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TAX MORALE IN THE EUROPEAN UNION

IMPUESTO MORAL EN LA UNIÓN EUROPEA

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Abstract

In recent years, experts are also becoming to pay more and more attention to the problem of difference tax morale between countries, sometimes even locating in one region. Moreover, according to last studies in this subject, it was found out that level of tax morale highly depends on such factors as political regime, the levels of social and economic development of countries, the moral values of its citizens and the social norms of the society in which they live, as well as the percentage of shadow economy in the financial sector of the country.

Keywords

Tax – European Union – Morale

Resumen

En los últimos años, los expertos también están prestando cada vez más atención al problema de la moral tributaria de las diferencias entre los países, a veces incluso localizándose en una región. Además, según los últimos estudios en este tema, se descubrió que el nivel de moral tributaria depende en gran medida de factores como el régimen político, los niveles de desarrollo social y económico de los países, los valores morales de sus ciudadanos y las normas sociales del país, sociedad en la que viven, así como el porcentaje de economía sumergida en el sector financiero del país.

Palabras Claves

Impuesto – Unión Europea – Moral

Introduction

Nowadays there is no doubt that a high level of tax morale provides a general increase in governments' tax revenues. On the contrary, a low level of tax morale could result in worsening social and economic situations of every country. That is why the current study of tax morale level plays a paramount role in tax policy of every state.

In recent years, experts are also becoming to pay more and more attention to the problem of difference tax morale between countries, sometimes even locating in one region. Moreover, according to last studies in this subject, it was found out that level of tax morale highly depends on such factors as political regime, the levels of social and economic development of countries, the moral values of its citizens and the social norms of the society in which they live, as well as the percentage of shadow economy in the financial sector of the country.

Therefore, the purpose of this work is to show and prove taking as the example the EU region how the above mentioned factors can influence on the formation tax morality of citizens of EU and explore which state and public methods of regulation tax morality are actively used by the governments of this region to maintain the necessary level of tax revenues.

1.- What is tax morale? The first step of studying tax morale in the EU

The notion of "tax morale" is not a new one, but it has received surprising little attention in the tax compliance literature. At the same time in the scientific literature there is no one universal explanation of the notion "tax morality". Searching through many sources dedicating this theme one could think himself out the following conception: tax morale is the level of readiness and willingness of citizens to pay taxes in time and fully.

Back to our studies, the first research in tax morale on the territory of EU was conducted during the 1960s by the "Cologne school of tax psychology"¹, who tried to build a bridge between economics and social psychology by emphasizing that economic phenomena should not only be analyzed from the traditional neoclassical point of view. In particular, they saw tax morale as an important and integral attitude that was related to tax non-compliance. For example, Schmolders² analyzed tax morale among self-employed workers in Europe, and he concluded that self-employed taxpayers had lower levels of tax morale than taxpayers who worked for other people or organizations. Strümpel³ also analyzed tax morale among European taxpayers. He conducted an international comparative survey in Europe, in which he compared both the tax systems of the various European countries and the level of tax morale among each country's taxpayers. He found that tax morale in Germany was comparatively low, whereas in England it was comparatively high. Strümpel⁴ went on to suggest that the major difference between the German and English tax systems at the time was that the German government made use

¹ G. Schmolders, *Das Irrationale in der öffentlichen Finanzwissenschaft* (Hamburg: Rowolt, 1960); G. Schmolders, 'Survey Research in Public Finance: A Behavioral Approach to Fiscal Theory'. *Public Finance*, Vol. 25, (1970) 300-306 y B. Strümpel, 'The Contribution of Survey Research to Public Finance'. In Alan T. Peacock (ed.), *Quantitative Analysis in Public Finance* (New York, NY: Praeger Publishers, 1969).

² G. Schmolders, *Das Irrationale in der öffentlichen...*

³ B. Strümpel, 'The Contribution of Survey Research...

⁴ B. Strümpel, 'The Contribution of Survey Research...

of coercive tax enforcement techniques, while the English system treated taxpayers with more respect and less control. Strümpel⁵ also argued that the enforcement strategies used by the Germans served to alienate the public, and that this alienation had a negative influence on their tax morale. He suggested that the English system, in contrast, helped to cultivate tax morale (although he did note that such a system might have offered easy opportunities for avoidance and evasion).

