

THE IMPORTANCE OF BEHAVIOURAL TAXATION IN EUROPEAN UNION

Abstract

Fiscal policies, both in general and within the European Union (EU), include an examination of the reasons behind tax evasion and the establishment of mechanisms to encourage greater tax compliance among taxpayers. In such analyses, the behavioural economic and taxation policies model is deemed more effective than traditional tax models, considering various factors influencing taxpayer behavior. Within these interdisciplinary considerations, encompassing social and cultural elements, the implementation of principles of equity in taxation surfaces as a pivotal influence in molding the behavior of taxpayers and their tax morale.

The European Union's situation is quite complex, given the multitude of member states and the diverse geo-political, cultural, historical, and social contexts, along with variations in economic development and other differences. In this nuanced landscape, the behavioural model seems much more fitting for analysis as it considers these specificities and distinctions. Among these factors, behavioural taxation plays a pivotal role and European fiscal policies highlight its relevance, both in theory and practice. The paper analyzes how behavioral taxation affects tax compliance and tax morale of taxpayers in the EU.

Key words: *behavioural taxation, tax morale, tax compliance, European Union*

I. INTRODUCTION

Taxation achieves many goals, the most important of which is, of course, the fiscal goal, i.e. bringing enough money into the state treasury to meet public needs. In addition to this most important goal, taxation can achieve many other important goals aimed at influencing the taxpayer's behavior, which often are in direct conflict both with each other and with the fiscal goal of taxation, which historically is by far the most important, and often represented the exclusive goal of taxation. Non-fiscal goals can be economic, political, pedagogical, social, environmental, etc. objectives (e.g. encouraging housing construction, promoting cultural and sports activities), and they are often in conflict with the primary fiscal objective of taxation, and their goal is to stimulate taxpayers to behave in a certain way.¹

II. THE BEHAVIOUR OF TAXPAYERS

The behavior of taxpayers can be influenced most through excise taxes. Countries employing these taxes hope to earn a 'double dividend': a reduction in the consumption of harmful goods (the societal dividend) and generation of (additional) tax revenue, which can displace the revenue of other, more distortionary taxes (the economic dividend). The 'double

* Emina Jerković, Department of Financial Law, Maritime and General Transport Law Faculty of Law Osijek Josip Juraj Strossmayer University of Osijek, Croatia, Radićeva 13, 31 000 Osijek, E-mail: ekonjic@pravos.hr

¹ Emina Jerković, 'Važnost ciljeva i socijalno-političkih načela oporezivanja u funkciji ostvarenja pravednosti prilikom oporezivanja dohotka od nesamostalnog rada i samostalne djelatnosti' in Proceedings of the Third International Scientific Conference ERAZ 2017 (2017) 217–230.

dividend' hypothesis was first developed by economist David Pearce in *The role of carbon taxes in adjusting to global warming*.²

By levying these taxes, governments seek to discourage the consumption of products that contribute to (significant) negative externalities, such as health costs or climate change. However, the design and implementation of such taxes can be quite complex, with volatile revenue collection. Additionally, public acceptance and consumer responses can vary widely between groups. The European Union has set ambitious environmental and health policy targets that will likely influence the future direction of behavioural taxation. Taxes such as excise duties on tobacco, alcohol or energy and general value-added tax (VAT)³ – for which common EU rules are in place – may help Member States achieve these objectives and provide additional revenue. In the meantime, several Member States have introduced other behavioural taxes at national level, for instance on flights, meat and on sugar.⁴ For example, in order to discourage sugar consumption, a number of EU Member States (Belgium, Croatia, Denmark, Finland, France, Hungary, Ireland, Latvia, Netherlands, Poland, Portugal and Romania) have sugar taxes. These taxes are usually restricted to sugar-sweetened beverages, although Member States may (also) target other goods (for instance, Denmark has a tax on chocolate, sweets, and other sugary products). The design of those specific taxes varies.⁵

However, when dealing with taxpayers behaviour, based on anecdotal evidence, when it comes to Belgium, cross-border shopping appears to grow over time, not only due to the sugar tax but due in main to the higher food and drinks costs in Belgium compared to neighbouring countries, especially so after the recent (2022/2023) food price inflation.⁶

Various sources point to cross-border shopping of chocolate and confectionery in other countries as well. The overall difference in food prices between Denmark and Germany needs to be taken into account, the sugar tax being just one component of it. The cross-border trade of chocolate and confectionery has however been affected by the changes in excise rates.⁷

There is no simple answer to the question of what influences taxpayer behaviour when fulfilling tax obligations. It is important to understand that individual taxpayers react differently depending on the situation and that there are a number of factors that shape their tax behaviour, which they sometimes cannot influence. This is precisely why it is important to recognize what influences the creation of resistance in a taxpayer, because treating the symptoms can only affect a specific person – the individual taxpayer, and not society as a whole.

