

## **Make sure that every taxpayer receives and perceives respectful treatment**

The treatment of a taxpayer by a Tax Administration may impact on the ‘trust relationship’ between the parties, as it can either build or destroy trust. If taxpayers are treated just and fair and perceive the treatment to be that, taxpayers are more likely to accept a decision from the Tax Administration even if it means paying more tax. Treatment, in this regard, is much broader than a service issue. It is about understanding taxpayers’ emotions and ensuring that any interaction with the Tax Administration is a positive experience.

Tax Administrations have an opportunity to make a difference and earn trust independently of the tax matter. Each taxpayer is different and has different needs. Therefore, the treatment should be tailored to meet the taxpayer’s individual needs. However, the treatment should always be respectful regardless of the context (be it a customer service interaction or an audit or a criminal investigation). In this sense, it is important to differentiate between the actions and behaviour of the taxpayer and the taxpayer as an individual.

The first stage in treating taxpayers with respect is to understand the taxpayers’ perspective. This will enable Tax Administrations to identify the taxpayers’ needs and to understand their motivations and behaviours. Emotions play an important role in influencing behaviours so a better knowledge of how emotions shape attitudes and behaviour towards compliance is valuable.

### **Taxpayer’s perception of the treatment they receive**

Behaviour is influenced by several factors and sometimes it may not be based on rational decisions. Emotions play an important role and knowledge of how emotions contribute to compliant behaviour is key. Taxpayers can experience positive or negative emotions. Within negative emotions, Tax Administrations have to differentiate between fear and anger, which might lead to different results on taxpayer’s willingness to comply with their obligations. In short, fear increases risk aversion whereas anger typically leads to more risk taking behaviour. Furthermore, it has to be considered that strong emotions could be caused by the Tax Administration’s behaviour and/or by the economic environment the taxpayer is operating in.

Tax Administrations need to ensure that a taxpayer is treated respectfully and that the taxpayer perceives it that way. Empathy, a helpful attitude, the ability to listen and encouraging the taxpayer to ask questions are important to make the taxpayer believe that he or she matters.

Tax Administration should be proactive rather than reactive when it comes to engaging with taxpayers. It is important that Tax Administrations acknowledge and apologise for any mistakes made. Transparency in decision-making should be the basis of trust. Taxpayers must be treated equally but not necessarily in the same way depending on taxpayers individual needs and consistently. In this way, Tax Administrations show fairness, consistency and empathy and the taxpayer perceives their actions, or non-actions, as a direct way of displaying respect and understanding.

## **Provide respectful treatment**

A taxpayer's perception of the treatment they receive is important, but a Tax Administration's responsibilities go further. Tax Administrations must ensure that the actual treatment of a taxpayer is fair and equal and that everyone receives respectful treatment no matter who they are, what they look like or what they may have done. In this sense, it's important to understand and address preconceptions and to challenge stereotypes.

Tax Administrations need to consider what respectful treatment actually entails. It is not sufficient to try and treat taxpayers respectfully, taxpayers also need to believe that they are being treated respectfully.

In order to ensure that every taxpayer receives respectful treatment, Tax Administrations can undertake a range of customer service initiatives, some of which are proactive while others reactive. In this regard, initiatives could include dedicated training sessions aimed at changing the employees mind-set; collecting and analysing feedback from taxpayers to obtain taxpayers' views on various tax matters; developing and editing Customer Service Manuals, and implementing internal quality controls to ensure that information provided to the taxpayer is correct and that the Tax Administration's customer service standards are adhered to. All the above should be developed and implemented on the basis of a Code of Ethics which should be available and applicable to both taxpayers and Tax Administration staff.

## **Country Examples**

### **FINLAND:**

In the experience of the Finnish tax administration, a way to ensure that all Taxpayers receive respectful treatment is to offer every new tax officer training in the FTA service model (model to meet Taxpayers in different service channels) and to evaluate their interaction skills afterwards. This includes feedback from the Taxpayers and results in guidance on how to address any possible weaknesses.

After the initial contact from the customer to our customer service agent, we send the customer a short text message to evaluate the service quality they just received. Our objective is that 85% of customers give us a good feedback score from this interaction (customer satisfaction). In addition to assessing the quality from the feedback we receive, our internal quality control objective is that every customer contact reaches the quality standards we have set for interaction in our service model. Thus, the internal quality objective is 100%.

