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Running head: THE IMPACT OF TRUST AND POWER ON TAX COMPLIANCE

TRUST IN AUTHORITIES AND POWER TO ENFORCE TAX COMPLIANCE: AN
EMPIRICAL ANALYSIS OF THE “SLIPPERY SLOPE FRAMEWORK”

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Abstract

Tax compliance is enhanced by taxpayers' trust in authorities or by authorities' power leading to voluntary or enforced tax compliance, respectively. A laboratory experiment and an online-experiment examined these assumptions, manipulating trust in, and power of authorities. In Experiment 1, participants paid taxes in 20 periods. Results showed that trust and power positively influence tax compliance. Trust increases and power decreases voluntary compliance, whereas power increases and trust decreases enforced compliance. Experiment 2 replicated these findings, expanding them with strategic behavior; strategic behavior was higher in case of low trust and high power compared to high trust and high power.

Keywords: tax evasion, trust, power, “slippery slope framework”

PsycINFO classification: 2900, 4200

JEL-classification: H26, C91

Introduction

Paying taxes is a relevant civic duty that allows governments to provide public goods and to distribute wealth. Taxpayers take their taxpaying responsibilities, often with a pinch of salt. In order to reduce personal expenses and to maximize own profits, it is assumed that taxpayers evade or avoid paying taxes, especially if the threat of detection and punishment allows it. The problem of tax evasion is predominantly dealt with as an economic issue, conceived as a rational decision under uncertainty (Allingham & Sandmo 1972; Srinivasan 1973). In this regard, relevant exogenous factors, which determine tax compliance, are audit probabilities and fine rates. However, in most countries, the rational model predicts lower tax compliance than the actual observed level (Alm 1991; Andreoni, Erard & Feinstein 1998). Furthermore, the economic model fails to explain differences in tax compliance across countries with comparable enforcement policies (Alm, Sanchez & deJuan 1995; Alm & Torgler 2006; Cummings, Martinez-Vazquez, McKee & Torgler 2005). As Alm and colleagues (1995: 17) point out:

...a government compliance strategy based only on detection and punishment may well be a reasonable starting point but not a good ending point. Instead what is needed is a multi-faceted approach that emphasizes enforcement, but that also emphasizes such things as positive rewards from greater tax compliance, the wise use of taxpayer dollars, and the social obligation of paying one's taxes.

Accordingly, sociologists and psychologists concentrate on a number of issues including: taxpayers' attitudes (e.g., Hessing, Elffers & Weigel 1988; Kirchler 1999; Vogel 1974); on social representations of taxes, tax evasion, and avoidance (e.g., Kirchler, Maciejovsky & Schneider 2003); on feelings of reactance (e.g., Kirchler 1999); on taxpayers' social identity and fairness perceptions (e.g., Wenzel 2002); on social norms and personality

characteristics (e.g., Hessing, et al. 1988); and on motivational postures (e.g., Braithwaite 2003). A recent attempt to integrate different approaches of tax compliance was presented by the “Slippery Slope framework” by Kirchler (2007) and Kirchler, Hoelzl, and Wahl (2008). Beside exogenous factors, such as income, tax rate, audit probability, and fine rate, individual and social variables also expand into the framework, fostering the two main framework-dimensions “trust in authorities” and “power of authorities”. According to the framework, tax compliance can be increased using two paths: (i) by increasing trust in tax authorities, and/or (ii) by increasing deterrence power of tax authorities. Although the behavioral outcome is compliance in both cases, the quality of tax compliance differs, and is either voluntary or enforced.

The present study provides an empirical analysis of the main hypotheses of the “slippery slope framework”. A laboratory and an online experiment were conducted to investigate the influence of trust in authorities and the perceived power of authorities on voluntary and enforced tax compliance. Voluntary tax compliance was operationalized as motivational posture “commitment”, whereas enforced tax compliance was operationalized as “resistance” (Braithwaite 2003). Two different samples were used; students and self-employed taxpayers, allowing us to resolve well-known shortcomings of student sample laboratory experiments.

1. Related literature

1.1 *The slippery slope framework*

The slippery slope framework (Kirchler 2007; Kirchler et. al 2008) consists of three dimensions: (i) trust in tax authorities, (ii) power of tax authorities, and (iii) tax compliance. Tax compliance is assumed to be influenced by trust and power of authorities: if both trust and power are at a minimum level, tax compliance is assumed to be low; taxpayers are acting egoistically through maximizing their profit by evading taxes. However, if trust in authorities

increases, taxpayers' compliance is also assumed to increase. Furthermore, if the power of authorities increases, tax compliance is expected to increase as well.

1.2 Trust in authorities

Kirchler et al. (2008: 212) define trust as "... a general opinion of individuals and social groups that the tax authorities are benevolent and work beneficially for the common good". They refer to relational aspects of trust (Eberl 2003), and the concept of "social trust", distinguishing it from calculative trust (Tyler 2003).

Findings from prior research on national and international survey data show that trust in tax authorities is positively related to tax compliance (e.g., Torgler 2003a; Torgler & Schneider 2005). As a noteworthy example, Murphy (2004) analyzed survey data from 2,292 Australian tax avoiders and found that high trust resulted in low resistance to tax authorities and emphasized the key role of trust in enhancing tax compliance. Fjeldstad (2004) found that trust in the government, as well as perceived procedural fairness, affect compliance of paying service charges in South Africa. Results from Swedish survey data highlight the importance of politicians' trustworthiness for maintaining tax compliance (Hammar, Jagers & Nordblom 2009). Furthermore, comparisons between 47 different countries revealed a negative relation between trust in governments and tax evasion (Richardson 2008). In Argentina and Chile, commitment and willingness to comply was found to be related to satisfaction with public services (Bergman 2002). Differences between tax compliance in Botswana and South Africa were found to be due to differences in perceived tax administration and taxpayers' attitudes towards the government (Cummings et al. 2005). Also, experimental research found that trust in the state has a positive impact on social representations about taxes (e.g., Pitters, Hinterhofer & Kirchler 2007). In a recent review of tax compliance studies, Lavoie (2008) emphasizes the important role of trust in authorities (as

well as trust in other taxpayers' willingness to cooperate) to foster tax compliance. Similarly, Feld and Frey (2007) highlight the importance of how taxpayers feel they are treated by tax authorities, and refer to a "psychological" contract and a relationship of mutual respect that leads taxpayers to behave loyally and to pay taxes honestly.

