



## SUMMARY

Tax morale is about taxpayer's inner motivation to pay taxes. It is about what someone think is the right way to handle a situation. As a consequence, it is not possible to force someone to have a certain morale regarding tax issues.

What we as tax administrations can do is however to create an environment and a relationship that contributes to voluntary compliance based on knowledge about what motivates taxpayers to comply. It is in this sense; we in the Swedish Tax Administration have built our strategies.

We have a vision "A society in which everyone is willing to pay their fair share" and goals regarding trust and a good taxpayer relation. We aim to get it "Right from the start".

There are a lot of drivers affecting taxpayer's compliance behaviour and a recent published OECD note gives a broad overview of research done in this area. The findings indicate that there are a lot of circumstances that affects the taxpayer's behaviour, like deterrence, norms and fairness.

Our findings in The Swedish Tax Agency are that we have realized that we in the past underestimated the importance of perceived fairness and trust when it comes to tax morale and inner motivation. We were too focused on what we were doing and did not reflect enough on how we carried out our activities and how our actions was perceived by the taxpayers.

We believe we can contribute to a pro compliance environment and increase inner motivation to comply by understanding things from a taxpayer perspective. In this sense we focus on issues like trust, the way we communicate and procedural justice.

The way that agencies carry out their work affects people's perception and trust of the agency. It's not the case that agencies like the Swedish Tax Agency who takes money from people are less popular compared to agencies that gives money in form of different contributions. In Sweden the result is the other way around, the Tax Agency is far more liked compared to the National Insurance Agency who provide different kind of monetary support.

In a survey carried out by an external research institute where people ranked 14 agencies in the Swedish society based on their own experience, The Swedish Tax Agency was in last year's ranking the highest ranked agency by the Swedish public among the police, universities, The National Insurance Agency and others.

To adopt knowledge is a challenge in itself because compliance behaviour is about human behaviour which is far more complex than just a response to deterrence. Our findings have made us rethink and review our strategies focusing a lot more on the outcome of our activities. Trying to understand and see things from a taxpayer's perspective.

We know that our way of doing things has a big impact on taxpayer's motivation. It's not possible to say that the legislation is too complex or that the taxpayers should know better. As we see it, it's our responsibility to make it as easy as possible to comply and to treat taxpayers with respect.

## **STRATEGIC PLANS AND OVERALL GOAL**

### **Introduction**

Most tax administrations aim to increase the level of compliance. In order to succeed with this it is of great importance to make sure that the activities carried out promotes a compliant behaviour in reality and not just is based on hope and good intentions.

Tax morale is something that concerns a person's inner motivation. It's not possible to force someone to have certain morale and most people consider themselves to have a high morale. Nevertheless, we believe that we, as a tax administration, can motivate taxpayers to comply by understanding their situation and help to create a pro-compliance environment. Inner motivation is one of the most important contributors to a compliant behaviour but there are of course other drivers as well.

Knowledge about what affects compliance behaviour, as well as non-compliance, behaviour is crucial in order to prioritize the actions. We have, in the Swedish Tax Administration, focused a lot the last decade on understanding drivers from a taxpayer's perspective. This has been a challenge and still is. Another challenge is to adopt the knowledge within our own organization. This has not been easy because it has changed and is still changing our own organizational culture.

To do the right things and to do them in the right way are equally important in order to achieve an outcome where taxpayers are motivated to comply. However, our findings in this area points out that there is no "silver bullet" solution.

### **Vision and mission**

In The Swedish Tax Administration, we have a vision "A society in which everyone is willing to pay their fair share". We also have goals regarding trust, a good taxpayer relation and minimizing the tax gap.

The strategic plans consist of our policies and actions combined with our vision and goals. They have a long term perspective. Building trust and good taxpayer relations take time and has to involve the whole organization.

Plans are just papers and what counts is the result of the plans and not the plans themselves.

We try to build solutions and carry out activities in cost effective ways, both from our perspective as well as from the taxpayer's perspective. Our strategic approach is in to get things right from the start. With a trustful relation between us and the taxpayers we get the best conditions to have an early dialogue and sort things out. This is a win – win situation because audits are much more expensive and compliance costs can also be reduced.

On a strategic level, we try to work in a broad sense, including policy for setting salaries, how we measure the outcome of our activities, how we communicate to our staff and to the taxpayers.

