



**LUND**  
UNIVERSITY

Faculty of Social Sciences  
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**Social perceptions of Personal Income Tax compliance from a  
Spanish perspective.**

**Estimating the impact of its legal framework.**

**RÄSM 12 Master Thesis**

Master's Programme in Sociology of European Law (SELA)

2014/2015

Spring semester 2015

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## Acknowledgements

I would like to thank my supervisor, Professor Måns Svensson, whose valuable comments and expertise made possible this work.

*To my family,  
Always being an endless source of optimism and support*

## **ABBREVIATIONS**

|              |   |
|--------------|---|
| <b>ATP</b>   | Aggressive Tax Planning                               |
| <b>e.g.</b>  | For example   |
| <b>EC</b>    | European Commission                                   |
| <b>EEC</b>   | European Economic Community                           |
| <b>EU</b>    | European Union  |
| <b>FACTA</b> | United States' Foreign Account Tax Compliance Act     |
| <b>HNWI</b>  | High Net Worth Individuals                            |
| <b>i.e.</b>  | Id est  |
| <b>IOTA</b>  | Intra-European Organisation of Tax Administrations    |
| <b>No.</b>   | Number  |
| <b>OECD</b>  | Organisation for Economic Cooperation and Development |
| <b>PIT</b>   | Personal Income Tax                                   |
| <b>SSF</b>   | Slippery Slope Framework                              |
| <b>VAT</b>   | Value Added Tax                                       |

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## Introduction

This research seeks to find how the Spanish society perceives Personal Income Tax compliance. By following the Slippery Slope Framework developed by Kirchler (2008), which summarises economic, sociological and psychological approaches to tax compliance, the study aims at measuring perceived trust and power of Spanish authorities. Higher levels of trust in authorities and power of authorities are proportional to raised levels of tax compliance. Estimating respondent's perceptions as to the last legislative reforms introduced for the purpose of enhancing compliance, the author explores the efficiency of those initiative as well as its positive impact on compliance. Is there an effective breach between that implied in the law (*fairness* of the tax system) and reality (tax inequalities) which causes social disruptions?

### Overview

| Increasing mobility of taxpayers (cross-border situations)<br>Internationalisation of financial instruments<br>Development of technologies and Globalisation  |   |
|---|---|
| Reduce TAX COMPLIANCE/Increase TAX MISCONDUCTS/Make difficult for authorities to assess taxes properly  |   |
| <p><b>Individuals</b></p> <p>Fiscal consolidation measures have increased the overall tax burden across the EU</p> <p>Tax Law reforms have risen PIT rates considerably in Spain,<br/>In 2007, min. rate 24%, max.43%<br/>In 2014, min. rate 25%, max 52%</p> <p>HOW DO SPANISH PEOPLE PERCEIVE COMPLIANCE AND LAW INITIATIVES TAKEN BY THE GOVERNMENT?<br/>Does Public opinion influence the Government performance?</p> | <p><b>Governments</b></p> <p>Different measures to increase tax compliance as tax misconducts brought about:</p> <ol style="list-style-type: none"> <li>1.<i>loss of tax revenues</i> (which in times of public debt are even more needed)</li> <li>2.<i>unfairness and inequalities</i> between individuals. Some taxpayers contribute with their fair share while others take advantage of available resources to lessen the tax burden</li> </ol> <p>Legislative actions taken both at the EU and national level (Spain),<br/>.Are just a way to increase tax revenues lost?<br/>.Do they seek to recover the confidence of taxpayers who publicly claim for an effective persecution of those who do not comply with?</p> <p>Measures via legislative actions<br/>COM (2012) 351 final "to reinforce the fight against tax fraud and evasion"<br/>COM (2012) 722 final "to strengthen the fight against tax fraud and evasion"<br/>Directive 2011/16/EU on Administrative cooperation<br/>Directive 2011/107/EU extending Administrative cooperation to financial information<br/>European Taxpayer's code<br/>European Tax Identification number</p> |

*Research question*

*“Social perceptions of Personal Income Tax compliance from a Spanish perspective. Estimating the impact of its legal framework”*

*Research aim*

To find out how Spanish society perceives Personal Income Tax (PIT) Compliance. How? Estimating trust in Tax authorities and power of Tax authorities as well as measuring the perceived efficiency of tax law and last legislative reforms on compliance. Sociology of law will contribute to the empirical analysis of economic, psychological and sociological consequences defining tax compliance beyond the formalities and due fairness inferred from the law. It will be discussed how equitable the tax system is and which are those elements causing tax inequalities.

## 1. Research issue

### 1.1. General comments. EU legal framework.

EU citizens are free to move, operate and invest across the European Union, however, as personal direct taxation is not harmonised the same rules do not apply to every Member State regarding income taxation. Some taxpayers might manage to avoid or evade PIT thus not complying with their tax obligations voluntarily. Member States still have full sovereignty over the collection of their direct taxes, the functioning and consistency of their tax laws and tax administrations as well as the fight against tax fraud<sup>1</sup>. Member States have adopted different legal instruments looking for an effective cooperation between national tax administrations since the increase of cross-border transactions has extended also the risks of tax misconducts<sup>2</sup>. This globalised context within the EU has focused the attention of administrations on the importance of tax compliance as well as the risks of non-compliance, resulting in the adoption of instruments as the Directive on exchange of tax information, which shows the joint effort of the EU members to efficiently tackle the issue. The European Commission already noted that those measures do not mean a tax harmonisation for direct taxation, those are merely about enabling Member States to ensure that all taxpayers pay their fair share of the tax burden, laying down the same rules, obligations and rights for all taxpayers<sup>3</sup>.

In 2012, in a Communication addressed to the Parliament and the Council *to reinforce the fight against tax fraud and tax evasion*, the European Commission stated the following,

*“Tens billions of euro remain offshore, often unreported and untaxed, **reducing national tax revenues**. Given the order of magnitude, stepping up the fight*

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<sup>1</sup> COM (2012) 351 final, “on concrete ways to reinforce the fight against tax fraud and tax evasion including in relation to third countries”, at 4

<sup>2</sup> COM (2012) 351 final, at 6

<sup>3</sup> [http://ec.europa.eu/taxation\\_customs/taxation/tax\\_cooperation/mutual\\_assistance/direct\\_tax\\_directive/index\\_en.htm](http://ec.europa.eu/taxation_customs/taxation/tax_cooperation/mutual_assistance/direct_tax_directive/index_en.htm) Enhanced administrative cooperation in the field of direct taxation

*against tax fraud and evasion is not only an issue of revenues, but also fairness. It is important to remember that the vast majority of EU taxpayers generally seek to comply with their tax obligations. Particularly in these difficult economic times, these honest taxpayers should not suffer additional tax increases to make up for revenue losses incurred due to tax fraudsters and evaders”*<sup>4</sup>

The communication highlighted that an increase in efficiency and effectiveness of tax collection was “*desperately needed*” also noticing that tax compliance could be improved, as well as tax fraud and evasion reduced, through a better use of existing legal instruments and the adoption of pending proposals<sup>5</sup>. Direct taxes represented the 33.4% of total tax revenues within the EU in 2012, being of 51% the revenues obtained from labour<sup>6</sup>, therefore to ensure Personal Income tax compliance becomes of special significance for economic stability.

In a later Communication in 2012 to *strengthen the fight against tax fraud and tax evasion*, regarding Personal Income taxation in particular, the Commission observed as strategy to enhance compliance the improvement of a computerised format for automatic exchange of information between Member States on incomes from employment, directors’ fees, life insurance products, pensions and ownership of and income from immovable property<sup>7</sup>. Advancing the digitalised system for the exchange of information, using an EU Tax Identification Number (TIN), extending EUROFISC to the field of direct taxation, or creating a European Taxpayer’s code are some of the future actions to improve tax compliance proposed by the Commission.

By developing an eventual European taxpayer’s code, which is expected to set out best practices for enhancing cooperation, trust and confidence between tax administration and taxpayers as well as ensuring transparency on the rights and

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<sup>4</sup> COM (2012) 351 final, at 3

<sup>5</sup> *Ibid*

<sup>6</sup> Cécile Remeur. *Tax policy in the EU, Issues and Challenges*. EPRS-European Parliamentary Research Service, February 2015-PE 549.001, at 9-10

<sup>7</sup> COM (2012) 722 final “*an action plan to strengthen the fight against tax fraud and tax evasion*”; Article 8(1) of Council Directive 2011/16/EU



obligations of taxpayers, the Commission is seeking to encourage compliance and contribute to efficient tax collection<sup>8</sup>. In 2013 the Commission launched a public consultation to collect the opinion of stakeholders seeking for concrete experiences with national taxpayer's codes and views on the general and procedural principles to be considered for developing the Code. Most Member States have established taxpayer's codes which define the fundamental principles applying to tax matters as well as the right and obligations of taxpayers and tax administration however the general scope of such codes, the structure or the content usually vary from one country to another, which in practice, makes extremely difficult for taxpayers to understand and comply with their tax obligations especially in the case of cross-border operations<sup>9</sup>. The creation of a European code would overcome those difficulties by creating a core of common tax principles and taxpayer's rights and obligations while compiling good administrative practices in Member States to ensure transparency, to encourage a more service-oriented approach of the administration and to contribute to a more effective tax collection<sup>10</sup>.

During the 18<sup>th</sup> general assembly of the IOTA (Intra-European Organisation of Tax Administrations) held on the summer of 2014, then Commissioner for Taxation Algirdas Šemeta pointed out the importance to improve tax compliance defining the taxpayer's code as a blueprint for relations between taxpayers and their tax administrations<sup>11</sup>. As Šemeta said, in order to safeguard revenues and ensure fairness of taxation, the enhancement of voluntary compliance must be a major objective of tax administrations thus paving the way for those taxpayers

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<sup>8</sup> COM (2012) 722 final, at 10

<sup>9</sup> Consultation paper –A European Taxpayer's Code-, TAXUD D.2.002 (2013)276169, at 3

<sup>10</sup> *Ibid*

<sup>11</sup> "Facilitating tax compliance, tackling non-compliance" Speech/14/526, Algirdas Šemeta, Commissioner responsible for Taxation and Customs Union, Statistics, Audit and Anti-fraud. 18th General Assembly of the IOTA, Belgrade, 3 July 2014

who want to comply voluntarily, as well as a way to “*come down hard*” on those who evade taxes or engage in aggressive tax planning<sup>12</sup>.

The Commissioner praised the European Taxpayer’s code as a strategy for voluntary compliance (coming from the EU level to improve the situation of every Member State) which seeks to reduce the risk of mistakes simplifying the tax system, especially in cross-border situations, and to encourage compliance through a more effective tax collection in every Member State. Šemeta also alluded to how studies from different fields as psychology or economy become essential to explain the taxpayer’s decisions to voluntarily comply with taxes because of the ultimate compliance’s dependence on behaviour.

