PRESS RELEASE
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GIVE TAXPAYERS A VOICE:
New experimental research shows how to make people feel better about paying taxes and cheat less

If people are given the opportunity to express a preference on how their taxes are spent (but not actually make the final decisions), they are much less likely to cheat on their taxes. That is the central finding of an experimental study published today by the LSE’s Centre for Economic Performance and Harvard Business School.

The research by Professors Cait Lamberton, Jan-Emmanuel De Neve and Michael Norton suggests that the annual tax filing process offers an unexploited opportunity for governments to engage with taxpayers – and one that could be a low-cost way to help address the estimated annual UK ‘tax gap’ of £42 billion due to non-compliance.

The authors’ proposals are already generating interest in launching pilot schemes from the tax authorities in the UK and elsewhere. Professor De Neve comments:

‘Simply making the tax form more interactive can increase tax compliance, while empowering citizens and improving their attitudes towards taxation.

‘What’s more, the costs are low: most of us have to go through the tax process every year, whether on paper or online, and our intervention simply involves giving taxpayers an opportunity to express their opinion on where their tax money goes.’

The researchers examine whether it is possible to make people hate taxes a little less, and in the process raise tax compliance. They find that there are two critical dynamics underpinning people’s tax aversion:

• First, taxpayers have little sense of where their money is actually going – unlike buying a sandwich, where you know exactly what you get for your money.

• Second, taxpayers feel that they have no influence in the decision-making as to where their taxes will be spent. As a result, paying taxes can feel like dumping a lot of money into a black hole.

The research team proposes two simple solutions to these two issues:

• The first is to inform people better, bridging the knowledge gap between paying taxes and the public goods that taxpayers receive in return.

• The second is to give taxpayers an opportunity to express their preferences on public spending – to give them increased ‘taxpayer agency’.

Their first experiment brought almost 200 people into the lab to complete some tasks in return for cash, with one catch: they were informed that they would need to pay a 30% tax on their wages and leave it behind in envelopes. Some people were allowed to say where they thought their taxes should be spent – for example, on improvements to the lab.

Compared with people not given this ‘taxpayer agency’, a lot more money ended up in the envelopes from those given a voice. In fact, full tax compliance rose from 52% to 68% simply by allowing people to express their preferences.
Even better, when they were asked how they felt about the process, people given agency weren’t any less happy – even though they’d given more of their money. Indeed, their attitudes towards taxation actually improved.

The second experiment explored whether ‘taxpayer agency’ might lead people to be less likely to take a questionable tax loophole. Some people were shown a pie chart of the US national budget – broken down into actual spending categories – and allowed to say what they thought the budget priorities should be by playing with the allocations in the chart. It was clear that while their preferences would be taken into account, the policy-makers would continue to make the final decisions.

Did people cheat more or less? As before, there was a big shift: those who played around with the budget were much less inclined – a full 20% less likely – to take the questionable tax loophole.

The research shows that these effects occur when taxpayer agency is non-binding – people are given a voice in the process but not the actual decision – making the results distinct from the old hypothecation debate. Participants in the experiments knew that their preferences would be non-binding – what mattered was that they felt that they were able to contribute to tax policy.

In addition, the results reveal that adding taxpayer agency is substantially stronger than simply providing information about how taxes are allocated. This is practically important, as both the United States and the UK have placed stock in the power of information in increasing taxpayer satisfaction and, presumably, compliance.

It is also notable that, offered the opportunity to express their preferences for the allocation of the US national budget, there were no dramatic changes from the current spending distribution. Defence spending came down a bit, and education and job training went up. Generally, however, people’s aggregate preferences did not deviate significantly from current priorities.

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Notes for editors:

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