The work is a lot about changing and maintaining a good organizational culture focusing on the effect of our work instead of just number of audits.

Our way forward has been to understand what drivers contribute to and influence a compliant behaviour. We have also focused a lot on understanding situations and motivation from a taxpayer perspective by commissioning extensive studies concerning different groups of taxpayers and situations. We have used the result for discussions within our organization in order to broaden our own perspective.

The way we measure our result has also changed. We are now more focused on taxpayer's perception of our service and audit activities. For example, if the taxpayers think we don't treat them well during audits, we have to improve. It's the taxpayer's perception that counts.

We strive for a cooperative approach instead of a "we against you"-mentality. From a strategic point of view, cooperation with other organizations like industry associations is the way forward. Dialogues with these organizations help us find the right actions. The more cooperative approach helps us to solve the tax situation in an early stage which increases the possibility to get things right from the start.

## WHAT DRIVERS INFLUENCE COMPLIANCE?

Even if there is substantial scientific research done on tax compliance and taxpayer behaviour, it is a relatively new area. The OECD information note<sup>1</sup>, published in November 2010 gives a broad overview of research done as well as a description, based on research, of how different drivers influence compliance behaviour. The drivers described in the OECD report are:

- Deterrence, e.g. audits, perceived risk of detection and severity of sanctions;
- Norms, both personal and social norms;
- Opportunity, both to be compliant (e.g. low compliance costs, easy rules) and to be noncompliant (e.g. opportunities for evasion);
- Fairness, related to outcomes and procedures, and trust, both in the government or tax authority and in other taxpayers; and
- Economic factors, containing general economic factors, factors related to the business or industry and amount of tax due.

There are of course many circumstances affecting the behaviour and they are also interlinked with each other. The result pinpoints the complexity of human behaviour but also underline the important of basic human reactions like consequences of feeling distrusted.

Even if human behaviour is complex and compliance depends on different factors as described in the OECD note we think the findings indicates that a tax administration must have a broad understanding, taken in consideration different drivers and perspectives. In the Swedish Tax Administration, we now understand that we relied to much on deterrence as our main tool in order to maintain and increase compliance, sometimes even without knowing the effect of our activities.

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<sup>1</sup> OECD, Information Note, Understanding and Influencing Taxpayers Compliance Behaviour, November 2010

## Contribute to inner motivation – our findings

We have realized that we in the past underestimated the importance of perceived fairness and trust when it comes to tax morale or inner motivation to comply. We were too focused on what we were doing and did not reflect enough on how we carried out our activities and how our actions was perceived by the taxpayers.