### **GREECE:**

The Independent Authority for Public Revenue (IAPR) operates under the status of legitimacy, equity and mutual respect. Significant steps have been made to regain the trust of the Greek taxpayer, difficult as it may be, in the Tax Administration. The main principle that characterises the IAPR actions towards the taxpayers is one of being rigorous at monitoring the problems, yet lenient at evaluating the specific situations. Some examples are:

- Whenever natural disasters, such as fire, flood, earthquakes, or heavy storms occur, the IAPR defers all tax obligations for the specific regions for a significant period, giving the taxpayers time to recover.
- Taxpayers may interact with the IAPR Directorates either through email or through the call centre regarding their queries or problems.
- IAPR is currently editing and publishing handbooks that address specific situations (e.g. Renting Your Property) or taxpayers' groups so that everyone is properly informed of their tax obligations.

IAPR did not have the trust of taxpayers from the beginning. Nowadays things have changed. Taxpayers/citizens are now connecting “independence” with meritocracy and they trust that all citizens are equal towards tax law, regardless of their financial status. Odd as it may seem, should there be a tax law that is not of their interest, it is the Ministry of Finance to blame for (this makes sense, since laws are a result of political production). As for the examples provided, trust has been gained and impacted by them, which is proven by the fact that whenever “something bad happens”, taxpayers freeze their payments for a while, waiting for the IAPR to announce facilitating measures in accordance with the Annual State Budget.

## **SWEDEN:**

### **Perception of attitudes**

On behalf of STA, a survey was done in 2003 in order to understand the public and businesses' perception of STA's attitudes towards them and how these attitudes affected trust. The survey was carried out by a private market survey company. It started with a qualitative investigation using in-depth interviews. The purpose was to map the public and businesses' perceptions of the Tax Administration. The interviewees were divided into different groups, the first division being between business representatives and private individuals. The businesses were then split into different groups according to the size and age of the business. Private individuals were also divided into different sub-groups: young people, the elderly, people with a foreign background and debtors. The next step was 84 in-depth interviews, which was a very large number in order to clarify the differences between the sub-groups.

The result surprised us and taught us a useful lesson. On the basis of our preconceptions, we had not only expected that the various groups would have different opinions, we had also decided what these different groups of people were. The results clearly showed that all of them felt largely the same way. The differences between the groups were not greater than the differences between individuals within a group. All interviewees perceived roughly the same attitudes on the part of the Tax Administration, and everyone wanted to be treated with respect.

Three attitudes – ABC

The qualitative survey showed that both members of the public and business representatives had experienced three different attitudes by the Tax Administration. The Tax Administration behaved with three different ‘faces’. The difference between these ‘faces’ was how the private individual or business owner perceived the treatment they were given, not in how taxation issues were assessed. Regardless of the attitude, individuals and businesses felt that the Tax

Administration had acted correctly and in accordance with the law. Together with the survey company, we called these three attitudes A, B and C to keep them neutral and not create any associations.

Attitude C is characterised by the official being open, listens and is ready to explain. The individual experiences the official as responsive, educational and cooperative. The attitude of the official is perceived as being on an equal footing with the customer and having a positive view of him/her. The official feels that most people are honest but perhaps does not understand the rules and so they need some help. Cases are handled correctly, objectively and fairly. Feelings associated with attitude C are understanding, welcoming and empathy. When the customer meets this attitude, (s)he becomes more open, both to receiving and providing information. (S)he feels secure, respected and gains confidence in the official. This results in the person being able to openly discuss matters, ask questions and concentrate on the matter in hand. Attitude C also leads to optimism, that the customer will receive help, that (s)he will be understood and that results will be achieved. The interviewees also state that it is easier to accept a decision, even to your disadvantage, if you are treated with this attitude. Among other things, the interviewees experienced the following: 'Feel good, expressed my opinions' and 'Inspires confidence. Wants to help and inform'.

Attitude B is characterised by formality and applying the rule book. This treatment of the individual is perceived as impersonal. This leads to the customer feeling (s)he is just an object or a case in the official's eyes. The case may be handled correctly, but not informatively. Attitude B communicates that everyone has the same rights and obligations, but that the public should know the law – if you make mistakes, you must suffer the consequences. Feelings associated with attitude B are indifference, distance and being reserved. The customer's reaction is not being able to relax. (S)he does not feel (s)he can discuss the matter and is unsure whether (s)he understands the official correctly and whether the official has understood her/him. Attitude B leads to nervousness – people feel they don't speak the same language and they are afraid of looking stupid. This could result in them not asking questions and leaving the meeting without having understood the official. The interviewees described the official as 'Hiding behind rules and regulations' or 'Strict and formal, gets irritated if you ask something twice'.