As channels for improving tax literacy, one can mention, first of all, the tax administration as an independent institution that has an active role in informing and educating taxpayers. Then, as one of the extremely important influences, educational institutions can be mentioned in terms of formal education⁸, which in terms of financial and tax literacy can be started as early as elementary school. Through formal education, taxpayers can acquire tax knowledge and skills and navigate the jungle of tax regulations that can positively influence the attitude towards paying taxes. Various non-profit organizations and associations also play a major role, as well as the financial industry, but also the media, which, in cooperation with state

² David Pearce, 'The Role of Carbon Taxes in Adjusting to Global Warming' (1991) 101 *The Economic Journal* 938–948.; Pieter Baert, *Shaping choices: Behavioural taxation in the EU* (European Parliamentary Research Service Briefing Paper PE 762.466, October 2024)

³ Baert (n 2); Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax (2006) OJ L 347/1.

⁴ Baert (n 2); European Parliament, *Shaping Choices: Behavioural Taxation in the EU* (2024) [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2024\)762466](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2024)762466)

⁵ Baert (n 2); European Commission, *Annual Report on Taxation 2024 – Review of Taxation Policies in the European Union* (Publications Office of the European Union 2024) <https://data.europa.eu/doi/10.2778/10846>

⁶ *Ibid.*

⁷ *Ibid.*

⁸ Neda Šimurina and others, *Osnove porezne pismenosti* (Narodne novine 2018) 9–10.

institutions, have the power to shape the views of taxpayers and to influence the level of their tax morale.

III. THE STRENGTH OF TAX MORALE

If tax morale is high, it means that there will be no resistance to paying taxes. At the same time, high morality is manifested in such a way that:

1. taxpayers are aware that their children's education, employment, national security and other public interests under the jurisdiction of the state depend on the payment of taxes;
2. taxpayers believe that the tax burden is fairly, evenly and expediently distributed;
3. the payment of taxes is related to some ethical, patriotic or other purpose;
4. the accelerated tax is given to people who are affected by natural disasters and other similar unfortunate circumstances or if this amount is spent for national security.⁹

Conventional tax policies point to the importance of coercion, i.e. the fact that people often have to be coerced in order to fulfill their tax obligations. Of course, under threat of punishment. It is important to distinguish between taxpayers: those who are more honest, with stronger tax morale and/or fear report their correct incomes, while those who are more dishonest, with weaker morale and/or fear report incomes that are lower than the real ones, depending on what and how they benefit.¹⁰

Using immigrant data from the European Social Survey to examine the role of culture in shaping tax morale, Kountouris and Remoundou state that "the level of tax morale in the country of immigrant origin affects individual tax morale in the country of destination".¹¹

Due to all of the above, tax morale varies quite a bit from country to country. If we analyze the Financial Club's research¹² on countries with high and low tax morale, it is impossible not to notice the geographical factor, i.e. the fact that the countries with high tax morale are mostly the countries of Northern Europe and Scandinavia (Sweden, Norway, Germany, Great Britain), and the countries with a tradition of low tax morals of the countries of southwestern, southern and southeastern Europe (Croatia, France, Italy, Spain).

Barr and Serra¹³ report the results of their bribery game experiment conducted in the United Kingdom with students from 34 different countries. The analysis of the results showed that when it comes to undergraduate students, the behaviour of individuals in the experiment can be predicted with regard to the level of corruption in their countries of origin. The authors claim that these findings show the great influence of the cultural environment and social norms on behaviour and emphasize the cultural aspect of corrupt behaviour. They also found that graduate students living in the UK longer than undergraduates adjust their behaviour so that levels of corruption in their country of origin no longer account for such behaviour. The authors argue that over time in the UK, students may have adopted a home-grown set of values. Similar cultural effects can affect individuals' compliance with their tax obligations.¹⁴

⁹ Božidar Jelčić, *Javne financije* (2nd edn, RRiF-plus 2001) 144.