1.3 Power of authorities

Power of authorities is defined as taxpayers' perception of tax authorities' capacity to detect and punish tax crimes (Kirchler et al. 2008). Rational models of tax evasion can be allocated on this dimension of the framework. Empirical findings regarding power of authorities include findings on the effect of income, tax rates, audit probabilities, fines, repeated audits, as well as on the withholding phenomenon and the related framing effects (for an overview see Kirchler 2007). However, the deterrent effects of these enforcing factors appear to be inconclusive in the literature, with some studies confirming their positive effect, while others report contrary results (Andreoni et al. 1998; Fischer, Wartick & Mark 1992; Frey 2003). In line with the definition of power given by Kirchler et al. (2008), Fischer and her colleagues (1992) emphasized the importance of taking into account the subjective rather than the objective probability of detection. Therefore, authorities' power might not have an objective deterrent effect on tax compliance but it is moderated by taxpayers' perceptions and subjective evaluations of authorities' abilities to detect tax frauds and to deter evasion (Fischer et al. 1992).

1.4 Dynamic effects of trust and power

Trust and power not only determine compliance but are also interrelated insofar as a change of one parameter can affect the second parameter (Kirchler 2007; Kirchler et al. 2008). Let us assume that through a change of government policies, fines for tax evasion are amplified. Taxpayers may perceive this change as an increase in severity and as a signal of

distrust. As trust is inherently reciprocal in its nature, taxpayers might lose trust in authorities accordingly, and a downward pull of tax compliance might result. Therefore, it is necessary to distinguish between coercive power and legitimate power (Turner 2005). While coercive power describes tax authorities' abilities to detect tax crimes and to provide severe punishment, legitimate power can be seen as a positive evaluation of authorities' power that is connected with positive attitudes towards tax authorities. Legitimacy of authorities' actions is deeply connected with procedural fairness (Tyler 1990a, 1990b). For example, in Switzerland, if taxpayers are called to participate in decision-making processes through referenda, authorities' power is likely to be perceived as legitimate and actions against evasion serve the maintenance of law and order (Bohnet & Frey 1994). On the other hand, if citizens have no voice, authorities' power may be perceived as illegitimate and actions to control citizens are likely to be judged as "cops fighting robbers". Accordingly, Sheffrin and Triest (1992) found that taxpayers' attitudes towards authorities and social norms shape the effect of increased audit probabilities on tax compliance. Falk and Kosfeld (2004) found that being controlled and therefore, feeling distrusted reduces trust and consequently cooperation. However, an opposing effect is possible as governments lacking power are hardly trusted by citizens. Authorities need to exert power in an appropriate way in order to be judged as acting fairly and serving the community by enforcing cooperation from evading taxpayers (Lavoie 2008).

1.5 Enforced versus voluntary compliance

Based on the assumptions of the slippery slope framework, tax compliance is assumed to be at a high level in cases of trustworthy authorities, as well as in cases of draconic deterrence and fines. However, the resulting quality and motivation to comply differs (Kirchler 2007; Kirchler et al. 2008). In cases of high trust in authorities, taxpayers feel morally motivated to

contribute to the community and pay their taxes spontaneously, abstaining from extensive decision-making and aiming to optimize their individual profit. Therefore, tax compliance originating from trust, compromises a more voluntary character and taxpayers fulfill their duties because they are committed to the law (Forest 2000; James & Alley 2002). If power of authorities increase and authorities are perceived as acting in an untrustworthy manner, taxpayers are likely to weigh up gains against the costs of evasion and act compliantly (if costs of detection and fines for evasion exceed the gains). In this case, tax compliance is enforced through authorities' power to efficiently control and fine non-compliance (see also Forest 2000; James & Alley 2002). This constraint is likely to motivate taxpayers to compete against tax authorities and to provoke strategic taxpaying behavior and exploitation of loopholes in the surveillance system to minimize taxes. Taxpayers who behave strategically are calculative decision makers that comply when the probability of an audit is high and fines for evasion are severe.

The difference between voluntary and enforced tax compliance is mirrored in the underlying motivation to comply. In the present experiments, we used Braithwaite's (2003) motivational postures commitment and resistance to operationalize the underlying motivational structure of voluntary and enforced compliance. In the case of high trust and resulting voluntary tax compliance, the motivational orientation is explained by the motivational posture "commitment" (Braithwaite 2003). Committed taxpayers feel a moral obligation to contribute to the community and pay their tax share with good will. We assume that commitment is higher if taxpayers trust their authorities, in particular, when the deterrent power of authorities is low. In the case of low trust and high power with resulting enforced tax compliance, the motivational posture is "resistance" (Braithwaite 2003). Resistant taxpayers distrust tax authorities' intentions of benevolent and cooperative behavior towards them. Also, French and Raven (1959) state in their seminal work on social power that

coercive power leads to resistance. We expect that resistance is higher if taxpayers are enforced through high (coercive) power, especially if they do not trust tax authorities. As a consequence, we assume that taxpayers experiencing powerful authorities evade more when detection is unlikely (i.e., strategic taxpaying behavior) than taxpayers, who trust the authorities. Two experiments were conducted to test these hypotheses. First, a computer-aided laboratory experiment (Experiment 1) was designed to analyze the influence of trust and power on tax compliance at the behavioral level and to differentiate between voluntary and enforced tax compliance at the motivational level. Experiment 2 constitutes an online-experiment using a sample of self-employed taxpayers, aiming to replicate findings of the first experiment and extending them by also focusing on strategic taxpaying behavior.

2. Experiment 1

2.1 *Method*

2.1.1 *Participants*

Overall, 124 students participated in the laboratory experiment. Four participants failed to complete the example-task described below and were therefore, excluded of further analyses. The final data set included 120 participants (64 females, 56 males, aged between 18 and 49, $M = 23.66$ years, $SD = 3.96$, $Med = 23.00$). A net income equal or below 500 € was indicated by 39.20% of the participants. Most participants reported a net income between 501 and 1,000 € per month (50.80%), and 9.10% stated an income above 1,001 € and 0.80% of the participants did not indicate their monthly salary.

