

# **Tax Morale in Socio-Political Interactions: Insiders and Outsiders**

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*This paper analyzes the importance of social and political contexts and individual value norms in tax morale. It introduces an approach to discuss tax morale with the notions of ‘insider’ and ‘outsider’ to capture socio-political context and personal value orientations. It constructs a general framework on tax compliance in socio-political context and analytically and statistically demonstrates the importance of identities and personal norms to explain the level of tax morale. Statistical results of an estimated logistics regression model from the World Value Survey data are generally consistent with hypothetical expectations. Results from the analysis indicate that social capital and political confidence are significant in order to estimate the level of tax morale. Moreover, individual reciprocal tendency, sensitiveness to expectations of others, collectivist orientation, and obedience tendency of authority are important determinants of tax morale.*

## **INTRODUCTION**

Since the pioneering work of Allingham and Sandmo that was based on deterrence factors (1972), the literature of tax compliance has expanded with discussions on the importance and explanatory powers of non-economic factors such as social norms, moral appeals, social cohesion, political institutions and attitudes toward tax system/tax administration. Kirchler (2007), Torgler (2007) and Torgler (2008) present an extensive discussion of new approaches. Compliance level differences among countries can be explained by differences in these social and institutional structures (Torgler, 2003a; Cullis et al., 2012). Numerous studies demonstrate that tax morale that indicates intrinsic motivation to pay taxes has an important impact on individuals’ participation in collective cooperation in the form of paying tax (Feld and Frey, 2005; Torgler et al., 2010; Cummings et al., 2009; Alm and Torgler, 2011).

From the perspective of ‘psychological tax contract’ of Feld and Frey (2010), taxation is a quasi-voluntary exchange, and the complex interaction between taxpayers and government/tax authorities can be seen as an implicit contractual relationship that involves emotional ties and loyalties as well as duties and rights of the parties involved. Neglecting the obligations of either party would undermine the psychological sanctions of the contract for the other party. This contract includes not only fiscal exchange and reciprocity in relationship in related to public services-tax prices but also elements of positive treatment, respect, and participation in political decision-making at the procedural level. Therefore, taxpayer’s tax morale is determined by government policies, public services, tax authorities’ treatment of taxpayers and political context (Frey, 2003; Feld and Frey, 2007; Feld and Frey, 2010).

According to Feld and Frey (2007 and 2010), intrinsic motivation that is shaped by the interaction between the government and the taxpayer responds negatively to external pecuniary motives such as punishments and rewards. Deterrence factors crowd out intrinsic norm-guided behavior when the

taxpayer perceives them to be oppressive. On the other hand, Akerlof and Kranton (2008) argue that firms' management policies shape workers' identities. Similarly, one can expect that public administration will shape taxpaying motivations through tax administration as well as public services.

In fact, with recent developments in behavioral and psychological economics contradicting the basic understanding of 'homo economicus', economists recognize that non-pecuniary motives such as personal tastes, identities and social norms should be included in individual utility functions for exact understanding of individual motivations. Social norms and identities are accepted as "powerful sources of motivation. Norms affect fine-grain decision[s] of the moment . . . [and] drive life-changing decisions as well: . . .quit[ting] school, whether and who to marry, and whether to work, save, invest, retire, and fight wars" (Akerlof and Kranton, 2010; p. 6).

In their examination of identity economics, Akerlof and Kranton (2010) emphasize that some workers who identify with their organization intrinsically contributes high effort and gain identity utility, while some others who do not identify with the firm gain identity utility by contributing low effort. Akerlof and Kranton (2010) call the high effort contributors as 'insider' and low effort contributors as an 'outsider' with reference to the efficient wages models. The issue of tax morale can be approached with this insider/outsider metaphor if the 'identity economics' of Akerlof and Kranton (2010) and the 'psychological tax contract' of Feld and Frey (2007 and 2010) are incorporated in analyzing tax compliance of socio-political context. Taxpayers who have high motivation to pay taxes can be called 'insiders', and taxpayers who are not intrinsically motivated to pay taxes can be called 'outsiders'.

Why do some individuals have high tax morale while others have low tax morale? Which channels and factors make individuals an 'insider' or an 'outsider' in their taxpaying motivations in the context of socio-political interactions? Intrinsic motivation is shaped by dynamic interactions with the government and 'others' in the society as well as by personal values. The first channel is related to government and society as a whole unity, while the second channel relates to personal identities and norms acquired in a social context. Therefore, in addition to a 'psychological contract' formed by an interaction between the taxpayer and the government, taxation can also be seen as a 'social act' with others in context of social interaction (Frey and Torgler 2007). A taxpayer's motivation is also shaped by social context, and an individual taxpayer's behavior is influenced by 'others' who live in the same community. Of course, even in this framework, enforcement actions (audits and penalties) are needed to deter reluctant taxpayers and to ensure that willing taxpayers are not exploited by free riders.