¹⁰ Nika Sokol, 'Psihološki i sociološki aspekti preraspodjele dohotka' (<https://www.slideserve.com/lelia/psihološki-i-sociološki-aspekti-preraspodjele-dohotka>)

¹¹ Yannis Kountouris and Kyriaki Remoundou, 'Is There a Cultural Component in Tax Morale? Evidence from Immigrants in Europe' (2013) 96 *Journal of Economic Behavior & Organization* 104.

¹² Financijski klub, 'Porezna evazija i porezni moral' <http://finance.hr/porezna-evazija-i-porezni-moral/>

¹³ Abigail Barr and Danila Serra, 'Corruption and Culture: An Experimental Analysis' (2010) 94(11–12) *Journal of Public Economics* 862–869.

¹⁴ European Commission, *Taxation Papers: Behavioural Economics and Taxation Working Paper No 41* (2014) 20.

The Republic of Croatia specifically is characterized by citizens' bad opinion about the availability, fairness and quality of public goods, general dissatisfaction with the work of the public administration which is inefficient and corrupt, objections to excessive tax burdens and precisely because of this it is an example of a country with low tax morale.¹⁵

According to Neshovska Kjoseva „tax culture is more than “culture of taxation” and “tax-paying culture” and studies the motives which impact on voluntary tax compliance, establishes tax mentality, tax morals and tax discipline, and examines the ethical issues of combat against tax evasion and tax avoidance“.

According to research by Rimac and Štulhofer from 2002, the Republic of Croatia is twice as bad as the EU average in this regard (with the fact that trust in political institutions is not at a much higher level). The question of justice and justification of social norms is of great importance to citizens, and thus trust in legal provisions. If there is no such trust, the chances of tax evasion increase sharply.¹⁶

Beyond tax morale, contemporary literature increasingly emphasizes the broader concept of tax culture. According to Neshovska Kjoseva¹⁷, tax culture extends beyond mere “culture of taxation” or “tax-paying culture” and encompasses the motives influencing voluntary tax compliance, tax mentality, tax morale, and tax discipline, while also addressing ethical issues related to tax evasion and tax avoidance. Furthermore, reform of the tax system cannot be achieved solely through legal amendments, regulatory changes, or coercive measures, but requires time to develop and shape an adequate tax culture. Future research on tax culture should therefore not remain only at the theoretical level, but should also incorporate empirical analysis in order to provide governments with practical policy solutions aimed at increasing voluntary tax compliance and reducing tax evasion and avoidance. In this regard, improving tax culture may generate a “double dividend”: not only enhancing voluntary tax collection and reducing tax evasion, but also strengthening the relationship between citizens and the state.¹⁸

IV.BEHAVIOURAL ECONOMICS AND BEHAVIOURAL FINANCE

Behavioural economics studies the influence of psychological, social, cognitive and emotional factors on our decisions (primarily economic, but not only on them). In particular, the application of knowledge from the field of behavioural economics can influence citizens to make better decisions in their daily lives, without coercion or manipulation. The task of behavioural experts is to directly propose measures aimed at improving the quality of life of citizens. The British Government, and more recently the Turkish Government, have approved the launch of a special department, composed of experts in behavioural economics, with the aim of using the funds available to the Government to improve the quality of life (and the safety of citizens).

Horonitz defines behavioural economics "as a combination of economics and other social sciences that describe behaviour more".¹⁹ It occurs when economists combine research and methods from economics and other social sciences with the aim of improving the descriptive value of economic theory". Horonitz also states that "behavioural economics is not a separate field of economics. It is a style of modeling or a school of thought that means

¹⁵ Sokol (n 10)

¹⁶ Predrag Bejaković, ‘Tax Evasion, Tax Capacity and Trust in Transitional Countries: The Case of Croatia’ (2009) 18(4–5) Društvena istraživanja.