2.1.2 *Material and experimental procedures*

The experiment was computer-aided, and programmed with z-Tree (Fischbacher 2007). Instructions were given on the computer and provided in printed form. Participants were told

that they should imagine living and working in a country called Varosia, and paying taxes over several filing periods. They were told to imagine being self-employed, earning their income in Varosia, and paying taxes.

Participants were informed about (a) their income in each tax-filing period (3,500 ECU), (b) their tax liability in each period (1,400 ECU = 40%), (c) the audit probability (10%), and (d) fines in case of detected evasion (one times the evaded amount). In each period, participants decided how much tax to pay, from 0 ECU to 1,400 ECU. In each period in which no audit occurred, participants' profit was their income minus taxes paid. In each period in which an audit did occur, participants' profit consisted of their income minus taxes due and minus one times the evaded amount (as a fine).

To ensure that all participants understood the instructions, they had to solve an example-task. When they faced problems in solving the task, further explanations were provided by the experimenter. Data from participants who had problems understanding the task were excluded from the analyses.

After solving the example-task, participants read the description of the fictitious country, Varosia, and imagined, as vividly as possible, living there and paying their taxes to authorities that were either trusted, or not, and powerful, or not (see Appendix A; cf., vignettes; Alexander & Becker 1978). Participants were randomly assigned to one of the four experimental conditions (low versus high trust in authorities, and low versus high power of authorities).

In the *low trust* condition, the text stated that Varosia's tax authorities are highly untrustworthy. One statement was that the corruption index is very high and that many politicians embezzle tax money. The text of the *high trust* condition stated that Varosia's tax authorities are highly trustworthy, that few politicians embezzle tax money, and commented

on a very low corruption index. In the *low power* condition, tax authorities were described as highly ineffective in detecting tax evasion. For example, they were told that due to the prevailing tax law, auditing taxpayers is difficult and not very effective, and that the audit rate is low. In the *high power* condition, tax authorities were described as working efficiently. Participants read that the tax law supports the application of audits, that audits are effective, and that the audit rate is high.

Participants were asked to read the description of Varosia and to imagine living there before the tax-filing periods, after 10-filing periods, and after 20-filing periods. After every reading of the description, manipulation check items were presented on perceived trust in Varosia's authorities ($MC1_{\text{trust}}$, $MC2_{\text{trust}}$, $MC3_{\text{trust}}$), and on power of authorities ($MC1_{\text{power}}$, $MC2_{\text{power}}$, $MC3_{\text{power}}$; answering format 1 = strongly disagree to 7 = strongly agree), combined with three distraction items. Audits were randomly set over the 20 filing periods before the experiment and were fixed for all participants after period 3 and 15.

After filing taxes, motivational postures were assessed: participants answered eight items on commitment (e.g., "Paying tax is the right thing to do" or "I feel a moral obligation to pay my tax"; 1 = strongly disagree to 7 = strongly agree; Braithwaite 2003) and six items on resistance (e.g., "If you don't cooperate with the tax office, they will get tough with you" or "The tax office is more interested in catching you for doing the wrong thing, than helping you do the right thing"; 1 = strongly disagree to 7 = strongly agree; Braithwaite 2003). Finally, participants were paid their average profit (conversion rate 1 € = 700 ECU; $M = 3.70$ euro, $SD = 0.54$) and were dismissed.

2.2 Results

2.2.1 Manipulation check

Manipulation of trust in Varosia's authorities and power was checked at the beginning of the filing periods, after period 10 and at the end. A two-way MANOVA was calculated, with trust and power as independent factors along with answers on trust and power as dependent variables. The three items on trust, as well as the three items on power were highly reliable ($\alpha = .90$ and $\alpha = .85$, respectively). As expected, the multivariate analysis reveal no interaction effect, $F(2,115) = 0.11, p = .90$, but a main effect for trust, $F(2,115) = 388.50, p < .01, \eta^2 = .87$, and for power, $F(2,115) = 122.28, p < .01, \eta^2 = .68$.

For the question of trust, the univariate results show that participants who were told that Varosia's politicians are trustworthy trust the authorities more than the participants who were told that the politicians are untrustworthy, ($F(1,116) = 762.91, p < .01, \eta^2 = .87$; low trust: $M = 1.78, SD = 0.76$; high trust: $M = 5.81, SD = 0.82$). The power manipulation does not affect the reported trust in the authorities ($F(1,116) = 0.15, p = .70$; low power: $M = 3.82, SD = 2.21$; high power: $M = 3.70, SD = 2.14$). Similarly, for the power items, univariate results show that participants who were told that authorities are powerful perceive Varosia's authorities as more powerful than participants who were told that authorities' power is weak ($F(1,116) = 239.45, p < .01, \eta^2 = .67$; low power: $M = 1.75, SD = 0.75$; high power: $M = 4.99, SD = 1.42$). The trust manipulation does not affect the reported power of Varosia, ($F(1,116) = 0.21, p = .65$; low trust: $M = 3.44, SD = 1.93$, high trust: $M = 3.29, SD = 2.05$). According to these results, the manipulation of trust and power proves to be successful.

2.2.2 Tax compliance

In the following, analyses of tax compliance by trust and power are presented. Table 1 shows the estimated means and standard errors of mean tax contributions over 20 taxpaying periods, per condition. A repeated ANCOVA was measured (with trust and power as independent factors; tax contributions as dependent variables; and gender, age, and income as

covariates), and reveals no interaction effect between trust and power, $F(1,112) = 1.32, p = .25$; but it does reveal two significant main effects: Participants contribute more if authorities are described as trustworthy rather than untrustworthy, $F(1,112) = 3.71, p = .06, \eta^2 = .03$. Contributions are also high if authorities are described as powerful rather than weak, $F(1,112) = 8.10, p < .01, \eta^2 = .07$. As expected, tax payments are highest when trust and power are high (*estimated mean* = 1,042.58; *SE* = 80.60) and lowest when trust and power are low (*estimated mean* = 655.83; *SE* = 80.87). Tax payments are equal in the latter condition, in the case of high trust and low power (*estimated mean* = 718.74; *SE* = 81.20) and in the case of low trust and high power (*estimated mean* = 795.97; *SE* = 78.22). The covariate gender significantly affects mean tax contributions, $F(1,112) = 16.18, p < .01, \eta^2 = .13$; women contribute more taxes than men. Age and income have no influence on tax contributions, $F(1,112) = 1.02, p = .31$ and $F(1,112) = 0.14, p = .71$, respectively.