#### 1.1.1.Exchange of information

A set of joint rules, obligations and rights regarding administrative assistance was needed to create confidence between Member States, especially in the field of direct taxes, as the increasing number of cross-border transactions make more difficult to manage national tax systems without receiving information from the outside<sup>13</sup>. Directive 2011/16/EU on administrative tax cooperation sought to become a proper legal instrument providing for clearer rules on the exchange of information between Member States, repealing the former Directive 77/799/EC<sup>14</sup> on mutual assistance as this became obsolete and no longer able to meet the new requirements for administrative cooperation<sup>15</sup>. Through improving administrative cooperation between various Member States the Directive seeks to overcome likely misconducts in direct taxation, being compulsory for instance the automatic exchange of information between national authorities on incomes arising from employment<sup>16</sup>, or the possibility of spontaneous exchange of information if a

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<sup>12</sup> Speech 14/526. Assembly of the IOTA, Belgrade, 3 July 2014

<sup>13</sup> Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

<sup>14</sup> Council Directive 77/799/EC of 19 December 1977 concerning mutual assistance by the competent authorities of the Member States in the field of direct taxation

<sup>15</sup> Directive 2011/16/EU

<sup>16</sup> Art. 8.1 Directive 2011/16/EU

taxpayer obtains a tax exemption in one Member State which would cause tax liability in a different Member State<sup>17</sup>.

The importance of automatic exchange of information as a means to combat cross-border tax fraud, tax evasion and aggressive tax planning has also been recognised at the international level as all Member States have signed *bilateral automatic exchange agreements* to implement the United States' Foreign Account Tax Compliance Act (FATCA), as well as the Organisation for Economic Cooperation and Development (OECD) has approved a single standard for automatic exchange of financial account information<sup>18</sup>. As for ensuring that the automatic exchange of information within the Union is in line with prevailing international standards, but also aiming at minimising costs and administrative burdens both for tax administrations and for economic operators, a new Directive expands the scope of administrative cooperation to financial institutions<sup>19</sup>.

The amending Directive 2014/107/EU extends administrative cooperation to the exchange of financial information (including interest, dividends, account balances or incomes obtained from the sale of financial assets), for the purpose of enabling Member States to correctly enforce their tax laws in those cross-border situations where tax evasion is likely to occur, therefore avoiding unnecessary further investigations<sup>20</sup>. Categories of reporting financial institutions and reportable accounts are designed in this Directive to limit the opportunities for taxpayers to avoid being reported by shifting assets to financial Institutions or investing in financial products that are outside its scope, thus by 31 July 2015 Member States must provide the Commission a list of non-reporting financial institutions and excluded accounts<sup>21</sup>. Reporting financial institutions in each Member States are required to effectively implement the reporting and due diligence rules in consistency with those set out in the Common reporting standards developed by

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<sup>17</sup> Art. 9.1(b) Directive 2011/16/EU

<sup>18</sup> Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

<sup>19</sup> *ibid*

<sup>20</sup> *ibid*

<sup>21</sup> Directive 2014/107/EU, art.1(2)(e)

the OECD, but also from 1 January 2016 Member States must automatically exchange information with competent authorities concerning any reportable account, as for example personal information of the account holder or the account balance or value<sup>22</sup>.

## **1.2.The measurement of tax compliance**

The measurement of tax compliance raises a number of questions, including the methods by which tax authorities measure the level of compliance and identify those areas of low compliance, as well as the effectiveness of the methods used in practice to improve this<sup>23</sup>. Litigation, enforcement or legislative actions are among those activities carried out to enhance compliance by tax administrations around the world<sup>24</sup>. These actions must be measured for determining their impact on compliance, as well as to define whether or not target outcomes were achieved in the end.

It is reasonable to assume that tax authorities seek to use their resources in an optimal way, as part of the process in allocating scarce resources to achieve maximum effectiveness, and to collect the tax payable in accordance with the tax laws<sup>25</sup>. Once those issues damaging compliance are identified, different strategies of legislative, educative, administrative or enforcement nature are developed and implemented to address the problem<sup>26</sup>.

### **1.2.1.Defining tax compliance**

When measuring compliance, due to the lack of academic consensus in what exactly is being measured, the discussion focuses on the importance to know what to estimate (i.e., evasion, avoidance, compliance or not compliance), and how

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<sup>22</sup> Directive 2014/107/EU, art.1(2)(b)

<sup>23</sup> CTPA Centre for Tax Policy and Administration OECD, Compliance Measurement-Practice Note, at 3

<sup>24</sup> *Ibid*

<sup>25</sup> CTPA OECD, at 5

<sup>26</sup> CTPA OECD, at 6

compliance is defined, that is, whether it is defined according to the tax authority's or the taxpayer's interpretation of the law and its application to the concrete facts<sup>27</sup>. The European Commission defines tax compliance as the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filling a tax return, and paying the tax due in a timely manner<sup>28</sup>. According to the OECD there are four universal procedural obligations for almost all taxpayers regardless of national legislation applicable, that is, to register for tax purposes, to file tax returns and pay taxes on time, and to correctly report tax liabilities<sup>29</sup>. Voluntary compliance, where taxpayers comply with these basic obligations voluntarily, must be distinguished from enforced compliance, where taxpayers comply following an intervention of the competent authorities<sup>30</sup>. Administrative compliance refers to the procedural obligations previously mentioned as administrative rules of lodging and paying on time, or reporting requirements<sup>31</sup>. Technical compliance regards, as for instance, if taxes are calculated in accordance with the technical requirement of the tax laws or taxpayers pay their share of tax in accordance with the provisions of tax laws<sup>32</sup>. Measuring technical compliance must begin with determining the correct amount of tax payable however the ambiguity in the interpretation and application of tax laws make taxpayers and tax administrations to have reasonable but differing interpretations of what the tax laws say<sup>33</sup>.

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<sup>27</sup> CTPA OECD, at 3

<sup>28</sup> COM (2012) 351 final, at 8

<sup>29</sup> OECD Measures of tax compliance outcomes. A practical guide, 24 October 2014 at 60

<sup>30</sup> *Ibid*

<sup>31</sup> CTPA OCDE, at 3

<sup>32</sup> *Ibid*

<sup>33</sup> CTPA OECD, at 4

## 2.Theoretical framework

### *Why does sociology of law help this study?*

Is there an effective breach between that implied in the law (*fairness* of the tax system) and reality (tax inequalities) which causes social disruptions? Through a Sociology of Law approach the study aims at transcending the law's perspective on what is stated in the wording of the formal legal provisions. Regulations on personal income taxation ensure tax compliance, that is, fairness and symmetrical application of the law to all taxpayers. However non-compliance is an increasing phenomenon in the globalised world we live in. Why do tax inequalities arise causing manifest social disruptions? This research analyses social perceptions (*public opinion*) as to find out those factors independent of the legal system which cause tax misconducts.

### 2.1.Fairness

As Hemel noticed, since the start of the financial crisis fairness has become a dominant issue in the *public debate* of taxation focusing the discussion, for instance, on how institutions are called upon by the public opinion to protect compliant taxpayers from *perceived* unfair behaviour of other taxpayers<sup>34</sup>. Principles of law applied to tax law usually impose obligations on the government (i.e. the government must treat all taxpayers equally and must obey the principle of legality), however the principle of fairness differs from the rest, as it primarily imposes an obligation on taxpayers towards each other<sup>35</sup>. Public debate on fairness seems to be dominated by the definition given by legal philosophers, which focuses on the relations between taxpayers and the expectations they have of each other, that is *horizontal fairness* or the use that some taxpayers make of

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<sup>34</sup> Sigrid J.C.Hemels. *Fairness and taxation in a globalized world*. Erasmus University Rotterdam (EUR)-Eramus School of Law, February 26 2015, at 2

<sup>35</sup> Hemels (2015), at 8

the tax system resulting in other taxpayers having to pay more<sup>36</sup>. Rawls explains fairness from the view of political philosophy, stating that, fairness belongs to a political conception of justice to which, society is a fair system of cooperation between free and equal persons, “justice as fairness is an intuitive idea implicit in the public culture of a democratic society...citizens do not view the social order as a fixed natural order, or as an institutional hierarchy justified by religious or aristocratic values”<sup>37</sup>. Citizens are free persons in virtue of their moral powers as well as the powers of reason, thought and judgement, but also citizens are equal persons based on those powers and the requisite of being fully cooperating members of society<sup>38</sup>. Individuals are participant in a fair system of social cooperation, where *justice* is viewed as the capacity to apply, understand and act depending on the public conception of justice, and *good* as those ends which individuals may realise for their own sake<sup>39</sup>. Fair social cooperation is agreed by those engaged in it, that is, by “free and equal persons as citizens”, appropriate conditions must apply to the agreements thus not allowing some persons greater advantages than others<sup>40</sup>.

As Hart observed, “to have a right entails to have a moral justification for limiting the freedom of another person, and for determining how should act”<sup>41</sup>. Following this reasoning, by residing in a certain jurisdiction individuals benefit from taxes paid by others but, at the same time, those have an obligation to contribute with their taxes and not to free ride by tax evasion<sup>42</sup>. Thus, to interference with another’s freedom is justified in the case of mutual restrictions because it is fair, and this is fair because “only so will be there an *equal distribution* of restrictions, and so, of freedom”<sup>43</sup>. Taxpayer would only accept a heavier burden if they

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<sup>36</sup> Hemels (2015), at 2

<sup>37</sup> John Rawls. *Justice as fairness: Political not metaphysical*. Philosophy and Public Affairs, Vol 14, No 3 (Summer 1985), pp 223-251, at 231

<sup>38</sup> Rawls (1985), at 233

<sup>39</sup> *Ibid*

<sup>40</sup> Rawls (1985), at 235

<sup>41</sup> H.L.A.Hart. *Are there any natural rights?*The Philosophical Review, Vol 64, No 2 (April 1955), at 183

<sup>42</sup> Hemels (2015), at 8

<sup>43</sup> Hart (1955), at 191

perceived that other taxpayers make the same effort, thus the principle of fairness forces the intervention of governments to protect compliant taxpayers of those free riders who benefit but are not willing to restrict their liberties<sup>44</sup>.

## 2.2. Public opinion

Jürgen Habermas observed an early but valuable definition of public opinion in *The Structural Transformation of the Public Sphere* “*L’opinion publique* was the enlightened outcome of common and public reflection on the foundations of social order”, with *outcomes* referred to those scholars from the Enlightenment who through books informed the government about its duties and true interests, but also about the public opinion which it had to listen and conform<sup>45</sup>. The idea of public opinion was already an element in the political arena as its social function was to critically scrutinise political matters even though its critical function was still viewed as strictly separated from the legislative function<sup>46</sup>. The public sphere as a practical element in the political scenario was given the “normative status of an organ for the *self-articulation of civil society* with a state authority corresponding to its needs”, through the codification of civil law governments developed a system of norms which corresponded civil society’s needs securing the private sphere by guaranteeing private property<sup>47</sup>. Legal codification was originated in the interest of civil society by means of the *public opinion*, that is, via public scrutiny of private people “through prize competitions and through questionnaires public opinion contributed to legal codification even where parliamentary bodies did not exist or remained ineffective as in Napoleonic France”<sup>48</sup>.

