

Use communication as a trust builder in all contacts and interactions

Communication can either make or break trust between the taxpayer and the Tax Administration. This goes for all types of communication - information requests, reminders, tax assessments – and for all communication – post, email, call centres, social media, media and face to face meetings. How information is disseminated to taxpayers plays a vital role in the trust-building-process. With information issuing from different areas of the Tax Administration, it is important to consider the tone and content of every communication. Tax Administrations should aim for transparency and consistency.

Tax Administrations can learn how to communicate better with taxpayers, and thus increase the level of trust between the parties. This can be achieved by testing different approaches to communication in terms of message, style, channel, and timing and evaluating and learning from the outcomes.

Communication is also linked to other guidelines, as it touches upon different facets of a trust-based strategy for a Tax Administration.

A trust-based communication strategy

Every time a Tax Administration and a taxpayer communicate it should be in accordance with a well oriented communication strategy aligned with the organisational strategy. The officer communicating with the taxpayer should at all-times consider the effect that that communication has on the Tax Administration's level of trust in the community. This is not confined to customer service interactions but also includes actions regarding audit and enforcement. Tax Administrations should evaluate their communications in terms of understanding, emotions and compliance. Behavioural experiments that test the effect on trust will assist Tax Administrations understand how communication is perceived and how it affects taxpayers' behaviour and beliefs.

Clear and understandable language

All communications should be clear and easy to understand. Simplified messages have a better chance of achieving the desired outcome by informing the taxpayer, in language they can understand, and therefore positively influencing the taxpayers' behaviour. Correspondence should be concise and to the point and should bridge the gap between the Tax Administration and the taxpayer.

Complex tax laws and the use of tax jargon has often led to miscommunication and misinterpretation. A good trust-based communication strategy can succeed in translating technical and complex tax matters into understandable information that can be understood by the taxpayer. Simplifying tax processes and letters have proved to strengthen the different facets of tax compliance.

Make it clear that the Tax Administration supports compliant behaviour

A Tax Administration's actions should assist and support taxpayers to comply with their tax obligations. Trust can be built by notifying taxpayers of audits and being transparent on why controls are conducted.

Interventions to tackle non-compliance should be framed in a way that they are actions to protect the compliant majority and to ensure fair competition in the economy. For this reason, the tone of any communication is important as showing empathy and understanding will help make taxpayers feel respected, even if the message is not in their favour. The message should be one where the Tax Administration is assisting taxpayers to comply, in the interest of the wider community.

Look at the taxpayer as a trustworthy actor

The majority of taxpayers want to do the right thing and pay their fair share. Clear communication and behavioural techniques can be used to assist taxpayers to comply with their tax obligations. Tax Administrations should consider innovative ways of communication that are designed to influence taxpayer behaviour. These communications should focus on how the Tax Administration can help and support the taxpayer rather than what sanctions apply for non-compliance. Tax Administrations must provide clarity on what a taxpayer is to do and how to do it and could include references to the social norms. Tax Administrations could work with different customer groups, perhaps based on their background, past behaviour or specific needs.

Tax Administrations should try to engage with taxpayers as early as possible to help them to do the right thing and avoid unintentional mistakes. In addition, taxpayers could be allowed to correct mistakes where there is no indication of deliberate or recurring faults. It is important not to crowd out intrinsic motivation to comply, with standard hard-tone messages.

Make the public aware that you are available and accessible

Taxpayers expect high levels of service from public sector organisations including Tax Administrations. Tax issues can arise at any time and can put a lot of pressure and stress on a taxpayer. Support and assistance should be tailored to the needs of the taxpayer. Easy access and availability of tax services will enhance trust with the Tax Administrations.

Response times should be clear and defined. Call centres, face to face appointments and online service desks should be easily available, reasonable and in line with the expectations of the taxpayer. New and innovative ways of communication, such as chatbots, social media or YouTube channels have been put in place, in some jurisdictions, to strengthen the customer service offerings. On the other hand, a reduced level of physical customer service and an increased level of non-physical customer service highlights the need to analyse how this shift in taxpayer behaviours affects trust to ensure that a Tax Administration does not lose the 'personal' touch. When Tax Administrations are accessible to taxpayers, they show that they are there to help and support taxpayers and this can have a positive impact on trust.

Country Examples

SPAIN:

Office for Integral Digital Assistance (ADI)

The Spanish Tax Agency (AEAT) is continually exploring further opportunities from digitisation allows to assist taxpayers. This is the inspiration behind the new Office for Integral Digital Assistance (ADI) or AEAT “Virtual Counter”.

The Spanish Strategic Plan for 2019-2022 aims to have a holistic approach to digital tools to assist taxpayers through this digital assistance office; firstly, as a complement to the walk-in services in the local offices and with the aim of, progressively, replacing it with information and assistance through electronic, telephone and telematic means.