[Insert Table 1 about here]

2.2.3 Voluntary tax compliance versus enforced tax compliance

In order to test the influence of trust and power on voluntary and enforced tax compliance, a two-way MANCOVA was calculated with trust and power as independent factors and voluntary tax compliance and enforced tax compliance as dependent variables and gender, age, and income as covariates. Table 1 contains the estimated means and standard errors of the scales for voluntary tax compliance (i.e., commitment; $\alpha = .92$) and enforced tax compliance (i.e., resistance; $\alpha = .61$). Multivariate results reveal a significant interaction effect of trust and power, $F(2,111) = 3.47, p = .04, \eta^2 = .06$, as well as a significant main effect for trust, $F(2,111) = 63.41, p < .01, \eta^2 = .53$, and for power, $F(2,111) = 11.37, p < .01, \eta^2 = .17$.

For voluntary tax compliance, the univariate results reveal a significant interaction of trust and power, $F(1,112) = 4.49, p = .04; \eta^2 = .04$. This indicates that voluntary compliance is highest when authorities are trustworthy and powerful (*estimated mean* = 5.21; *SE* = 0.22) compared to when authorities are trustworthy and powerless (*estimated mean* = 4.49; *SE* = 0.22), untrustworthy and powerless (*estimated mean* = 2.81; *SE* = 0.22), or untrustworthy and powerful (*estimated mean* = 2.59; *SE* = 0.22). For trust, a significant main effect was found, $F(1,112) = 94.17, p < .01, \eta^2 = .46$, showing that participants are generally more voluntary compliant to trustworthy authorities than to untrustworthy authorities. Furthermore, no significant main effect of power was revealed when controlling for gender, age, and income, $F(1,112) = 1.28, p = .26$. Also for the covariates gender, age, and income, no significant effects were found, $F(1,112) = 0.41, p = .52$; $F(1,112) = 0.35, p = .55$, and $F(1,112) = 0.01, p = .91$, respectively.

For enforced tax compliance, the univariate results reveal an interaction tendency between trust and power when controlling for gender, age, and income, $F(1,112) = 3.45, p = .07, \eta^2 = .03$. This indicates that enforced tax compliance is lowest when authorities are trustworthy and powerless (*estimated mean* = 2.93; *SE* = 0.16) and when authorities are trustworthy and powerful (*estimated mean* = 3.37; *SE* = 0.16). Enforced compliance is equally high in cases of trustworthy and powerful authorities and untrustworthy and powerless authorities (*estimated mean* = 3.78; *SE* = 0.16); however, when authorities are untrustworthy and powerful (*estimated mean* = 4.81; *SE* = 0.16) the highest enforced compliance overall results. The significant main effect of trust indicates that participants who encounter untrustworthy authorities generally feel more enforced than participants who are told that the authorities are trustworthy, $F(1,112) = 50.02, p < .01, \eta^2 = .31$. The significant main effect of power shows that powerful authorities provoke more enforced compliance than powerless authorities, $F(1,112) = 19.87, p < .01, \eta^2 = .15$. The covariates gender and income

are not significant, $F(1,112) = 1.93$, $p = .17$ and $F(1,112) = 0.16$, $p = .69$, respectively, whereas age approaches significance $F(1,112) = 3.59$, $p = .06$, $\eta^2 = .03$.

The overall results of Experiment 1 support the assumptions of the slippery slope framework, which indicates that both high trust and high power lead to increased tax compliance. Furthermore, motivational orientations of tax compliance differ, suggesting that high trust and low power foster voluntary tax compliance, whereas, low trust and high power foster enforced tax compliance.

Experiment 1 suffers from two shortcomings: (i) Participants were students who are not familiar with paying taxes. (ii) Albeit repeated-measure laboratory experiments are well established in tax-compliance research, the artificiality of the setting might be criticized. Therefore, a further experiment was conducted to replicate the above presented results with self-employed taxpayers reporting their behavior in an online study. Furthermore, Experiment 2 distinguishes between voluntary and enforced tax compliance by taking into account strategic tax paying behavior.

3. Experiment 2

3.1 *Method*

3.1.1 *Participants*

In the present experiment only self-employed taxpayers ($N = 186$) participated since self-employed people have more opportunities to evade taxes and occupy therefore, a unique position compared with white-collar and blue-collar workers (Kirchler 2007). Furthermore, self-employed taxpayers have more experience of declaring taxes and of the tax law. After data had been collected, 59 participants were excluded of all further analyses due to incompleteness ($n = 3$), unrealistic duration to complete the questionnaire (< 5 minutes; > 30

minutes; $n = 13$), and failure of manipulation (see section – exclusions of participants due to failed manipulation; $n = 43$). The remaining sample consisted of 127 participants (41 females, and 86 males; ages ranging between 22 and 69 years, $M = 38.54$, $SD = 10.50$, $Med = 36.00$). A monthly average net income below 1,000 € was indicated by 16.50%. An income between 1,001 and 2,000 € was indicated by 26.00% of the participants. Most participants reported an income between 2,001 and 3,000 € (26.80%). Only 15.70% reported an income between 3,001 and 4,000 € and 15.00% above 4,000 €. One third of the participants (32.30%) had experienced at least one tax audit during their business life.

3.1.2 *Material and experimental procedures*

Experiment 2 was conducted using an online-questionnaire. Self-employed taxpayers received an e-mail in which they were asked to complete the questionnaire and send the e-mail to acquainted self-employed taxpayers (i.e., snowball sampling). Furthermore, the questionnaire link was posted in an online forum for local, self-employed taxpayers on a business platform (www.xing.com). No incentives were provided for participation.