The rest of this paper is structured as follows: Section 2 attempts to incorporate political interaction, social context, and personal orientations to explain intrinsic taxpaying motivation. It reviews and synthesizes tax compliance and social interaction literature. Section 3 empirically analyzes using logistic regression with data obtained from the World Values Survey (WVS) to test hypothetical expectations in Section 2. This study places greater emphasis on personal value orientations and personal norms than other papers that deal with social context on tax morale and that use WVS data. Section 4 concludes.

## **TAX COMPLIANCE IN SOCIETAL AND POLITICAL INTERACTIONS: A FRAMEWORK**

When tax compliance is considered a collective action matter, the reasons people choose to cooperate or not to cooperate with authority and society is an important issue. Standard economic theory of the expected utility approach and the Allingham-Sandmo model as it reflects on the tax compliance puzzle issue consider behaviors to be motivated by pecuniary self-interest because of rational-actor assumption. However, experimental evidences especially and unambiguously demonstrate that people cooperate and contribute more than theoretically predicted by standard economic theory (Gächter 2007).

Attempting to explain this voluntary cooperation reveals three possible explanations. First, scholarship generally considers people to have pro-social, purely altruistic preferences and an aversion to inequality in distribution. According to Fehr and Schmidt (1999), "people have altruistic feelings toward others and want to increase their material payoffs when those payoffs fall below some benchmark, and they feel envy toward others and want to decrease their payoffs when those payoffs exceed some benchmark." Frey (1997) and Orvinsa and Hudson (2002) argue that in taxpaying behavior, people are

motivated not only by maximizing their own well-being but also by a sense of the civic duty toward society and its political organization. The second explanation can be to revise the standard utility function. In other words, people have utility functions that contain not only egoistic preferences but also altruistic preferences which create 'warm-glow' feelings (Andreoni, 1990). Tax compliance literature holds some important studies that attempt to revise the Allingham-Sandmo model by adding psychological costs caused by the disutility from behaving dishonestly into taxpayers' utility function. According to these models (Spicer, 1986; Gordon, 1989; and Erard and Feinstein, 1994), tax evasion creates non-pecuniary costs of guilt, shame, and a reduction in self-image in addition to pecuniary costs of legal sanctions. Finally, it can be assumed that voluntary cooperation behavior is not independent of others' behaviors. Individuals' decisions and behaviors are systematically affected by the behavior of other members of the group. Thus, while individuals will make decisions about whether or not they will cooperate, they seek cooperative from others. If they believe others cooperate, they cooperate as well (Gächter, 2007:21).

There is numerous evidence supporting this reciprocal tendency and conditional cooperation. Fischbacher et al. (2001) and Fischbacher and Gächter (2010) found important evidence for conditional cooperation from results of experimental studies. Subjects are sensitive to the level of others' contributions, and their beliefs about others' contributions shape contribution decisions. Apparently, individuals have a mostly intrinsic reciprocity desire and are willing to sacrifice in favor of others in response to kind behavior. Reciprocal-minded subjects are willing to reward or punish others at the expense of high costs (Fehr and Schmidt, 2003).

Reciprocal tendency and social interaction have a strong influence on individual decision-making in a social context. Reciprocity as a willingness to cooperate with others who have previously demonstrated cooperation is an important behavioral motivation and human action characteristic (Rabin, 1993). Behavior is influenced by perceptions of societal attitudes and behaviors of individuals or institutions.

Taxpaying behavior is determined by two dimensions of interaction. One is between the taxpayer and the government, and the other is between the taxpayer and others in the society. Therefore, taxpayers may seek two forms of reciprocity to determine whether or not they will comply. Vertical reciprocity occurs in the relationship between the individual and the public sector (government, political institutions, and tax administration). Reciprocal behavior may also horizontally play a role in the interaction among taxpayers with respect to perceptions on other taxpayers' compliance levels. (Schnellenbach, 2010:56).

Based on these arguments, this study will deal with the vertical and horizontal directions of the socio-political interaction to determine how a taxpayer becomes an 'insider' or an 'outsider'. A taxpayer's intrinsic motivation to pay taxes can be influenced on one hand, by the interaction with government and society as a general entity, and on the other hand, by the interaction with other individual/categorical members of society. Of course, personal norms, moral appeals, values, and identities that individuals have acquired as a result of these complex interactions are factors influencing tax morale and tax compliance as a moderator. Impacts of socio-political interactions on tax compliance will discuss by following this distinction.

### **Interaction with Political System and Social Capital**

Political and societal institutional structure is important in determining whether or not people cooperate with authority and society as a whole entity. First of all, the relationship between the taxpayer and the government contains a partial exchange. Taxpayers expect that the government should produce some important public services for society. Taxpayers may use tax evasion to restore equity when they perceive procedurally unfair treatment and when they do not receive enough government benefits (Schnellenbach, 2010). Experimental evidence by Alm et al. (1992) and Alm et al. (1993) demonstrates that tax compliance is greater when subjects perceive benefits from expenditure programs that they approved. According to findings of Alm et al. (1992), an increase in benefits increases tax compliance even when there is no chance of detection and punishment. If taxpayers do not perceive fiscal exchange as fair, it follows that they do not possess a willingness to pay taxes.