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<sup>44</sup> Hemels (2015), at 9

<sup>45</sup> Jürgen Habermas. *The Structural Transformation of the Public Sphere, An Inquiry into a Category of Bourgeois Society*. The MIT Press, Cambridge, Massachusetts 1991, at 95-96

<sup>46</sup> Habermas (1991), at 96

<sup>47</sup> Habermas (1991), at 74-75....“Codifications guaranteed the institution of private property, and in connection with it, the basic freedoms of contract, of trade, and of inheritance”

<sup>48</sup> Habermas (1991), at 76



With the help of parliamentary discussion, public opinion makes its desires known to the governments, and the government makes its policies known to the public opinion, however in a democratic state with a party system only the will of the parties that hold the majority are identified with the general will, that is, private opinion only becomes “public” when processed through political parties<sup>49</sup>. Even though its attribution to political institutions through a party system does not displace the fictive character of public opinion as *sovereign* for the government, empirical social research goes back to establish “public opinion” directly<sup>50</sup>. A concept of public opinion *historically meaningful, theoretical clear and empirically identifiable* can be grounded only in the structural transformation of the public sphere itself as well as the significance of its development<sup>51</sup>.

Opinions may be empirically measured as to their degree of *publicness*, that is to say, a public sphere joining a political scenario where the exercise of social power and political domination is effectively subjected to the mandate of democratic publicity<sup>52</sup>. Empirical measurement of public opinion becomes the most reliable method for obtaining valid and comparable results about the extent of democratic integration, also contributing to analyse the evolution of the state and society concerned<sup>53</sup>. An opinion that is public, in the strict sense, only generates through the mediation of critical publicity<sup>54</sup>. On a sociological perspective such as mediation only becomes possible through the participation of private individuals in processes of formal communication conducted by intra-organisational public spheres (as it would be the case of the abovementioned public consultation procedures)<sup>55</sup>.

Habermas’ approach to public opinion in the Structural Transformation of the Public Sphere fully connects with his theory of communicative action since

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<sup>49</sup> Habermas (1991), at 239

<sup>50</sup> Habermas (1991), at 239-240

<sup>51</sup> Habermas (1991), at 244

<sup>52</sup> *Ibid*

<sup>53</sup> *Ibid*

<sup>54</sup> Habermas (1991), at 248

<sup>55</sup> *Ibid*

through communication public opinion intervenes in the elaboration of the law. A legal norm has validity whenever the state guarantees two things, that is, while the state ensures average compliance (compelled by sanctions if necessary) and assures the institutional preconditions for legitimate legislative procedures<sup>56</sup>. Habermas wondered what grounds the legitimacy of laws, becoming this question of special significance in modern pluralistic societies in which collectively binding ethics disintegrated and morality conscience did not substitute natural law (grounded in religion or metaphysics)<sup>57</sup>. The democratic procedure for the production of law is the only post-metaphysical source of legitimacy, being this democracy legitimised through discourse theory as contributions (like public opinions) float freely securing thus democratic opinions and the transparency of political will<sup>58</sup>. The democratic procedure of lawmaking relies on citizens making use of their communicative and participatory rights also with an orientation toward the common good, which would explain why civil society and political public sphere must bear a good portion of the normative expectations especially the burden of a normatively expected democratic genesis of law<sup>59</sup>. Discourse theory introduces a realistic element since the conditions for a rational political opinion and will formation shift from the level of individual or group motivation, to the social level of institutionalised processes of deliberation and decision making<sup>60</sup>.

### **3.Related literature**

#### **3.1.Introduction**

The analysis of tax compliance has attracted the attention of academics from various fields of study, seeing that in the conduct of the taxpayer effectively

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<sup>56</sup> Jürgen Habermas, *Postscript to Between Facts and Norms*. In Mathieu Deflem, *Habermas, Modernity and Law*. SAGE Publications 1996, 1-170, at 136

<sup>57</sup> Habermas, in Deflem (1996), at 136

<sup>58</sup> *Ibid*

<sup>59</sup> Habermas, in Deflem (1996), at 147

<sup>60</sup> Habermas, in Deflem (1996), at 148

intervene concerns pertaining to the law as well as the economy, sociology or psychology arena.

The basic compliance model lays on Allingham and Sandmo (1972) theory of *Income Tax Evasion*, which, based on an economics of criminal approach, analysed the taxpayers' decision on whether and to what extent to avoid taxes by deliberate underreporting<sup>61</sup>. Also known as *utility theory* in this model the individuals maximize the utility of tax evasion as the possibility of audit by authorities and *fixed* fines are uncertain. Taxpayers are not motivated per se to pay taxes therefore the only way to enforce compliance is through the increase of audits and subsequent penalties. Nevertheless scholars have amply criticised this model as risk detection as well as punishment might affect the decision to pay taxes to some degree, but cannot explain all tax compliance behaviour<sup>62</sup>. As Alm pointed out, the puzzle of tax compliance is to comprehend why most people continue to pay taxes despite the possibility to avoid, which are those factors or reasons underlying compliance. By combining economic and psychological determinants the *Slippery Slope Framework* arises from the field of Economic Psychology to explain those puzzling decisions concerning tax compliance from a new standpoint, that is, describing the high level of compliance rather than the high level of tax evasion<sup>63</sup>.

### **3.2.Determinants of Personal Income Tax compliance**

Taxpayers' decision to evade or comply with the tax rules is too complex to be explained by a standard economic approach of profit maximization (*utility theory*), therefore, that choice needs to be analysed within a human behaviour

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<sup>61</sup> Michael G. Allingham & Agnar Sandmo. *Income tax evasion: a theoretical analysis*. Journal of Public Economics 1 (1972) 323-338, at 323

<sup>62</sup> James Alm, Gary H. McClelland & William D. Schulze. *Why do people pay taxes?* Journal of Public Economics 48 (1992) 21-38. North Holland, at 22

<sup>63</sup> Gaetano Lisi. *The Interaction between trust and power: Effects on tax compliance and macroeconomics implications*. Journal of Behavioural and Experimental Economics 53 (2014) 24-33, at 24

perspective where psychological determinants as social norms, morality and trust intervene<sup>64</sup>. Although this particular study is based on the analysis of trust and power as essential elements of the *Slippery Slope Framework*, most determinants of tax compliance will be briefly discussed aiming at offering a thorough analysis of research work in the field.

### 3.2.1. Trust and power, “*The Slippery Slope Framework*”

By proposing a framework for tax compliance known as the *Slippery slope framework* (hereinafter SSF), Kirchler summarises economic, sociological and psychological determinants of tax compliance to examine trust in tax authorities, power of tax authorities and tax payments<sup>65</sup>. The SSF differentiates two forms of compliance: voluntary and enforced compliance<sup>66</sup>. Voluntary compliance depends on (perceived) trust in tax authorities, whereas enforced compliance relies on the effectiveness of tax authorities to clamp down on tax evaders (deterrence strategies)<sup>67</sup>.

The level of tax compliance within a society takes into consideration as two major dimensions the existing power of tax authorities and the trust in tax authorities<sup>68</sup>. Pursuant to the SSF tax compliance is achieved through increasing levels of power and trust being fundamental this interaction for both forms of compliance<sup>69</sup>.

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<sup>64</sup> Lisi (2014), at 24

<sup>65</sup> Ingrid Wahl, Barbara Kastlunger & Erich Kirchler. *Trust in Authorities and Power to Enforce Tax Compliance: An Empirical Analysis of the “Slippery Slope Framework”*. *Law & Policy*, Vol.32, No.4, October 2010, at 383

<sup>66</sup> Stephan Muehlbacher & Erich Kirchler. *Tax Compliance by Trust and Power of Authorities*. *International Economic Journal*, Vol.24, No. 4, 607-610, December 2010, at 607

<sup>67</sup> Lisi (2014), at 25

<sup>68</sup> Erich Kirchler, Erik Hoelzl & Ingrid Wahl. *Enforced Versus Voluntary Tax Compliance: The “Slippery Slope” Framework*. *Journal of Economic Psychology* 29 (2008) 210-25, at 211

<sup>69</sup> Lisi (2014), at 25; Kirchler et al. (2008), at 212; Muehlbacher & Kirchler (2010), at 607

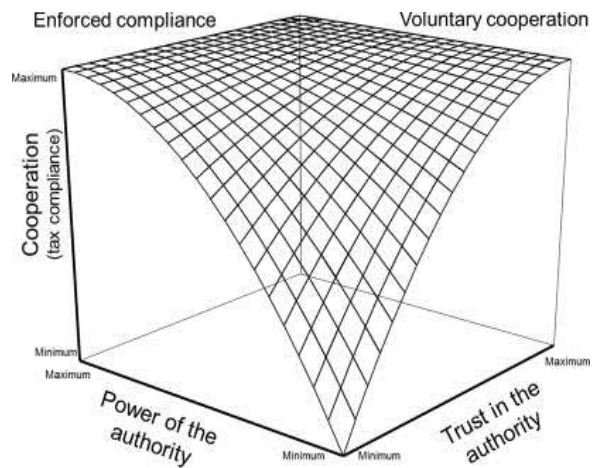


Figure 1: Graphical description of the *Slippery Slope Framework*, Kirchler et al. 2008

If compliance is voluntary high trust in authorities increases cooperation (*right side of Figure 1*), if compliance is enforced the increase of power raises cooperation as well (*left side of Figure 1*)<sup>70</sup>. Tax payments are assumed to be influenced by trust and power of authorities: if both trust and power are at minimum level, tax payments are assumed to be low; if trust and power of authorities increase, tax payments are expected to increase as well<sup>71</sup>. For instance, frequent tax audits and strict penalties could diminish the trust of compliance-minded taxpayers, while no audits could cause doubts and distrust about the efficiency of tax authorities work<sup>72</sup>.