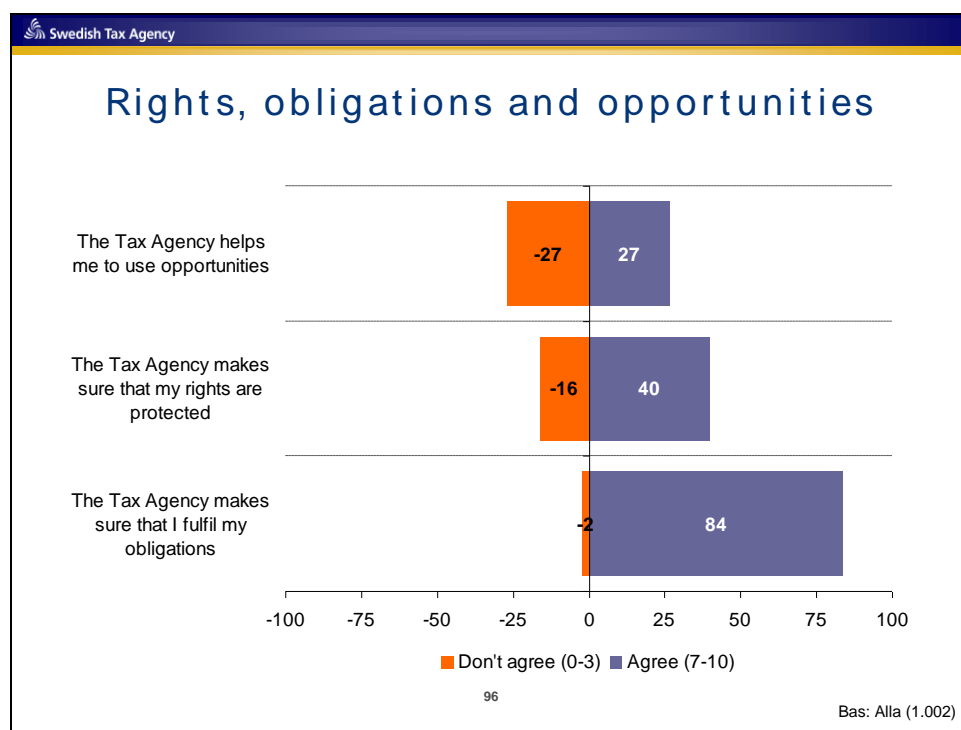
### Trust

The majority of the Swedish taxpayers trust the Swedish Tax Agency and less than 10 per cent distrust the agency.

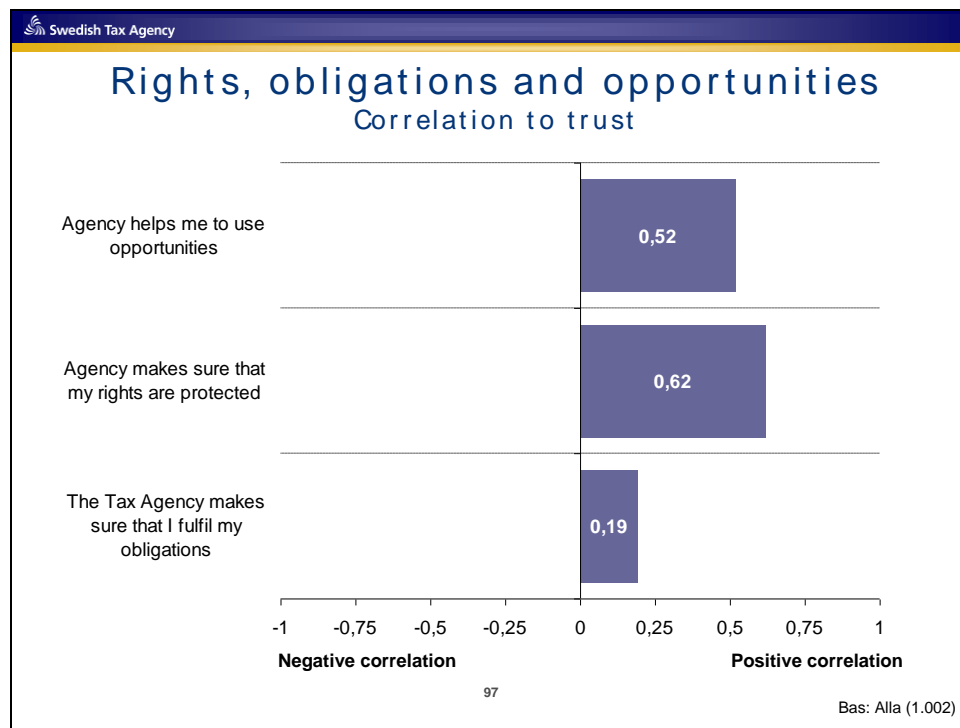
Taxpayers who have trust in the Swedish Tax Agency are more willing to comply than those who distrust us. 12 per cent of the Swedish taxpayers who trust the Swedish Tax Administration state that they would evade tax if they had the possibility compared to 28 per cent concerning those who distrust the agency.

Trust is something that is earned and cannot be taken for granted. We can clearly see that our actions, on an individual level can affect the trust between us and the taxpayers.

Our surveys show that taxpayers think we are very good at making sure they fulfil their obligations, but when it comes to their rights and opportunities they don't think we are as contributing. This shows clearly in a survey commissioned by the Swedish Tax Agency concerning small and micro businesses.



The correlation to trust, in the same survey, indicates that focusing on the taxpayer's opportunities and rights are areas of improvement.



Most taxpayers in Sweden are willing to comply as long as everybody else or the vast majority complies. The comparison with others is very important. Our studies show that most taxpayers in Sweden think it's wrong to cheat with taxes; only five percent thinks its ok. However, a lot more states that other taxpayers probably think its ok to cheat with taxes. We think that the picture given by mass media in many cases describes a darker view than what is true. We know that approximately 90 per cent of the total tax is paid and declared right from the start.

### **Communication**

Communicating the right image and strengthen the view that most people are compliant contributes to a more compliant environment.