Undoubtedly, an individual's reciprocal tendency appears not only in fiscal exchange but also in procedural and interactional justice which also shapes taxpaying decisions. Studies of social dilemma and collective action indicate that cooperation with authorities depends on the extent to which people find the exercise of power as fair, legitimate and respectful. People are more willing to cooperate when they feel authorities treat them with impartiality, dignity and respect (Tyler and Lind, 1992). Feld and Frey (2010) emphasize that political decision-making systems should create fair procedures (procedural justice), fair outcomes, (distributive justice) and respectful treatment (interactional justice) in order to persuade citizens to become insiders. Smith (1992) and Wenzel (2006) demonstrate that taxpayers have high compliance levels when they feel respectful and fair treatment from authorities.

Empirical evidence indicates a number of important determinants of voluntary tax compliance, such as the quality of public governance (Cummings et al., 2009), the quality of government services (Uslaner, 2010), citizens' political participation rights and confidence in political decision making (Alm et al., 1993; Kucher and Götte, 1998; Feld and Frey, 2002; Feld and Tyran, 2002; Torgler, 2003b; Torgler, 2005; Torgler and Schaltegger, 2005), a fair, well-functioning tax system and respectful treatment by tax authorities (Pommerehne and Weck-Hannemann, 1996; Seidl and Traub, 2001; Torgler, 2004), and trust in political institutions (Kucher and Götte, 1998; Scholz and Lubell, 1998; Torgler, 2003b; Slemrod, 2003).

In their study, Torgler et al. (2010) found that the quality of political institutions and trust in these institutions have strong and significant effects on tax morale. Corruption and inefficiency of government institutions crowd out willingness to pay tax. In this kind of a situation, obligation to pay taxes cannot become a social norm for large segments of the society (Torgler et al., 2010). Trust can be seen as a proxy of reciprocal and fairness terms and legitimacy of political institutions in collective action. As long as citizens feel that they can affect political decision-making and that the process works in fair manner, they tend to obey decisions produced via this process. Otherwise, it is more likely that taxpayers will demonstrate negative reciprocal responses. Persons who regard the government and the tax system as legitimate will have higher incentives to comply with tax laws. Otherwise, they incur some psychological costs like guilty feelings (Wenzel 2007).

Trust and participation are important factors not only in tax compliance for political decision-making, but also for interaction with society as a whole. Because taxpaying has distributional results in a collective action, the decision whether or not to comply depends on an individual's attitude toward society and other citizens (Scholz and Lubell, 1998). Literature on social capital emphasizes the importance of trust and participation in collective actions, for both political institutions and societal institutions, to drive cooperation (Putnam et al., 1993; Uslaner, 2002; Hardin, 2006). A lack of trust in society and a feeling of alienation toward society decrease the willingness to contribute to finance collective actions. Therefore, an examination of the compliance decision should consider trust in societal institutions and participation in other collective actions. These factors reflect the need to feel like a part of society and thus, to be an 'insider'. It can be expected that if taxpayers trust institutions created by societal interactions and are involved in collective actions with the other members of society or are involved in activities created by other members of the society, they feel high cohesion in the society, gain societal identity, and thus, comply with societal norms and decisions. According to social identity theory, people use their membership in social organizations to construct one aspect of their sense of self, and when people define themselves through group membership, they are willing to invest in the group and want it to be successful (Tyler, 2000). At this point, how people identify and classify themselves is important for their social cohesion perception. If people possess a self-identify as autonomous or as a sub-identity, instead of a national identity, they may fail to participate in a national collective action such as taxation. Therefore, trust in others in the society, participation levels of general collective action, and self-identification with society as a whole should be taken into consideration in order to examine the impact of social capital on tax compliance.

### **Societal Interaction: Social Influence and Social Norms**

Individuals encounter other members of society, observe them, and learn from them. Social interaction connects individuals' decisions to each other through social influence and social norms, and thus, a person's behavior is determined to a certain extent by the behaviors of others in that society. Mostly, in social interaction, individual perceptions of others' behaviors take effect through social norms.

Social norms as rules and expectations that guide and/or constrain social behavior are sustained in part by social sanction or reward (Elster, 1989; Alm et al., 1995). Social interaction regulates the behavior of compliance and cooperation, especially through three social norms: the reciprocity in responding to a positive action with another positive action in a cooperative manner; the equity in distributing resources among group members related to contributions, input, or costs; and the commitment to consistent actions in words and beliefs, even when they are not demonstrated publicly (Kerr, 1995; Ostrom, 1998). The notion of social influence also suggests that individuals tend to conform with their behavior to their peers' moral values and behaviors. This is observed in daily choices such as fashion, consumption, and political support for a winner as well as engaging in criminal activities such as organized crime, lynching, and looting (Kahan, 1997).

