute to the commonweal. A few state revenue departments have moved in that direction, conducting media based campaigns which stress the burdens tax evasion places on society (Snavey, 1988).

Testing this hypothesis will be most difficult. Raw data showing improved compliance offers few clues as to the causes of altered behavior. Focus group studies offer a first step. Extensive interviews with citizens from different economic, occupational and social groups can help uncover the strength of the taxpaying as a civic duty attitude. Experiments comparing behavior in hypothetical situations of individuals exposed to values messages to those who have not received such messages, will give indication as to the potential effects of values policies. Survey instruments might also yield information on the influence of internalized norms, but will be of limited utility in identifying the direct effects of governmental conscience appeals. Nevertheless, confirming that civic consciousness is a strong motivator should be sufficient to justify values and service compliance policies.

2. *Values oriented compliance policies are effective because they are reinforced by several societal institutions.* Churches, service clubs and schools typically promote the virtues of honesty and civic mindedness. Using educational programs, speeches and training programs, tax agencies can work through such institutions to expound the principles of honesty in taxpaying. Dialogue with social institutions might consequently influence the word-of-mouth network of communications.

Laboratory experiments are one means by which immediate impacts of educational programs might be discerned. One can imagine, for example, taking a group of high school or college students and posing scenarios to them in which they are provided the opportunity and inducements to cheat in taxpaying situations. Following a course in which tax system education is provided and taxpaying ethics discussed, a second scenario experiment would be conducted as a means to discover any changes in behavior. Follow-up experiments at some extended period of time would aid in detecting the long-term effects of educational programs.

Social institutions as well as business and professional associations also help spread information about tax laws. Federal and state tax officials cultivate dialogue with various business and professional groups through speaking engagements and specialized publications. Tax departments identify common compliance problems encountered by occupational and business groups

(farmers, automobile dealers, physicians, druggists and the like), and work through their associations to better inform members of the application of tax laws to their particular situation. Monitoring compliance within business and professional sectors in which tax agencies work, can give evidence of the success of educational programs. Tax agency officials might expect that an added affect of educational efforts among business and professional sectors will be to embolden compliance ethics.

Working in concert with social institutions, business and professional groups and personal communications networks, tax agencies spread the work of developing compliance values and fostering voluntary compliance throughout society. Coercive policies can only be implemented by the tax agencies and other departments of government, whereas implementation of service and values based policies is shared with private institutions.

3. Values/Service oriented compliance policies are effective because they build strong bonds between citizens and government. Taxpaying can be conceived of as a form of mass political participation, albeit one that has a strong compulsory side to it. The compulsory component tends to heighten citizens' interest in the taxpaying act due to the greater realization of personal interest than is found in purely voluntary acts like voting. Because of the direct personal stakes, citizens are inclined to engage in active critical evaluation of the tax systems.

Tax agencies can attempt to mitigate citizens' misgivings by striving to reinforce the voluntary aspects of taxpaying. Risk based policies work not so much on voluntary compliance as they do on fear of noncompliance. Values and service based policies stimulate voluntary participation by establishing a cooperative relationship between citizens and government. Tax agencies pose not an image of fear, but an image of citizen service. Tax agencies can deflect citizen anger against the tax system by working to aid comprehension of laws, tax forms and processes. They do so by providing ample resources to answer taxpayer questions, by educating citizens through newsletters, news releases, public service announcements and presentations to community groups, and by establishing bureaus or offices that intervene on behalf of taxpayers who have not received fair treatment by the agency collecting taxes.

There are limitations on the ability of taxing agencies to establish strong partnership bonds between citizens and government. Citizens' perceptions of a fair tax system may very well be shaped by both the mixture and burden of taxes and the composition of government expenditures. Bird (1982) has presented evidence suggesting that even when tax burdens are declining, citizen dissatisfaction will increase if they perceive that they are receiving fewer government services. Tax agencies have limited influence over the tax and expenditure policies enacted by elected legislators, and thus will be con-

strained in promoting positive taxpaying attitudes. Even so, as the governmental agents with whom citizens have the most direct and continuous contact in the act of taxpaying, tax agencies can exert significant influence over taxpayers' evaluations of government. The creation of a strong service orientation at the tax agency may very well temper whatever resentments people hold towards government and taxation.

Testing of the hypothesis might be conducted through administration of surveys to citizens over a period of time. Several state governments have in recent years built up their service offerings, while others have given services less attention. A comparative survey among states with varying degrees of service provisions would aid in distinguishing the effects of services on attitudes and behavior.

