Measuring and Evaluating Trust

It is necessary to have a clear understanding of the areas that need to improve if the Tax Administration is to enhance levels of trust in them and the tax system. This can be achieved by understanding the taxpayers' perception of the Tax Administration, in general, and of its integral parts such as audit, customer care, communication etc. Research shows that in order to build (and maintain) trust, an understanding of the taxpayers' perception of the Tax Administration and other public sector organisations is needed. In addition, the willingness of other taxpayers to comply with their tax obligations is an important factor as this will influence the taxpayer's own behaviour.

Identify areas in need of improvement

The knowledge gained from monitoring and evaluating trust is essential when identifying areas in need of improvement as this will allow Tax Administrations to prioritise what measures and actions are needed, both internally and externally, to build and enhance trust and increase voluntary tax compliance. In the long run this can also serve as an early warning system of a potential increase in non-compliance.

Consider both external and internal sources of information

Tax Administrations should consider undertaking periodic, preferably independent, scientifically based, surveys, in areas where these are not currently being carried out. Moreover, when they are undertaken, Tax Administrations should review the questions being asked to ensure they facilitate an analysis of the level of trust taxpayers have in the Tax Administration and the tax system.

To improve transparency, it is possible for Tax Administrations to publish the methodology used in these surveys and the results obtained.

Tax Administrations can use the results from internal or external studies. Some Tax Administrations are currently gathering information from external customer surveys. When other stakeholders and entities measure and evaluate trust, this information could be of use and benefit to the Tax Administration. In order to get the taxpayers true opinion, it is important that that they are encouraged to give negative or sensitive feedback and that their responses are anonymous.

It may be beneficial to explore the measurement of trust across EU Member States as this could assist Member States in benchmarking their 'trust levels' against comparable Tax Administrations. This will allow Member States to learn from each other's experiences. However, such an approach may not take account of the varying maturity of the different tax systems or the local culture and the results might, therefore, not be reflective of the actual position.

Evaluate the measures taken to build trust

It's important to evaluate and critically review the measures and actions taken to build and enhance trust in order to establish whether they have had the desired effect i.e. increased the levels of trust in the Tax Administration or tax system and therefore increased voluntary tax compliance. This will inform Tax Administrations of what adjustments or adaptions are required to their strategies and programmes. Indeed, the outcome may prompt the Tax Administration to change direction or approach entirely.

It is recommended to include metrics to capture and measure levels of trust when a new compliance strategy or programme is implemented. This will enable the Tax Administration to have a clear view of how the trust level has been affected by any new initiative.

Country Examples

DENMARK:

Measuring trust and social norms of tax compliance

Since the mid 2000's, the Danish Tax Administration has conducted public opinion polls in order to measure perceptions, norms and values related to filing and paying taxes. These polls have expanded over the years in terms of the coverage of subjects and has gone from being conducted bi-annually (before 2010) to annually (from 2010 onwards). Some of the questions dating back to the very beginning includes perceived risk of detection related to tax non-compliance in general as well as undeclared work specifically:

- Do you believe that the risk of being caught cheating on taxes is … [very large/large/small/very small]?
- Do you believe that the risk of being caught doing undeclared work is … [very large/large/small/very small]?

Questions of personal norms related to tax compliance and perceptions of the degree to which others follow the same norms – i.e., whether respondents consider such norms to exist at the social level – were part of these surveys to begin with, too:

- It is important for me to be perceived as someone who does not cheat on taxes [agree/disagree, 5-point scale]
- To what extent do you find it acceptable to cheat on taxes if one has the opportunity to do so? [not at all/very much so, 10-point scale]
- To what extent do you find it acceptable that a household has undeclared work carried out by a private company? [not at all/very much so, 10-point scale]
- To what extent do you find it acceptable that a private company has undeclared work carried out by an individual? [not at all/very much so, 10-point scale]
- To what extent do you believe other citizens are compliant with their taxes? [*not at all/very much so, 10-point scale*]

In 2014, a general trust question was introduced to the survey, reflecting an increased awareness of the need to try to monitor taxpayers' trust in the tax authority. This question was added alongside other questions addressing perceptions of correctness, fairness and equality before the law:

- I trust the tax administration (as a public authority) [agree/disagree, 5-point scale]
- I trust that the tax administration calculates my taxes correctly [agree/disagree, 5-point scale]
- The tax administration is fair and just [yes/no]
- The tax administration treats all taxpayers with tax duties and liabilities like mine equally [agree/disagree, 5-point scale]

In recent years, trust in the Tax Administration has become one of the most salient issues on the political agenda concerning tax administration, leading to trust and public reputation getting their own dedicated survey from 2019 onwards. These developments reflect not only an awareness of the importance of trust in the tax administration in itself but, equally, an appreciation of the importance of trust for tax compliance intentions and the likelihood of compliant tax behaviour.

SWEDEN:

Ways of measuring trust

These are examples of statements used by the Swedish Tax Agency in polls to understand and measure taxpayer's perception of trust. All statements are answered by the taxpayers with alternatives on a scale 1-5 where 1 is disagree and 5 agree. There is also an alternative 'no opinion'. The polls are done by an external party to safeguard the integrity of the respondents.

