**TAX CULTURE: A BIG STEP TOWARD VOLUNTARY TAX COLLECTION**

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*Abstract*

Governments of all countries have introduced various taxes, being that they are the main source of public revenues that finance public expenditures. At the same time, the taxpayers are looking for ways to pay as little tax as possible. The objective of the paper is to determine whether (and if so, how) tax culture affects the fulfillment of tax obligations. The paper is based on the hypothesis that the tax culture plays a significant role in voluntary tax collection wherefore the enforced tax collections are reduced. The issue of tax non-compliance can be overcome notably by ensuring an efficient, effective and fair tax regime and evolving a tax culture which would have a presumed good cooperation between the tax administration and taxpayers. Non-transparent and excessively complex tax laws, which are difficult to understand by an average educated taxpayer, and unequal application of the same tax provision to different taxpayers seriously undermine the trust in public authorities. The crisis of moral and social values, which occurs in modern societies, also reflects the taxpayers’ attitude toward orderly and conscientious payment of taxes. Since creating a “perfect” tax system, which would suit to all taxpayers, is impossible, a key tool for improving tax culture is taxpayer education about the importance of paying taxes to the provision of public goods and services. However, there is still much work to be done in building a sustainable tax culture.

1. **INTRODUCTION**

Resistance to paying taxes is inherent to human nature because taxes reduce income. Taxpayers often try to find different ways to reduce the tax burden or even to evade taxes. In that regard, their behavior can be legal and illegitimate (which is more common in practice), but sometimes it is illegal. Thus, tax avoidance and tax evasion are problems common to all countries regardless of their economic development. However, if the taxpayers cheat on their taxes, the state cannot perform its duties. Therefore, do we pay taxes because we are aware of the necessity of tax revenues for the provision of public goods and services, such as education, healthcare, state administration, judiciary, national defense, infrastructure developments, etc., or are we worried about being discovered by the tax authorities and exposed to tax fines? Leaving aside the sanctions for not paying taxes, for the moment, the question is what motivates taxpayers to pay taxes. Satisfaction with public services, trust in government, absence of corruption among tax officials and in general, an equitable tax system, as well as age, education, gender may also have some influence. This paper is based on the hypothesis that the tax culture also plays a significant role in voluntary tax collection.

1. **LEGAL CULTURE AND TAX CULTURE**

According to the Merriam-Webster Dictionary, culture is defined as “the integrated pattern of human knowledge, belief, and behavior that depends upon the capacity for learning and transmitting knowledge to succeeding generations” and assumes “the set of shared attitudes, values, goals and practices that characterizes an institution or organization.”[[1]](#footnote-1) Legal culture is a part of the general culture of a society and an important element of the legal system of the country. It implies unambiguous laws, highly developed legislative technique and a well-organized legal practice. In democratic societies individuals are expected to have a legal culture that assumes a legal awareness and compliance with the law.

When someone mentions legal culture, probably hardly anyone will think about tax culture. Nerré defines a tax culture as “the entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution, which are historically embedded within the country’s culture, including the dependencies and ties resulting from their ongoing interaction.”[[2]](#footnote-2) Tradition, civilization and other national peculiarities of the country are the underlying basis of the tax culture. To better understand what tax culture denotes, let’s consider why tax policy is quite different in the United States and the Scandinavian countries. Scandinavians pay higher individual income taxes than Americans and rarely resort to evasion. By contrast, Americans have had a fairly strong anti-tax tradition. If you ask the citizens, a majority will probably state that a trade-off between taxes and public spending is better in the Scandinavian countries, therefore the citizens enjoy significant social benefits through a developed social system. Thus, the model of legitimate tax behavior encompasses the citizens’ awareness of the significance of paying taxes ‒ if there is no (or not enough) tax revenues, the state will not be able to finance public expenditures. At the same time, the state must rationally spend public funds and ensure the best possible quality of public services, which will be equally accessible to all citizens. Therefore, we understand the importance of a tax ethics which implies “the norms of behavior governing citizens as taxpayers in their relationship with the government.”[[3]](#footnote-3) However, tax ethics should be developed by the tax authorities.