When participants began the questionnaire, they had to indicate their type of employment. Those who indicated they were self-employed continued to answer the questionnaire, whereas, those who only indicated other types of employment were thanked and dismissed from participation because they had no present experience with tax declarations. To prevent participants from retrying to fill in the questionnaire, their IP-address was saved and they were denied further access to the questionnaire. Participants who declared themselves as self-employed were randomly assigned one of the four descriptions representing the four conditions of the between subjects' factorial design (low trust vs. high trust) by 2 (low power vs. high power) which were used in Experiment 1. They were asked to read the descriptions of Varosia and to imagine they lived, worked, and paid taxes in this

country. After reading the description, they answered three items on their general tax compliance in Varosia (e.g., “How likely will you pay your taxes completely honestly?”; 1 = very unlikely to 7 = very likely). Furthermore, participants answered the same items regarding voluntary and enforced tax compliance as in Experiment 1 (1 = strongly disagree to 7 = strongly agree; Braithwaite 2003). To assess strategic taxpaying behavior, participants were asked to indicate how they would behave in situations in which they had the possibility to evade taxes with an extremely low detection probability (e.g., “Several times you had dinner with friends. Now you think about claiming those restaurant bills as business meals in your income tax return. How likely would you be to declare those restaurant bills as business meals in your income tax return?”; 1 = very unlikely to 7 = very likely). These five short items represent tax evasion, which are obviously illegal. It was assumed that strategic taxpaying behavior is highest when taxpayers do not trust their authorities and when they feel enforced by authorities’ coercive power. Finally, participants answered one manipulation check item on their trust in Varosia (i.e., “I trust the state of Varosia.”; 1 = strongly disagree to 7 = strongly agree), two manipulation check items on legitimate power (e.g., “I perceive the power that Varosia exerts on taxpayers as legitimate.” and “The strictness by which Varosia’s tax authorities take action against tax dodgers is appropriate.”; 1 = strongly agree to 7 = strongly disagree), and two manipulation check items on coercive power (e.g., “As a citizen of Varosia I feel like being at the state’s mercy.” and “The power that Varosia’s tax authorities exert on its citizens is not traceably.”; 1 = strongly disagree to 7 = strongly agree). On average, completion of the questionnaire lasted 14 minutes ($SD = 4.81$; $Md = 13.00$).

3.1.3 *Exclusion of participants due to failed manipulation*

In order to ensure that participants read the descriptions carefully and understood the given instructions, all participants whose answers greatly contradicted the descriptions were

excluded¹. Participants who read about powerless and untrustworthy authorities were excluded if they indicated they had extensive trust or if they perceived high legitimate or coercive power (scores of 6 or 7). Participants who read about trustworthy and powerless authorities were excluded if they reported having low trust in tax authorities (scores of 2 or 1), or if they perceived higher coercive power than legitimate power (coercive power > legitimate power). Participants who read about untrustworthy and powerful authorities were excluded if they indicated high trust in tax authorities (scores of 6 or 7), or if they perceived higher legitimate power than coercive power (legitimate power > coercive power). Participants who read about powerful and trustworthy authorities were excluded if they indicated low trust in tax authorities, or if they perceived low legitimate power (scores 2 or 1). Furthermore, participants were excluded in this condition if they perceived higher coercive power than legitimate power (coercive power > legitimate power). In total, 43 participants were excluded from the analyses.

3.2 *Results*

3.2.1 *Tax compliance*

As in Experiment 1, in all analyses we controlled for gender, age, and income. Table 2 shows the estimated means and standard errors of the scale measuring tax compliance ($\alpha = .84$). We calculated a two-way ANCOVA with trust and power as independent factors and tax compliance as a dependent variable and controlled for gender, age, and income. No interaction between trust and power was found, $F(1,120) = 0.00, p = .96$. However, the main effects of trust and power were significant. Participants who were instructed that authorities are untrustworthy also reported less tax compliance than participants who were told that authorities are trustworthy, $F(1,120) = 7.96, p < .01, \eta^2 = .06$. Furthermore, participants who read about powerless authorities indicated less tax compliance than participants who read

about powerful authorities, $F(1,120) = 9.38, p < .01, \eta^2 = .07$. As in Experiment 1, the highest tax compliance was observed for trustworthy and powerful authorities (*estimated mean* = 5.84; $SE = 0.30$) and the lowest tax compliance was found when authorities were described as untrustworthy and powerless (*estimated mean* = 4.16; $SE = 0.28$). In cases of high trust and low power of authorities (*estimated mean* = 4.96; $SE = 0.27$) and low trust and high power of authorities (*estimated mean* = 5.02; $SE = 0.29$), tax compliance did not differ. The covariate age had a significant influence on tax compliance, $F(1,120) = 7.32, p < .01, \eta^2 = .06$; older taxpayers indicated a higher tax compliance than younger taxpayers. Gender and income did not influence tax compliance significantly, $F(1,120) = 2.03, p = .16$ and $F(1,120) = 0.00, p = 1.00$, respectively.

[Insert Table 2 about here]

3.2.2. *Voluntary versus enforced tax compliance*

To test if trust and power influence voluntary and enforced tax compliance, a two-way MANCOVA was conducted with trust and power as independent factors; voluntary tax compliance and enforced tax compliance as dependent variables; and gender, age, and income as covariates. Table 2 contains the estimated means and standard errors for the scales of voluntary tax compliance (i.e., commitment; $\alpha = .93$) and enforced tax compliance (i.e., resistance; $\alpha = .63$). Multivariate results revealed a slightly significant interaction effect of trust and power, $F(2,199) = 2.86, p = .06, \eta^2 = .05$, as well as significant main effects for trust, $F(2,119) = 44.72, p < .01, \eta^2 = .42$, and for power, $F(2,119) = 9.25, p < .01, \eta^2 = .14$.

Univariate results of voluntary compliance revealed a tendency of an interaction between trust and power, $F(1,120) = 2.86, p = .09, \eta^2 = .02$. This suggests lowest voluntary compliance when authorities are untrustworthy and powerful (*estimated mean* = 3.60; $SE = 0.20$) compared to when authorities are untrustworthy and powerless (*estimated mean* = 4.29;

$SE = 0.20$), trustworthy and powerless (*estimated mean* = 5.45; $SE = 0.19$), or trustworthy and powerful (*estimated mean* = 5.43; $SE = 0.21$). A significant main effect of trust, $F(1,120) = 54.97, p < .01, \eta^2 = .31$, indicates that participants are more voluntary compliant when authorities are trustworthy than when authorities are untrustworthy. Furthermore, participants who perceived authorities as powerless tended to report slightly more voluntary tax compliance than participants who perceived the authorities as powerful, $F(1,120) = 3.12, p = .08, \eta^2 = .03$. Again, age significantly influences voluntary tax compliance, $F(1,120) = 14.83, p < .01, \eta^2 = .11$, whereas, gender and income do not, $F(1,120) = 0.70, p = .41$ and $F(1,120) = 1.17, p = .28$, respectively.

