

Abstract

It is often argued that individual ethics and social norms affect tax compliance. However, for this insight to benefit tax administration, we need to understand better how and when ethics and norms affect taxpaying decisions. This study used survey data to investigate in more detail effects on levels of compliance of personal ethics and social norms. The results suggest that individual ethics are indeed strongly related to tax compliance. Social norms, that is ethical views attributed to a social group, affect tax compliance only when people identify with that group and, as a consequence, internalise the norms as part of their own ethical beliefs. The findings have interesting implications for compliance management strategies that deliberately or incidentally affect social norms.

The study used data from *The Community Hopes, Fears, and Actions Survey* (Braithwaite, 2001), involving 2040 Australians. Self-reported tax compliance (aggregated across a number of taxpaying behaviours) was greater when one's personal norms prescribed compliance. In contrast, the effects of perceived social norms, that is ethical beliefs ascribed to most people, depended on participants' levels of identification with Australians. Only when respondents identified strongly as Australians was their self-reported compliance positively related to the perceived social norm. When personal ethics were statistically controlled, this effect disappeared, indicating that identification led to the internalisation of social norms: being internalised, social norms are part of one's ethical make-up and thus affect one's behaviour.

The findings suggest that regulatory strategies to increase tax compliance could refer to ethical beliefs, for instance through persuasive appeals that attempt to increase taxpaying ethics. However, it would be difficult to change each taxpayer's ethics individually. Because personal beliefs are (at least partly) based on social norms of groups with whom taxpayers identify, it would therefore be a better strategy to refer to broader social norms. Persuasive appeals as a means to increase tax compliance should refer to favourable social norms in the public and utilise their 'appeal' to taxpayers. However, their 'appeal' and internalisation as personal beliefs depend on a sufficient level of identification with the group to which the norms are attributed (for example, Australians, occupational groups). That is, appeals that refer to ethical taxpaying norms of a certain group need to ensure that taxpayers identify with that group sufficiently. Normative appeals could be combined with measures that try to increase levels of identification.