With respect to tax compliance, social norms and social influence mean that an individual's perception about others' tax compliance behaviors (especially of peers or those in similar situations) is an important determinant in compliance decisions. Falk et al. (2003) demonstrated direct evidence that peer effect or social interaction is important, and that subjects' contributions are systematically influenced by social interaction in a public good experiment.

Thus, taxpayer's beliefs about the compliance behavior of others shape compliance decisions. Taxpayers are less likely to cheat on their taxes if others behave honestly (Frey and Torgler, 2007; Traxler, 2010). Fortin et al. (2007) show that subjects' tax evasion levels are influenced by the behavior of others in an experimental design. Frey and Torgler (2007) find a positive correlation between tax morale and compliance level perceptions of others in the society. Those who believe that others are honest consider evasion more morally wrong than those who believe evasion to be widespread. Results from experiments by Fischbacher et al. (2001) suggest that a belief about other's cheating cause to subjects' own cheating behavior.

It is understood that individuals are much more likely to behave in a non-compliant manner when they perceive that non-compliance is widespread. Three possible reasons can explain this fact. First, if reciprocity and equality are fundamental human attitudes, individuals would be unwilling to pay taxes to restore their own contribution to equitable outcomes or to punish those who do not participate in collective action even if they had an intrinsic motivation initially. Fehr and Gächter (2000) demonstrate that when subjects have an option to punish free riders, they may choose this costly option. Second, if people observe that cheating is widespread among their peers, they can consider being lower the risk of being caught. Kahan (1997) emphasizes that criminal behavior has a strong signaling effect. Finally, people who believe that tax evasion is prevalent among taxpayers may conclude that the psychological costs of guilt, shame, and loss of reputation are low. Alm et al. (1999) show that subjects who learn that others refuse to punish tax evaders demonstrate the low level of compliance, because the outcome may have sent a signal that tax evasion is socially acceptable.

### **Which Norms?: Personal Value Orientations and Identities**

Obviously, individuals do not obey all social norms and sometimes even refuse to comply with social norms. On the other hand, it cannot be said that paying taxes is a generally accepted moral standard/social norm for all cultures and/or sub-communities. Also, Elster (1989) emphasizes that in case of conflicting norms, social norms can easily be manipulated by individuals, in accordance with their self-interest. In that case, how and which types of social norms effect individual behavioral decisions on tax compliance?

To determine whether or not anticipated social approval or disapproval effects behavior, social norms need to be refined. Cialdini (2007) identifies two types of social norms to determine effects on social influence. 'Injunctive norms' refer to perception about others' beliefs concerning appropriate behaviors, and 'descriptive norms' refer to widespread perceptions of the behaviors among others. Injunctive norms

are especially important in terms of the functioning of psychological costs. 'Subjective norms' as a particular form of injunctive norms are a person's perception on expectations of a referent group such as family or friends (Cialdini and Trost, 1998). Individuals are more receptive to the thoughts of significant others than to those of general members of society. Therefore, analyzing the strength of norms impact on personal action/behavior should consider a person's internalization of a social norm as a personal norm. Once subjects have internalized these norms as their own, self-based behavior standards, these norms can be called personal norms. Thus, subjects punish themselves through this norm when they violate it (Schwartz, 1977; Elster, 1989).

In large-scale, social dilemma problems including high anonymity and low solidarity such as taxation, personal norms have more impact than social norms. Therefore, social influence has a special impact if there are internalized norms and shared identity with the group that imposes the norm. It is understood that individuals are especially sensitive to the views of persons who are important to them, and these individuals can easily internalize the thoughts of the referent group. Individuals who identify with the community's identity internalize the community's social norms. Therefore, the taxpayer's perception on views of referent group is important in explaining compliance behavior. Wenzel (2004, p.216) emphasizes that "when influence source (i.e., those others whose taxpaying beliefs and behaviors we are faced with) is not part of one's self-category, or the group with which one identifies, one does not expect to agree with them."

Bobek et al. (2007) found that especially subjective and personal norms are the most important factors to explain tax compliance, whereas descriptive norms are not significant factors in compliance choice. Wenzel (2004) and Wenzel (2007) found that social norms can influence the behavior of tax compliance only through a process of self-categorization. If persons do not have group identity, the group's social norms do not have any impact on compliance behavior. Inclusiveness levels of identity, such as a nation, a profession, or an autonomic individual, is also important in participation in collective action. If taxpayers define their identity at the national level instead of a subcategory or autonomy, it is more likely that such taxpayers will have high levels of intrinsic value to participate in national level collective actions like taxation. Wenzel (2002), Torgler (2003a) and Martinez-Vazquez and Torgler (2009) provide evidence of the importance of national pride and national belonging in tax compliance.

