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THE BEHAVIOUR OF CONTRIBUTORS TO THE PUBLIC BUDGETS

- SUMMARY OF THE PH.D DISSERTATION-

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INTRODUCTION

The human behaviour has always been an important direction of research for different fields of study, such as psychology, sociology, economy, anthropology etc. From an economic point of view, the behaviour of individuals has been analysed to have a better representation of the theories, to understand economic processes and phenomena, but also to establish the starting point for economical and political decisions.

The subject of tax payment is of major importance, especially for economists, and became the starting point for many studies across time. A closer analysis of the subject has revealed the necessity of studying its components separately, in order to better understand the process and also to offer viable long-term solutions.

The research of the fiscal phenomena cannot be realised without the analysis of the both parties involved in the collecting process, the fiscal component and the contributors' component. The second research direction (the analysis of taxpayers) has been approached with the purpose of broadening the knowledge spectrum of the specialists and also to improve the fiscal component when needed.

In order to solve the many issues raised by the behaviour of taxpayers, economists have focused on understanding the compliance behaviour towards income reporting and/or tax payment. Tax compliance may be defined, by resuming the main ideas from the specialty literature, as the voluntary obedience towards the rules and laws of the tax system. The compliance of taxpayers could also be associated with the idea of fulfilling the role of the consumer-citizen within a state. By complying, the consumer-citizen contributes to the public budget by paying taxes and fees and, on the other hand, he uses public services (health, education, etc.), funded by these contributions precisely.

The motivation behind the choice of the compliance behaviour of taxpayers as a research topic results from several

directions. Firstly, it is motivated by the complexity of the subject given by the interaction between two economic fields of research (marketing and finance), a complexity that may create difficulties in approaching the subject, but in the end it offers many directions of research.

Secondly, the subject is constantly changing and developing, always needing new approaches and research views to understand why taxpayers choose to behave in a certain manner. Understanding their behaviour may be useful to both theorists and practitioners, but also to the fiscal authorities and other institutions, that need to assure a proper institutional functioning and maintain a good relationship with the population. Last, but not least, the subject has not been approached in the Romanian specialty literature in this manner and it is viewed from to different economic perspectives and the need of such an approach has been felt more and more in the last years.

THE RESEARCH PURPOSE, OBJECTIVES AND HYPOTHESES

The *purpose* of the research is to analyse the compliance behaviour towards income reporting of taxpayers with liberal professions, more exactly doctors, lawyers/notaries and self-employed accountants from Iași County.

The three professional categories form the majority of the population of taxpayers with liberal professions, from Iași County (approximately 76%). According to the Romanian tax system, only certain categories of taxpayers report it on their own, in order to pay the afferent taxes.

The research *objectives* are:

- 1) To create a theoretical framework regarding tax compliance behaviour, through the secondary research.
- 2) To analyse the influence of certain economic and noneconomic factors on the compliance behaviour towards income reporting of individual taxpayers with liberal professions from Iași County (doctors, lawyers/notaries and self-employed accountants).
 - 2.1. The analysis of the influence of demographic factors (sex and age) on the compliance intention towards income reporting.
 - 2.2. The analysis of the influence of the noncompliance opportunity (income level, income source, occupation) on the compliance intention towards income reporting.
 - 2.3. The analysis of the influence of the taxpayers' attitudes and perceptions (audit probability, perceived chance of being detected, the perception about the level of the income tax and tax morale).
- 3) To obtain a descriptive profile of the individual taxpayers with liberal professions (doctors, lawyers/notaries and self-employed accountants) from Iași County.

The general research *hypotheses* are inspired from the specialty literature.

H1.1: There are significant differences between male and female participants in matters of compliance.

H1.2: There are significant differences between the participants, according to their age, in matters of compliance.

H2.1: There are significant differences between the participants, according to their income, in matters of compliance.

H2.2: There are significant differences between the participants, according to their occupation, in matters of compliance.

H2.3: The existence of taxable income that does not appear on record influences significantly the compliance, but also the perceptions of the taxpayers.

H3.1: There is a significant relationship between the audit probability and compliance.

H3.2: There is a significant relationship between the perceived chance of being detected and compliance.

H3.3: The perceived chance of being detected is significantly different when the audit probability has different levels.

H3.4: There is a significant relationship between the perception of the level of the income tax and compliance.

H3.5: There is a significant relationship between tax morale and compliance.

RESEARCH METHODOLOGY

The target market of the research is represented by freelancers, more exactly by doctors, lawyers/notaries and self-employed accountants, from Iași County, Romania, present or potential taxpayers. These taxpayers obtain, through their profession, income that they personally have to report, other than the income obtained from salaries, so it can be taxed according to the Romanian fiscal law.

