

Tax Morality – Selected Issues

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Abstract— The issue of tax morality is a relatively new idea in tax studies and practice. To increase the effectiveness of tax collection a variety of regulations are implemented, defining tax-payer's obligations and the financial consequences of not meeting them. It appears that apart from ensuring economic and legal tools, it is essential to enhance tax-payer morality. In Poland the public confidence in national institutions is low, resulting directly in poor tax mentality and moral attitudes towards tax obligations. In the article on issue of tax morality, current scientific observations and experience pertinent to taxpayer mentality and morality are discussed and the results of a research study on selected taxpayer attitudes towards the duty of paying one's taxes are presented.

Keywords— Tax morality, tax ethics, tax mentality, tax system, tax avoidance

The main reason for fraudulent procedures in paying taxes is an economical one, namely saving funds, which instead of going to government budget stays in a tax-payer's wallet. The funds might be saved or used for consumption. An economic activity of a tax-payer that means generating and maximizing a profit and consequently a fortune is an art of some kind. It does not matter a tax-payer is a businessman or just an employee. Taking a part in this game obligates to respect the formal rules as well as these informal ones.

The state needs to have the tools to be effective in collecting taxes whereas paying them is compulsory. The effectiveness in this process is connected to authority of the state. The tools are associated with legal means of constraint, that is to say fine or even prison sentence [Gomułowicz, J. Małecki 2011, p. 114].

The literature suggests that next to strict economical and legal instruments there are also those that refer to ethics and morality. The citizen's attitude to common moral rules and cases of noncompliance to them by engaging in immoral economic activity are particular interest of the literature [Mróz 2002, p. 15].

The aim of the article is to present a notion of morality in paying taxes and issues connected to it. The fact that taxes are non-refundable and compulsory might raise resistance of tax-payers. This could be more or less conscious, even planned resistance. We should not be surprised because taxes reduce the resources of a tax-payer [Dolata 2011, p. 46].

To verify the citizen's attitude to tax obligation, a survey was conducted and the results are presented in this article.

I. TAX MORALITY IN LITERATURE

The notion of morality in general and common meaning is often used interchangeable with ethics. However, ethics in general, corresponds the set of norms and the moral principles of a particular tradition of social group in given time [Dictionary of Polish Language]. Ethics (ethikos from Ancient Greek) means "custom, practice, character" and as "a branch of philosophy investigates the questions: what is the best way for people to live?" Consequently morality is perceived as a subject of ethics researches. The word "morality" derives from Latin word mos – which means "character, custom" and also from adjective moralis, what means 'in accordance with practices' [Król 2011, pp. 2-3]. This way ethics is science about morality and it deals with arrangements, descriptions and explanation of the standards of behavior. On the field of business activity we can distinct business morals with tax ethics and tax morality.

Next to economic factors there are those connected to values and practices of the society: tax morality and tax mentality.

The non-economic factors are very influential on behavior of tax-payers; that was indicated by researches conducted in Switzerland by L. Feld and B. Frey. They evidenced that the way tax-payers are treated by officers of tax office contribute to modification of standards and practices of tax-payers towards the state and tax office [Bajda, Schneider 2005, pp. 15-37].

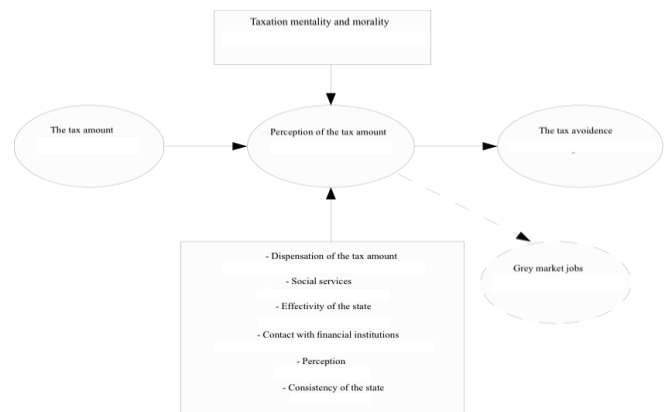


Fig. 1. Psychological and economical relations between tax morality and taxpaying. Source: own elaboration based on: Schneider, Enste 2002, p. 90.