Trust

- I trust the way the Swedish Tax Agency carries out its mission.
- If I need help, I trust that I can get it from the Swedish Tax Agency.
- I trust the answers I get form the Swedish Tax Agency are correct.
- I trust government agencies in general.
- I trust other people in general.

Treatment

- I perceive a good treatment from the Swedish Tax Agency.
- Officers from the Swedish Tax Agency tell me how to solve my problem.
- Officers from the Swedish Tax Agency assume that I want to comply

- The Swedish Tax Agency treats me fairly.
- The Swedish Tax Agency treats all taxpayers fairly.

Possibilities to comply

- It's easy to get information from the Swedish Tax Agency
- Concerning my business, the Swedish Tax Agency is clear about my rights and obligations.
- It's easy to know what tax rulings that concern my business.
- The time and cost it takes for me to comply is fair.

Moral obligations and norms

- I feel a moral obligation to comply with the tax rules.
- I would have no problem to work without paying taxes or cheat with taxes if there was no risk of detection.
- People I know would think I did the wrong thing if I worked without paying taxes.
- I personally know people who cheat with their taxes.

Unfair competition

- Our business faces unfair competition because others in our line of business cheat with their taxes.
    - Results divided in different lines of businesses (restaurants, construction, taxi etc.)

Another source of information are polls by other organisations and universities. In Sweden, the trust for different institutions is measured and ranked. This gives valuable information about trust in comparison with other institutions and how trust changes over time.

FINLAND:

Trust is measured in a customer annual survey to either individual or corporate taxpayers every 2 years (1000 phone interviews conducted by a research company). The survey is conducted with a third-party provider.

The questionnaires have been kept quite alike during the years so the Tax Administration can understand the results better. The results have mainly been used by our Communications department. They use results of single questions for example in social media (see attached picture for twitter and a use of it after the text. It is from the smaller TaxFinland-account and still it got 114000 hits).

For example, in the most recent survey done during the year 2019, 80% of Finnish customers agreed that the customers can trust the Finnish Tax Administration and its operations. More than 60% agreed that the operations of the Finnish Tax Administration are transparent. The target group in the corporate research is all sized corporations. Small corporations are much more critical to Finnish taxation than the larger ones. However, there is no difference in the answers when corporates evaluate the success of Finnish Tax Administration.

In the understanding of the Finnish Tax Administration, Tax Administrations have only limited tools to effect taxpayer attitudes. That is why attitudes towards the Tax Administration and taxation are measured. In the beginning of the questionnaire the Tax Administration "calibrate" the attitudes of taxpayers towards the public sector as a whole. The Tax Administration believe that if taxpayers feel negative about public sector there is a great chance they dislike us as well. During the period 2013-2019 taxpayers' attitudes towards public sector have moved in more positive direction every year. And so have the results.

The tax administration have had good reviews. As is evident from the results, the Finnish Tax Administration has evolved from a control administration into service administration. From the business point of view taxpayers see that Finnish Tax Administration serves all the different segments equally. Even if their opinions of taxation are quite different in different company sizes, the smaller the company the more negative attitude towards taxation.

One of the most published and most controversial argument about taxation in the survey is: "I'm happy to pay my taxes" Taxpayers agreeing with the argument have risen from 69% in 2013 to 80% on 2019. In the understanding of the Finnish Tax Administration, not all taxpayers are happy to pay taxes, but at least they feel quite neutral. Later in the survey 31% of taxpayers say they are often angry or frustrated about the level of taxes. The Finnish Tax Administration also monitor taxpayers' attitudes towards different tax types. In the opinion of the taxpayers, inheritance tax is viewed as the most unfair tax.

The Finnish Tax Administration believe that it is important to bring these positive attitudes into the public since often the most critical tones get more space in headlines. Taxpayers often say that they pay their taxes as long as tax administration sees that everybody pays their taxes.

In this case, the Finnish Tax Administration would like to tell all the "positive tax payers" that they are not alone.

IRELAND:

Revenue Customer Surveys

Revenue, the Irish Tax and Customs administration, has conducted annual customer surveys over the past decade to better understand taxpayer behaviour, customers' expectations of Revenue and their satisfaction with the service provided. The surveys are designed to focus responses on day to day interactions and dealings with Revenue, rather than perceptions or issues around tax policy matters.

The surveys focus on a different customer group each year given the diversity of the customer base. These include Small/Medium sized Enterprises (SMEs) 2006, 2008, 2013, 2017, 2020 (postponed to early 2021); PAYE taxpayers 2007, 2009-10, 2015; Tax agents 2016; Chargeable persons with low incomes 2018 and Employers 2019.

The survey responses are used for research purposes only and are treated confidentially, and the methodology and results are open and transparent. Detailed reports on design, questions and responses for each survey are published on the Revenue website. Results are compared to independent surveys in Ireland or internationally to benchmark and validate the results.

The survey responses show plenty of suggestions for improvements but results overall are very positive in their views of Revenue's customer service satisfaction.