The research relies on two different quantitative methods of data collection, necessary to test the hypotheses of the research, using, as a main direction of research, **methodological triangulation** (Zaiț, Spalanzani, 2006). The first method used was the *self-administered survey*, and the sample has been extracted by using a mix between quota sampling (Prutianu, Anastasiei, Jijie, 2005) and stratified sampling (Jaba, 2002). The survey has been conducted with the help of self-administered questionnaires filled out by present taxpayers; each selected participant received a copy of the questionnaire which he/she filled it out individually and in private, without the presence of the researcher (the purpose was to obtain honest answers and to decrease social desirability bias).

The second method of research was the *quasi-experiment*, a simplified version of the classic experiment, but very effective in gathering the data about the behaviour of individual taxpayers. The main characteristic of the quasi-experiment, in general, is the non-random selection of participants at the study. The present quasi-experiment focused on potential taxpayers. The study approached a convenience sample formed from students at the Faculty of Medicine, master students at the Faculty of Law and accountancy master students, who want to practice as freelancers one of the professions mentioned above. All the participants have been selected from students at public universities, with similar group characteristics (same age group, the majority unemployed etc.)

The methods used to study the compliance behaviour of individual taxpayers from Iași County support and complete each other, as each one has its strengths and weaknesses. The choice of using two different research methods is motivated by the fact that, in the specialty literature, both methods have been intensely used and highlighted separately, but very few authors used them in the same research, to test the same set of hypotheses (Dijke, Verboon, 2010). Also, if the results obtained from two different methods of research are similar, they become more reliable and the validity of the research is clearly consolidated (Jick, 1979; Thurmond, 2001).

DISSERTATION STRUCTURE

The paper contains five chapters, the first three being focused on the theoretical framework of the research subject and the last two being focused on the empirical research.

The first chapter, entitled “*Taxation - between the contributor and the state*”, contains the description of basic fiscal theoretical and, also, the way the fiscal system works, so the purpose of taxation is properly understood by all those interested in the subject. The main concepts approached are “taxation”, “fiscal policy”, “fiscal pressure”, “tax system”, “taxes”, “duties”; also, in this chapter are described the main types taxes, one of them being the income tax and a brief review of the Romanian taxation system, from a historical point of view.

The second chapter, “*Behavioural characteristics of the contributors to the public budgets*”, focuses on describing the behaviour of taxpayers as it was previously presented in the specialty literature, without ignoring the influence of the analysis of consumer behaviour on the research topic of this paper.

Firstly, the relationship between the behaviour of taxpayers and the behaviour of the typical consumer is analysed, due to the

fact that even taxpayers may be approached as consumers of public services who contribute the public budgets by paying taxes and duties and can be analysed through the same methods as the general consumers. The chapter continues by describing the main directions approached in the literature, the focus being on the tax compliance behaviour. Consequently, the main factors of influence of this type of behaviour are approached, being grouped in five main categories: tax morale and ethics, demographic factors, socio-cultural factors, internal factors (psychological) and external factors. The chapter ends with the analysis of the most complex research models found in the tax compliance literature.

In the third chapter, “*The starting point of the research regarding the behaviour of taxpayers from Iași County*”, the theoretical directions regarding the research on consumer behaviour are presented, followed by the methods used in the empirical research of taxpayer behaviour, but also by the design of the research regarding the behaviour of taxpayers from Iași County.

The fourth chapter, entitled “*A survey regarding the behaviour of taxpayers from Iași County*”, describes the first method of research used, the self-administered survey, with the primary purpose of collecting the data needed to test the research hypotheses and the secondary purpose of obtaining a general description of the target population. The chapter is structured in three main parts: the design of the study, the results and the conclusions withdrawn from the first study. A final valid sample of 263 questionnaires has been obtained and the structure of the sample follows closely the structure of the general target population.

The last chapter, “*A quasi-experiment regarding the behaviour of taxpayers from Iași County*”, reveals the second method of research and how it has been used, in order to support the results obtained from the first study and to test again the research hypotheses. The same structure as in chapter four is kept

in chapter five. The convenience sample obtained at the end of the study shows 102 valid participants.

The paper ends with the general conclusions' part, limitations and future directions of research, which will be briefly described in the next section.

The collected data has been analysed with the help of SPSS 13.0 programme.

CONCLUSIONS

The compliance behaviour of taxpayers towards income reporting remains a valuable source of scientific information for economy, in general, and for marketing and finance, in particular.

A closer analysis of the demographic variables showed that, in both studies, female participants were significantly more compliant regarding income reporting than male participants, also previously confirmed by Andreoni, Erard and Feinstein (1998), Chung and Trivedi (2003), Torgler (2003) and Kastlunger et al. (2010).

By comparing the compliance intention, in the first study, over the age groups used, resulted the fact that the young segment and the adult segment comply less than the participants in their 50's and over. By comparing the young and adult segment, the results are no longer consistent with the previous findings (Andreoni, Erard, Feinstein, 1998), the younger participants showing a higher degree of compliance when compared to the adults.

The second research objective regarded the influence of the opportunity of noncompliance on three directions. Firstly, the differences between the compliance of the participants, in terms of income level, were not significant, so the variable has no influence on their behaviour.