Attitude A is characterised by arrogance and an accusatory manner. The official is felt to exercise his/her power in an insensitive and superior manner. This attitude says that the customer cannot be trusted (wants to evade tax), is careless and/or ignorant. Feelings associated with this attitude are suspicion, correction, superiority and contempt. The reaction to attitude A is that the customer feels trampled on, inferior, of less value and powerless. This means that she either digs in her heels or resigns herself to subservience to get out of the situation as quickly as possible. Interviewees described the experience as 'Feeling small, like being sent to the headmaster' or 'The official is a little bully, treats people instrumentally'.

The result showed clearly that the attitude individuals and businesses want us to have is C. Another important result from the survey was that both A and B reduce trust in the Tax Administration (A more than B) and only C would help to increase trust.

Another image internally

When we had completed this investigation and the pattern of the A, B and C attitudes was clear to us, we also carried out an internal investigation by asking staff which of the attitudes they felt they represented. Not surprisingly, most responded to C. Only 4% admitted that they had an A attitude and a few more said they had a B attitude. It was good to confirm that

customers' perception was different from our self-image. Several of the staff wondered why they should reply to the questionnaire, since they did not come into contact with customers in their work. That made it even more clear to us that we needed to raise awareness of the importance of our attitudes. Regardless of what you work with, the view you have of the people you serve is important. Treatment of customers and culture is about an approach, not just how you act in a specific setting.

## **PORTUGAL:**

The tax function of the State is one of the most demanding of the Public Administration - the demand of excellence and integrity. The nature of the relations that the State establishes with the citizens in this area requires a Tax and Customs Administration (AT) solidly anchored in the values of public service and the integrity of its agents.

The integrity of public service and workers often requires more than just compliance with the law. To the authority that emanates from the law, the services and workers of the AT must add the behavior that radiates from the example of their own professional and public conduct.

It is in the light of individual ethical sensitivity that judgment is made on the conduct that, in concrete terms, best ensures the protection of the integrity of the worker and the service he represents. It is this individual judgment that is intended to surround references to values of public service and personal conduct, with the aim of reinforcing public confidence in the integrity of the service and the professional performance of the workers.

Thus, various ethical instruments have been created by the Portuguese AT, of which Highlights include the letter from the Tax Administration Services User, and the Code of AT workers' conduct, published in July 2015.

The Code of AT workers' conduct establishes what should be done and what should be avoided, not only consolidates the public image of AT and its workers, but is also an instrument capable of promoting cohesion and self-regulation.

The AT welcomes the following principles of conduct: Public Service, Legality, Hierarchy, Impartiality, Equality, Proportionality, Collaboration, Quality and Integrity.

These principles are completed with a set of professional values and ethical values of public conduct, which aim to promote cohesion and self-regulation of individual conduct, including the prevention of real or apparent conflicts of interest, professional and fiscal secrecy, protection of personal data and non-acceptance of gifts, hospitality and other benefits.

With the implementation of the user's charter AT has also made a commitment to each of the taxpayers: The Taxpayer first!

This commitment is established with a set of taxpayers' rights:

- courtesy, respect, speed, correctness, clarity and privacy
- to be attended in the order of arrival
- Elderly, sick, disabled, pregnant and accompanied by children are prioritised

- priority to public attendance about other tasks
- information
- advised about the simplest and quickest procedures for the compliance with their obligations
- the right to know the identity of the Employees to perform the service.
- have the right to complain of the service, either by using the complaints book or by requesting the presence of the person in charge.

In summary, the exercise of authority must be inspired by respect for the dignity and the values of each person. The provision of public service requires participation, cordiality and respect for diversity. Workers must carry out their public activities to reinforce the integrity, transparency, objectivity and impartiality of the public service they represent.

## Evidence from research

### Fairness and mutual understanding matters to taxpayers – and for compliance

In general, procedural fairness in the tax administration's treatment seems to matter to taxpayers. Based on a nation-wide survey of Australians' views of their tax system and its administration (the *Community Hopes, Fears and Actions Survey*), **Braithwaite (2003)** documents that in terms of overall fairness, perceptions of insufficient procedural fairness from the tax office is an important factor along with economic self-interest and satisfaction with the nation's democracy.

However, not only does fairness matter to taxpayers, it also affects compliance. Using data from Australia as well, **Kirchler, Niemiowski & Wearing (2006)** demonstrate that the degree to which taxpayers and tax officials share beliefs and evaluations about a range of issues (including tax law complexity, tax mentality, ethics and social norms and judgments of tax officers and tax preparers' support) is related to taxpayer compliance. This is important, because it indicates that procedural fairness matters: psychological theories propose that parties' mutual view of the central issues at hand shapes the quality of an interaction, and that the quality of interaction, in turn, is a highly important aspect of perceived (and actual) procedural fairness.