Moreover, according to presented model, the growing intensity of state regulations towards reduction of freedom in business activity causes the growth of operational costs of business entities in market economy, thereby contributing to informal activity of the enterprises.

Based on the observation of the economies of OECD countries, D. H. Enste [2002b] three most important factors contributing in the growth of grey economy are:

- growth of tax impositions and social insurance fees, their complexity and intensity of the regulations on the declared market, particularly on the labour market;
- reduction of the weekly working hours (often enforced), early retirement, and growth of unemployment;
- long-term process of disappearing the citizen's moral values and decline of loyalty towards public institutions connected with low tax morality, escalating corruption and low quality of public institutions.

In 1960 G. Schmölders coined the notion of tax morality. He defined it "the attitude of the group or whole population of tax-payers towards fulfilling the obligations of paying taxes based on tax mentality and consciousness of citizenship" [Niesiobędzka 2009, s. 124, Schmölders 1960]. It is confirmed by researches that the tax system injustice, preferential treatment towards some social groups, and also lack of belief that there are profits of honest taxpaying contribute in disappearing tax morality and

growth of acceptance to tax avoidance [Schneider, Enste 2002, pp. 93-94].

In literature we can find also the notion of tax morality described as "[...] insight acceptance of taxpaying duty and recognition of taxes state authority" [Gomułowicz, Małeckie 2011, p. 222]. R. Sowiński claims that it is possible only when three conditions are fulfilled:

- 1) A tax-payer recognizes that the tax system is fair in all its aspects.
- 2) The influence of negative emotions evoked by necessity of paying taxes is minimized.
- 3) A tax-payer is trained of legal behaviour, and that kind of conduct is popular in the social group that one identifies oneself with [Sowiński 2009, p. 23].

In the commentary of Sobieski Institute About tax discipline R. Rowiński [2008] claims: "[...] an aim of state's politics should be situation when the rule of adherence to tax law is not just the law standard but also society standard and tax-payers would recognize paying taxes as the duty towards state but also towards the society they belong to and identify with, toward family, citizens of a town and a state. The citizens who avoid paying taxes should be treated as someone who acts against commonly accepted standards and their actions disadvantage other disciplined tax-payers".

In context of tax morality we have to agree with this statement but we need to bear in mind also that Polish society often agrees with an existence of an informal business. The observed advertising campaigns create misleading image of basic terms and unwittingly cause wrong attitudes. The adverts, which promote the product's price "without VAT" instead of using terms like: "sale", "discount", "reduced price" can suggest that an avoidance of paying taxes is attractive and even trendy. The advertising campaigns informing that some of the products are offered without VAT during some time (weekend or week) are getting more popular. The simple statement "discount" or "sale" 20% or 23% (VAT rate) makes the offer less attractive from the marketing point of view. The false suggestion that you can buy something avoiding VAT tax is getting more and more popular even though the rules of paying VAT tax do not give a choice to buy product with or without VAT tax on Polish territory. The change of words meaning can deform the reality and basic terms.

These procedures participate in creating disobedient citizen's behaviour. An analysis of an employment in an informal sector in Poland confirms that Poles make a decision about unlawful employment knowingly and freely, especially young people. It is against common belief that decision is made by extortion [Lentowicz 2008]. In sociology that kind of behaviour is called free rider issue and indicate an employee out of work but fully using the social benefits despite getting unregistered income from grey market jobs [Lentowicz 2008].

The researches conducted by Centre of Social and Economic Analyses CASE and SMG/KRC Poland in 2007 confirmed the big influence of social approval for dissemination of grey market in Poland. According to the researches nearly 30% of Poles accept the grey market in Poland and 20% - they are indifferent to it [Błaszczak 2010]. The acceptance of grey market obviously is caused by profits from cheaper services but also by belief that there are not any advantages of honest paying taxes. It is also connected to specific understanding of entrepreneurship according to which if someone is not using possibility to lie to authority is a sucker" [Błaszczak 2010].