Tax morale is closely linked to what some other authors refer to as “taxpayer ethics”, defined by Song and Yarbrough as “the norms of behavior governing citizens as taxpayers in their relationship with the government”. It has also been suggested that tax morale is likely to be affected by the nature of the fiscal exchange between taxpayers and government. For example, Feld and Frey⁶ argue that the way in which government treats taxpayers affects taxpayer morale. They also argue that the demonstration that the government trusts taxpayers will be rewarded by greater taxpayer trust in government, which also improves tax morale. Relatedly, Smith and Stalans and Smith present some evidence that reciprocity (e.g., positive rewards for honest behavior) can be an important inducement for compliance.

2.- Tax morale in the EU and methods of its regulation

According to research held by James Alm and Benno Torgler⁷ (2006) the following countries have the highest level of tax morale in the world: USA, Australia and Switzerland.

Development of Tax Immorality

<i>country</i>	<i>1960</i>	<i>1965</i>	<i>1970</i>	<i>1975</i>	<i>1978</i>	<i>1960-1978</i>
Austria	5.5	6.7	9.0	10.6	10.9	5.4
Belgium	7.1	8.6	11.6	13.7	14.0	6.9
Denmark	2.2	2.7	3.6	4.2	4.4	2.2
West Germany	5.5	6.7	9.0	10.6	10.9	5.4
Finland	2.2	2.7	3.6	4.2	4.4	2.2
France	8.7	10.6	14.3	16.9	17.3	8.6
Great Britain	2.2	2.7	3.6	4.2	4.4	2.2
Ireland	3.8	4.7	6.3	7.4	7.6	3.8
Italy	10.4	12.6	17.0	20.1	20.6	10.2
Japan	3.8	4.7	6.3	7.4	7.6	3.8
Canada	3.8	4.7	6.3	7.4	7.6	3.8
Netherlands	5.5	6.7	9.0	10.6	10.9	5.4
Norway	2.2	2.7	3.6	4.2	4.4	2.2
Sweden	2.2	2.7	3.6	4.2	4.4	2.2
Switzerland	0.6	0.7	1.0	1.2	1.2	0.6
Spain	7.1	8.6	11.6	13.7	14.0	6.9
USA	3.8	4.7	6.3	7.4	7.6	3.8

⁵ B. Strümpel, ‘The Contribution of Survey Research...

⁶ B. S. Frey y H. Weck-Hannemann, ‘The Hidden Economy as an “Unobserved” Variable’. *European Economic Review*, Vol. 26 (1984) 33 – 53.

⁷ J. Alm y B. Torgler, ‘Culture Differences and Tax Morale in the United States and in Europe’. *Journal of Economic Psychology*, Vol. 27 Issue 2 (2006) 224 – 246.

Development of Tax Immorality

<i>country</i>	<i>1960</i>	<i>1965</i>	<i>1970</i>	<i>1975</i>	<i>1978</i>	<i>1960-1978</i>
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Belgium	7.1	8.6	11.6	13.7	14.0	6.9
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France	8.7	10.6	14.3	16.9	17.3	8.6
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Italy	10.4	12.6	17.0	20.1	20.6	10.2
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Canada	3.8	4.7	6.3	7.4	7.6	3.8
Netherlands	5.5	6.7	9.0	10.6	10.9	5.4
Norway	2.2	2.7	3.6	4.2	4.4	2.2
Sweden	2.2	2.7	3.6	4.2	4.4	2.2
Switzerland	0.6	0.7	1.0	1.2	1.2	0.6
Spain	7.1	8.6	11.6	13.7	14.0	6.9
USA	3.8	4.7	6.3	7.4	7.6	3.8

Tax Morale in Transition Countries (in %)

Countries	1990-1993	1995-1997
<i>Former Soviet Union</i>		
Azerbaijan		47.8
Belarus	44.4	40.7
Estonia	64.6	42.4
Georgia		49.7
Latvia	64.4	31.3
Lithuania	57.0	46.1
Moldova		39.0
Russia	54.2	46.4
Ukraine		41.4
Average	56.9	42.8
<i>Central and Eastern Europe</i>		
Armenia		41.1
Bulgaria	57.4	65.3
Bosnia		56.4
Croatia		36.6
Hungary	56.3	
Macedonia		61.4
Montenegro		48.4
Poland	49.3	55.2
Romania	67.7	
Slovenia	68.5	53.9
Serbia		56.0
Average	59.8	52.7

Moreover, looking through these schemes one could notice that the level of tax morale between the EU countries obviously differs: The north lands of the EU have better tax morale levels than the south. The reasons of such difference were accurately explained in the research of Frey and Weck⁸.

According to their study authors have come to conclusions that those EU countries with a strong direct democratic tradition, where taxpayers are treated as “citizens” with extensive rights and obligations and possess the opportunity to vote on fiscal issues, with people who are involved in the political decision process have the highest level of tax morale. To these EU countries, first of all, can be related Switzerland, Great Britain and Denmark, which use the instrument of direct democracy as a helper in spending taxes according to their citizens` preferences and as a motivator in contributing paying taxes in time and fully.