### Respectful treatment in audits affects subsequent compliance

While respectful treatment appears valuable in itself also when it comes to audits, research indicates that it also affects subsequent compliance of audited taxpayers. **Frey & Feld (2002)** shows that taxpayers' willingness to pay their taxes (known as *tax morale*) is supported, or even raised, when tax officials treat them with respect in cases of less than full compliance. Measuring different approaches to taxpayer treatment via a survey sent to the tax authorities of the 26 Swiss cantons, the authors also find that when tax officials approach taxpayers

instrumentally, forcing them to pay their dues, taxpayers tend to respond by actively trying to avoid taxation.

Based on a survey of 652 taxpayers who has experienced enforcement from the Australian Taxation Office, **Murphy (2008)** shows that feelings of resentment can mediate the relationship between disapproval and compliance. Specifically, the taxpayer's perception of the enforcement experience (stigmatic or reintegrative) can influence feelings of resentment, which then affects how punishment influences subsequent compliance behavior.

### **Emotions are important, too**

Recently, researchers have begun to study the role of emotions in tax situations, investigating if certain types of emotions have systematic effects on compliance. For example, **Maciejovsky, Schwarzenberger, Kirchler (2012)** conducts a series of experimental studies to investigate how emotions affect tax ethics. The study shows that affective priming and the ease with which tax information is retrieved moderate tax ethics, and that the relative effectiveness of deterrence —such as audit probabilities and tax fines— is moderated by affect.

**Enachescu et al. (2019)** show that tax decisions elicit different emotions, which do seem to have an impact on compliance. Specifically, the researchers find that both *positive* emotions in general and specific *negative* feelings of self-blame, anger, and fear are important: Both self-employed and employed participants reported higher compliance intentions after having positive experiences with the tax authorities as compared to negative ones, and these effects were mediated in different ways by anger-related, self-blame-related, and positive emotions.

Thus, while the study of the significance of emotions in tax situations has yet to yield clear policy recommendations, they do support the general idea of a multifaceted policy approach that emphasizes not only enforcement, but also cognitive and affective aspects of human behavior.

### **Do positive rewards work?**

Although rewarding honest taxpayers to increase compliance sounds good on paper, the answer from empirical research remains unclear. On the one hand, **Bazart & Pickhardt (2011)** shows via a lab experiment that positive rewards in the form of individual lottery winnings for fully compliant taxpayers can have a strong positive impact on tax compliance, as they pull potential tax evaders into the compliant taxpayer domain. However, the authors note that this holds especially for men and in economies with a low rate of tax compliance.

On the other hand, **Brockmann, Genschel & Seelkopf (2016)** find that reward treatments significantly affected tax behavior in their experiment – but not in a straightforward manner: Women altered their behavior as expected and complied somewhat more, while men reacted strongly in the opposite manner and evaded a much higher percentage of taxes than under the baseline.

## References

- Bazart, C. & Pickhardt, M. (2011). Fighting Income Tax Evasion with Positive Rewards. *Public Finance Review* 39(1): 124-149.
- Braithwaite, V. (2003). Perceptions of who's not paying their fair share. *Australian Journal of Social Issues* 38(3): 323-348.
- Brockmann, Genschel & Seelkopf (2016). Happy taxation: Increasing tax compliance through positive rewards. *Journal of Public Policy* 36(3): 381-406.
- Frey, B. S. & Feld, L. P. (2002). Deterrence and morale in taxation: An empirical analysis. *CEPR Working Paper No. 760*.
- Enachescu, Olsen, Kogler, Zeelenberg, Breugelmans & Kirchler (2019). The role of emotions in tax compliance behavior- A mixed-methods approach. *Journal of Economic Psychology* 74, 102194.
- Kirchler, Niemirowski & Wearing (2006). Shared subjective views, intent to cooperate and tax compliance: Similarities between Australian taxpayers and tax officers. *Journal of Economic Psychology* 27: 502-517.
- Maciejovsky, Schwarzenberger & Kirchler (2012). Rationality versus Emotions: The Case of Tax Ethics and Compliance. *Journal of Business Ethics* 109: 339-350.
- Murphy, K. (2008). Enforcing Tax Compliance: To Punish or Persuade? *Economic Analysis & Policy* 38(1): 113-135.