A survey by Pentor Institute drew in similar conclusions. Every third interviewee (mainly citizens younger than 29 and private entrepreneurs) thinks that avoidance of tax paying is common procedure [Kruszewski 1992]. In the same survey only 48% of interviewees named that kind of behaviour as a fraud. It confirms that Polish tax morality is low.

The situation described has its roots in history of Poland. After Second World War, the main trend in Polish economy was to reduce private sector that resulted in hiding the income by some social groups – that behaviour was commonly accepted that time [Krasnodębski 1994]. Later on during social and economical changes the actions of governments were mainly concentrated on market mechanisms, avoiding social factors. The attitudes solidified in mentality of citizens. In consequence in the mid 80's in Poland, the authorities had to look for agreement with

“Solidarność” movement, religion, social and education organizations and also grey market. The citizens’ attitude of no engagement in social life and lack of agreement for any reforms solidified [Łoś 1989, s. 28] .

The apparatus of treasure trove indicates need of change in mentality and attitude of tax-payer towards the state offices. Ministry of Finances together with Business Centre Club had announced 14th edition of “Tax Office Friendly to an Entrepreneur” contest in 2016. It is supposed to promote the high standard services offered by particular offices and creation of the kindness and professionalism between administration of treasure trove and entrepreneurs [Department 2016].

We have to notice the actions of Ministry of Finances which builds the common belief of tax payment validity. There are educational campaigns “Take receipt” that support positive habits of recording the sale.

II. TAX MORALITY IN THE OPINIONS OF TAXPAYERS

In May and June 2016, random chosen citizens were surveyed about perception of morality in the taxpaying process. The survey was published on www.ankieta.pl and everyone interested in subject could answer the questions. The survey consisted of 8 short questions with set of multiple answers. 367 people responded to the survey. All of them confirmed that they had paid taxes in the past. The respondents were getting the income mainly from an employment-contract. The first graph presents the sources of the respondents’ income.

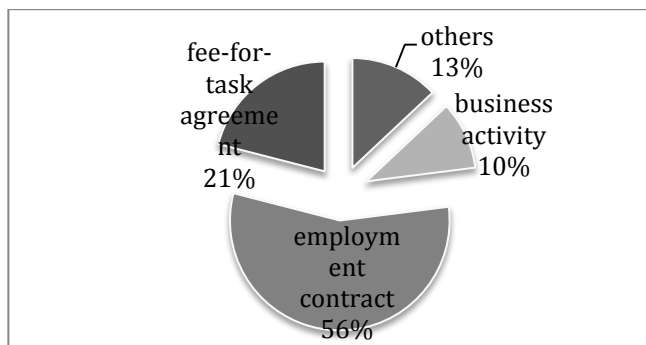


Fig.2. The answers to the question from the survey: “How do you earn your income?” Source: own work based on the results of the survey.

The respondents were asked if hiding real income and avoiding taxes is immoral. The answers are shown on the second chart.

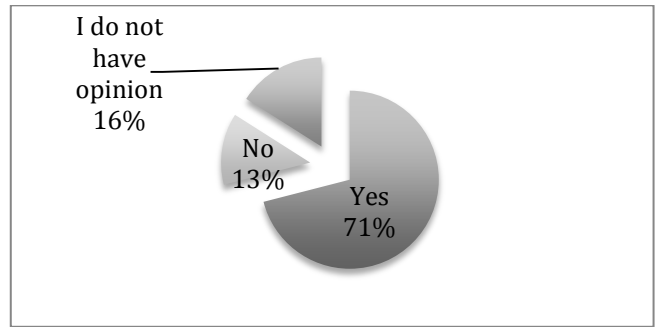


Fig.3. The answers to the question: “Do you think that avoiding taxpaying is immoral and unethical. Source: own work based on the results of the survey.