Apparently, individuals may have different motivations and orientations to comply with social norms (Cialdini and Trost, 1998). Gächter (2007) describes the heterogeneity of people's cooperation preferences as "types of players." Falk et al. (2003) found differences in subjects' inclination to display social interactions in an experiment. Fehr and Schmidt (2003) found that some fair-minded people have a desire to reciprocate, while others are purely self-interested. However, behavior depends on beliefs and the strategic environment in which people interact. Schnellenbach (2010) emphasizes that, in reciprocal relationships with the public sector, while some consider only their own welfare, others consider societal measures of fairness. Again according to Schnellenbach, it may be reasonable to distinguish between reciprocally-minded individuals and self-interested individuals.

Although social context and social norms have a strong influence on individual behavior, individuals systematically differ in the manner in which they approach others and in their social value orientation. Some people approach others cooperatively, while others exhibit less cooperation. Social value orientations are important in predicting a willingness to cooperate in social dilemmas (Van Lange et al., 1997). Depending on social context, individual personalities may change with individualistic and collectivistic tendencies in social interaction with regard to self-definition of group membership and interrelationships with others. Some individuals may rely more strongly on features of their personal identity rather than their social identity in social contexts and vice versa (Turner et al., 1987). Liebrand et al. (1986) distinguish value orientations into four types: altruism, cooperation, individualism and competition. They found that subjects with strong cooperative social motives are more sensitive to the moral obligations and social norms in social dilemmas. With respect to compliance literature, Trivedi et al. (2003) found that altruistic value orientation, rather than individualistic orientation, increases tax compliance when audits are completely absent.

It can be concluded several important issue on tax compliance and how taxpayers become ‘insiders’ from discussion in this section. First, individual compliance behavior is influenced by the behavior of others’. However, internalized personal norms and expectations of significant others are especially important in explaining tax compliance behavior. If there are no internalized personal norms, the social context would not have any regulative effect on behavior, even if compliance with laws is a widely accepted social norm. Second, individuals have identities and self-definitions about themselves with respect to others. Although self-categorization and identities are not static, they can encourage or discourage cooperation with others. If individuals define themselves with a national identity rather than with a sense of alienation from society or a sub-identity, they will more likely contribute collective actions at the national level. Third, individuals differ with respect to reciprocally-mindedness, individualistic or collectivist tendencies, and the level of sensitiveness to the views of others. If individuals are strongly reciprocally-minded and sensitive to the expectations of family and friends, they may have a stronger sense of moral obligation to taxation. Again, if individuals have collectivistic orientations and feelings of personal responsibility towards collective welfare, that they may be cooperative in collective action. Persons who have individualistic tendencies may have an autonomist identity instead of a collective identity, and they may show less cooperative intentions. Individuals with collectivist orientation and sensitiveness to subjective norms have more likely internalized tax paying norms.

## **EMPIRICAL ANALYSIS**

### **Data and Variables**

The data used in this study were obtained from the five waves of World Values Survey (WVS). The number of observations included in the analyses is 39,966 after excluding missing cases. WVS provides the opportunity to investigate social, political and cultural variables as well as personalities and moral sentiments around the world. The study conducts a logistic regression analysis to predict whether or not there is a correlation between the level of tax morale and variables in a socio-politic context. It uses tax morale (TM) as the dependent variable by following the research of Torgler (for example, 2003b, 2007). The request, with a ten-point possible rating, that indicates tax morale is as follows: “Please tell me for each of the following statements whether you think it can always be justified, never be justified, or something in between... Cheating on taxes if you have a chance” (1 = never justifiable; 10 = always justifiable).

An immediate question with data about values or attitudes is whether or not the replies are truthful. This fact may be more important in a sensitive matter such as taxation because of the tendency to overstate compliance. In addition, it can be argued that using a single question to measure tax morale is insufficient. However, because the data set includes wide-ranging questions, a single tax morale question can reduce framing bias. Torgler and Schneider (2007) argue that WVS questions on tax morale have some advantage despite some biases. By following Torgler and Schneider (2007), this variable has been recoded into a dichotomized variable which takes the value 1 for ‘never justifiable’ and 0 for all situations to indicate low tax morale to estimate the odds of high tax morale (TM=1) in logistic regression. Another limitation of the methodology is that some explanatory variables such as tolerance to fiscal offences are likely co-determined with individual tax morale. Results should be interpreted by considering this potential simultaneity. Table 1 defines variables in detail.

