Perceptions of corruption and intentional non-compliance behaviour: Policy implications for emerging economies

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Agenda
Do perceptions of corruption cause intentional non-compliance behaviour in personal income taxpayers?
5 types of perceived corruption

Based on the actors and the sectors involved
Conceptual boundaries (2)

2 types of deliberate action

Compliance behaviour outcome

<table>
<thead>
<tr>
<th>Compliant</th>
<th>Non-compliant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intentionally compliant</td>
<td>Unintentionally non-compliant</td>
</tr>
<tr>
<td>Intentionally non-compliant</td>
<td>Unintentionally compliant</td>
</tr>
</tbody>
</table>

Tax compliance is an *ex-post* definition
Conceptual models

How do perceived levels of corruption affect taxpayers’ (under)reporting behaviour?

3 generic models

6 models were actually examined

Theory of planned behaviour (TPB)

Note: $\rightarrow$ direct effect; PGC = perceptions of general corruption; GCO = perceptions of grand corruption; PCO = perceptions of petty corruption; GTC = perceptions of grand tax-corruption; PTC = perceptions of petty tax-corruption; ATB = attitude towards tax underreporting; SNO = subjective norm towards tax underreporting; PBC = perceived behavioural control over tax underreporting; ITC = intention to report actual income; TCB = level of reported income
Survey results

High levels of perceived corruption

Highest = grand corruption
Lowest = petty tax corruption

Note: $PGC$ = perceptions of general corruption; $GCO$ = perceptions of grand corruption; $PCO$ = perceptions of petty corruption; $GTC$ = perceptions of grand tax-corruption; $PTC$ = perceptions of petty tax-corruption; $ATB$ = attitude towards tax underreporting; $SNO$ = subjective norm towards tax underreporting; $PBC$ = perceived behavioural control over tax underreporting; $ITC$ = intention to report actual income; $TCB$ = level of reported income
Survey results

3 types of (perceived) corruption were significantly influential

Most influential = grand corruption
Implications

Influences on tax compliance outcomes

Revenue body’s actions
- Audit
- Education
- Guidance
- Processes

Tax compliance outcomes
- Revenue maximisation
- Taxpayers comply voluntarily
- Integrity of and confidence in tax administration of the tax system

External factors
- Economy
- Social shift
- Public perceptions
- International changes
- Media

Source: OECD (2014, p. 15)
Implications

Compliance risk management (CRM) process

- Monitor performance against plan
- Identify risks
- Assess and prioritise risks
- Analyse compliance behaviour (causes, options for treatment)
- Determine treatment strategies
- Plan and implement strategies
- Evaluate compliance outcomes:
  - Registration
  - Filling
  - Reporting
  - Payment

Source: OECD (2010, p. 9)
The CRM process

Operating context

- High level of perceived corruption is an important external operating context

Risk identification

- Intentional underreporting behaviour is a critical compliance risk

Risk assessment and prioritisation

- The consequence is ‘high’ or ‘very high’.
- The likelihood is ‘almost certain’.
- Underreporting risk should be prioritised as either ‘high’ or ‘severe’ risk.

Compliance behaviour analysis

Self-employed PITs
- Correctly reported actual income: 18%
- Underreported: 44%
- Mean score for perceptions of grand corruption (out of 7): 6.49

Self-employed PITs
- Correctly reported actual income: 44%
- Underreported between 44%-100% of their actual income: 44%
Searching for causes

**a. What is occurring?** → Intentional underreporting income is evident among Indonesian PITs.

**b. Who is doing it?** → Self-employed PITs appear to be more non-compliant simply because they have much higher perceived behavioural control over tax underreporting.

**c. Why are they doing it?** → Perceptions of grand corruption, grand tax-corruption and general corruption appear to be responsible for intentional tax underreporting behaviour.
Treatment strategies

2 generic approaches

1. Norm-based intervention

2. Focused enforcement
Treatment strategies

1. Norm-based intervention

Using extensive media campaign or customised letters sent to targeted taxpayers

Strong advertisement of fiscal exchange and dissemination of normative injunctive messages
TAX 2
Focused enforcement

Concentrate on certain sectors, taking the benefits of ‘uncertainty aversion’ and ‘availability bias’

Decrease the levels of Indonesian PITs’ perceived behavioural control over tax underreporting

Wide-reaching announcements of the projects
Quiet withdrawal

Segmentation & rotation of special audit projects

>10% chance of being audited

< 1% chance of being audited

Probability neglect
Treatment strategies

Should we combine the approaches?

Minimised intentional underreporting behaviour

Level 1: GOAL

Level 2: OBJECTIVE

Level 3: ALTERNATIVE

(1) Minimising taxpayers’ negative attitude towards fully reporting income tax

(2) Increasing taxpayers’ subjective norms towards fully reporting income tax

(3) Lowering taxpayers’ perceived behavioural control over tax underreporting

(A) Norm-based intervention approach

(B) Concentrated enforcement approach

(C) Combination of norm-based intervention and concentrated enforcement approaches

Synthesis with respect to:
Goal: Minimising intentional underreporting behaviour

Overall Inconsistency = .05

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Score</th>
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<tbody>
<tr>
<td>A: Norm-based intervention approach</td>
<td>.294</td>
</tr>
<tr>
<td>B: Concentrated enforcement approach</td>
<td>.170</td>
</tr>
<tr>
<td>C: Combination of A and B</td>
<td>.536</td>
</tr>
</tbody>
</table>
Requisites

<table>
<thead>
<tr>
<th></th>
<th>Proportional combination of approaches</th>
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<tbody>
<tr>
<td>A</td>
<td>A relatively high level of compliance is required in order to create norms of compliance and foster future compliance (i.e. ‘tipping point’).</td>
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<table>
<thead>
<tr>
<th></th>
<th>Establish integrity to create trust</th>
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<tr>
<td>B</td>
<td>Disseminate any effort of building integrity and tackling corruption through taxpayers’ personal experience and extensive media coverage</td>
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<tr>
<th></th>
<th>Strategic alliances with other institutions</th>
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<tbody>
<tr>
<td>C</td>
<td>Strong supports from other institutions to implement a more extensive information reporting regime to improve compliance is needed</td>
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</table>
Conclusion

A combined approach to address the adverse impact of perceptions of corruption upon intentional non-compliance behaviour: A tax authority perspective

- **Norms-based intervention approach**
  - Minimised taxpayers’ negative attitudes towards correctly reporting income tax

- **Concentrated enforcement approach**
  - Low levels of taxpayers’ perceived behavioural control over tax underreporting

- **GOAL**
  - Minimised intentional underreporting behaviour

- **Higher governmental and political levels**
  - Strong commitment of political leadership to eradicate current levels of corruption

- **Tax authority level**
  - Strong advertisement of fiscal exchange between government and taxpayers

  - Strong support for the implementation of third-party information reporting regime

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**Introduction**

Empirical settings

Findings

Policy implications

Conclusion
Thank you