¹⁷ See more: Elena Neshovska Kjoseva, ‘The Concept of Tax Culture in Contemporary Times’ (2023) 14(1) Iustinianus Primus Law Review. Special issue: Conference Proceedings.

¹⁸ Gordana Ilić Popov, ‘Tax Culture: A Big Step Toward Voluntary Tax Collection’ (2023) 14(1) Iustinianus Primus Law Review. Special issue: Conference Proceedings.

¹⁹ Mladen Horonitz, Psihologija ekonomskog ponašanja – priručnik o osnovama bihevioralne ekonomije (Edunova škola informatike 2013).

application to a large area of economic issues in consumer theory, finance, tax policy, etc. Psychological results contribute to the development of behavioural economics with numerous experiments where behavioural economics is an approach and experimental economics is a method".

When we look at the body of knowledge about finance, behavioural finance represents a new approach to the field of finance. It is traditionally believed that when making decisions under conditions of uncertainty, people form attitudes in accordance with the laws of probability and are guided exclusively by the maximization of personal interests. However, one should not ignore the importance of intuition, according to which conclusions and decision-making come spontaneously, without exhaustive thinking and effort.²⁰ According to Vučković²¹ scientific disciplines that study human behaviour (medicine, psychology, sociology and anthropology) can help a lot in studying the descriptive decision-making process. Behavioural finance investigates the influence of psychology on the behaviour of market participants, concentrating on how individual investors make decisions, that is, how they interpret and react to certain information.²²

Kapor²³ in his research explains how economic intermediaries have a limited attention span, while at the same time they are faced with a confusing and large set of often contradictory information, which prevents them from focusing only on the main information. At the same time, they need time (due to reduced ability to process information) to interpret new information, even when it is reliable, which can lead to bias in reasoning and decision making.

Kahneman and Tversky are considered the fathers of behavioural economics/finance. Since their joint collaboration in 1969, they have published over two hundred scientific papers, most of which relate to psychological concepts with implications in behavioural finance.²⁴

According to Uzar and Akkaya²⁵, the key differences between traditional finance and behavioural finance are as follows:

1. Traditional finance assumes that people process data accurately and appropriately. Conversely, behavioural finance recognizes a rule of thumb, i.e. heuristics, to process data that includes biases in their beliefs and leads them to make mistakes.
2. Traditional finance assumes that people make all decisions in a transparent and objective manner. In contrast, behavioural finance believes that risk and returns are strongly influenced by the framing of the decision-making problem.
3. Traditional finance assumes that people are guided by reason and logic and independent assessment, while behavioural finance recognizes the importance of emotions and takes into account that people are more inclined to follow a group (mass psychology) and that this has a significant impact on decision-making.
4. Traditional finance states that markets are efficient and that the price of each security is an unbiased estimate of its real value. Behavioural finance, on the other hand, argues that heuristics (prejudices, effects of emotions and social influence) often lead to discrepancies in market prices and fundamental values.²⁶

Today, behavioural finance finds its place in most educational institutions. According to Schinkus, this field of research has become an alternative to neoclassical finance, which is

²⁰ Ana Brajković and Anita Radman Peša, 'Bihevioralne financije i teorija "Crnog labuda"' (2015) 1 *Oeconomica Jadertina* 69.

²¹ Sanja Vučković, 'Biheviorističke finansije i finansijski menadžment' (2010) 48 *Ekonomске teme* 629–640.

²² H Park and W Sohn, 'Behavioral Finance: A Survey of the Literature and Recent Development' (2013) 9(1) *Seoul Journal of Business* 3–42.

²³ Predrag Kapor, 'Bihevioralne finansije' (2014) 11(2) *Megatrend revija* 73–94.

²⁴ Brajković (n 20) 69.

²⁵ Cengiz Uzar and Gökhan Akkaya, 'The Mental and Behavioural Mistakes Investors Make' (2013) 5(1) *International Journal of Business and Management Studies* 120–128.

²⁶ *Ibid.*

"anti-behavioural" because it refers to a theoretical world where people are seen as perfect tools without psychology, while financial reality is much more complex than that.²⁷

For example, Dan Ariely conducted an experiment in Alaska in cooperation with credit and non-profit institutions. The aim of the experiment was to encourage people of lower financial status to save. The control group was asked how much money they planned to set aside for savings after receiving a tax refund check. The experimental group was asked a question before they even received their tax refund check and the question was, "You will probably get a tax refund. What percentage of the amount do you want to set aside for savings?"