One example is communication of results of audit activities. Do we communicate in a way that supports and encourage compliant taxpayers or not? At one time we communicated the message that there was a lot of tax evasion in the taxi business. Some taxpayers contacted us and they were irritated and disappointed. One taxpayer said "I have worked in the taxi-business for over 30 years and always paid my tax, I really support your audits activities, but why do you point us all out as cheaters?" We have now changed the way we communicate and now we are trying to strengthen the compliant taxpayers by using supportive messages



like “we do not think it’s acceptable that taxpayers who pay their tax can’t compete in a just way because of tax evasion in the taxi business.”

It is our task to administer the tax system in an efficient way and taxpayers have the right to receive communication that is easy to understand. These citizens’ rights concerns all agencies in Sweden and is written in The 1986 Administrative Procedure Act. In extract from this act it states clearly that it’s the agencies responsibility to be easy to deal with.

#### “Section 4

Each authority shall provide information, guidance, advice and similar assistance to all persons concerning matters falling within the scope of its functions. The assistance shall be given to the extent that is deemed appropriate with regard to the nature of the matter, the person’s need of assistance and the activity of the authority.

Enquiries made by people shall be answered as soon as possible.

If someone by mistake refers to the wrong authority the authority should set him right.”

#### “Section 7

Each matter to which a person is a party shall be handled as simply, rapidly and economically as is possible without jeopardising legal security. In its handling of matters, the authority shall avail itself of the opportunity of obtaining information from and the views of other authorities, if there is a need to do so. The authority shall aim at expressing itself in an easily understandable way. The authority shall also by other means make matters easy for the people with whom it deals.”

But what is easy to understand? Our studies show that we are not always perceived to be easy to communicate with, even if some of our staff thinks so.

The result of a too bureaucratic way of communication can create a distance between the agency and the taxpayers. A distance that may result in decreasing trust and decreasing motivation to comply. Communication that is easy to understand and that opens to answer any further questions can strengthen the relation. If we send a letter concerning the tax return, most taxpayers want us to describe what it’s all about in the beginning of the letter. They want to know who they can talk to if they have questions, what to reply, what to pay and when? However, we used to begin the letters with a reference to the law which very few citizens care about. They say that if they want to know what’s written in the law, they prefer us to write it in the bottom of the letter or on another page.

If they have any concerns they want to feel welcome to contact the tax administration.

## **Procedural justice**

Making the right interpretation of the law is of course important, but it's not enough. The procedure in it self is also something that have to be carried out in a professional way.

Procedural justice concerns the perceived fairness of the procedures (how cases are being handled). People tend to judge the authority based more on procedural justice than the outcome.

A survey, commissioned by the Swedish Tax Agency, concerning how trust is affected by audit activities showed clearly that a respectful attitude from the officer is important in order to maintain and increase trust.

The correlation between taxpayers perception of fair treatment and taxpayers opinion of that the tax administration has made the right decision is very strong. The correlation between trust and perceived justice is also strong. The most important factor for increased trust was the attitude of the tax administration.

This survey underlines the importance of the way tax administrations carry out their work. It's not enough to do the right things, it's also important to carry them out in a professional and respectful way.

## **The distinction between the case and the person**

Taxpayers in Sweden can see the difference between the tax system and the tax administration. Most people accept the legislation and they understand that taxes are needed in order to get society to work. They also accept the consequences of the legislation as long as they perceive they get a fair and just treatment.

Even taxpayers who evade intentionally deserve a professional treatment. The punishment for evasion should be what the law says, not a disrespectful attitude from the staff of the tax administration.

The impact of sanctions is described in the report "Right from the start"<sup>2</sup>

"Sanctions and expressions of disapproval can be conveyed so that they are either directed at the individual ("you are a bad person") or at the act ("your action was wrong"). Sanctions are rehabilitating if they punish the act instead of the individual, and stigmatising if they punish the individual instead of the act.

This reasoning is plausible since personal stigmatisation impacts on an individual's self-respect. In order to avoid such a negative emotion, the individual puts the blame instead on

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<sup>2</sup> Right From The Start, Research and Strategies, Report 2005:1B, Swedish Tax Agency

the person who imposed the sanction. The individual then sees himself as a victim, which makes it right to defy the authority and instead become a rebel, which can give rise to feelings of pride. Instead of seeing oneself as a failure one sees oneself as a hero, which is naturally positive for one's self-respect. Continuing to defy the authority confirms the individual in the hero's role. And so the inclination to commit crime is increased.