**TABLE 1**  
**DEFINITIONS OF VARIABLES**

Variable	WVS Questionnaire and Codes	Notes
<b>Confidence in Government (CGOV)</b>	“Could you tell me how much confidence you have in them.... Government” [E069_11]	Reverse coded
<b>Feeling of Citizenship (CITZ)</b>	“I see myself as citizen of the [country] nation” [G021]	Reverse coded
<b>Confidence in Societal Institutions (CSOC)</b>	“Could you tell me how much confidence you have in [the following]” ... Churches [E069_01] / ... The Press [E069_04] / ... Labor Unions [E069_05] / ... Television [E069_010] / ... Major Companies [E069_013] / ... Charitable or humanitarian organizations [E069_40]	All variables were recoded reverse and indexed with standard method.
<b>Societal Involvement (INV)</b>	“Could you tell me whether you are a member, an active member, an inactive member or not a member of that type of organization?” ... Church or religious organization [A098] / ... Environmental organization [A103] / ... Professional organization [A104] / ... Charitable/humanitarian organization [A105]	Variables were recoded 0 for not member, .5 for inactive member and, 1 for active member. Then, the scores were summed.
<b>Role of Government (GOV)</b>	“People should take more responsibility to provide for themselves vs the government should take more responsibility to ensure that everyone is provided for” [E037]	
<b>Tolerance to Fiscal Offences (TOLE)</b>	“Please tell me for each of the following statements whether you think it can always be justified, never be justified, or something in between...” ... Claiming government benefits to which you are not entitled [F114] / ... Avoiding a fare on public transport [F115] / ... Someone accepting a bribe in the course of their duties [F117]	All variables were recoded reverse and indexed with standard method.
<b>Subjective Norm Sensitiveness: Parents (SUB1)</b>	“One of my main goals in life has been to make my parents proud” [D054]	Recoded as a dummy
<b>Subjective Norm Sensitiveness: Friends (SUB2)</b>	“I make a lot of effort to live up to what my friends expect” [D055]	Recoded as a dummy
<b>Reciprocity: Personal (REC1)</b>	“It is humiliating to receive money without having to work for it” [C037]	Recoded as a dummy
<b>Reciprocity: Societal (REC2)</b>	“Work is a duty toward society” [C039]	Recoded as a dummy
<b>Schwartz: Collectivist/Individualist (SCHW)</b>	“Would you please indicate for each description whether that person is very much like you, like you, somewhat like you, not like you, or not at all like you?” ... It is important to this person to think up new ideas and be creative; to do things one’s own way. [A189] / ... It is important to this person to be rich; to have a lot of money and expensive things. [A190] / ... Living in secure surroundings is important to this person; to avoid anything that might be dangerous. [A191] / ... It is important to this person to have a good time; to “spoil” oneself. [A192] / ... It is important to this person to help the people nearby; to care for their well-being [A193] / ... Adventure and taking risks are important to this person; to have an exciting life. [A195] / ... It is important to this person to always behave properly; to avoid doing anything people would say is wrong. [A196] / ... Tradition is important to this person; to follow the customs handed down by one’s religion or family. [A198]	A mean rating was obtained over all values for each respondent. Then, each value score was subtracted from the mean rating to isolate the priority of the respondent relative to other values. Collectivist-Individualist Index: (A191 + A193 + A196 + A198) – (A189 + A190 + A192 + A195) A positive index value shows collectivistic orientation; a negative value shows individualistic orientation.
<b>Obedience to Authority (OBED)</b>	Important child qualities: Obedience [A042]	Recoded as a dummy

NOTE: Expressions in square brackets question codes in the WVS Integrated Questionnaire which can be obtained from [www.worldvaluessurvey.org](http://www.worldvaluessurvey.org)

Four variables have been chosen to demonstrating political interaction and social capital: confidence in government (CGOV), feeling in citizenship (CITZ), confidence in societal institutions (CSOC), and societal involvement (INV). In addition to these variables, two more variables are used to measure the role of government (GOV) and attitudes toward other fiscal offences (TOLE) in the analysis. To determine subjects' sensitiveness to subjective norms, two variables, making parents proud (SUB1) and as living up friends expectations, are used (SUB2). Two variables are chosen to determine whether or not subjects are reciprocally-minded. The first variable (REC1) indicates subjects' reciprocal tendencies in personal relations by questioning if they find receiving money without work humiliating. The second variable (REC2) aims to measure if subjects feel reciprocal tendencies in relations with society. To measure personal value orientations as individualistic or collectivistic from Schwartz values, WVS's ten-item version is used. Schwartz values are commonly used in social sciences to measure basic values. Eight variables are drawn from Schwartz value questions, and an individualistic-collectivistic value index is calculated.. Welzel (2010) is followed to transform the Schwartz value items. A final variable (OBED) related to personal orientation is obedience tendency to authority. This dichotomized variable is obtained from a question related to respondents' value of obedience in child qualities. If respondents have a norm of obedience to authority and law, they may easily internalize social norms, legal regulations, and political decisions and exhibit high tax morale (Orviska and Hudson, 2002). In addition to these predictors, three demographic variables of gender, age and education are used as estimators.