The control group answered "10%", and the experimental group answered "15%". The actual separated amount after receipt of the check was 12% in the control group, and almost twice as much in the experimental group – 22%. A small modification of the message and the time of sending increased the savings of citizens.²⁸

V. TAX DISCIPLINE AND BEHAVIOURAL TAXATION

Increasing tax discipline is a key component of effective tax revenue collection. Tax authorities are developing new approaches to increase voluntary tax compliance, curb non-compliance, reduce compliance costs and increase overall confidence in the tax system.

The support can be realized in the form of:

1. improvement of tax discipline risk management;
2. establishing a program for cooperation in fulfilling obligations;
3. encouraging the implementation of behavioural approaches to taxation;
4. designing communication and information campaigns.²⁹

For example, the Commission is supporting Belgium in the pilot phase of the program of cooperative enforcement of tax obligations. The goal is to improve voluntary compliance with tax obligations and create a sustainable framework for efficient collection of tax revenues. The implementation of the Tax Compliance Program is supported by customized professional support in:

1. building new relationships with large taxpayers, especially by strengthening relations with the tax administration and raising awareness among taxpayers;
2. implementation of the tax control framework and related techniques of cooperative assessment of compliance with the execution of tax obligations;
3. exchange of good practices and experiences on the compatibility of tax administration cooperation with taxpayers, with experts from other EU member states from specialized tax administration units and the academic community.³⁰

Behavioural taxation developed from the psychological analysis of economic behaviour. Among the first to study it was George Katona, who recognized the importance of combining psychology, economics and law. Katona emphasizes that "psychological factors and traditional economic factors are intertwined in a single pattern and must be studied together in order to understand economic behaviour".³¹

²⁷ Christophe Schinckus, 'Archeology of Behavioral Finance' (2011) 8(2) IUP Journal of Behavioral Finance 7–22.

²⁸ Dan Ariely experiment cited in: Dario Šumiga, 'Zašto svaka Vlada treba bihevioralne stručnjake više nego PR stručnjake?' (2018) <https://www.promosapiens.hr/zasto-svaka-vlada-treba-bihevioralne-strucnjake-vise-nego-pr-strucnjake/>

²⁹ European Commission, 'Revenue Administration and Public Financial Management' https://reform-support.ec.europa.eu/what-we-do/revenue-administration-and-public-financial-management_hr

³⁰ Ibid.

³¹ George Katona, 'Contribution of Psychological Data to Economic Analysis' (1947) 42(239) Journal of the American Statistical Association 459.

According to Torgler the only other way to determine the true picture of people's tax preferences (besides the assessment of tax compliance) is to measure the degree of tax non-compliance or tax resistance.³² There are certain relationships between a person's community orientation, generosity in family, club or social matters, understanding and cooperation with public legal bodies, and personal willingness to comply with painful communal obligations of a similar nature, such as paying taxes.³³

Schmölders³⁴ conducted international comparative research with a focus on Europe, concluding that taxpayers should be treated with great caution and respect if the tax administration wants to maintain high tax morale or if it wants to reduce the costs of fulfilling tax obligations, which is closely related to Wagner's tax-technical principles.

Understanding the general theory of taxpayer motivation can help the revenue authority to shape and manage its compliance programme in a strategic way. In the same way, understanding the factors that drive specific compliance behaviour is essential to guide the selection of appropriate treatment strategies. Taking time to analyse compliance behaviour will assist the tax authority to address the cause of the non-compliance rather than the symptom, thereby achieving a longer-term compliance outcome.³⁵

Burkhard Strümpel also played a very important role in the development of behavioural taxation and economic psychology during the 1970s and 1980s, doing pioneering work in other areas such as subjective well-being or work values; he "confronted the traditional approach with empirical data".³⁶

Since then, a lot has passed in terms of progress when it comes to the study of behavioural taxation. Behavioural taxation is a developing field that uses a large number of methods such as surveys, laboratory experiments, field experiments or natural experiments. During its development, it maintained a high level of interdisciplinary engagement, where scientists from different fields of science not only contribute to the improvement of knowledge, but can also collaborate without much effort (compared to other scientific fields). Difficulties in obtaining reliable data from the field of tax law (e.g. in the area of tax evasion) have required scholars to be imaginative and open to the application of different, previously mentioned, possible methods (e.g. the early use of laboratory experiments during the 1980s), which also helped interdisciplinarity. Unlike other fields - which tend to specialize and become narrower as research progresses - behavioural taxation has accepted the fact that each method has its advantages and disadvantages. Also, the complexity of the subject itself requires scientists to recognize that much can be learned from other fields when advancing or synthesizing available knowledge.