The project started in 2020 with a pilot focused on VAT and Census and, by 2021, the scope will be progressively widened to cover the main taxes and other customer services. The idea is to boost voluntary compliance with new and enhanced services to assist taxpayers. The ADI will not issue administrative acts and will not carry out control or verification actions.

This “Virtual Counter” will be manned by skilled Tax Agency’s officials, which will be based in four different hubs (Valencia, Galicia, Madrid and Andalucía) but coordinated and supervised by a Central Unit. It will provide a service of the highest quality, as there will be officials specialised in different topics, supported by 'ad hoc' computer tools to speed up and optimize the assistance to the taxpayer.

Some examples of the services provided by the ADI are: assistance to the taxpayer with the preparation of tax returns and information declarations, assistance to answer formal communications and notifications, assistance with census and economic register issues, answering of certain complicated questions in writing (that can also be forwarded to the General Directorate for Taxation if there is no a fixed criteria),...

Taxpayers can access all services through multiple channels, taking advantage of the current digital tools (virtual assistants, apps, chats, video calls, telephone, email, website,). Although there will be no proper face-to-face interaction, there will be personal and individualised assistance.

Besides the expansion of service channels or the effectiveness in resources management, the most important outcomes of the ADI will be consistency in the information provided the application of the law and this will provide legal certainty to taxpayers.

BELGIUM:

The Federal Public Service Finance in Belgium has a payment compliance strategy designed to offer help and guidance to taxpayers facing financial hardship. This specific target group, the selection of which is based upon administrative data on their historic compliance behaviour, get special attention from the Administration for Collection and Debt Recovery with proactive and targeted communications in order to build trust and raise compliance.

Since 2018 personalised tax assessments are sent to taxpayers with a history of payment problems, which includes a dedicated message for this target group. Using simple and understandable language, taxpayers are offered the opportunity to pay their liabilities by instalments if this suits their current situation. By addressing these taxpayers with personalised

information and outlining the different payment options, the Belgian Tax Administration assists taxpayers in need and at the same time avoids debt situations for this target group.

This approach of personalised, pro-active and preventive communication is a real success. Taxpayers warmly welcome these targeted messages and this prompts them to enter into instalment arrangements before the due date (15% raise). Furthermore, the Tax Administration sees a significant decline in the number of arrears within this target group.

During the covid19-crisis, the Belgian Tax Administration contacted this group of taxpayers with a history of payment problems by telephone, in order to check whether they were able to pay their Personal Income Tax and if not, what alternative options they have. This project, called REACHOUT, got very positive responses from the taxpayers involved and raised compliance by providing a helping hand.

GREECE:

Segmented taxpayers' groups receive emails of interest, in which both content and wording are adjusted to the specific conditions. Furthermore, the call centre employees have received specially designed training in effective verbal communication.

The call centre employees attended a weekly training program organized by Technical Support with the cooperation of the Belgium Tax Administration about dealing with crises in communicating with taxpayers and different personality types.

The call centre employees receive special training annually on specified tax matters so their tax knowledge is up-to-date. This ensures they fully aware of each case they deal with are able to provide the taxpayers with updated, correct information. This builds trust between the taxpayer and the Greek Tax Authorities.

The call centre employees also received training in communication techniques. To be more specific, they have learned how to address taxpayers in a polite and gentle way and how to recognise different personalities and behaviours. This allows them to adjust their style to effectively deal with that taxpayer.

Such approaches is evaluated from the public in two ways: regarding the call centre, a perception and opinion survey has been held to those taxpayers who have been contacted via phone and their (positive) feedback has been recorded. Furthermore, since thousands of taxpayers are contacted via personalized emails, their responses are the best way to feel that we are under constant evaluation. However, the content and style of our emails were also items in the aforementioned survey.

BULGARIA:

Salaries in envelopes

The Bulgarian National Revenue Agency (NRA) in managing risk related to more than EUR 220 million annually. Or how communication achieves what audits can't.

Salaries in envelopes is where the remuneration in relation to which taxes and social security contributions are paid is different from the real one. The remainder is received in an envelope or in another illegal way, with both the employer and the employee benefitting from this in the

short term, while society (and its most vulnerable members) loses the amounts not paid to the exchequer.

Unpaid taxes and social security contributions of EUR 220 million annually

Since 2011, the risk management unit of the Bulgarian tax administration has been measuring this risk, which is estimated at more than EUR 220 million annual losses and almost 50% risky employers. The two types of risky behaviour are a) paying social security contributions for salaries lower than the real ones, and b) half-day work (4 hours) on paper, while in reality it is a lot more. In Bulgaria, there is a high level of social tolerance towards this behaviour, which, added to the mutual financial interest of both parties, makes addressing the risks significantly more difficult. In addition, the level of trust in public institutions in Bulgaria is relatively low (a common experience in post-communist countries), and most people are not inclined to think about the long-term when they will not be able to work.