When tax morale is taken as a dichotomous variable (high level=1; low level=0), the probability of a high tax morale as it relates to predictor (independent) variables and the binary logistic regression equation that has been converted into a linear by using the natural logarithm of the odds are estimated as follows:

$$\log(O_{TM=1}) = \beta_0 + \beta_1 CGOV + \beta_2 CITZ + \beta_3 CSOC + \beta_4 INV + \beta_5 GOV + \beta_6 TOLE + \beta_7 SUB1 + \beta_8 SUB2 + \beta_9 REC1 + \beta_{10} REC2 + \beta_{11} SCHW + \beta_{12} OBED + \beta_{13} GENDER + \beta_{14} AGE + \beta_{15} EDU \quad (1)$$

In the analyses, the forced entry method (as one block) was used. It can be considered that forced entry can be considered to be more useful to test a theory because a hierarchical entry is influenced by random variation in the data. However, before the final analysis, the model was estimated using a hierarchical entry by blocking subsets of predictors and adding other subsets. Still, any important difference with the forced entry method was not observed in the results.

## Empirical Results

### *Goodness-of-Fit and Overall Success of the Model*

The Hosmer and Lemeshow test, which is based on a chi-square statistic calculated from observed and predicted probabilities, indicates that the full model versus a constant-only model is statistically significant ( $\chi^2 = 1374.765$ ;  $df = 8$ ;  $p = 000$ ). The predictors as a set reliably distinguish between the levels of tax morale.

As is known, the logistic regression has no measurement completely satisfying  $R^2$  in ordinal least square (OLS) regression models to provide variance in the dependent variable explained by the independent variables. However, in logistic regression, there are two pseudo R-square measurements to quantify the proportion of explained variation, despite the fact that their magnitudes are not exactly equivalent to those obtained in non-logistic regression. These measurements in the model were .301 for Cox and Snell  $R^2$  and .407 for Nagelkerke  $R^2$ . Pseudo R-square indicates a moderate relationship between prediction and grouping. However, it is typically common to have a low adjusted  $R^2$  for logistic regression models.

Another way to assess how well the model fits is to look at the ability of the model to accurately predict probabilities to assign cases. The classification table displayed the overall percentage of correctly classification of the model as equal to 76.1%. The overall percentage of cases that are correctly predicted by the model is 59.9% for low tax morale and 86.9% for high tax morale. While the base model with only-constant correctly predicted 60.2 percent of cases, the full model correctly classified 76.1% of cases

which indicates an improvement over the base model. The Omnibus test of model coefficients ( $\chi^2 = 14074.565$ ,  $df = 17$ ,  $p = .000$ ) also indicates the improvement of the full model over the base model.

#### *Evaluation of Predicted Probabilities for the Model*

The statistical significance of the individual regression coefficients ( $\beta$ s) was tested using the Wald  $\chi^2$  in Table 2. The Wald criterion demonstrates that all predictors make a significant contribution to prediction of tax morale. Significant levels are  $p < 0.10$  for age (30-49),  $p < 0.05$  for education (middle level), and  $p < 0.01$  for all other predictor variables. Generally, there is a correlation between tax morale and predictor variables.

Since it is difficult to interpret response variable for increments or decrements in natural logs, it can be considered the corresponding multiplicative model that displays the odds rather than the log of the odds. Exponentiated values of odds are presented in Table 2 as ExpB. Table 2 presents results of odds and probabilities for predictors from logistic regression analysis as well as Wald statistics. Exponentiated values of the coefficients indicate the change in odds resulting from a unit change in the predictor.

Results for political interaction and social capital factors, political-societal trust, and national belonging and participation are important for high level tax morale. The predictor variable confidence in the government (CGOV) has an odds value of 1.301, which indicates that odds are increased by a factor of 1.301 when CGOV increases, controlling of other variables. A unit change in CGOV is associated with a change in the odds of high level membership in tax morale, with all other variables held constant. For every one point increase in feelings of citizenship, the odds of high tax morale likelihood increase by a factor of 1.179, all other factors being equal. The odds ratio for CSOC is 1.032. As confidence in societal institutions increases by one unit, there is a 3.2% chance of a high level tax morale, controlling for other variables. For membership to societal institutions (INV), an increase in membership scale by one unit increases the share of subjects indicating the high tax morale by 13.4 percentage points.

The other two attitudes related to fiscal relations with the government and society also displayed a positive correlation with high tax morale. The odds ratio for the role of government (GOV) is 1.027. An increase in the scale indicating the government should take more responsibility by one unit increases the share of subjects in the category of high tax morale by 2.7 percentages, controlling for other variables. Expectations for government responsibility can be assumed to be a proxy of economic collectivist/libertarian orientation; the results show that economic collectivists are more likely to have high tax morale.