The nature of compliance relates to two different tax climates: *power of authority* describes an antagonistic climate between tax authorities and taxpayers causing enforced compliance, whereas *trust in the authority* portrays a synergistic climate between tax authorities and taxpayers resulting in voluntary cooperation<sup>73</sup>. By trust in authorities, Kirchler refers the general opinion of individuals and social

<sup>70</sup> Muehlbacher & Kirchler (2010), at 608

<sup>71</sup> Wahl et al. 2010, at 384

<sup>72</sup> Muehlbacher & Kirchler (2010), at 608

<sup>73</sup> Katharina Gangl, Eva Hofmann, Maria Pollai & Erich Kirchler. *The dynamics of Power and Trust in the "Slippery Slope Framework" and its Impact on the Tax Climate*. SSRN Electronic Journal 03/2012, 1-27, at 2

groups that the tax authorities are benevolent and work beneficially for the common good<sup>74</sup>. By power of authorities, Kirchler means taxpayers' perceptions of the potential of tax officers to detect illegal tax evasion (e.g. by conducting frequent and thorough tax audits), and to punish evasion<sup>75</sup>. The power of authorities is largely related to tax legislation and the budget allocated to them by a government, but also in some extent to the support given from the population (e.g. by being informed about misconduct)<sup>76</sup>. In an antagonistic climate where authorities are not trusted power may be effective in increasing compliance, however, in a synergistic climate of cooperation power may not provide any surplus or even have the opposite than intended effect by reducing trust<sup>77</sup>. Even though the SSF confirms the relevance and dynamic relationship of trust and power, it offers no elaboration of their possible effects beyond the assumption that both elements increase compliance positively<sup>78</sup>.

Although empirical evidence offers less clarity with regard to power, trust is recognised as a strong determinant of cooperation<sup>79</sup>. Kastlunger appeals for a theoretical clarification of power (legitimate or coercive power) as well as a deep analysis of its effects<sup>80</sup>. As Gangl argued, in order to estimate the prevailing tax climate within society, the SSF needs a theoretical formalisation as to explain how power and trust may increase or decrease each other, and how this pattern affects the relationship between tax authorities and taxpayers<sup>81</sup>.

The SSF, which serves as guideline for tax research and tax policy, is used as a conceptual tool in order to understand the importance of certain factors related to

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<sup>74</sup> Kirchler et al. (2008), at 212

<sup>75</sup> *Ibid*

<sup>76</sup> *Ibid*

<sup>77</sup> Barbara Kastlunger, Edoardo Lozza, Erich Kirchler & Alfred Schabmann. *Powerful authorities and trusting citizens: The Slippery Slope Framework and tax compliance in Italy*. *Journal of Economic Psychology* 34 (2013) 36-45, at 37

<sup>78</sup> Katharina Gangl, Eva Hofmann & Erich Kirchler. *Tax authorities' interaction with taxpayers: A conception of compliance in social dilemmas by power and trust*. *New Ideas in Psychology* 37 (2015) 13-23, at 14

<sup>79</sup> Kastlunger et. al (2013), at 37

<sup>80</sup> *Ibid*

<sup>81</sup> Gangl (2012), at 1

tax behaviour shown in previous researches (i.e. audit probabilities, social norms or fairness perceptions), but also as an operational tool to develop strategies of adequate interactions between tax authorities and taxpayers<sup>82</sup>. Following this reasoning the research seeks to find how society perceives the role of tax legislation, that is, whether the extant law as well as new reforms have contributed to make PIT compliance possible.

### 3.2.2. Norms

Norms become a relevant factor in tax compliance therefore those behaviours determined by the law also play a significant role besides attitude as norms encompass both power and trust. Individual norms define internalised standards on how to behave being also related to moral reasoning and tax ethics<sup>83</sup>. National norms (those become cultural standards often mirrored in the actual law) find their expression in tax laws and the role given to tax authorities, having thus a direct influence on their power<sup>84</sup>. Social norms such as the belief that tax evasion hinders the work of tax authorities might be damaging when there is not countervailing norm of community<sup>85</sup>. A norm where all citizens are perceived as contributing their fair share would certainly help to increase trust in the authorities<sup>86</sup>. Likewise perceived fairness of the tax system relates to the *trust dimension* because equitable treatment of taxpayers (i.e., distributive and procedural fairness) helps to build and maintain trust. Retributive justice is connected to the *power dimension* as well, because it depends also on detecting and charging offenders<sup>87</sup>. As Wahl suggests governments should try to gain their citizens' trust through emphasizing fair procedures (e.g., citizen's participation in the legislation) or through employing citizen-friendly and service-oriented behaviour of tax authorities (e.g., offering help in filling in forms correctly)<sup>88</sup>. In

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<sup>82</sup> Kirchler et al. (2008), at 214; Muehlbacher & Kirchler (2010), at 607

<sup>83</sup> Kirchler et al. (2008), at 218

<sup>84</sup> *Ibid*

<sup>85</sup> *Ibid*

<sup>86</sup> *Ibid*

<sup>87</sup> Kirchler et al. (2008), at 219

<sup>88</sup> Wahl et al. (2010), at 401

return, the trusting citizens will be voluntarily compliant and abstain from evasion when detection is unlikely, whereas they would evade in the case of distrust<sup>89</sup>. Therefore, boosting citizens' trust in authorities would maximize tax payments and thus the public revenue<sup>90</sup>. Social norms might influence tax compliance however social norms about ethical taxpaying seem to increase only tax compliance of taxpayers who identify sufficiently with the group<sup>91</sup>. When identification is weak, social norms may have no effect<sup>92</sup>.

### 3.2.3. Value of public goods

Individuals pay taxes voluntarily because they value the goods provided by government and they recognise that their payment may be necessary to get other to contribute<sup>93</sup>. For example, psychologists and other social scientists argue that social norms and perceptions of fairness affect compliance, that is, individuals pay taxes because they feel that it is a social obligation to do so, although they comply less if they perceive that they are treated less fairly than others<sup>94</sup>. Compliance may occur because some individuals value the public goods that their tax payments finance, therefore an increase in the amount that individuals receive from a given tax payment increases their compliance rate<sup>95</sup>. Tax compliance is enhanced when individuals view the paying of taxes as a fair fiscal exchange, that is, welfare services<sup>96</sup>.

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<sup>89</sup> Wahl et al. (2010), at 401

<sup>90</sup> *Ibid*

<sup>91</sup> Michael Wenzel. *An Analysis of norm processes in tax compliance*. Journal of Economic Psychology 25 (2004) 213-228, at 226

<sup>92</sup> *Ibid*

<sup>93</sup> Alm et al. (1992), at 23

<sup>94</sup> *Ibid*

<sup>95</sup> Alm et al. (1992), at 36

<sup>96</sup> Ronald G. Cummings, Jorge Martinez-Vazquez, Michael McKeec & Benno Torgler. *Tax morale affects tax compliance: Evidence from surveys and an artefactual field experiment*. Journal of Economic Behavior & Organization 70 (2009) 447-457, at 449



### 3.2.4. Tax morale

Tax morale, defined as a moral obligation to pay taxes or a belief in contributing to society by paying taxes, may also explain the high degree of tax compliance as for those cases the level of deterrence is too low<sup>97</sup>. Trust in the state is examined by relating trust in government, parliament and the legal system to tax morale<sup>98</sup>. Positive actions by the state are intended to increase positive taxpayer attitudes and commitment to the tax system and tax payment, however perceived unfairness increases to act against tax laws<sup>99</sup>. From this perspective, taxes are a price paid for government actions and maintenance of a fair legal system, thus if taxpayers trust state institutions they are more willing to be honest<sup>100</sup>. Both tax policies and tax administration reforms concern the level of tax morale, thus, changes may have a positive or negative impact on individuals' satisfaction or dissatisfaction<sup>101</sup>. Cummings showed that tax morale enhances tax compliance, having therefore quality governance an effective impact, that is, positive perceptions of government's performance might explain why individuals pay taxes<sup>102</sup>.

### 3.3. The particular case of Spain

Over the last 40 years Spain has experimented radical political and social changes initiated for the transition to a democratic system after a large period of military dictatorship. During 40 years of dictatorial regime the fiscal system provided ample tax evasion opportunities for the wealthy, and there was no political will to

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<sup>97</sup> Benno Torgler & Friedrich Schneider. *What Shapes Attitudes Toward Paying Taxes? Evidence from Multicultural European Countries*. Social Science Quarterly, Volume 88, Number 2, June 2007, 443-470, at 444

<sup>98</sup> Torgler & Schneider (2007), at 448

<sup>99</sup> *Ibid*

<sup>100</sup> Torgler & Schneider 2007, at 448

<sup>101</sup> Jorge Martinez-Vazquez & Benno Torgler. *The Evolution of Tax Morale in Modern Spain*. Journal of Economics Issues, Vol XLIII No.1 March 2009, 1-28, at 20

<sup>102</sup> Cummings et al. (2009), at 457

prosecute fiscal fraud<sup>103</sup>. Fraud was not considered as a criminal offence, defaulters only received small administrative sanctions and the tax collection was inefficient due to a poor tax system lacking in personnel and resources<sup>104</sup>. At the end of 1970s tax evasion in Spain was estimated at 40% of tax receipts, above 90% of all Spanish taxpayers recognised the existence of fiscal fraud, and the opportunities to commit fraud were of 70% within the upper income level<sup>105</sup>. In 1977, the Moncloa Pacts set the foundations for the new democratic system. Appealing for fiscal reforms and the fight against tax evasion, politicians stated their intention to move towards the economic and political model that other European Countries reached after the Second World War<sup>106</sup>. Changes became especially significant with the accession to the European Economic Community (EEC) in 1986, where the harmonisation of the existing tax system with the EEC rules was required, having as a milestone the introduction for the first time of the Value Added Tax (VAT)<sup>107</sup>.

As a result of those tax reforms between 1983 and 1987 the Personal Income Tax was modernized (with an emphasis on vertical equity and progressivity), the tax agency was territorially reorganized (adapting to the new division of powers) and its services modernised, also institutional initiatives were taken to increase voluntary tax compliance and fight against tax evasion<sup>108</sup>. Martinez-Vazquez and Torgler argued that the success of profound reforms both in tax policy and the tax administration led to a significant increase in tax morale in Spain over the period 1981-2000<sup>109</sup>. Yet they found that tax morale declined during the second half of the 1990s probably as a consequence of institutional changes such as corruption in the public sector, high levels of unemployment and the perception of lower levels

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<sup>103</sup> Martinez-Vazquez & Torgler (2009), at 2

<sup>104</sup> Francisco Comín. *Reaching a Political Consensus for Tax Reform in Spain: The Moncloa Pacts, Joining the European Union and the Best of the Journey*. International Studies Program, Andrew Young School of Policy Studies, Georgia State University. Working Paper 06-01, January 2006, 1-59, at 11

<sup>105</sup> *Ibid*

<sup>106</sup> Comín (2006), at 2

<sup>107</sup> Comín (2006), at 3

<sup>108</sup> *Ibid*

<sup>109</sup> Martinez-Vazquez & Torgler (2009), at 20

of tax fairness<sup>110</sup>. While economic growth encourages trust in authorities, high insecurity and income inequality penalise trust as probably occurred during the 1990s.

During the dictatorship Spain used to be highly centralized however the new democratic Constitution of 1978 allowed the creation of the *autonomous communities* with a right of self-governance, moving towards a new regionalized state. Spain became a parliamentary monarchy which comprises three-layer governance, that is, the central government, the regional (*autonomous communities*) and the local (composed of provinces and municipalities). Navarra and the Basque country enjoy a special system of full fiscal autonomy which lets them regulate and collect their own taxes (excluding customs tariffs), while the rest of regional governments have a fixed scheme of shared tax revenues with the central government.