For enforced tax compliance, a significant interaction between trust and power was found when controlling for gender, age, and income, $F(1,120) = 4.14, p = .04, \eta^2 = .03$. This result suggests that enforced tax compliance is highest when authorities are untrustworthy but powerful (*estimated mean* = 5.26; $SE = 0.14$) compared to when authorities are untrustworthy and powerless (*estimated mean* = 4.39; $SE = 0.14$), trustworthy and powerless (*estimated mean* = 3.64; $SE = 0.13$), or trustworthy and powerful (*estimated mean* = 3.94; $SE = 0.15$). The significant main effect of trust indicates that participants feel less enforcement and less resistance when facing trustworthy (compared to untrustworthy) authorities, $F(1,120) = 54.71, p < .01, \eta^2 = .31$. Furthermore, the significant main effect of power indicates that participants are more enforced when they are told about powerful authorities than when they are told about powerless authorities, $F(1,120) = 17.89, p < .01, \eta^2 = .13$. The covariates, gender, age, and income were not significant, $F(1,120) = 0.00, p = .98$; $F(1,120) = 0.20, p = .65$, and $F(1,120) = 0.25, p = .62$, respectively.

3.2.3. Strategic taxpaying behavior

One aim of this second study was to test whether strategic taxpaying behavior is especially pronounced in cases of low trust in authorities and high tax authorities' power. In this case a "cops-and-robbers" attitude is assumed and taxpayers should evade as soon as they perceive a possibility to do so. Therefore, a two-way ANCOVA was calculated with trust and power as independent factors; strategic behavior as a dependent variable; and gender, age, and income as covariates. Table 2 shows the estimated means and standard errors of the scale measuring strategic taxpaying behavior ($\alpha = .83$).

According to our assumptions, we found a significant interaction between trust and power on strategic taxpaying behavior, $F(1,120) = 4.86, p = .03, \eta^2 = .04$, indicating that strategic behavior is highest when authorities are untrustworthy but powerful (*estimated mean* = 4.70; SE = 0.30). Strategic behavior is lowest when authorities are trustworthy and powerful (*estimated mean* = 3.58; SE = 0.32). If tax authorities are trustworthy but powerless (*estimated mean* = 4.31; SE = 0.28), or if they are perceived as untrustworthy and powerless (*estimated mean* = 4.12; SE = 0.30), strategic behavior does not differ. The interaction effect of power and trust on strategic taxpaying behavior is depicted in Figure 1. No significant main effects for trust and power were found, $F(1,120) = 2.37, p = .13$ and $F(1,120) = 0.06, p = .81$, respectively. Again, the covariate age significantly influences strategic behavior, $F(1,120) = 23.23, p < .01, \eta^2 = .16$, whereas, gender and income do not influence strategic behavior significantly, $F(1,120) = 1.41, p = .24$ and $F(1,120) = 0.20, p < .65$, respectively.

[Insert Figure 1 about here]

Experiment 2 replicated the findings of Experiment 1 with self-employed taxpayers and found that trust and power influence tax compliance and that voluntary and enforced tax compliance differ regarding trust in authorities and power of authorities. Furthermore,

participants indicated that they wanted to evade taxes strategically, in particular when authorities are untrustworthy and powerful.

4. General Discussion

The aim of the present paper was to analyze whether trust in authorities and power of authorities increase tax compliance. First, both experiments evidence the positive effects of trust and power on taxpayers' compliance. Second, it was found that trust in authorities and power of authorities differently affects the motivation to comply on a voluntary or an enforced basis. Additionally, Experiment 2 shows that taxpayers exploit loopholes in the tax surveillance system, preferably when authorities act in an untrustworthy way and exert much power over them. Strategic behavior is instead, significantly lower when tax authorities are perceived as trustworthy and powerful.

The experimental results of both studies support the positive effect of trust on tax compliance, found previously in survey data and in experimental research (Bergman 2002; Murphy 2004; Pitters et al. 2007; Torgler 2003a; Torgler & Schneider 2005). Furthermore, both studies show that audits and fines foster tax compliance, which is also consistent with prior empirical and theoretical findings (Allingham & Sandmo 1972; Andreoni et al. 1998; Fischer et al. 1992). Although, the effects of trust and power were examined previously, this is the first paper to integrate trust in authorities and power of authorities into one, experimental design and investigate possible differences in tax compliance resulting from trust and power, as stated by the slippery slope framework (Kirchler 2007; Kirchler et al. 2008).

Results of both experiments reflect the basic assumptions of the slippery slope framework (Kirchler 2007; Kirchler et al. 2008) suggesting that tax authorities can achieve tax compliance through shedding taxpayers' trust in them and through demonstrating their power

to monitor and fine tax cheaters. In Experiment 1, a combination of high trust and high power yielded the highest voluntary compliance, whereas, in the case of low trust, voluntary compliance was lowest – independent of power. In Experiment 2, high trust resulted in the highest voluntary compliance, independent of power, whereas, a combination of low trust and high power revealed the lowest voluntary compliance. Though, trust in authorities had a positive effect on voluntary compliance in both experiments. Also, enforced tax compliance is influenced most by a combination of power and trust. Both experiments show that high power of authorities and low trust encourages the highest enforced compliance. Furthermore, the finding that taxpayers' strategic taxpaying behavior was highest in a punishing environment in which taxpayers distrusted the authorities and lowest when taxpayers trusted the punishing authorities, reveals the important role that trust plays in the decision to pay taxes. This result resembles the differing consequences and therewith the differing qualities of voluntary and enforced tax compliance. In line with the slippery slope framework, we conclude that voluntary compliant taxpayers contribute their fair share to the common good, without hesitation. However, enforced compliant taxpayers comply only as long as they are audited and fined and act strategically, as soon as they find a way to evade taxes undetected.

According to the slippery slope framework, tax compliance is at 100% when trust is at its maximum, when power is at its maximum, and when both trust and power are at a maximum; whereas tax compliance is at 0% when both trust and power are at a minimum. However, in the manipulation of both experiments, trust and power did not reach their extremes but ranged in the high and low areas of the concepts. Therefore, we did not expect to find the above stated interaction effect of trust and power on tax compliance but the two obtained main effects. Thus, although the assumptions of the slippery slope framework suggest highest tax compliance for maximum trust and/or power, the found main effects still

support the stated assumptions of the framework. However, future research should also examine the extreme areas of trust and power and their effect on tax compliance.