In this paper we deal with the tax culture of the individual[[4]](#footnote-4) because it lays the foundation for the tax culture of the entire society. Namely, the development of the individual tax culture establishes a more responsible society as a whole. Since it primarily referres to timely and orderly payment of taxes, we will consider “taxpaying culture” also to be an adequate term.[[5]](#footnote-5)

1. **THE IMPORTANCE OF TAX CULTURE FOR EFFECTIVE TAXATION**

Several principles determine whether taxation (i.e., the tax system) is effective,[[6]](#footnote-6) such as: equity (fairness), efficiency, simplicity, certainty, and flexibility.[[7]](#footnote-7) Fairness in taxation means that everyone pays a fair share of taxes, i.e., the taxes should be levied in accordance with their economic power (i.e., ability to pay).[[8]](#footnote-8) Tax efficiency is provided when the tax collection costs are less than the benefits of tax collection. Taxation will be more effective and the costs of compliance will be reduced if the tax system is as simple as possible, or at least not overly complicated. Simplicity also implies that tax laws are understandable to either taxpayers or tax administrators. In order to ensure greater tax certainty, which could lead to stable tax revenues that would be sufficient to finance public expenditures, taxes should be clearly defined. The transparency of the tax system also increases tax certainty. Flexibility implies that the tax system should easily adapt to economic and technological changes.[[9]](#footnote-9) It is not easy to meet all these principles, and it is necessary to achieve a trade-off between them.

It is our belief that the endeavors of the state to implement the abovementioned principles will not ensure effective taxation if they are not also accompanied by the development of the tax culture. In our opinion, effective taxation will be better achieved and the state can benefit much more from voluntary payment of taxes than from the exercise of its (tax) power. Bearing in mind that the fiscal interest is the primary goal of every state, a low tax culture inevitably increases the enforced tax collection, which demands engagement of a usually limited number of tax inspectors and such procedure requires a certain time period that slows down the flow of tax revenues to the budget. In addition, tax avoidance ‒ which adversely affects the budget funds ‒ is often associated with a low level of taxpaying culture.

On the other hand, quite a high level of tax culture suppresses the shadow economy in a country. When someone asks for a fiscal receipt in a store, restaurant, etc., they behave fiscally responsibly. Whereas public services improve civic wellbeing, the state should ensure the best possible quality of them in order to raise awareness of the importance of paying taxes.[[10]](#footnote-10) Thus, the effectiveness of taxation can be achieved only if both the taxpayers and the tax officials fulfill their prescribed obligations. Tax administrators must not pass on part of their work to taxpayers nor place excessive demands on taxpayers because this will demotivate taxpayers and undermine the foundations of the tax culture. Therefore, the level of tax compliance is, among others, affected by the tax culture, which can improve the effectiveness of the tax system.[[11]](#footnote-11)

1. **EVOLVING FACTORS OF TAX CULTURE**

Socioeconomic and institutional factors have an impact on taxpaying culture and tax morale.[[12]](#footnote-12) Socioeconomic factors include education, gender, age, religious beliefs,[[13]](#footnote-13) etc.[[14]](#footnote-14) Polls have shown that individuals with higher education generally have a more positive attitudes toward paying taxes because they better understand the role of taxation in the economy. Studies also indicate (but not with strong evidence) that younger people and men are more inclined to not pay taxes than older people and women.[[15]](#footnote-15) In terms of the institutional factors, individuals who trust in government of their country, perceive democracy as the best political system and believe that fiscal redistribution is fair and tax burden is moderate often also believe that cheating the state by not paying taxes is not acceptable behavior.[[16]](#footnote-16) These factors are frequently interconnected and their significance varies from country to country.[[17]](#footnote-17) At the same time, citizens will feel cheated if tax revenues are not spent justifiably and efficiently, and consequently tax compliance is likely to be lower.[[18]](#footnote-18)

Taxpayers have to be protected from arbitrary tax decisions as well as from the tax actions that tax officials undertake inconsistently and at their discretion. Namely, selective detection of tax non-compliance and selective tax audits in order to protect certain taxpayers who are privileged, for political or personal reasons or belonging to certain interest groups, etc., threaten voluntary tax payment. Furthermore, when tax officials are prone to corrupt behavior, it is unlikely to expect a high level of the tax culture.[[19]](#footnote-19) Thus, different treatment of taxpayers who are in the same or similar tax situation (because some of them enjoy a privileged position without legal grounds) undermines the foundations of the tax culture. Tax allowances, exemptions and other tax reliefs should be available to every taxpayer who meets clearly defined legal criteria, while punitive measures must be applied equally to all taxpayers who do not fulfill tax obligations, regardless of the specific individual concerned. In other words, all must be equal before the law and the courts.

Tax officials must act professionally in all stages of the tax procedure (tax assessment, collection of tax and tax audit) and respect the taxpayers’ rights laid down in the Constitution and tax laws.[[20]](#footnote-20) The taxpayers have to be provided with equal opportunities for the protection of their rights (e.g., the right to object, the right to appeal, the right to initiate the administrative dispute before the administrative court, etc.). Although the tax administration, as a state administration body, steps out from the position of power, tax officials and taxpayers are only “on different sides of the same road” the main goal of which is to collect public funds for the efficient functioning of the state. Therefore, they should not consider each other as rivals but partners in the tax relationship.[[21]](#footnote-21) Taxpayers understanding tax obligations in such way is a sign that a significant level of the tax culture has been reached. However, we have likely heard at least one person says something along the lines of: “I don’t get treatment in public hospitals but by private healthcare institutions, I have never used the services of the judiciary, etc. – that is why I don’t want to pay taxes.” Such an approach is undoubtedly unlawful, but we could also consider such individuals to be in a way selfish and egoistical. Paying taxes is not only matter of personal integrity, but also presupposes the needs of all members of the society. Some studies have shown that citizens of the country they live in usually have a higher taxpaying culture than non-citizens. Thus, the feeling of belonging to the country of birth incentivizes citizens to contribute to the state as conscientious taxpayers.[[22]](#footnote-22)