Checks and audits – the usual instrument of the tax authorities

The usual ways in which the tax authorities influence non-compliant behaviour are through control measures – checks, audits, and, in the end, imposing sanctions in the hope that this will change the behaviours of the persons being checked or audited, but also everybody else. For years, NRA's approach has been the same – more checks, more audits, and aiming to reduce the significant losses from salaries in envelopes. In fact, however, it turned out that the thousands of control measures had little effect on the behaviour of risky persons – the damages to the budget remained unchanged, and often the checked/audited persons changed their behaviour briefly and then returned to their illegal practices. Moreover, checks and audits are expensive – to NRA itself and, in fact, also to taxpayers, who with their taxes provide for the expenses of the tax administration.

The NRA team examined in depth the psychological motivation of employers and employees. We contacted hundreds of fired employees, for whom the data indicated that they had possibly received salaries in envelopes, and asked them to assist us, since they no longer had anything to do with this employer. However, a deeply rooted attitude of distrust led to only 3 of them being willing to cooperate with the tax authorities, even though their former employer was no longer a threat.

From audits to communication measures

When it became clear that control measures had almost no influence on the behaviour of risky employers, the NRA Risk Management Board decided to suspend them completely for a certain period, and proposed instead that a communication campaign be conducted to influence attitudes and behaviour. The main psychological focus of this campaign was to illustrate what people who had agreed to receive their salaries in envelopes were losing. The idea was to use an electronic calculator to calculate exactly how big the loss was, and what damage the employee actually suffered in the long run.

“Salaries in Envelopes” Campaign – strategy, target groups, communication channels, and partners

The campaign's target groups were defined as the economically active employees who received salaries in envelopes, as well as the new entrants to the labour market. Numerous partnerships were concluded with other state bodies, employers' organisations and trade unions, supporting the initiative.

The key eye-catching tool is the loss calculator, developed as part of a specialised website www.zaplatavplik.bg for attracting public attention and provoking interest. The calculator allows people to enter their actual and official salaries and calculates the losses that they would suffer in the form of non-received benefits for sick leave, maternity, unemployment, and pension. If the actual salary is €1,000 and the official one is €500, the total loss for one person would be almost €35,000.

In addition, the site has an information section that explains how everyone loses, and it also provides the opportunity to submit a signal or a means for the employee to get a consultation.

The campaign used communication channels such as TV spot broadcasting — <https://www.youtube.com/watch?v=kQIHw43HSL0> and PR activities, NRA's YouTube channel, the websites of the campaign's partners, media publications and TV interviews, including a round table discussion with the main opinion leaders.

Effects. Cost-benefit analysis

The direct effect of the campaign, for the period of its duration, is the reduction of the “salaries in envelopes” risk by more than €22 million, and of the share of risky employers by about 5%.

The total value of the communication programme is €60,000.

Lessons Learned

Our experience with the “Salaries in Envelopes” campaign taught us some useful lessons that we will use in the future:

- Communication is often more efficient and cheaper than audits. Nevertheless, control measures are almost always necessary because the society expects to see those who do not comply punished.
- People's attitudes are something that the tax authorities have to take into consideration, because we strive to encourage the compliant behaviour of thousands of people, and not the larger number of checks and audits.
- We need a reliable model for measuring what we do – in Bulgaria we use the risk management model, and assess dozens of risks annually, and all measures for their treatment are described in a programme that we implement together. In this way, we have a quantitative assessment of the results.
- Creativity helps “selling” even unpopular messages – for example, the calculator is something that attracts the attention initially so that we can talk about less attractive topics.
- Changing attitudes takes time and methodical targeted action, but the results are really worth it.

Research

Affecting trust and compliance through communication – evidence from research

There is abundant evidence that taxpayers' compliance behaviour can be affected directly through communication initiatives by the tax authority. Several factors can affect behaviour when emphasized in communication, including risk and consequences of detection, tax morale, fairness, reciprocity and the benefits for society of being compliant. At the same time, research shows that for such interventions to have the desired effect, the details of their design are crucial.

Simple letters and reminders can affect voluntary compliance...

In a study of the impact of simplification, deterrence and tax morale as content elements in letters on tax compliance, **De Neve et al. (2020)** show that simplifying communication substantially increases compliance. Through a series of natural field experiments, they demonstrate, among other things, that simplified tax filing reminders increase subsequent tax filing by 8% (relative to the standard reminder). For late taxpayers, the simplified reminder increases subsequent tax payment by as much as 23%. The authors conclude that simplification is far more cost-effective than standard enforcement measures, yielding a potential for substantial reductions in enforcement costs.