The results of research held by Frey Weck were similar to some previous findings. For example, Pommerehne and Weck-Hannemann use cross-section/time series regressions with Swiss data, and they find that tax evasion is lower in cantons with a higher degree of direct political control. Torgler⁹ also finds with Swiss survey data that a higher direct democracy leads to higher tax morale. So, all these researches can prove that the less direct democracy as well as treatment taxpayers more respectfully can contribute greatly in increasing level of tax morale in country.

What is more, every government can influence on its citizens` level of tax morale by implementing some juridical methods. For instance, it could be made some additional legal changes in tax legislation about different tax crimes to the sight of increasing responsibility for their commitment.

To make it work on practice in 2007 The European Commission created the general and universal tax legislation standards, in accordance with which tax morale standards should have been implemented all over the EU territory. It has also been admitted as one of the effective method of increasing tax revenues in the EU as well as in every EU state. In additional, tax authorities from the EU always try to keep in touch with their tax payers for getting feedback from them in order to estimate the effectiveness of their work and prevent potential problems in tax legislation system.

It goes without saying that one of the most dangerous enemies of tax morale is corruption, because it plays the pivotal role in shadow economy by increasing its amount with illegal transactions. For instance, it was estimated that due to corruption and shadow transactions budget of every EU state loses annually about 120 billion euros¹⁰. That is why it is extremely important also put attention to the methods of regulation the shadow economy. To follow this idea in 2012 the European Parliament established the special tax project that includes 34 different prescriptions for struggle against illegal transactions on the EU territory. Moreover, in 1993 it had been already admitted and recognized the fact that only a close cooperation among the EU lands can lead to a productive and effective

⁸ B. S. Frey y H. Weck-Hannemann, 'The Hidden Economy as an...

⁹ B. Torgler, Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis. Edward Elgar Publishing, Cheltenham, UK and Northampton. USA. 2007.

¹⁰ Corruption in the EU brings a loss of €120 billion // Europ.com. News of Ukraine and World, 25.03.2013. URL: <http://europa.com/europe/eu/1859-korruptsiya-v-es-nanositushcherbv-120-mlrd>

struggle against shadow economy all over the EU territory. This principle still stays the major in tax policy of the EU.

Tax Morale and the Size of Shadow Economy (1994-1997)

	<i>Tax Morale (%)</i>	<i>Size of Shadow Economy (%)</i>
	<i>1995-1997</i>	<i>Average 1994-1997</i>
Japan (Ja)	80.6	10.6
US	73.6	9.0
Spain (Sp)	69.5	22.7
Bulgaria (Bul)	65.3	33.9
Austria (Au)	62.1	13.9
Macedonia (Mac)	61.4	46.5
Poland (Pol)	55.2	19.9
Slovenia (Slo)	53.9	24.0
Switzerland (CH)	53.7	7.3
Georgia (Geo)	49.7	62.6
Sweden (Sw)	49.3	19.1
Azerbaijan (Az)	47.8	54.2
Norway (No)	47.5	18.8
Germany (Ge)	46.9	14.2
Russia (Rus)	46.4	39.0
Lithuania	46.1	36.1
Estonia (Est)	42.4	27.8
Ukraine (Ukr)	41.4	50.5
Belarus (Bel)	40.7	32.3
Moldova (Mol)	39.0	37.7
Croatia (Cro)	36.6	33.4
Latvia (Lat)	31.3	39.1

Conclusion

To sum up, it should be admitted one more time that nowadays tax morale and its studying are indispensable for successful government's tax system. Tax morale is not only pivotal for tax policy but it has become extremely recommended by many experts to take it into account before implementing new changes in tax legislation. This idea is strongly supported by such significant economic subjects like The World Bank and IMF¹¹, who at the same time continue to emphasize the importance of broaden knowledge in this sphere.

¹¹ B. Nerré, 'Tax Culture: A Basic Concept for Tax Politics'. Economic Analysis and Policy, Vol. 38 Issue 1 (2008) 153 – 167.

However, this call of strengthening in tax morale subject in some way or another contradicts the traditional approach of EU tax policy, which has been followed by the EU too long time. It prescribes concentration every EU state only on defense its own tax revenues, but as practice has proved this approach is not suitable for today's globalized world. Cooperation and Unification of the EU lands' tax legislation should become the key method of boosting confidence and power of tax system of the EU where tax morality plays also a major role.

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