

# Learning from Academic Research on Tax Compliance?

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- I. Insights from theoretical research
- II. Insights from field data and controlled field experiments
- III. Insights from laboratory experiments
- IV. Summary: What does all of this evidence really show?
- V. Devising policies to control evasion

# ***I. Insights from theoretical research***

- Enforcement matters – but many other factors matter in the tax compliance decision beyond enforcement.
- Individuals do not always behave as assumed in the standard economic approach: Behavioral economics and its applications to individual behavior.
- Individuals are social creatures: Behavioral economics and its applications to group behavior.

## ***II. Insights from field data and controlled field experiments***

- Deterrence works.
- Even so, the responses to higher audit rates are often small and differ across individuals – and not everyone responds.
- Withholding matters, and matters a lot.
- Other fiscal incentives matter (e.g., tax rates, benefits).
- Group factors matter in the individual decision.

### ***III. Insights from laboratory experiments***

- Deterrence works.
- Even so, the responses to higher audit and penalty rates are often small and differ across individuals – and not everyone responds
- Individual and group payoffs/rewards matter.
- Uncertainty matters, although its effects are not always clear cut.
- In the face of uncertainty, services matter.
- Cognitive considerations matter: Many individuals overweight the probability of an audit.
- Process matters.
- Audit selection matters.
- Audit information matters.
- Individual motivations matter.
- Tax amnesties matter.

## ***IV. Summary: What does all this evidence really show?***

- Individuals are influenced by narrowly defined, and individually based, financial considerations and by the ways in which they process this information.
- Individuals are influenced by social considerations (e.g., a “social norm”).
- Individuals cannot be represented by a single representative agent, but must be considered a collection of different segments.

## ***V. Devising policies to control evasion***

- **The “Enforcement” paradigm: Increase threats**  
Taxpayers are viewed and treated as potential criminals, and the emphasis is on repression of illegal behavior through frequent audits and stiff penalties.
- **The “Service” paradigm: Improve service**  
There is also a role of tax administration as a facilitator and as a provider of services to taxpayer-citizens.
- **The “Trust” paradigm: Change culture**  
Individuals are more likely to respond either to enforcement or services if they believe that the government generally and the tax administration specifically are honest; that is, “trust” in the authorities can have a positive impact on compliance.