Bott et al. (2020) also experiments with varying the content of letters to taxpayers to study the drivers of tax compliance with special emphasis on the role of tax morale. They conduct a large-scale randomized field experiment based on a sample of more than 15,000 taxpayers in Norway who were likely to have misreported their foreign income. The study shows that both moral suasion (arguments evoking tax morale) and perceived detection probability affect taxpayer behaviour: While the moral letter mainly works in *depth* (the degree of the responding taxpayer's change in behaviour), the detection letter works in *breadth* (the number of taxpayers who change behaviour).

Two natural field experiments conducted by **Biddle, Fels & Sinning (2018)** in collaboration with the Australian Taxation Office (ATO) suggests that businesses are responsive to certain types of nudges. The authors find that changing the phone script of desk auditors and simplifying the subsequent follow-up letter reduced the proportion of default assessments raised by the ATO by an impressive 69 percent.

Including social norm messages in standard reminder letters may also increase voluntary compliance. **Hallsworth et al. (2017)** demonstrate this via two large-scale natural field experiments using administrative data from 200,000 taxpayers in the UK, all of whom had to file self-assessment tax returns. The study shows that the framing of information increases payment rates for overdue tax up to 70 days after the intervention, indicating that incorporating moral costs (relating to social norms, public services and/or moral duty) into taxpayer communication can influence voluntary compliance at low economic cost to the tax authority.

...but like audits, they may also backfire with already compliant taxpayers

Castro & Scartascini (2015) conducts a field experiment in a municipality in Argentina targeting property tax taxpayers' beliefs regarding the levels of enforcement, reciprocity, and peer-effects of the tax system. Taxpayers who received the deterrence message were almost 5 percentage points more likely to comply compared to the control group. The reciprocity and peer-effects messages also increased the probability of compliance for some taxpayers, but those who actually complied in the past tended to react negatively to information about other people's compliance levels. This shows that not only "harder" instruments (e.g., audits – *see research related to guideline #4*) but also "softer" approaches such as peer-effect nudging can backfire with intrinsically motivated, compliant taxpayers.

Descriptions of tax authorities' power and trustworthiness in brochures or news media can have behavioural effects

Through a series of experiments, **Hartl et al. (2015)** investigate whether tax evasion is influenced by the *mere description* of an authority wielding coercive power, legitimate power, and coercive and legitimate power combined. The study shows that participants' beliefs regarding tax authority's power significantly shape compliance decisions – a result that holds both for coercive and legitimate power and for the two types combined. On the other hand, objective information about fine rates had no effect. Thus, the study indicates that descriptions of the tax authority—for example in information brochures and media reports— can actually affect tax compliance via taxpayers' beliefs.

In a similar vein, **Kasper, Kogler & Kirchler (2015)** examines how descriptions of tax authorities' attributes of trust and power featured in the media affects intended tax compliance. Conducting a survey-based experiment where participants are exposed to *real* excerpts from newspaper coverage on tax issues, the authors find that both trust and power attributes affects compliance intentions. By using actual newspaper excerpts about a real tax authority (the Austrian) instead of fictitious information about a fictitious tax authority, this experiment improves on the external validity compared to many other experiments and thus strengthens the evidence of the relationship between trust, power and compliance.

Mass media campaigns may improve both intended and actual compliance

Cyan, Koumpias, Martinez-Vazquez (2017) investigates the effects of mass media campaigns on individual attitudes towards tax compliance using survey data from Pakistan. Specifically, the study examines the effectiveness of campaigns in the TV and national newspapers used by the Federal Board of Revenue (FBR) of Pakistan to increase awareness, tax filing, and, ultimately, tax morale. Survey data was collected in 2014 immediately after these mass media campaigns by the FBR. The authors find improved perceptions towards tax compliance for respondents exposed to both the TV and the newspaper advertisements. Perhaps surprisingly, newspaper ads were more effective, so the choice of media platform can be important.

In a related study, **Koumpias & Martinez-Vazquez (2019)** examines the effect of mass media campaigns on income tax filing based on survey data collected on tax eligible individuals soon after the filing deadline. They find that exposure to newspaper ads providing information on tax eligibility increased income tax filing, while ads informing about the tax filing deadline or

the financial penalties of not filing —interestingly— had no effect. TV ads using moral suasion and portraying self-employed taxpayers improved tax filing among the self-employed but not among the broader survey population. Like the study by **Hallsworth et al. (2017)**, this demonstrates that the behaviour of *self-employed* taxpayers—who are important in terms of compliance because they have real opportunities to evade (see **Kleven et al. 2011**)— can be affected by tax authorities via other means than audits.

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