For calculating Personal Income Tax (PIT) in Spain two different taxable bases are used: the general tax base (including among others, incomes obtained from employment or immovable assets) and the saving tax base (incorporating incomes from interests and dividends, as well as capital gains and losses). It must be noticed that two progressive scales are also applied to taxable incomes once personal and family allowances are deducted by those entitled. The tax rate applied to the taxable basis is the result of adding the state's scale and the Autonomous Community's scale depending on where the taxpayer resides, being each Autonomous Community in charge of approving its own scales of rates. In other words, the central government taxes with a progressive scale 50% of all personal incomes while the Autonomous Community taxes the remaining 50% having normative discretion on rates.

Alarcón and Ayala analysed the individual perceptions of Spanish citizens regarding fiscal ethics and fiscal morale of society (referred in the study as *fiscal awareness*) to evaluate trust in the government. It was found that *fiscal awareness*

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<sup>110</sup> Martinez-Vazquez & Torgler (2009), at 21

is shaped by trust, and thus indirectly, by the socio-economic context as well as the citizens' perceptions on government performance (i.e. welfare enhancement, poverty reduction and fairness of the tax system)<sup>111</sup>. Determinants of trust were tested with regard to the three levels of governance in Spain. Results have shown that Spanish citizens give more attribution to state government regarding social policies (reduction of poverty) and fiscal design, while they consider local governments are better regarding welfare public services provided to the people<sup>112</sup>.

## **4. Empirical results**

### **4.1. Method**

This qualitative research aims at identifying perceptions regarding PIT compliance in Spain. By conducting semi-structured interviews (using a settled questionnaire) empirical data was collected. Hammar noticed as an advantage of studying *perceived* instead of *actual* tax evasion that respondents were deemed to answer more truthfully when they were not asked to reveal their own behaviour<sup>113</sup>. Asking about tax compliance perceptions, via adequate questions and correct usage of grammar tenses, I expected to obtain a truly insight into this sensitive topic. As for researching about the institution of the Ombudsman Seneviratne used a textual analysis approach where documentary analysis is combined with interviews attempting to obtain more detailed information in documents, and to discover social perceptions of the system<sup>114</sup>. Educational service agencies were also evaluated in a research using a mixed-method of surveys (quantitative) and interviews (qualitative), here semi-structured interviews

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<sup>111</sup> Gloria Alarcón García & Edgardo Ayala Gaytán. *Trust in Spanish Governments: Antecedents and consequences*. Economic Analysis & Policy, Vol.43 No.2, September 2013, at 190

<sup>112</sup> Alarcón and Ayala (2013), at 189

<sup>113</sup> Henrik Hammar, Sverker C. Jagers & Katarina Nordblom. *Perceived tax evasion and the importance of trust*. The Journal of Socio-Economics 38 (2009) 238-245, at 238

<sup>114</sup> Reza Banakar & Max Travers. *Theory and Method in socio-legal research*. Oxford, Hart Publishing 2005, at 306

which included a review of relevant documents (as the primary sources of qualitative data) were designed to identify the role of agencies<sup>115</sup>. In this particular case, inspired by the design of public consultations papers launched by the European Commission (e.g. the European Taxpayer's Code), the interview was structured as follows,

a) *Introduction-background.*

This includes a review of the existent legal framework both at the EU and national level with regard to tax compliance as well as the fight against tax fraud and evasion

b) *Part One-Tax compliance*

c) *Part Two-Social attitudes towards PIT compliance*

d) *Part Three-Fairness*

e) *Part Four-Trust and power*

The research is based on the *Slippery Slope Framework* model developed by Kirchler (2008). Trust and power of authorities are estimated to analyse the level of tax compliance based on the assumption that high levels of trust and power increase compliance.

## **4.2.Participants**

Ordinary citizens were the population segment chosen as preferred participants for this study. By delimiting research participants to ordinary people instead of an expert audience, for instance tax officers or civil servants at the Ministry of Finance, the study seeks to comprehend how public opinion perceives PIT compliance without the risk of idealising the prevailing scenario.

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<sup>115</sup> Glenn A. Bowen. *Document Analysis as a Qualitative Research Method*. Western Carolina University. *Qualitative Research Journal*, vol. 9, no.2, 2009, at 28. Bowen mentioned that study of *educational agencies* referring to the work of Rossman & Wilson (1985) in "*Numbers and words: Combining quantitative and qualitative methods in a single large scale evaluation study*"

Due to the short time available for a 15 credits master's thesis, research participants were restricted eventually to 5 respondents. Semi-structured interviews require sufficient time to gather as well as to analyse empirical data in a logical way thus for the sake of quality the cluster of respondents was small.

To select the participants an e-mail was sent out to 15 individuals within a list of professional contacts, being the 5 finally chosen those who said yes in the first place. In that mail the aim of the research was briefly explained, also remarking that they would be part of a master's thesis project at Lund University. Individual interviews, ranging approximately from 1 hour to 1 hour 15 minutes, were held in-person on 27<sup>th</sup>, 28<sup>th</sup> and 29<sup>th</sup> April 2015. Likewise interviews were recorded and subsequently transcribed. For the sake of protecting privacy, respondents were labelled as R1, R2, R3, R4 and R5.

As the interviews were conducted in Spanish all the materials and data collected were translated into English. The usage of language within the interviews might not be very formal to a certain degree, as the author sought to respect always the tone and expressions used by respondents.

### **4.3.Data**

The data obtained is presented in four different sections following the structure of the interview (*compliance/ social attitudes towards PIT compliance/ fairness/ trust and power*). Each section includes an explanation of the objectives pursued with the questions at issue as well as relevant justifications found within literature. Drawing tables which put together questions and respondents' answers sought to facilitate the reading and comprehension of data.

#### **4.3.1.Part One-Tax compliance.**

Tax compliance is measured by estimating through the two proposed questions whether respondents perceive compliance as enforced or voluntary. The aim that

underlies this section is to comprehend according to *what* individuals pay their taxes.

*Question 1.1 (voluntary compliance)*

**Question 1.1** When people pay their Personal Income Tax (PIT), would you say that they do so because they want to contribute to everyone's good?

R 1 "To be honest, I do not think there is a common culture in Spain of "*paying PIT in return of welfare*", though citizens do not pay thinking about everyone's good"

R 2 "Some people might pay PIT thinking of everyone's good and the welfare state, and some people might not. I believe that we cannot demand a welfare state with quality services (i.e. education or wealth) if not paying taxes"

R 3 "Well, I do not think at all that's the reason for paying PIT"

R 4 "I think people do not pay PIT because they want to contribute to the common good. Actually, in this country, public services are not enough appreciated, some people think those should be for granted"

R 5 "Well, I believe that in Spain, generally, there is NO social conscience regarding the welfare state and its economic cost. People do not think about everyone's good when paying taxes, actually, most people do not understand that welfare is financed through taxes. In comparison to the USA system, where taxpayers are actively involved in public financing, and usually asked "*how much that service would cost*", deciding finally if that service should be provided or not by the state, here in Spain, common taxpayer's belief is that public services are granted solely by the government (do not even thinking that, people maintain welfare through taxes). Thus, the common idea here would be "*be happy taxpayer, at least, you have social protection*""

*Question 1.2 (enforced compliance)*

**Question 1.2** When people pay their PIT according to the law, they do so because there might be a possibility to be audited and consequently fined by the tax office?

R 1 "yes, absolutely, otherwise nobody would pay"

R 2 "Some people might pay taxes just because the risk of detection, and some other might not...it's something that depends on each individual, we shouldn't make any assumption"

R 3 "well, yes, watch over taxpayers as well as sanctions contribute effectively to

|     |   |
|-----|---|
|     | compliance”   |
| R 4 | “Yes, they do. If we have welfare, it’s just because we can maintain it through taxes, and people pay just because tax authorities keep an eye on”  |
| R 5 | “Yes, definitely. The thing is that, as explained before, individuals do not intervene in deciding how the welfare state should be maintain, which public services or social protection should be given by the state. As some other European countries we follow a paternalist system, that is, the government decides for us regarding taxation and public policies. Ordinary citizens do not take an active part in the tax system, neither in public policies, we just pay taxes which finance those services, to which we are not attached obviously, and done. I believe that, this explains the high level of non-compliance in some European countries. The lack of social compromise in paying taxes, taxes that actually we haven’t decided about, make the state’s coercive power as the only way for tax compliance” |

#### 4.3.2.Part Two-Social attitudes towards PIT compliance.

In this second part, three questions are addressed to the respondents to measure how they think of social attitudes towards tax compliance. Even though the comparison between social and legal norms is not aimed at discussing in this study, understanding how respondents perceive tax compliance becomes essential for grounding the subsequent empirical analysis.

##### *Question 2.1*

|                 |  |
|-----------------|--|
| <b>Question</b> | <b>Would you say that taxpayers are influenced by the positive/or negative behaviour of other taxpayers when paying their PIT?</b>   |
| <b>2.1</b>      |  |
| R 1             | “Tax non-compliance is something very rooted here in Spain, and not enough socially penalised though. When someone does not pay taxes you usually find out that his/her family or friends do not do it too”  |
| R 2             | “I would say that tax compliance might be negatively influenced by the tax behaviour of certain individuals as politicians, or business people for example. Thanks to the media, we’ve known during the last few years that many of those people committed tax fraud. The feeling of impunity within society is high, because sometimes this negative conduct is not considered a criminal offence, or also because criminal liability expires,, ,though this makes the taxpayer think, why should I pay PIT and contribute to everyone’s good if, luckily, I have 1.000EUR salary, and those who have high incomes and commit tax fraud are not penalised?” |



- R 3 “No, I don’t think so. The thing is that here in Spain, people who pay less taxes in their incomes and are not caught doing it, so to speak, are considered the smartest...let’s imagine an informal talk with friends, if you asked about those people, you probably would hear something like “*well, they are doing not bad, they were not caught at the end*””
- R 4 “Yes, though that the fact that some people do not pay PIT while you are paying, probably, might affect taxpayer behaviour”.
- R 5 “Well, in theory, social consciousness here in Andalusia regards tax fraud as a negative conduct. However, in practice, as long as you’re not caught evading taxes though evasion is not seen as a bad behaviour, at least generally speaking, even some people boast about it. Though this is the consequence of a non-quality democratic system, the social contract lacks of tax consciousness at all”

*Questions 2.2 and 2.3*

**Question 2.2 Which of the following scenarios would correspond better with the acceptance of tax fraud within the Spanish society?**

SCENARIO 1 *tax fraud is a type of criminal activity, however socially admitted*

SCENARIO 2 *tax fraud is a type of criminal activity, also socially penalised*

SCENARIO 3 *tax fraud is not a type of criminal activity*

R 1 **SCENARIO 1**

R 2 **SCENARIO 2**

R 3 **SCENARIO 1**

R 4 **SCENARIO 1**

“Yet, although we usually blame high-income individuals or politicians of tax evasion and fraud, some middle-class and low income individuals do not pay taxes either. Though people should consider as defaulters or criminal, in the same way, all non-compliant taxpayers regardless of personal incomes”

R 5 **SCENARIO 1**

**Question 2.3 Could you give an example of misconduct (regarding PIT compliance) which you think it might be socially acceptable?**

R 1 “Well, if I think about self-employed people, they usually find the way to deduct a highest amount of expenses in their taxable incomes”

R 2 “Do not have a legal contract in a company, thus, the “*worker*” does not pay any income tax because, “officially”, he/she has no job (shadow economy)”

R 3 “Working officially as a “part time” employee for an employer, when actually is a full-time job, that’s in the top ten”

- R 4 “Taking into account the financial crisis we have lived, society does not consider a bad behaviour those self-employed workers, like plumbers or mechanics for example, who do not declare any personal income”
- R 5 “Well, to declare less personal incomes, in that case a lower tax rate applies to the taxable base. You know, for example, people do not want to pay for broadcasters that service has to be for free, but who pays that in the end? People prefer to find the way to reduce tax rates on incomes, instead of paying for that”

#### 4.3.3.Part Three-Fairness.

Through this part of the interview perceived fairness of the Spanish tax system is assessed.