The positive effects of trust and power concerning (voluntary and enforced) tax compliance were tested on two different samples using different measuring methods. Experiment 1 generated behavioral data from students filing taxes in a laboratory simulation and Experiment 2 gained data from self-employed people, who reported their reactions to a hypothetical situation in an online experiment. As both experiments prove that trust, as well as power, increase tax compliance these effects seem to be quite robust. Also the impact of trust and power on voluntary and enforced tax compliance was found to be quite similar in both experiments and might therefore be generalized.

However, to assess voluntary and enforced tax compliance, Braithwaite's (2003) motivational postures were used. Although the posture commitment reflects voluntary compliance and the posture resistance resembles enforced compliance quite well, they do not totally correspond with the underlying motivations of voluntary and enforced tax compliance. Therefore, future research should develop and apply new methods, especially aiming to measure and differentiate between voluntary and enforced tax compliance.

An assumption of the slippery slope framework, which was neglected in the present paper, is the dynamic effect of power on trust. As long as power of authorities is perceived as fair, it is not necessarily regarded as negative but instead is perceived as having positive effects on citizens' trust (Lavoie 2008). Therefore, authorities, who exert their power in a fair way, could also boost voluntary tax compliance. Accordingly, Richardson (2008) found that trust and legal enforcement strategies were connected with lower tax evasion in different countries. Future research could investigate the dynamic effects that fair and unfair power have on trust and therewith, on voluntary tax compliance.

The present results suggest that governments should emphasize citizen-friendly procedures to ensure citizens' trust. In 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. Therefore, boosting citizens' trust in authorities would maximize tax compliance and therefore, the public revenue.

Endnotes:

¹ Note that 38 participants did not indicate their level of trust in authorities, thus the rule of exclusion due to extensive or narrow trust was not applied on them.

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Table 1

Estimated means and standard errors of mean contribution during the experiment, enforced tax compliance, and voluntary tax compliance as a function of trust and power when controlling for gender, age, and income

Dependent Variables	Low trust		High trust	
	Low power	High power	Low power	High power
	<i>n</i> = 30	<i>n</i> = 31	<i>n</i> = 30	<i>n</i> = 29
mean contributions	655.83 (80.87) ^a	795.97 (78.22) ^a	718.74 (81.20) ^a	1,042.58 (80.60) ^b
voluntary tax compliance (i.e., commitment; Braithwaite, 2003)	2.81 (0.22) ^a	2.59 (0.22) ^a	4.49 (0.22) ^b	5.21 (0.22) ^c
enforced tax compliance (i.e., resistance; Braithwaite, 2003)	3.78 (0.16) ^a	4.81 (0.16) ^b	2.93 (0.16) ^c	3.37 (0.16) ^{ac}

Note: Higher scores indicate higher contributions and higher acceptance of the items. Means are corrected for covariates gender = 0.54, age = 23.68, and income = 1.71. Standard errors are given in parentheses. Estimated means with differing superscripts differ at $p < .05$.

Table 2

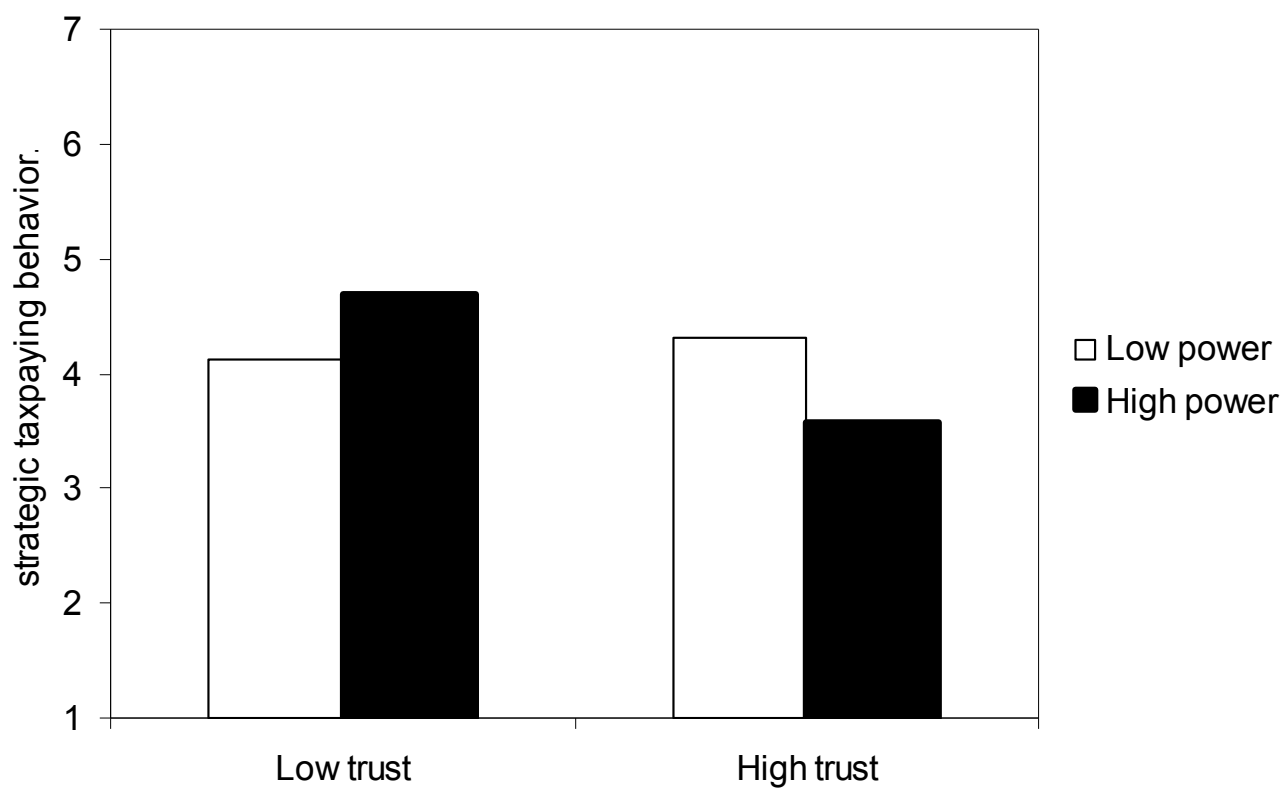
Estimated means and standard errors of tax compliance, voluntary tax compliance, enforced tax compliance, and strategic taxpaying behavior as a function of trust and power when controlling for gender, age, and income