Therefore, Alm and Torgler refer to three paradigms that should be considered, emphasizing that the fulfillment of tax obligations is not guided by the "paradigm of punishment", which relies on detection and punishment, i.e. that the obligation to pay taxes is not part of criminal law, but of financial, specifically tax law. For this reason, it should be based on the paradigms of "service" and "trust", which emphasize the importance of better provision of services to taxpayers by the tax administration.³⁷ The best way to influence tax behaviour

³² Bruno Torgler, Behavioral Taxation: Opportunities and Challenges Working Paper No 2021-25 (Center for Research in Economics, Management and the Arts 2021).

³³ Günter Schmölders, 'Fiscal Psychology: A New Branch of Public Finance' (1959) 12(4) National Tax Journal 340-345.

³⁴ Ibid.

³⁵ OECD, Compliance Risk Management: Managing and Improving Tax Compliance (2004) <https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/tax-administration/compliance-risk-management-managing-and-improving-tax-compliance.pdf>, 42.

³⁶ Torgler (n 32)

³⁷ James Alm and Bruno Torgler, 'Do Ethics Matter? Tax Compliance and Morality' (2011) 101(4) Journal of Business Ethics.

and make citizens aware that paying taxes is not a measure of criminal law, but of tax law, is through tax literacy.

VI. ASSESSING THE INFLUENCE ON THE BEHAVIOUR OF TAXPAYERS

The research literature identifies two broad approaches to the problem of tax compliance. The first comes from the perspective of economic rationality and is developed through economic and legal analyses. The second concerns broader behavioural issues and draws heavily on concepts and research from disciplines such as psychology and sociology. Economic and behavioural approaches sometimes collide. However, each can be valuable in terms of understanding the motivations and behaviour of taxpayers, and the question arises as to how the two approaches could be used to reinforce each other.³⁸

Many OECD countries have invested in research to help understand what factors influence taxpayer behaviour. In doing so, two types of factors stand out the most: economic and behavioural, which are intertwined through the interdisciplinary nature of the topic.

Taxpayers can choose the safe way (reporting income truthfully and paying the entire tax liability) or they can take the risk (tax evasion by fully or partially not reporting income).

Most of the research was conducted in countries and experimental frameworks where the fulfillment of tax obligations is at a relatively high level. It would also be culturally interesting to understand the effects of behavioural economic policies in countries where tax compliance is low.

Behavioural economic factors can significantly influence the fulfillment of tax obligations, and if they are applied well, they usually cause an increase in the fulfillment of tax obligations. However, there does not seem to be a one-size-fits-all approach using insights from behavioural economics.³⁹

1. Economic factors

Most relevant economic factors are:

1. the cost of compliance - taxpayers have to face a number of common costs of having to comply with their tax obligations over and above the actual amount of tax they pay. These include the time taken to complete requirements, the cost of having to rely on accountants and the indirect costs associated with the complexity of tax legislation. These can also include 'psychological' costs such as stress that comes from not being certain that they have met all of the tax rules or even knowing what those rules are. This is precisely why the profession of tax advisors has developed, in order to help taxpayers with their professional legal advice on taxation issues in their uncertainties regarding the settlement of tax liabilities. Furthermore, small businesses often express resentment about being 'unpaid tax collectors' because of their role in collecting and paying especially indirect taxes (e.g. VAT);⁴⁰
2. financial burden. There appears to be a relationship between the amount of tax owed and compliance behaviour. For example, if a business owner has a tax liability that can easily be paid they may be willing to comply. However, if the liability is large — potentially threatening

³⁸ Simon James and others, 'Developing a Tax Compliance Strategy for Revenue Services' (2001) Bulletin for International Bureau of Fiscal Documentation 158–164.