For every one unit increase in a respondent's attitude against fiscal offences (TOLE), the likelihood of high tax morale increases by 2.292 times after controlling for other factors. This predictor is the most important variable in the model. Porcano (1988) indicates that taxpayers' general honesty is important in explaining compliance behavior. If individuals find these behaviors that most important part of fiscal exchange with the government to be unacceptable, they would find tax fraud unacceptable as well.

As a subject's sensitiveness to family (SUB1) and friends' expectations (SUB2) increases, the likelihood of high tax morale increases (1.163 times for parent's expectations and 1.098 times for friends' expectations). This finding supports the view that internalized personal norms are important to explain tax compliance by creating psychological costs such as feelings of shame and guilt. According to results, subjects who have high tax morale are more sensitive to their families than friends. Individuals who find it important to make their families proud have a high intrinsic motivation to pay taxes.

Reciprocal attitude is raised by one unit, odds ratios are 1.281 and 1.258 times as large, and therefore, persons who have high reciprocal tendencies in personal relations (REC1) and/or feel duty toward society (REC2) are more likely to have high tax morale.

The Schwartz index (SCHW) indicates subjects' collectivist or individualist orientations. According to analysis findings, given an increase in collectivist tendency by one unit, the likelihood of high tax morale increases by 1.047, controlling for other variables.

While an individual's obedient attitude toward authority (OBED) increases, the likelihood of tax morale increases by a 1.127 odds ratio, controlling for other variables. Persons who have a norm of

obedience to authority also have a likelihood of high tax morale. This finding is also consistent with the hypothetical expectations.

**TABLE 2**  
**LOGISTIC REGRESSION PREDICTING FOR TAX MORALE (TM=1)**

<b>Variables</b>	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
Confidence in Government (CGOV)	.263	.044	36.049	1	0.000	1.301
Feeling Citizenship (CITZ)	.164	.021	59.996	1	0.000	1.179
Confidence in Societal Institutions (CSOC)	.031	.011	8.339	1	0.004	1.032
Societal Involvement (INV)	.126	.015	70.614	1	0.000	1.134
Role of Government (GOV)	.027	.005	35.541	1	0.000	1.027
Tolerance to Fiscal Offences (TOLE)	.829	.010	7397.319	1	0.000	2.292
Subjective Norm Orientation: Parents (SUB1)	.151	.033	20.711	1	0.000	1.163
Subjective Norm Orientation: Friends (SUB2)	.093	.026	12.479	1	0.000	1.098
Reciprocity: Personal (REC1)	.248	.032	58.222	1	0.000	1.281
Reciprocity: Societal (REC2)	.230	.031	55.032	1	0.000	1.258
Schwartz: Collectivist-Individualist (SCHW)	.046	.003	240.717	1	0.000	1.047
Obedience to Authority (OBED)	.119	.027	19.699	1	0.000	1.127
Gender (Female=1)	.072	.025	7.946	1	0.005	1.074
Age			32.078	2	0.000	
(1) 15-29 years	.190	.035	29.770	1	0.000	1.209
(2) 30-49 years	.056	.031	3.229	1	0.072	1.057
Education			36.931	2	0.000	
(1) Lower level	.208	.036	34.144	1	0.000	1.231
(2) Middle level	.070	.032	4.757	1	0.029	1.072
Constant	-8.567	.134	4066.836	1	0.000	.000

NOTE: Reference categories are '50 and more' for age and 'high level' for education.

## CONCLUSION

This paper examines the importance of personal values and identities as well as interactions with political institutions and the society for becoming an insider with high intrinsic taxpaying motivation. This paper suggests three dimensions of being an insider. First, interaction with political institutions shapes a taxpayer's identity in terms of a feeling of belonging to a collective decision-making system (and the society) and an acceptance of legitimate authority. Second, interaction with others in the society affects behavior through social influence and social norms. Reciprocity and fairness norms are moderators for both interactions. How extensively taxpayers are affected by these relationships depends on personal values and identities acquired from complex social interactions. As it is pointed out by Akerlof and Kranton (2000 and 2010), an individuals' sense of self and self-definition are important determinants for economic and social structure decisions. This paper suggests that social context has an impact on compliance behavior to an extent, especially in an individual's self-identity and personal value orientations.

The results from the estimated logistic regression based on WVS data present evidence for these hypothetical expectations. Results confirm that respondents' sensitiveness to expectations of parents and friends, reciprocal tendencies, collectivist value orientation as well as confidence in government and

societal institutions, a sense of belonging to a national identity, and participation in collective action are important for having high tax morale. It should be noted that this study, however, has several limitations because of limited measuring of tax morale and a possible frame effect.

Recalling Akerlof and Kranton (2010), a firm will be willing to invest in workers to make them insiders because insiders are willing to work harder despite lower pecuniary utilities. Therefore, it can be suggested that investing in citizens to make taxpayers insiders may be more effective and cheaper than audit activities. Thus, due attention should be placed on any policy aimed at creating insiders.

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