Questions 3.1 and 3.2 estimate procedural fairness, that is to say, respondents’ perceptions of the trustworthiness of Spanish tax agency and its work measuring also whether the agency has a polite and competent treatment towards taxpayers<sup>116</sup>. Questions are based on some of the factors found as encouraging or discouraging tax compliance by Sigala in a study regarding Tax Communication in Britain, as for example the need for correct information or the fear of making any unintentional mistake<sup>117</sup>. Also some of the assumptions proposed by Cullis to measure tax evasion were used to design questions 3.1 and 3.2, for instance, existent difficulties on taxing procedures which might reduce compliance<sup>118</sup>.

##### *Question 3.1*

**Question 3.1** **Would you say that the tax authorities offer correct information and technical support to fill your tax return? Would you say that is difficult to fill your tax return?**

- R 1 “Even though the computerised system makes easier to fill the tax return, I think, in general, people do not have enough tax information”
- R 2 “Yes, in that particular case, I believe the tax authorities provide the necessary

<sup>116</sup> Kirchler et al. (2008), at 219

<sup>117</sup> Maria Sigala, Carole B. Burgoyne & Paul Webley. *Tax Communication and Social Influence: Evidence from a British Sample*. J. Community Appl. Soc. Psychol. 9:237-241 (1999), at 238

<sup>118</sup> John Cullis, Philip Jones & Antonio Savoia. *Social norms and tax compliance: Framing the decision to pay tax*. The Journal of Socio-Economics 41 (2012) 159-168, at 163

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|-----|--|
|     | technical support. Tax offices offer taxpayers a service of individual appointments, in case that they need assistance to fill the tax return. That service is for free, thus, everybody can have professional support regardless of economic means”   |
| R 3 | “If there are special circumstances, like for example, the taxpayer has two different employers, or capital gains or losses, then it’s not as easy to fill the tax return. The problem is that, individual appointments at the tax office are only scheduled in the mornings, what about if you cannot leave work during mornings? Even though tax authorities’ support is good, they should improve this service” |
| R 4 | “There is not enough information available, though tax offices don’t provide satisfactory assistance to the taxpayers”   |
| R 5 | “Though, in general, the information and technical support offered to the taxpayer is good. Phone assistance, individual appointments at office, or pre-filled tax returns, all those services are for free, and allow the taxpayer to fill the tax return if cannot pay for financial advisory services”  |

*Question 3.2*

|                     |   |
|---------------------|---|
| <b>Question 3.2</b> | <b>Have you ever feared of being fined in case of making an unintentional mistake in your tax return?</b>   |
| R 1                 | “No, because of my low incomes, the tax-free personal allowance always applies for me. I do not have to submit the tax return, so I have no fear”   |
| R 2                 | “Yes, I have. Although you have the knowledge to fill the tax return correctly, you might make mistakes. I feel the fear is higher when you fill the tax returns on behalf of other taxpayer, as tax agent for example”             |
| R 3                 | “No, I have not. The tax office usually send you a pre-filled tax return, well, actually you have to download the pre-filled tax return with a personal code they give you. It’s quite easy, you only have to confirm the data”     |
| R 4                 | “No, I trust on the pre-filled tax return”  |
| R 5                 | “No, I have not. If I have any doubts I usually call the tax office. If I still feel unsure about any deduction on expenses, which though it might be the most troublesome in practice, I just do not include it in the tax return” |

Questions 3.3, 3.4 and 3.5 measure distributive fairness, in short, how respondents perceived the outcomes of their contribution to the system through paying PIT (costs), but also benefits obtained in return. On the group level, as Kirchler stated, taxpayers demand a fair treatment of their group in comparison to other groups, if

perceived its tax burden as heavier. On the societal level, taxpayers are concerned about the fairness of the outcomes for the whole nation<sup>119</sup>. Likewise one of these questions has been especially addressed to estimate perceived fairness regarding High net worth individuals (HNWI), as those in the top of the income scale are generally seen as favoured by the tax system. These individuals might have greater opportunities for Aggressive Tax Planning (ATP) as incomes usually come from a wide range of sources located presumably in different spots, besides those are more likely to receive advice from a financial expert. Governments around the world are concerned with how they must treat HNWI as to make fairness visible to ordinary citizens, at the same time that they do not lose those high-income taxpayers because of heavy taxation.

*Question 3.3*

**Question 3.3** **Would you say that you receive enough in return in comparison to the amount of PIT you pay?**

- R 1 "I believe tax payments usually are not proportional to the amount of incomes. Tax burden is very high for low-income taxpayers, while public services are getting worse"
- R 2 "Though I have paid much more taxes on my incomes than services I have received in return. Welfare system would be way better if we all contributed to its maintenance, but at the end, we all care about our pockets...effective prosecution of defaulters, that's the only solution"
- R 3 "I would say yes, the system is fair. I haven't paid taxes on my incomes yet, as those are very low, but still I have received social protection"
- R 4 "Not at all, public expending in welfare has been dramatically reduced over the last few years, we pay much more than we receive"
- R 5 "No, the tax system is asymmetrical, I mean, taxes are not paid in proportion. High-income taxpayers do not pay enough on their incomes, for sure. Low-incomes do not contribute, and middle-class population, which traditionally supported the highest tax burden, has reduced during the last few years. What that means in practice? less PIT revenues, less quality services"

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<sup>119</sup> Kirchler et al. (2008), at 219

**Question 3.4 Do you think is possible to pay less income tax depending on your employment status? How do you think other people might do it?**

R 1 “No. though, in practice, it’s difficult to lessen your taxes depending on your employment status”

R 2 “Yes. If you are a self-employed or a contractor, for example, you can deduct more expenses which may reduce your taxable income, or just not declaring the total of your personal incomes. If you are an employee, that’s pretty difficult, since there is a withholding tax paid by the employer. But, as for my professional experience, in practice everything is possible”

R 3 “Yes, sure, if you’re a self-employed you obviously decide the amount of personal incomes to declare”

R 4 “Well, sorry, I have no idea how that works, I’m doctoral student on chemistry not in laws”

R 5 “Well, for employees or civil servants, it’s too difficult to reduce taxable incomes, or asking for deductible expenses. Though withholding taxes help to reduce non-compliance or fraud”

**Question 3.5 Would you say that HNWI pay enough taxes on their incomes? If the government would increase the tax burden to this segment of population in order to collect more taxes, would this influence on HNWI’s decision of leaving the country seeking a more beneficial tax treatment?**

R 1 “Though the first step would be to enhance a social consciousness about welfare, in my view, the sense of community/and cooperation does not exist within the Spanish society. I believe that, there is not enough “political commitment” to retain high-income taxpayers here”

R 2 “Taking into account the regressive nature of our tax system, in theory, yes, high-income individuals should be the ones who contribute in a greater extent to public financing, instead of middle-class taxpayers. Yet, in practice, aggressive tax planning makes possible the exit of incomes to more beneficial spots somewhere else”

R 3 “Well, obviously, to increase the tax burden of HNWI might mean offshoring activities in practice. But, at the same time, what about tax inspectors’ duties? Controlling compliance, that’s their job”

R 4 “Though it wouldn’t be bad to increase the tax burden of HNWI, even though some of those would leave to offshore territories, for example...but still, though many companies and HNWI would stay here in Spain, for tax purposes, I mean.

Advantageous tax treatment of high-income individual only contribute to make worse social stability”

R 5 “Well, the thing is the lack of political commitment to combat aggressive tax planning, That’s happening, basically, thanks to the weakness/and loopholes of tax laws. Though it’s pretty easy for HNWI individuals, due to their political connections and financial capability, for instance, to change their residency to off-shore territories, or to have tailored financial advisory. I believe this segment of population doesn’t really feel they must contribute to the system, because their high-incomes actually allow them to pay private services as health or education. So, why pay more when you could pay less?”

#### 4.3.4.Part Four-Trust and power.

This part aims at estimating perceived trust in the Spanish government as well the effective power of authorities.

Question 4.1 was designed using the model proposed in a recent experimental survey which explores tax compliance among Greeks. In order to avoid preconceived perceptions this study creates a fictitious country to which are assigned four possible scenarios identifying the existent level of trust and power<sup>120</sup>. As for preventing a likely political debate which is out of the scope of the research, in this particular case four settled scenarios are presented to the respondents to determine the perceived degree of trust and power. Scenario 1 and scenario 2 correspond to a high degree of trust and power, while scenario 3 and 4 conforms to the case of low trust and power of government and authorities

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<sup>120</sup> Georgia Kaplanoglou & Vassilis T.Rapanos. *Why do people evade taxes? New experimental evidence from Greece*. Journal of Behavioral and Experimental Economics 56 (2015) 21-32, at 23

Question 4.1

**Question 4.1** In your opinion, which of the following proposed scenarios fix better to Spain right now? Could you explain why so?