A survey can gather several bits of information including citizens' knowledge of tax services, experience with agency provided assistance and information, evaluation of services obtained, perceptions of state tax policies and expenditures, and perceptions of federal and local taxes. An initial survey would attempt to discern any differences in attitudes and perceptions between states, and among those with different degrees of exposure to tax services. Subsequent surveys would document change over time as service offerings expand and mature.

4. Values/Service based policies are effective because they lessen the probability that arbitrariness and injustice will occur in tax administration. As tax agencies rely more and more on computer technology to process documents, cross-check increasing amounts of data on taxpayers, conduct increasing numbers of audits and collect liabilities, inevitably more cases will arise in which audits improperly establish a liability or unnecessary collections actions take place. Mistakes can be made by data entry people coding information from tax returns into computers files, or documents cross-checked for information can contain false information. Where the audit leads to establishment of additional liability, the burden of proof that the assessment is unjustified is on the taxpayer.

Tracking down mistakes in tax processing is a difficult, time consuming task. In the meantime, the taxpayer suffers several costs. Persons desiring to stop the accumulation of interest on the liability will have to put up a cash bond to be held by the agency. This ties up personal resources and deprives the citizen of investment earnings. If a loan has to be acquired to pay the bond, the citizen pays interest expenses. Other personal costs include time spent on protesting the decision, money paid for legal counseling and mental anxiety. Even when the citizen succeeds in proving the audit was wrong, a sense of injustice may prevail.

Values development policies cannot halt improper assessments or other

inappropriate administrative actions, but because the focus of values policies is on honest rather than dishonest behavior, more department resources will be devoted to timely resolution of cases in which the system has failed. Taxpayers need access to someone in the tax agency who will listen to their pleas that a mistake has been made. A third party is needed to intervene on the citizen's behalf in cases and in which people have been caught in bureaucratic routines and technological failures.

Furthermore, values based strategies function to prevent nonroutine encounters with the tax agency. Taxpaying decisions can in part be explained by the concept of bounded rationality. Possessing limited knowledge and understanding of a complex tax system, citizens develop taxpaying routines that change only incrementally (Scholz, 1985). Strict adherence to routines will lead to inadvertent evasion when decision routines become out of sync with tax law changes. Broad based educational efforts and tax help services nudge citizen to change their routines so that reporting mistakes can be avoided.

In short, injustice can be depressed and citizen mistakes avoided through constant education, by embracing ombudsman functions and by giving greater attention to building honest behavior.

Tax agencies can compile data regarding improvements in tax return accuracy, reduction in problem cases in which the agency was at fault, spending up the handling of disputes, and reduction of cases requiring intervention of an ombudsman. These data give evidence of success in improving services. Enhancement of a sense of fairness in tax administration might further be confirmed or disputed by the type of survey instrument described in the third hypothesis.

The four hypotheses are a beginning point for thinking about the worth of tax compliance policies based on service provision and values development. Testing the hypotheses in ways suggested above or in a manner others devise will yield information of important theoretical and practical value. There is an exciting agenda ahead for students of tax policy, and a tantalizing array of prospective policies for tax officials to experiment with.

Conclusion

This essay has surveyed studies of taxpaying behavior, noting that while the economic model of behavior is applicable, it is an incomplete model. Studies have demonstrated that taxpaying decisions are influenced by political attitudes, social interactions and other noneconomic factors. The research findings suggest that compliance policies which emphasize increasing risk for tax evasion will not in themselves be sufficient to curb cheating. A more compre-

hensive approach includes strategies to develop strong taxpaying values and gives emphasis to service and education. Potential benefits of service/values policies are that they have longer lasting effects on behavior than coercive policies, that societal institutions will reinforce compliance values, that strong bonds are built between citizens and government, and arbitrariness and injustice in tax administration is reduced.

Tax agencies and policymakers do not have to choose one set of policies over another. Taxpayer decisions are influenced by a combination of economic self-interest factors and noneconomic criteria (Spicer, 1986), therefore both the coercive and service/values policy approaches are necessary. The choice to be made is one of balancing the two types of policies. At this time technology and the desire to increase government revenues without raising taxes, tend to tip the balance in favor of coercive policies. If, however, through experience tax agencies find that service and values policies influence tax compliance, our society may witness a lessening of dependency on coercive policies.

Acknowledgements

I would like to express my deepest gratitude to William Ascher and an anonymous reviewer for their insightful, instructive comments. They have stimulated my thinking and aided me in making important improvements to this paper.

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