Then the respondents were questioned if using the law regulations to minimise the amount of taxes is immoral action. That kind of practice is called “aggressive optimization taxes” or even “avoiding taxation”.

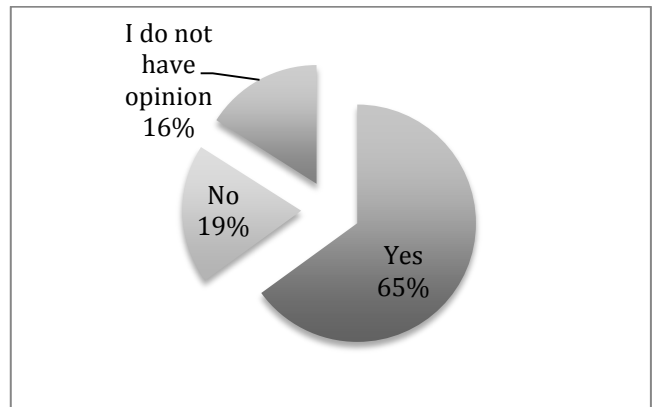


Fig.4. The answers to the question: “Do you think if using the law to minimise or even avoid taxes is immoral?” Source: own work based on the results of the survey.

The 2nd and 3rd chart shows that taxpayers dispraise decisively avoiding taxes or using the law to minimise the taxation. However we can draw interesting conclusions when analysing next question. Fourth question pertained to particular situation: “You are the accountant responsible for correct tax calculation, your employer made you to use the law regulations to avoid taxation, if you refuse you possibly lose your job. Do you obey your employer’s orders? Do you think that your behaviour is moral from taxpayer point of view?” The results are shown on chart 5.

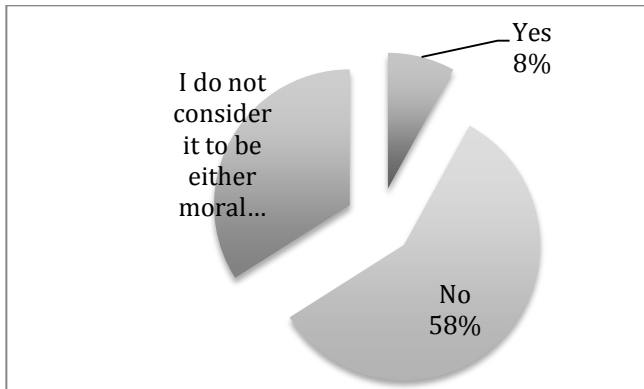


Fig.5. The answers to the question: "You are the accountant responsible for correct tax calculation, your employer made you to use the law regulations to avoid taxation, if you refuse you possibly lose your job. Do you obey your employer's orders? Do you think that your behaviour is moral from taxpayer point of view?" Source: own work based on the results of the survey.

In the connection to the problem of moral behaviour depending on the status of the person acting immoral (employer/employee) – which is presented at chart 5 – the question was stated about the need and the purpose of the code of practice for some professions.

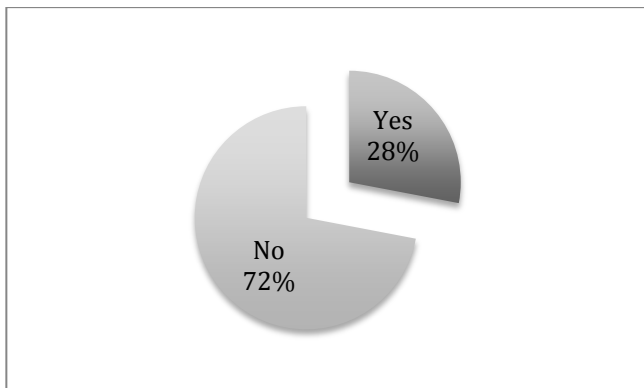


Fig.6. The answers to the question from survey: "Do you think that existing codes of practice for some professionals like accountant, auditor, tax advisor are fulfilled in practice?" Source: own work based on the results of the survey.

It seems that most of respondents, nearly $\frac{3}{4}$, think that existing codes of practice are not fulfilled in practice.