SCENARIO 1 *The government is highly trustworthy and service oriented. Politicians do not misappropriate revenues obtained from PIT collection. The use of that money is transparent and invested in welfare. There is a little corruption and people trust local/regional/and local governments. Government also acts on interest of the Community and common good rather than the interest of a few ones.*

SCENARIO 2 *Tax authorities work efficiently and implement Income tax law. A high budget is allocated to the tax office, thus, authorities have enough resources to effectively detect and prosecute tax evasion.*

SCENARIO 3 *The government is highly untrustworthy and not service oriented. There is an opaque legal system, which also lacks of transparency in the use of revenues obtained from PIT collection.*

SCENARIO 4 *Tax authorities have a low budget and resources available, thus, income tax law is not efficiently implemented in practice. Authorities are lenient regarding tax evaders. Taxpayers know that the chances to be audited are low.*

R 1 **SCENARIO 3**  
“This scenario might be the one which better adjusts to Spain’s political and social context right now. Corruption affects to the whole society, that’s the big issue”

R 2  
“Any of the proposed scenarios adjust to the reality. As a legal professional, I would say that, tax authorities enhance tax compliance and prosecute tax fraud, actually, I’ve personally experienced a few times how they carry out audit processes. Prosecution and tax inspections should be more effective? Yes, absolutely. But then, tax offices should have enough financial resources (government expenditure), and staff as well (civil servant competitions have been stopped for a few years, thus, staff has not been replaced). Also, judges have to deal with tax fraud procedures without having sufficient resources. The feeling of impunity regarding some taxpayers’ misconducts, that’s what makes society distrust the government”

R 3 **SCENARIO 3**  
“Reasons? Well, first, transparency. Where PIT revenues go? Because, I see that public expenditure has been cut since 2009, for example, funding allocated to prescriptions. Now, prescriptions charges apply for some drugs or medical treatments. Second, some politicians, business people, and even members of the

monarchy, prosecuted for tax fraud”

R 4            **SCENARIO 3**

“We all know thanks to the media that, many politicians, even trade union representatives, had been involved in tax fraud. Though public revenues have been misused, sometimes even for private purposes, who would trust them in these circumstances?”

R 5            **SCENARIO 3**

“Actually, I have not much to add”

Questions 4.2, 4.3 and 4.4 seek to estimate how respondents see the existent legal framework regarding tax compliance as well as the fight against tax fraud and evasion (as non-compliant behaviours). All legislative measures taken in this field, at the EU and national level, are briefly described at the beginning of the interview (in the background section). Likewise before raising these three questions to the respondents, some of the legal initiatives adopted at the Spanish level are mentioned as a reminder, for example,

.tax amnesty in 2012

.or, the duty of compulsory information concerning the ownership of any immovable property out the territory of the country (RD 1558/2012 of 15 November 2012 implementing the Enhanced Cooperation Directive)

*Question 4.2*

**Question 4.2    Independently of your own political ideas, do you think the last reform of the Income tax law as well as the rest of legislative reforms over the last few years have effectively contributed to fight against tax fraud?**

R 1            “No, I don’t believe legislative reforms have reduce tax fraud, even less in the case of high-income individuals”

R 2            “Well, at least, measures have been taken, which is positive indeed. But, obviously, those haven’t been very effective in practice we see the consequences every day on news. Though it’s pointless to reform the law, and to create new obligations and penalties, if the tax authorities still do not have enough resources implement



|     |  |
|-----|--|
|     | legislation effectively”   |
| R 3 | “No, that’s clear, you just have to read the newspapers”   |
| R 4 | “No. If you think about the amnesty, well, defaulters legalised money and paid only 10% charge, where is the penalty there? Though this didn’t help to reduce tax evasion in a future”   |
| R 5 | “To some extent, yes. However, a more effective and egalitarian Income Tax law seeking redistribution (also in practice, not only in theory), would contribute more positively to higher levels of compliance. Middle-class individuals shouldn’t bear the highest tax burden” |

*Question 4.3*

|                     |   |
|---------------------|---|
| <b>Question 4.3</b> | <b>Would you say that all those reforms enhancing tax cooperation and fighting against tax fraud might be an answer to public pressure?</b>   |
| R 1                 | “Yes. Even though I believe the measures adopted are ineffective, those are the result of public pressure and social unrest”  |
| R 2                 | “Yes, if politicians took the initiative to change the law, though it’s just because the existing political discontent and social mobilization. Although tax laws in particular are sensitive to become a political instrument, which do not make them more effective in practice, in this case public pressure is being positive”  |
| R 3                 | “Yes, they (politicians) had to do something, people just didn’t put up with that unbearable situation any longer, tax fraud/evasion was all over the place....”  |
| R 4                 | “Yes, reforms are the consequence of public pressure, I would say that the only reason for changes indeed. Yet, though those reforms are not fighting effectively against tax fraud or tax evasion, tax laws remain being more favourable to the richest”   |
| R 5                 | “Well, I wouldn’t say that public pressure was the reason to the changes in the law. I believe that authorities have tried to show citizens how effectively they are fighting against taxpayers’ misconducts, for example, publishing the amount of revenues obtained thanks to the prosecution of evasion. Yet, I believe that legislative reforms are just becoming a political instrument. Spanish society has been claiming for political and social reforms during the last few years, that’s pretty clear, being the unfairness of the tax system one of the complaints. The government had to deal with that situation somehow, meaning, introducing some changes in the law. But still, legislative reforms have not reduced the tax burden for middle-class taxpayers” |

Question 4.4

**Question 4.4** Would you say that there are mutual cooperation/ joint efforts between tax authorities to fight against non-compliance?

R 1 “Well, I had no idea about that mutual cooperation between tax authorities, hadn’t heard about that. Anyway, I still think that tax authorities should prosecute more effectively defaulters”

R 2 “Yes, I believe that tax authorities are working together and cooperating in the fight against tax misconducts. Yet, the only reason for that is the lack of revenues, and the high public debt. That is, authorities need more revenues because the public spending is not balanced, the way is to recover that money uncollected as a result of tax evasion or fraud”

R 3 “No, at the Spanish level, you see that there is not mutual cooperation between authorities, even less regarding the proper functioning of the tax system”

R 4 “No, I don’t think so. Here, you perfectly see that depending on the party leading a particular region or municipality, if that’s the same or not as the one in the central government, there is cooperation and communication, or there is not. That happens in education, social security, and so on....thus, same occurs with tax cooperation”

R 5 “No, I’d say that there is no mutual cooperation between the different tax administrations, not at the national or EU level. What’s more, here in Spain, there is no mutual cooperation between the ministry of finance and other bodies as the judiciary, or the ministry for home affairs, for example. If that mutual cooperation exists, at least people do not see the results in practice”

#### 4.4.Results and analysis

##### 4.4.1.Results

Participants observed that taxpayers do not think of contributing to the common good when paying PIT. Most of participants agree on enforced compliance, through a controlling and punishing system, as the reason for paying PIT. They also share that public services are not enough appreciated by the citizens, who do not really know about the cost related to quality services, “*there is NO social conscience regarding welfare state and its economic cost*” (R 5, question 1.1)

Non-compliance is regarded as a misconduct not enough penalised within Spanish society “...even some people boast about it” (R 5, question 2.1) denoting to some extent the risk of being caught evading taxes as a decisive factor of compliance. One of the respondents refers to the feeling of impunity as determinant for not complying with PIT “...because sometimes this negative conduct is not considered a criminal offence, or also because criminal liability expires” (R 2, question 2.1), also highlighting how tax misconducts of high-income individuals influence negatively the conduct of the regular taxpayer. Just one of the five participants regards tax fraud as a socially penalised offence. The rest see tax fraud as a criminal activity which is generally socially approved within Spanish society. However all respondents are aware that tax fraud is a criminal offence punished by law.

One of the respondents also noticed that all taxpayers should be considered defaulters in the same way regardless of personal incomes “...although we usually blame high-income individuals or politicians of tax evasion and fraud, some middle-class and low income individuals do not pay taxes either” (R 4, question 2.2). As likely misconducts regarding PIT compliance respondents refer to self-employed people as those who might benefit of highest deductions on expenses, or might declare less incomes to lessen the tax burden. Also the discussion brings up informal economy as an activity outside government regulation which is used to elude taxation on incomes. Actually, informal economy has been a core factor within public debate regarding economy and finances over the last few years. I do think respondent 3’s observation in question 2.3 reveals the magnitude of the problem “working officially as a “part time” employee for an employer, when actually is a full-time job, **that’s in the top ten**”.

Regarding fairness respondents seem to value as service-oriented the activity of tax authorities as well as the support provided for PIT collection. Despite the fear of unintentional mistakes, in general, participants trust on the pre-filled tax return system and tax information services. As for the amount of PIT paid and outcomes received in return (welfare services, quality of those services), almost all

respondents consider the system not enough fair as they have paid much more than received, *“I have paid much more taxes on my incomes than services I have received in return”*(R 2, question 3.3), *“we pay much more than we receive”* (R 4, question 3.3). One of the respondents argues that the reduction of middle-class population, who traditionally bears the highest tax burden of PIT, has contributed to diminish quality services *“...middle-class population, which traditionally supported the highest tax burden, has reduced during the last few years. What that means in practice? less PIT revenues, less quality services”* (R 5, question 3.3). When asking about the possibility of reducing PIT contributions respondents reaffirm that self-employed are more likely to lessen their tax burden. However the system of withholding tax applied on labour incomes reduces the risk of non-compliance for civil servants or employees. Participants fully agree that high-income taxpayers usually receive a more favourable tax treatment even questioning authorities’ will to efficient persecute those individuals, low fairness seems to be a shared perception with regard to HNWI taxpayers *“there is not enough **“political commitment”** to retain high-income taxpayers here”* (R 1, question 3.5), *“taking into account the regressive nature of our tax system, in theory, yes, high-income individuals should be the ones who contribute in a greater extent to public financing”* (R 2, question 3.5), *“advantageous tax treatment of high-income individual only contribute to **make worse social stability**”*(R 4, question 3.5).

Except for one respondent who did not identify any of the proposed scenarios with his/her perception of current Spanish society, the rest of respondents chose SCENARIO 3 *“the government is highly untrustworthy and not service oriented. There is an opaque legal system, which also lacks of transparency in the use of revenues obtained from PIT collection”*. These results show that citizens do not perceive reliability or credibility of Government. However no mention is made to the trust on tax authorities. Most respondents do not consider that legislative actions taken by the Government in order to improve compliance and reduce tax misconducts are effective in practice. Likewise most of them make reference to

the media as to prove failed legal measures “...those haven’t been very effective in practice, we see the consequences every day on news” (R 2, question 4.2), “...no, that’s clear, you only have to read the newspapers”(R 3, question 4.2).