However, tax culture does not arise solely on its own and it should be developed, continuously fostered and promoted in various ways, which will be further discussed below. In our opinion, given that the tax culture shows the taxpayer’s respect for moral norms and standards and indicates their tax awareness, in a way it marks a taxpaying profile as well as the individual’s tax integrity.[[23]](#footnote-23) Namely, tax morale is closely linked to the taxpaying culture[[24]](#footnote-24) because both demonstrate the taxpayer’s attitude toward tax evasion and their readiness to obey the tax rules.[[25]](#footnote-25) The emphasis is therefore on the individual’s attitude or a stand, and not on their behavior.[[26]](#footnote-26) Tax morale can be defined as “the intrinsic motivation to pay taxes arising from the moral obligation to pay taxes or the belief in contributing to society by paying taxes.”[[27]](#footnote-27)

The sense of equity of tax policy enforcement can also shape the taxpayers’ morale.[[28]](#footnote-28) Since 2012 Serbia has introduced politically tainted provisions aimed at writing-off the interest (in whole or in part) for the late payment of taxes and rollover of accumulated tax debt for several years.[[29]](#footnote-29) The legislator has explained such measures as an attempt to ensure, even if with a delay, the collection of the owed taxes. However, it is our belief that these special tax amnesties do not encourage voluntary tax payments. One can justifiably get the impression that conscientious taxpayers are even sanctioned in a way. Namely, instead of paying taxes on time, they could invest those funds and make a profit.

At last, does tax compliance necessarily imply a certain level of tax culture? There is no legal sanction for the absence of tax culture, but it indirectly exists not only in the moral sense and the costs of enforced tax collection (i.e., interest and a one-time fee calculated on the principal tax debt) are an additional burden on the taxpayer.[[30]](#footnote-30)

1. **WHAT CAN BE DONE TO IMPROVE TAXPAYING CULTURE?**

There are no objective quantitative indicators that can effectively and precisely measure an individuals’ taxpaying culture or the level of the tax culture in a country. However, in our opinion, there are many means that could improve these levels. Taxpayers can be educated that they have to participate in achieving social welfare. In that regard, tax awareness can be continuously developed. However, if the quality of goods and services provided by the public sector is low, sustainability of public finance will be difficult to achieve.[[31]](#footnote-31) Therefore, the government can significantly improve the quality of public goods and public services.[[32]](#footnote-32) On the other hand, individuals have to act as responsible members of the society.

In addition, the governments can design programs and projects to encourage tax compliant behavior (for example, the “Collect the fiscal receipt and win” prize game launched in Serbia in order to improve the collection of the value added tax). Thus, a proactive approach to taxpayers, as well as more effective strategies for strengthening cooperation between the tax administration and the taxpayers, can be implemented.[[33]](#footnote-33) If the tax burden is evenly distributed among the taxpayers and the ability-to-pay principle is applied, the taxpayers will likely show more readiness to cooperate. The tax administration can strive to develop a taxpayer-friendly approach[[34]](#footnote-34) or more service-oriented approach,[[35]](#footnote-35) leading to a better mutual relationship.[[36]](#footnote-36) Therefore, tax officials should be more efficient and provide taxpayers with up-to-date and useful information about tax obligations (e.g., deadlines for submitting tax returns, when the tax is due, which tax benefits they may be entitled to, etc.). Bearing in mind that electronic communication is still not acceptable to all individual taxpayers, taxpayer education should be conducted through different forms of media, including modern internet-based technologies.[[37]](#footnote-37) Taxpayers should be given the opportunity to express their opinion and to submit additional documentation and new facts about the tax matter concerned.