Secondly, the income source has been approached as the possibility of obtaining taxable income that does not appear in the records of the participants. In both studies, the variable showed a significant influence on compliance, but some of the participants did not change their behaviour, although they had the chance and they fully complied until the end. The results regarding the income source sustain the Fischer model (Fischer et al., 1992) on this particular direction.

Thirdly, although the occupation variable has been analysed only on three categories, the studies showed that there are no significant differences between the three groups, with an exception

in the case of the survey; the differences between the compliance of the three groups was significant only from the general compliance intention perspective.

All the perceptions of the taxpayers showed significant relationships with the degree of compliance, in both studies. The audit probability and the chance of being detected have a direct relationship with compliance, no matter if the income does or does not appear on record. The conclusions regarding the audit probability are the same as in the previous findings (Alm, Jackson, McKee, 1992; Cummings et al., 2009).

Since always, taxpayers felt a high fiscal pressure. As it grows, taxpayers have a tendency to avoid reporting all of their income (Alm, Sanchez, Juan, 1995; Dhami, al-Nowaihi, 2007). The conclusions regarding the relationship between the perception about the level of the income tax were the same in both studies: as the tax payers feel the level is “high” or “very high”, they show a lower degree of compliance.

The tax morale of the participants from both studies has shown the closest relationship with compliance. As other specialist have previously demonstrated (Dell’Anno, 2009), compliance rises as tax morale rises.

The conclusions of the research were similar in the both studies approached, showing important relationships between the compliance behaviour towards income reporting and most of the variables involved. Also, the similar results have increased the degree of confidence of the entire research, but also its validity (Jick, 1979; Thurmond, 2001).

The *personal contributions* of this research refer, firstly, to the approach of tax compliance on three different professional categories, from three different domains, categories that have not been analysed ever before: doctors, lawyers/notaries and self-employed accountants.

The opportunity of noncompliance has also been in the focus of the research, especially through the approach of the income source, more exactly the influence of the income that does not exist

in official records on compliance. Also, the paper shows that from the three components of the opportunity only the income source has a significant influence on the behaviour of individual taxpayers towards income reporting.

The audit probability has been analysed at the same time and in the same context with the chance of being detected. The majority of the authors who had previously approached this research subject focused only on one of the two variables.

A new factor of influence has been introduced through this research – the perception about the level of the income tax. Although the tax level and its influence has been previously analysed (Alm, Jackson, McKee, 1992; Alm, Sanchez, Juan, 1995; Alm, McClelland, Schulze, 1999), the way how the variable it is built represents a personal approach and a novelty to the literature.

From a methodological point of view, the research regarding the behaviour of taxpayers from Iași County brings to the attention methodological triangulation, rarely used in the specialty literature (Dijke and Verboon – 2010 have used both an experiment and a survey to test the same hypotheses). Also, the research has been conducted on two different populations, present and potential taxpayers.

The quasi-experiment brings its contribution through the instrument created, but also through its design.

The entire context and purpose of the research constitute a novelty for the tax compliance literature, the results being useful to both theorists and practitioners. Another strong point of the research refers to the mix between two different economic fields, marketing and finance.

The *practical implications* of these conclusions regard not only the scientific research specialists interested in the subject, but also those who are directly involved in the application of the tax law or who participate in the elaboration of the fiscal policy.

Firstly, the opportunity of noncompliance plays a very important part especially through the income source, issue that

should be in the attention of the people implicated in the fiscal process, due to the opportunity of the target population to gain cash in hand income, which can be easily omitted from being reported. But not only the taxpayers should be in their attention, their clients have their influence on the whole process by forgetting to ask for a receipt or an invoice of the services they solicited and paid for.

Secondly, the audits performed by tax authorities or the fear of being audited, mixed with the fear of being detected when there is a case of tax fraud, should be closely approached, through the important influence they still have on compliance. An increase in the number of audits and making them more thorough might significantly reduce the attempts to commit evasion. Also, the taxpayers' perception about the level of the income tax may be positively influenced by decreasing the pressure felt by some of the taxpayers, at least at a perceptual level.

Also, the tax morale, as the highest correlated variable with compliance, should be more in the attention of practitioners, if it has been ignored until now, through the role it could play in increasing the degree of compliance. Actions that have as a purpose the awakening or the stimulation of the moral spirit of the contributors, which is directly related to their compliance behaviour, are more than welcome. Last, but not least, the demographic variables are important, but this does not mean that the authorities should focus only on the less compliant categories, because all the other categories might change their behaviour in time.

The *limitations* of the research regard, mostly, the sensitivity of the subject, the focus of the research on only a part of the freelancers, the low accessibility of the target population, limitations related to time, logistics or research design.

Future directions of research may include expanding the study at a national or even at an international level (in countries with a similar tax system as the Romanian one) and also including more psychological or social variables, which would help in

explaining the puzzle of tax compliance. Also, from the methodological perspective, the focus should be on experimental methods of research or mixed methods, in order to have a clearer view on the actual behaviour of taxpayers.

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