Public pressure is viewed as the trigger for changing tax laws and enforcing tax compliance (solely one respondent did not see public pressure as the reason for changes in the law). Nevertheless, respondents also noticed that tax laws may become a political instrument “...tax law in particular are sensitive to become a political instrument” (R 2, question 4.3), “...I believe that legislative reforms are just becoming a political instrument. Spanish society has been claiming for political and social reforms during the last few years, that’s pretty clear, being the unfairness of the tax system one of the complaints” (R 5, question 4.3). Only one participant considers that tax authorities are cooperating to enhance compliance and fight against non-compliance, however, the only reason for that is “the lack of revenues, and the high public debt” (R 2, question 4.4). The rest of participants do not perceive mutual or joint cooperation between authorities as to ensure compliance and fight against defaulters, “no, I don’t think so....you perfectly see that depending on the party leading a particular region or municipality, if that’s the same or not as the one in the central government, there is cooperation and communication, or there is not”(R 4, question 4.4), “no, I’d say that there is no mutual cooperation between the different tax administrations, not at the national or EU level” (R 5, question 4.4)

#### 4.4.2. Analysis

The research found that respondents did not perceive high levels of trust and power. Due to the lack of power as well as non-credibility participants regard authorities’ performance as negative to voluntary tax compliance. However participants seem to differentiate Government (local, regional or state level) from tax offices when speaking about authorities. The performance of the tax agency is not perceived as unreliable even though they consider available resources not sufficient. Likewise that deficiency of resources (personnel/budgetary) is regarded

as solely attributable to the Government. The level of fairness within society is perceived as low.

Respondents also viewed that high-incomes individuals do not pay enough PIT in comparison to middle-class taxpayers. In general, that “advantageous” tax treatment is seen as detrimental to Spanish society since the quality of public services is reduced as well as social stability damaged. The OECD has observed in many countries the wide perception amongst population that high-income individuals pay less PIT proving therefore the public scrutiny and vigilance towards this segment of population<sup>121</sup>. HNWI usually attract media and public attention more than other individuals because of their high standing in industry and business or their celebrity status, thus, in case of tax offences those are also likely to draw more interest<sup>122</sup>. Nevertheless the OECD called Governments for demonstrating that their tax systems are fair and compliance strategies equally apply to all taxpayers, encouraging as well for a good understanding of the HNWI segment (early identification of key issues and trends prevent from tax misconducts)<sup>123</sup>. Still respondents see a clear lack of political commitment to combat non-compliance. Law reforms do not address taxpayers’ demands as participants have not perceived significant changes regarding compliance. Besides, reforms are considered useless since the Government does not provide resources to implement them in practice.

Interviews include in the *background* section a brief review of legal measures taken at the EU level (as explained in part 1 of the study), also mentioning reforms at the national level. While the awareness of Spanish law was average in general, the study showed that respondents were not fully aware of EU legislation at issue, in some cases not aware at all “*Well, I have no idea about that mutual cooperation between tax authorities, haven’t heard about that*” (R 1, question 4.4).

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<sup>121</sup> OECD. Engaging with high net worth individuals on tax compliance. 9 September 2009, pp 1-108, at 14

<sup>122</sup> OECD 2009, at 14

<sup>123</sup> OECD 2009, at 13-14

This would demonstrate the difficulty to comprehend taxation due to its inherent complexity but also that respondents know very little about EU legislative actions.

The regularisation process carried out in 2012 was considered as the most trivial measure since penalties of 10% charge over the value of undeclared assets or money were not regarded sufficient. Respondents see the amnesty a way to collect revenues rather than a measure to reinforce tax compliance. Over the last 40 years, as it is explained in part 3 of the research, the Spanish tax system experienced profound changes. Previous tax reforms, as the one during the period 1989-1990, were also complemented by way of a tax amnesty. In 1991 an amnesty was implemented to disclosure undeclared incomes, however, it has been already questioned by literature if that regularisation process benefited positively tax compliance, or just sought to recover revenues<sup>124</sup>.

Sociology of law becomes of special relevance for this particular study in so far tax fairness is regarded as an overriding concern in the public debate, especially, since the beginning of the financial crisis. Tax compliance entails fairness whereas non-compliance results in inequity. Fair taxation does not impose obligations solely to the Government as ultimate guarantor of legality. Taxpayers must cooperate equally to build a fair tax system. A system where all taxpayers are treated symmetrically (that is, where taxpayers contribute in the same manner to the welfare maintenance) enables to build trust. Fairness, trust and power become essential elements for the analysis of tax compliance.

According to the *Global Corruption Barometer 2013* (source International Transparency), 67% of respondents in Spain viewed that parliament/legislature was corrupt/extremely corrupt, while public officials and civil servants were regarded the same by 42%<sup>125</sup>. The *Corruption Perceptions Index 2014* (source International Transparency), which estimates the perceived level of public sector corruption, ranked Spain no. 37 in a list of 175 countries and territories quite far

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<sup>124</sup> Julio López-Laborda & Fernando Rodrigo. *Tax Amnesties and Income Tax Compliance: The Case of Spain*. Fiscal Studies (2003) vol.24, no.1, pp. 73-96, at 77 and 94

<sup>125</sup> <https://www.transparency.org/gcb2013/country/?country=spain>

from other EU countries as Denmark (no. 1), Sweden (no.4) or France (no.26)<sup>126</sup>. Corruption may undermine justice and economic development but also destroys trust in governments and leaders<sup>127</sup>. Still 45% of Spanish respondents agreed that ordinary people can make a difference in the fight against corruption<sup>128</sup>.

Sociology of law deals with the relationship between law and society analysing empirically economic, psychological and sociological consequences which may determine the law formal discourse<sup>129</sup>. Examining PIT compliance beyond the formalities and *fairness* inferred from the tax law this particular research sought to find how “equitable” individuals perceive the tax system as well as to identify those elements causing inequalities. If 45% of people viewed that changes are still possible (via *public pressure* for instance), this study may offer valuable data to estimate citizens’ trust in tax authorities and also power of authorities to tackle non-compliant behaviours. By applying the *Slippery Slope Framework* the research finds out those positive or negative factors determining tax compliance, enabling as well the creation of corrective strategies between authorities and clients.

Public opinion appears as a source of valuable data for legislature. People might not have a thorough knowledge of tax law however they certainly experience its effects creating their own opinion. Public opinion also takes part in the lawmaking process as Habermas observed. Therefore measuring citizens’ perceptions of tax compliance allow us to ascertain if effective communication between civil society and the legislature exists, that is, whether the tax law has been the result of a democratic process. Through estimating perceptions of PIT compliance the study seeks to analyse people’s perception of the law rather than its content.

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<sup>126</sup> [https://issuu.com/transparencyinternational/docs/2014\\_cpibrochure\\_en/5?e=2496456/10375453](https://issuu.com/transparencyinternational/docs/2014_cpibrochure_en/5?e=2496456/10375453)

<sup>127</sup> <https://www.transparency.org/cpi2014/results>

<sup>128</sup> <https://www.transparency.org/gcb2013/country/?country=spain>

<sup>129</sup> Håkan Hydén & Måns Svensson. *The concept of Norms in Sociology of Law*. Scandinavian Studies in Law, Law and Society, Volume 53, 15-32, 2008, at 17



## 5. Final comments

Further researches are needed to validate the results shown in this paper. Even though determinants of PIT compliance are estimated and discussed in detail additional data covering a larger population (e.g. by performing a quantitative survey) would help to confirm the research findings. This study could be the preliminary part of a more ambitious project where other aspects of PIT compliance were examined as the importance of social and individual norms for tax ethics, or those strategies to enhance the relationship between taxpayers and tax authorities. While searching for material I realised that *general perceptions* regarding tax compliance in the case of Spain usually are negative (same happens with other Southern European countries as Italy, Greece or Portugal). International media, for instance, has focused its attention on some flagrant cases of tax evasion occurred in Spain during the last few years. To the contrary, tax compliance is seen as something positive in the case of Sweden, Denmark or Norway<sup>130</sup>. Broadening the scope of this study to a cross-country analysis would let a comparison of PIT compliance in Spain and other EU countries with highest levels of tax compliance, as Sweden for example, aiming at offering valuable solutions and learning from a successful experience. To conduct new researches on tax compliance within the field of Sociology of Law could offer appealing solutions with the ultimate purpose of reducing negative effects of government activity as well as to enable welfare of societies at issue.

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<sup>130</sup> Using as keywords “*Swedes do not pay taxes*” and “*Spanish do not pay taxes*”, I found it out that most of the news related to Spain and taxes were negative but those referring to Sweden positive. In the case of Sweden, the very first result found had the heading “*Sweden: where tax goes up to 60% and everybody’s happy paying it.*”  
<http://www.theguardian.com/money/2008/nov/16/sweden-tax-burden-welfare>

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## APPENDIX

### **-Semi-structured interview-**

#### *(Questions)*

Q1.1. When people pay their Personal Income Tax (PIT), would you say that they do so because they want to contribute to everyone's good?

Q1.2. When people pay their PIT according to the law, they do so because there might be a possibility to be audited and consequently fined by the tax office?

Q2.1. Would you say that taxpayers are influenced by the positive/or negative behaviour of other taxpayers when paying their PIT?

Q2.2. Which of the following scenarios would correspond better with the acceptance of tax fraud within the Spanish society?

SCENARIO 1 *tax fraud is a type of criminal activity, however socially admitted*

SCENARIO 2 *tax fraud is a type of criminal activity, also socially penalised*

SCENARIO 3 *tax fraud is not a type of criminal activity*

Q2.3. Could you give an example of misconduct (regarding PIT compliance) which you think it might be socially acceptable?

Q3.1. Would you say that the tax authorities offer correct information and technical support to fill your tax return? Would you say that is difficult to fill your tax return?

Q3.2. Have you ever feared of being fined in case of making an unintentional mistake in your tax return?

Q3.3. Would you say that you receive enough in return in comparison to the amount of PIT you pay?



Q3.4. Do you think is possible to pay less income tax depending on your employment status? How do you think other people might do it?

Q3.5. Would you say that HNWI pay enough taxes on their incomes? If the Government would increase the tax burden to this segment of population in order to collect more taxes, would this influence on HNWI's decision of leaving the country seeking a more beneficial tax treatment?

Q4.1. In your opinion, which of the following proposed scenarios fix better to Spain right now? Could you explain why so?

*SCENARIO 1 The government is highly trustworthy and service oriented. Politicians do not misappropriate revenues obtained from PIT collection. The use of that money is transparent and invested in welfare. There is a little corruption and people trust local/regional/and local governments. Government also acts on interest of the Community and common good rather than the interest of a few ones.*

*SCENARIO 2 Tax authorities work efficiently and implement Income tax law. A high budget is allocated to the tax office, thus, authorities have enough resources to effectively detect and prosecute tax evasion.*

*SCENARIO 3 The government is highly untrustworthy and not service oriented. There is an opaque legal system, which also lacks of transparency in the use of revenues obtained from PIT collection.*

*SCENARIO 4 Tax authorities have a low budget and resources available, thus, income tax law is not efficiently implemented in practice. Authorities are lenient regarding tax evaders. Taxpayers know that the chanced to be audited are low*

Q4.2. Independently of your own political ideas, do you think the last reform of the Income tax law as well as the rest of legislative reforms over the last few years have effectively contributed to fight against tax fraud?

Q4.3. Would you say that all those reforms enhancing tax cooperation and fighting against tax fraud might be an answer to public pressure?

Q4.4. Would you say that there are mutual cooperation/joint efforts between authorities to fight against non-compliance behaviours?