The survey asked also the question if the respondents are well informed about the income and expenditure from paid taxes. The question is quite relevant. If the tax-payers are supposed to act moral when paying taxes, they should know what is the purpose of paying taxes and how they are spent. The public finances literature says quite a lot about clearness and transparency of public funds.

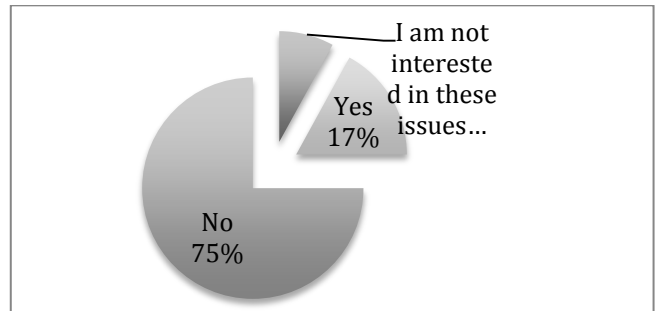


Fig.7. The answers to the question: "Do you think are you well informed about incomes from taxes to the state budget and how the money is spent?" Source: own work based on the results of the survey.

Most of taxpayers – 75% think that they are not well informed what is the income from taxes and how the money is spent. Only every 5th person thinks that there is clear information about the public finances. The result show that respondents are interested in how the public funds are spent; only 8% of respondents are not interested in the problem. The Ministry of Finances shares information about the state budget to public, but taxpayers may not know how to find information or it is not clear for them though. The reasons are not the aim of this research.

III. CONCLUSIONS

The efficiency of the actions towards honest taxpaying depends mainly, but not only, on politics of the state. It appears that economic sphere is strongly connected to others domains like psychology, morality, ethics.

The result of the conducted research points out that most of the taxpayers dispraise hiding the incomes for taxation or using the law to minimize the taxes. The taxpayers recognise these procedures as immoral. The point of view is different when the respondents are asked about the role of taxpayer. The result of survey indicates that the action against the common rules/law is not immoral when it is given as an order. The responsibility and compunction is on the side of the person who ordered that kind of action. Every third person thinks that following the instruction of the employer even against own will should not be regarded as immoral. If we think about possibility of losing the job the moral issues are secondary.

The alarming fact is that more than 70% of respondents think the codes of practice are not needed. The education of future and present employees, representatives of some professions, and taxpayers about appropriate behaviour and honest taxpaying plays important role. Most of respondents consider that they are not properly informed about the public funds. Only well informed citizen would think about responsibility for honest taxpaying and would reveal all of one's income. At the same time, one would not use the law regulations to minimise the tax. The reality for Polish tax-payers is rather different. Mostly between tax-payers and state officers there is state of the war. The situation should be changed because the feelings towards the officers create the attitude towards the state. There is no evidence that

detection rate of tax crimes is higher than detection rate of for example car theft. Furthermore car theft is more commonly condemned than tax offenses. It is good manners to admit the success in the war with tax office [Gwiazdowski 2007, s. 45]. The entrepreneurs confirm this opinion. In the summary of a report from Deloitte researches concerning the experience of the entrepreneurs during tax audits there is a statement: It is worrying that the relation between the tax office and taxpayer is far away from partnership [Deloitte 2010]. In this context there is a lot of "work" to educate taxpayers about responsibility and change their mentality. [A. Gomułowicz i J. Małecki, 2011, s. 281] argue that avoiding taxes is considered in society as patriotic virtue and value. It is important that together with looking for economic and law regulations imposing the honest taxpaying, the state should provide information and education about situation in public finances and introduce and popularize the codes of practice. Most of taxpayers – 75% think that they are not well informed what is the income from taxes and how the money is spent. Only every 5th person thinks that there is clear information about the public finances. The result show that respondents are interested in how the public funds are spent; only 8% of respondents are not interested in the problem. The Ministry of Finances shares information about the state budget to public, but taxpayers may not know how to find information or it is not clear for them though. The reasons are not the aim of this research.

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