If sanctions can be imposed in a way that the perpetrator perceives as legitimate, fair and respectful, they will have a positive effect. Sanctions must, therefore, be imposed so as to permit the perpetrator to retain his or her self-respect. This is perhaps not always easy to do, since there may be a natural unwillingness to treat a criminal with respect: one may need to have the temperament of an angel. In the final analysis, however, it should be a question of professionalism. Professional behaviour on the part of the authority should achieve the optimum result and the results will be better if the perpetrator's self-respect can be maintained. The sanction must be aimed at the act and not the individual."

Our conclusion is that the way we pose and address penalties has a great impact on trust which affects the individual motivation to comply or not.

## THE PUBLIC OPINION ABOUT THE SWEDISH TAX AGENCY

A professional attitude from our staff has been one of our challenges the last years. We have moved from a “we against you” – mentality to a more cooperative and open mentality. People in Sweden understand that agencies follow the legislation, but this can be done in different ways.

The way that agencies carry out their work affects people’s perception and trust of the agency. It’s not the case that agencies like the Swedish Tax Agency who takes money from people are less popular compared to agencies that gives money in form of different contributions. In Sweden the result is the other way around, the Tax Agency is far more liked compared to the National Insurance Agency who provide different kind of monetary support.

A survey<sup>3</sup> was carried out by an external research institute where people ranked 14 agencies in the Swedish society based on their own experience. The base in the survey is interviews with 8 500 people who have had contact with agencies in a more extensive way than just filing a tax return. The result is a Customer Satisfaction Index.

The Swedish Tax Agency was in last year’s ranking the highest ranked agency by the Swedish public among the police, universities, The National Insurance Agency and others.

In another survey focusing on the small and medium sized company’s opinion of the relation with agencies in Sweden, The Tax Agency was the second most popular agency after the Swedish Companies Registration Office.

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<sup>3</sup> EPSI rating, Customer Satisfaction Index, Government services 2010

## **UNDERSTANDING THE TAXPAYER SITUATION**

We can clearly see that there is a difference between how taxpayers perceive the relation with The Swedish Tax Agency and how we think we are perceived. This difference is of greatest concern because it misleads us in our actions and conclusions. We have therefore emphasized a lot on carrying out surveys which on one hand increases our knowledge and on the other hand is a great tool in order to educate our staff and change the culture within the organization.

One example is a survey commissioned by the Swedish Tax Agency in order to get a better understanding of taxpayer's situation by doing in-depth interviews with businesses. These were filmed and the films were shown to all tax officers working with businesses. The purpose was to educate the staff and give them a better understanding of the taxpayers and their perceptions of taxes and the tax agency. Films have a much greater impact and present the reality much better than a written report.

Making it "right from the start" requires a cultural shift, for our staff, in the traditional way of working and thinking. It is a shift from working in the past to working in the present; from working mostly with individual cases to addressing patterns of behaviour among groups of taxpayers; from mostly a one-tool approach towards a multi-faceted treatment strategy using a combination of different methods; and from working alone to exploring synergies and possibilities for co-operation. This requires us to better understand taxpayers and the means of influencing them. It also put strong emphasis on the importance of measuring outcomes.

## CONCLUSION

There are many different drivers that affect taxpayer behaviour. Tax morale is, as we see it, about inner motivation. In order to prioritize the right actions it's important to have knowledge about what affects taxpayer behaviour.

To adopt knowledge is a challenge in itself because compliance behaviour is about human behaviour which is far more complex than just a response to deterrence. Our findings have made us rethink and review our strategies focusing a lot more on the outcome of our activities. Trying to understand and see things from a taxpayer's perspective.

We know that our way of doing things has a big impact on taxpayer's motivation. It's not possible to say that the legislation is too complex or that the taxpayers should know better. As we see it, it's our responsibility to make it as easy as possible to comply and to treat taxpayers with respect.

We can contribute to a pro-compliance environment by increasing trust and motivate taxpayers or we can increase the distance between us and the taxpayers by being seen as the enemy resulting in decreasing motivation.

The way forward is a lot about changing the culture within our own organization and promoting cooperation with other organizations. We have taken some steps in this direction but we realise that we still have a lot more to understand and improve.