Some key results from the most recent surveys show that:

- 95% of SMEs, 95% of tax agents and 91% of PAYE taxpayers are satisfied with the overall service they receive from Revenue;
- 85% of PAYE taxpayers strongly agree, agree or somewhat agree that Revenue carries out the administration of the tax system fairly;
- 96% of agents strongly agree, agree or somewhat agree that Revenue deals with their clients fairly

The feedback received from the customer groups is considered when initiating any service changes/improvements. Revenue has also on occasion assembled focus groups from the survey responders to probe particular issues or themes in greater detail.

The Department of Public Expenditure and Reform (DPER) hired independent market research companies to conduct a series of surveys of Civil Service customers, in which Revenue features highly as they are one of the most contacted Government Departments or Offices. While the surveys are not directly comparable to Revenue surveys, they show broadly the same results as outlined above and offer confirmation of the accuracy of the Revenue survey findings from an independent source.

Research

The importance of trust and how to measure it – evidence and ideas from research

Empirical research lends plenty of support to the intuitively meaningful idea that a person's compliance with some set of rules depend, among other things, on the degree to which the person shares the norms and values underlying these rules. It is also well established that the more you trust an institution and its representatives, the more likely you are to perceive rules and regulations set forth and enforced by that institution as legitimate, which in turn affects your willingness to comply.

Trust in government matters for compliance

- Analyzing data from a survey of 217 U.S. taxpayers, **Jimenez & Iyer (2016)** find that trust in government has a significant influence on both perceived fairness of the tax system and compliance decisions.
- In a survey among 392 independent accounting professionals in Turkey, **Güzel, Özer & Özcan (2019)** find that trust in government in general is systematically linked to tax justice perceptions and tax compliance. This indicates not only the importance of institutional environment and the perceived quality of institutions, but also that since trust in government in general matters for tax compliance, trust in the tax authority specifically is likely to be even more important.

Trust in other taxpayers matters, too…

- Trust in other taxpayers and trust in politicians also affects tax compliance: Using a survey of a representative sample of taxpayers in Sweden, Hammar, Jagers & Nordblom (2009) show that the more a taxpayer claims to trust other taxpayers, the less they suspect them to cheat. However, trust in politicians in parliament seems to be even more important: In this case, distrusting taxpayers are about twice as likely to perceive evasion of several specific types of taxes to be common compared to those who do not distrust the politicians in parliament.
- The findings of Hammar et al. reinforces a result from a previous, oft-cited study by Scholz & Lubell (1998), who used survey and tax return data from a sample of 299 middle- and upper-income taxpayers to show that both trust in government and trust in other citizens significantly increase the likelihood of tax compliance. This result holds even when taking into account the impact of an internalized sense of duty to obey laws and the fear of getting caught evading taxes.

…and so does trust in the tax authority itself

- Bornman (2015) reviews eight studies specifically dealing with the impact of trust in the tax administration on compliance and finds that not only procedural justice, legitimacy and identity (taxpayers' identification with the community), but also personal norms affects compliance via the trust channel.

- Conducting lab experiments at several universities in both Italy and the US in order to compare results across different institutional and socio-economic contexts, D'Attoma (2020) finds that trust in the tax authority matters. When faced with various general tax decision scenarios, participants' behavior did not differ systematically across countries – however, when asked to pay taxes to their real-world institutions, behaviors diverged significantly with Italians complying less than Americans.

Crises are unlikely to reduce the importance of trust for compliance

- The general dynamics of trust in institutions in general and tax authorities specifically and the importance for tax compliance are unlikely to change due to the present covid-19 pandemic. As Alm et al. (2020) argue, the reasoning applies not only to tax administration measures in general but equally so to tax measures related specifically to the Corona crisis.

- In a cross-country study of EU member states during the period 2000-2011, Kuokstis (2017) finds that trust mediates the relationship between economic environment and compliance, so that economic downturns affect high and low trust countries differently with respect to compliance. The argument is that high trust societies have more citizens with high tax morale, who are less likely to begin evading if strict economic incentives to do so increase due to an economic crisis. In low trust societies, on the other hand, more citizens make tax-related choices on purely rational grounds and thus start complying less in times of economic crisis.

Measuring trust – the challenge of getting it right (and knowing when you do)

The most feasible option for tax authorities in measuring taxpayers' trust in the tax authority, arguably, is to conduct public opinon surveys using questionnaires. However, choosing the right questions to ask in order to get valid measures of trust is not straightforward: While it is not so difficult to capture *some* aspect of taxpayers trust in the tax authority, capturing *most* (or even all) of the relevant aspects requires several questions and careful detailing of each of them. Furthermore, the arguments behind each question need careful consideration as well in order to substantiate what these questions actually measure in terms of different aspects of trust.

- Based on her review of studies of trust and tax compliance (see above), Bornman (2015) argues that survey measures of trust in tax administrations tend to be quite narrow in scope, relying on few questions and only measuring part of the palette of trust-relevant aspects. Thus, she argues that trust measurement can be improved by taking into account not just one aspect – procedural fairness, legitimacy, identification, and norms – but, preferably, all of them.

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