³⁹ European Commission (n 14) 20.

⁴⁰ OECD (n 35) 37.

the viability of the business — the owner may avoid paying at all or try to adjust the data reported so as to incur a smaller (but incorrect) tax liability which leads to tax evasion;⁴¹

3. incentives - giving taxpayers incentives may have a positive effect on compliance behaviour (i.e. taxpayers becoming more compliant), though this needs further exploration, e.g. taxpayers of corporate income tax can exercise state aid through an additional reduction in the tax base for justified costs which reduces their tax liability and improves compliance behavior;⁴²

4. disincentives-surveys that analyse the impact of deterrents, such as financial punishments and threats of prosecution, suggest that they may have a time limited effect on compliance behaviour of taxpayers. However, studies have shown that taxpayers who are compliant want taxpayers who are non-compliant to be penalized.⁴³

2. Behavioural factors

The most common behavioural factors are:

1. perceived inequity - taxpayers who believe ‘the system’ is not fair or who have personal belief of ‘unfair’ treatment are less likely to be compliant;⁴⁴

2. individual differences - many taxpayers are compliant with their tax obligations, some are not. Personal characteristics that can influence behaviour include age, gender, education level, moral compass, personality, circumstances, and personal assessment of risk taking;⁴⁵

3. risk taking - some people are risk takers and view tax avoidance/evasion as a game to be played and preferably won. So they test their skill in avoiding their tax obligations and in avoiding being caught at the cost of a fine;⁴⁶

4. perception of minimal risk - if a taxpayer has the opportunity not to comply and thinks that there is only a minimal chance of being detected, he/she will take that risk. This presumably accounts for the greater under-reporting of certain types of (personal/profit) income. For example, salary/wage income is usually likely visible to tax authorities because of third party reporting. However, other sources of income may be much less visible and therefore subject to more creative means of accounting.⁴⁷

3. Reasons for non-payment of tax liability

In a recent work, economic psychologist Paul Webley⁴⁸ focuses on business tax compliance. Despite the relative scarcity of research in this area, he provides an overview of robust empirical findings which recur in relation to both individuals and businesses. According to Webley, the main reasons for non-compliant behaviour can be categorised as:

1. equity - the perceived fairness of a taxation system is important, with taxpayers’ behaviour influenced by two perceptions: that the system treats them unfairly compared to others, and that the government is doing too little with the revenue it collects;⁴⁹

2. individual differences - those who do not comply tend to be male, younger, egotistical and have positive attitudes towards tax evasion and negative attitudes towards taxation authorities.

⁴¹ OECD (n 35) 37.

⁴² Ibid.

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Paul Webley, ‘Tax Compliance by Businesses’ in Hans Sjögren and Goran Skögh (eds), *New Perspectives on Economic Crime* (Edward Elgar 2004).

⁴⁹ OECD (n 35) 38.

There is some evidence to suggest that education about the taxation system has a direct impact on reducing the propensity to evade;⁵⁰

3. opportunity for non-compliance - several studies report this as the most significant explanatory factor for non-compliant behaviour. However, it is unclear whether those who are pre-disposed to non-compliance seek work where there are more opportunities – for example, self employment as opposed to Pay As You Earn (PAYE) employment⁵¹;

4. dissatisfaction with revenue authorities - there is a positive correlation between belief by taxpayers that the revenue authority is inefficient or unhelpful and the likelihood of their non-compliance. However, it is unclear just how potent this is compared to other factors⁵²;

5. social norms - if a taxpayer believes that non-compliance is widespread they are much more likely not to comply themselves. Studies indicate that it is effective in reducing non-compliant behaviour to ensure that taxpayers have an accurate understanding of the compliance behaviour of others⁵³.

The efficiency of the tax administration is closely related to procedural fairness. Procedural fairness refers to the procedures, ways, and modes for reaching a decision. According to Wenzel⁵⁴ a decision procedure is perceived to be fair when the parties involved are treated equally, consistently, and accurately, and when they have opportunities for participation or for correcting the decisions made.

Regarding tax compliance, survey data and experimental findings conducted by Feld and Frey⁵⁵ and Wahl et al.⁵⁶ show that the opportunity to participate in governmental decisions by casting a vote (as one important aspect of procedural fairness) increases compliance.