Tax laws must not be discriminatory on any basis. They must be applied equally to all taxpayers. A crisis of moral and social values in modern societies has clearly influenced the taxpayers’ attitude toward tax payment and fulfilment of tax obligations.[[38]](#footnote-38) Just as the taxpayers should feel a legal as well as a moral obligation to pay taxes, there must be a high degree of ethics and integrity among tax officials, which excludes any form of corrupt behavior.[[39]](#footnote-39) Effective taxation can be achieved if the taxpayers are confident that the government is responsive and reasonably spends the tax revenues, whereas the public authorities rightfully expect the taxpayers to regularly fulfill their tax duties.[[40]](#footnote-40) Therefore, it is our belief that the tax sociology will come out of the shadow of the tax laws and improve taxpaying culture, removing the dysfunction between the law and social (moral and cultural) values, because “societal norms influence individuals to comply (or not) with tax laws.”[[41]](#footnote-41)

1. **CONCLUDING REMARKS**

For most people taxes are a burden to be endured and not the price we pay for the privilege of living in a civilized society – as American judge Oliver Wendell Holmes once described taxes. The trust in the public authorities regarding how the tax money will be spent, appreciation of public goods and public services, tax knowledge, tax administration modernization, simplification of tax procedures, effective cooperation between the tax administration and the taxpayers, appropriate punishment of all tax evaders, sanctioning corrupt behavior of tax officials, increasing the transparency of the tax policy making process are all important drivers of tax payment. Improving the level of the tax culture could yield double dividends: it not only improves voluntary tax collection and reduces tax evasion, but also strengthens the link between citizens and the state. Even though we have highlighted many possibilities, much still remains to be done in order to build a sustainable taxpaying culture not only in Serbia, but also in many developed and developing countries.

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25. Benno Torgler, Markus Schaffner, *Causes and Consequences of Tax Morale: An Empirical Investigation*, Working Paper No. 2007 - 11 Center for Research in Economics, Management and the Arts, Basel 2005, 4 < [*https://www.crema-research.ch/wp-content/uploads/2022/01/causes-and-consequences-of-tax-morale-an-empirical-investigation.pdf*](https://www.crema-research.ch/wp-content/uploads/2022/01/causes-and-consequences-of-tax-morale-an-empirical-investigation.pdf) > accessed 3 February 2023 [↑](#footnote-ref-25)
26. Behavior is related to various actions through which the taxpayer avoids taxes. See: Benno Torgler, Friedrich G. Schneider, *The Impact of Tax Morale and Institutional Quality on the Shadow Economy*, IZA Discussion Paper No. 2541, January 2007, 6 < [*https://ssrn.com/abstract=958248*](https://ssrn.com/abstract%3D958248) > accessed 29 January 2023 [↑](#footnote-ref-26)
27. Ronald G. Cummings *et al.* (2005), 4 [↑](#footnote-ref-27)
28. See Saša Ranđelović, “How to boost tax compliance and tax morale in Serbia?”, [*Ekonomika preduzeća*](https://scindeks.ceon.rs/JournalDetails.aspx?issn=0353-443X) (2017/1‒2), 122‒124 [↑](#footnote-ref-28)
29. Zakon o uslovnom otpisu kamata i mirovanju poreskog duga (*Law on Conditional Write-off of Interest and Suspension of Tax Debt*), *Official Gazette of the Republic of Serbia*, 119/2012 [↑](#footnote-ref-29)
30. Zakon o poreskom postupku i poreskoj administraciji (*Law on Tax Procedure and Tax Administration*), *Official Gazette of the Republic of Serbia*,80/2002, 84/2002, 23/2003, 70/2003, 55/2004, 61/2005, 85/2005, 62/2006, 61/2007, 20/2009, 72/2009, 53/2010, 101/2011, 2/2012, 93/2012, 47/2013, 108/2013, 68/2014, 105/2014, 112/2015, 15/2016, 108/2016, 30/2018, 95/2018, 86/2019, 144/2020, 96/2021, 138/2022, Art. 78(1) [↑](#footnote-ref-30)
31. See S. Ranđelović, 114 [↑](#footnote-ref-31)
32. Guglielmo Barone, Sauro Mocetti, “Tax Morale and Public Spending Inefficiency”, [Bank of Italy Temi di Discussione (Working Paper) No. 732](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1601924), November 2009 < [*https://ssrn.com/abstract=1601924*](https://ssrn.com/abstract%3D1601924) > accessed 6 February 2023 [↑](#footnote-ref-32)
33. G. Ilić-Popov (2019) [↑](#footnote-ref-33)
34. See Piergiorgio Valente, “A European Taxpayers’ Code”, *Intertax* (2017/12), 811 [↑](#footnote-ref-34)
35. See *Tax Morale: What Drives People and Businesses to Pay Tax?* (2019), 4 [↑](#footnote-ref-35)
36. See Bruno Peeters, “Towards a More Coordinated Approach of the Relation Between the Taxpayer and the Tax Administrations: The European Taxpayers’ Code”, *EC Tax Review* (2017/4), 178‒180 [↑](#footnote-ref-36)
37. See *Building Tax Culture, Compliance and Citizenship*, OECD, Paris 2021 [↑](#footnote-ref-37)
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41. Diana Onu, Lynne Oats, *Social Norms and Tax Compliance*, Tax Administration Research Centre, Discussion Paper: 006-14, 1 [↑](#footnote-ref-41)