

EXTENDED ABSTRACT

Using social norms and pre-populated forms to improve tax collection in Manises

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Tax compliance a major issue in Southern European countries at a time when budgetary deficit is a key concern for many international organizations. It is not only about reducing public expenses, but as well being more efficient when collecting taxes. This latter issue remains a challenge, since traditional coercive interventions – such as seizing people’s bank accounts – may harm people that the government tries to protect and may be refused by politicians that do not want to lose popularity amongst voters. However, this is not only about a government issue, but also a citizen issue. Those who fail to pay their taxes on time are being bearing an extra economic cost that is arguably a rational decision. It seems more like a financial trap in which citizen’s debts increases because of their myopic approach and bounded rationality created by a financial strain.

I thought that behavioural sciences could boost tax compliance of those who were able to pay their taxes without compromising the financial sufficiency of those who couldn’t or the politicians’ popularity. In order to test whether behavioural insights could work in Spain, I decided to run a natural field experiment using social norms and a pre- populated form for enrolment in an instalment payment plan. My goal was to understand whether social norms influenced behaviour in the direction I wanted and if facilitating a solution to address a liquidity problem (i.e. by paying in instalments) improved tax compliance avoiding a myopic approach.

In collaboration with Manises Council, we created an intervention with over 4,000 subjects with outstanding payments. We randomised the database and each individual was assigned to one of the following groups:

- Group 1 was the control group. Individuals in this group did not receive any letter.
- Group 2. Individuals in this group received a letter stating the descriptive social norm.
- Group 3. Individuals in this group received a letter offering the instalment payment plan with the pre-populated form.
- Group 4. Individuals in this group received a letter stating the social norm and offering the instalment payment plan with the pre-populated form.
- Group 5. Individuals in this group received a letter that that neither stated the social norm nor offered the instalment payment plan with the pre-populated form. Having Group 5 allowed me to measure the effects of the other groups, whilst controlling for the reminder effect of receiving a letter sent.

I analysed the effect of the groups and the effect of each element in isolation: the fact of receiving a letter, the social norm, the pre-populated form and the synergic effect of the social norm and the pre-populated form. The independent variables analysed were: if the payment was closed, if the payment was partially paid (instalment plan) and if there was any response at all (any of the previous).

The results were rather surprising for me. All the treatment groups had a positive and significant effect but when analysing each element, contrary to my expectations, social norms did not have a significant effect – actually the effect was significant only in women.

The effect of receiving the letter was significant and strong when measuring closed payments and response. The pre-populated form worked in terms of partial payments, which was great news because it could solve the issues of myopic decisions but when combined with the social norm the effect was negative. Ex-post I realized that this combination could have sent a mixed message: pay now (social norm) vs pay later (instalment plan). Nonetheless, it was a good learning that showed how small changes in the way local councils address these issues could override some limitations in the way the citizens assess their economic choices.

Furthermore, and delving in the ex-post analysis, I came out with the idea that the ineffectiveness of social norms could be due to lower tax morale in Mediterranean countries. There were some authors that had previously address significant differences between the tax morale – understood as the intrinsic motivation to pay taxes – of Anglo-Saxon countries and Spain. This extrinsic motivation feature could lead to more effective interventions based on external regulation elements (e.g. a letter from the local council which is a sign of authority) rather than internal regulation elements (e.g. social norms which invoke group identification.) However, these are issues that need further research and address an interesting point: how cultural differences impact on the effectiveness of behavioural interventions?