Similarly, Murphy⁵⁷ finds that the perception of being treated fairly by the authorities results in higher tax compliance. According to Gang et al.⁵⁸ because procedural fairness has also been found to be positively related to trust, and trust is known to determine tax compliance, it stands to reason that trust is a mediator of the effect of procedural fairness on tax compliance.⁵⁹

Evidence shows that people who feel they have been treated fairly by tax administration will be more likely to trust that organisation and be inclined to accept its decision and follow its directions. The perceived fairness of tax administration is to a great extent based on personal experience from earlier encounters, other people's experiences and media reports. This suggests that an authority should treat citizens fairly and respectfully, listening to them and providing clear explanations for different actions. Treatment must also be even-handed and consistent: the perception that one group has been dealt with more or less favourably than another will rapidly undermine trust.⁶⁰

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Michael Wenzel, 'Tax Compliance and the Psychology of Justice: Mapping the Field' in Valerie Braithwaite (ed), *Taxing Democracy: Understanding Tax Avoidance and Tax Evasion* (Ashgate 2003) 41–69.

⁵⁵ Lars P Feld and Bruno S Frey, 'Trust Breeds Trust: How Taxpayers are Treated' (2002) 3 *Economics of Governance* 87–99.

⁵⁶ Ingrid Wahl, Stefan Muehlbacher and Erich Kirchler, 'The Impact of Voting on Tax Payments' (2010) 63 *Kyklos* 144–158.

⁵⁷ Kristina Murphy, 'The Role of Trust in Nurturing Compliance: A Study of Accused Tax Avoiders' (2004) 28 *Law and Human Behavior* 187–209.

⁵⁸ Katharina Gangl and others, "'How Can I Help You?'" Perceived Service Orientation of Tax Authorities and Tax Compliance' (2013) 69(4) *FinanzArchiv / Public Finance Analysis*.

⁵⁹ Ibid.

⁶⁰ OECD (n 35) 46.

VII. CONCLUSION

Taxation inevitably affects the decisions of taxpayers (both individuals and legal entities) on the level of consumption, savings, investments, and affects the supply of labor on the market and the assumption of risk, the relationship between supply and demand, i.e. they affect the state of the market. This would not be the case if the tax system were rational, i.e. ideal through tax neutrality, which is extremely difficult to implement in practice. The greater the number of tax forms in a tax system (the more complex it is) and the greater the number of distortions, which consequently leads to a decrease in efficiency.

Regardless of the form of tax, the behaviour of taxpayers is important. The state seeks to ensure tax compliance, and to do so with minimal resistance. It is necessary to make taxpayers aware of the benefits they receive from paying taxes in terms of satisfying common needs from which they, as individuals, and society benefit as a whole.

The European Union with its unique socioeconomic landscape is characterized by diverse tax regimes and varying levels of economic development.

Based on the criterion of distinguishing between member states in EU, there has been a demonstrated need to transcend traditional tax models and advocate for a nuanced approach that harmonizes tax policy with the inherent complexities. This includes not only human behaviour as taxpayers within each of the member states but also how the member states themselves, through their diverse policies, interact with the European Union's policies, responding to and treating them differently.

Through the incorporation of behavioural economics into tax policy, a paradigm is examined and endorsed wherein tax systems are crafted not solely for maximizing revenue collection but also for improving the perceived fairness and legitimacy of taxation among EU citizens. This approach is likely to foster increased compliance, diminishing the dependence on coercive enforcement strategies.

Taxation is a national competence and European Union Member States are free to design their own tax systems. Behavioural taxes therefore vary in both their adoption and implementation across Member States (such as taxes on plastic, sugar, congestion, flights, gambling). Furthermore, even when similar taxes are in place across multiple Member States, their design, structure, or applicable rates can differ.⁶¹

As the field of behavioural economics progresses, perspectives on achieving fairness in taxation are expected to evolve within the dynamic context of the European Union's fiscal policies.⁶²

Finally, the inclusion of a behavioural factor in tax policy helps to understand tax morale and avoid potentially unrealistic assumptions about tax compliance, while accomplishing optimal achievement and better quality of tax collection.

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⁶¹ European Parliament (n 4)

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