Dependent Variables	Low trust		High trust	
	Low power	High power	Low power	High power
	<i>n</i> = 32	<i>n</i> = 31	<i>n</i> = 36	<i>n</i> = 28
tax compliance	4.16 (0.28) ^a	5.02 (0.29) ^b	4.96 (0.27) ^b	5.84 (0.30) ^c
voluntary tax compliance (i.e., commitment; Braithwaite, 2003)	4.29 (0.20) ^a	3.60 (0.20) ^b	5.45 (0.19) ^c	5.43 (0.21) ^c
enforced tax compliance (i.e., resistance; Braithwaite, 2003)	4.39 (0.14) ^a	5.26 (0.14) ^b	3.64 (0.13) ^c	3.94 (0.15) ^c
strategic taxpaying behavior	4.12 (0.30) ^{ab}	4.70 (0.30) ^a	4.31 (0.28) ^{ab}	3.58 (0.32) ^b

Note: Higher scores indicate higher acceptance of the items. Means are corrected for covariates gender = 0.32, age = 38.54, and income = 2.87. Standard errors are given in parenthesis. Estimated means with differing superscripts differ at $p < .05$.

Figure 1

Extent of strategic taxpaying behavior as a function of trust and power when controlling for gender, age, and income



APPENDIX A:

English Version:

All descriptions began as follows:

Please read the following description of a country:

Varosia is located in Europe and the territory of Varosia occupies 83,871 km². The official language is German.

In the last census of population in August 2007 Varosia had 16,336,000 inhabitants. The unemployment rate is at an average. Between the citizens of Varosia no large differences of income exist.

Afterwards relevant information for the manipulation of trust ([low] high) was varied between conditions:

*Since Varosia's autonomy in 1949 it has been marked with a **[low] high** political stability and **[an oligarchic (authority of few)] a democratic** government. **[Seldom] Regularly** referenda are held, in which the citizens of Varosia can co-decide in the legislation.*

*The government enjoys a **[bad] good** reputation in the population. It can be concluded from opinion polls that 70% of the citizens are **[not]** satisfied with the current government.*

*The tax load is **[not]** equitably distributed among the different occupational groups and income groups. Varosia's citizens do **[not]** have the opinion that everyone has to contribute her/his share on taxes.*

*Varosia's legislation is **[not]** transparent and the government offers **[no] the** opportunity of free counselling on judicial subjects and tax issues in information centers. Furthermore, Varosia's public authorities are **[little] very** service-oriented and **[not]** interested in supporting Varosia's citizens.*

*The budget expenditures of the state are **[not]** traceable for Varosia's citizens, because they are **[not] regularly** informed **by means of a clear official gazette** about the use of tax money. In an opinion poll in October 2007 78% of Varosia's citizens indicated to have the impression that their tax money is **[not]** used reasonable.*

*Besides **[a lot of] little** tax money is embezzled by politicians. According to an international corruption index (CPI) Varosia is one of the European countries with the **[highest] lowest** perceived corruption.*

*All these factors cause that the citizens of Varosia trust their country **a [little] lot**.*

Furthermore the descriptions were adapted to the manipulation of tax authorities' power ([low] high):

*The prosecution of tax evaders is **[not]** very effective. Because of the tax legislation it is **[difficult]** easy for the government to conduct audits on its citizens and therewith to chase tax evaders.*

*The government assigns a **[low]** high budget to the tax office to punish tax evasion. With the means at hand it is **[not]** possible for the tax office to employ qualified tax inspectors. In addition the members of the tax office of Varosia are perceived as **[little]** very present.*

*The chance to be audited for self-employed people is very **[low]** high. This is to say that self-employed are **not** audited **very** often. Therefore, **[not]** very many of the committed tax offences can be detected. Moreover, the fines for tax evasion are **[not]** very severe in Varosia. When tax evaders are detected, they do **[not]** have to anticipate severe fines. The tax office does **[not]** exercise benignity.*

*All these factors cause that the citizens of Variosia assess their government as **[little]** very powerful.*

German Version:

All descriptions began as follows:

Bitte lesen sie folgende Länderbeschreibung durch:

Varosien liegt in Europa und hat eine Fläche von 83.871 km². Die Amtssprache ist Deutsch.

Bei der Volkszählung im August 2007 hatte Varosien 16.336.000 Einwohner. Die Arbeitslosenrate ist durchschnittlich hoch. In Varosien gibt es keine großen Einkommensunterschiede zwischen den Bürgern.

Afterwards relevant information for the manipulation of trust ([low] high) was varied between conditions:

*Seit der Unabhängigkeit im Jahre 1949 ist das Land von **[geringer] großer** politischer Stabilität geprägt und besitzt eine **[oligarchische (Herrschaft von Wenigen)] demokratische** Regierungsform. Es werden **[selten] regelmäßig** Volksbefragungen durchgeführt, um die Bürger Varosiens bei der Gesetzgebung mitentscheiden zu lassen.*

*Die Regierung genießt ein **[schlechtes] gutes** Ansehen bei der Bevölkerung. Aus Meinungsumfragen kann geschlossen werden, dass 70% der Bürger mit der aktuellen Regierung **[nicht]** zufrieden sind.*

*Innerhalb des Landes ist die Steuerlast **[nicht]** gerecht über die verschiedenen Berufsgruppen und Einkommensklassen verteilt. Unter Varosiens Bürgern herrscht **[nicht]** die Meinung vor, dass jeder seinen Beitrag an Steuern leisten muss.*

*Die Gesetzgebung in Varosien ist **[nicht]** transparent und die Regierung bietet **[keine] die** Möglichkeit, sich bei Rechts- und Steuerfragen an kostenlose Informationsstellen zu wenden. Außerdem sind die Behörden in Varosien **[wenig] sehr** service-orientiert und **[nicht]** daran interessiert, die Bürger Varosiens zu unterstützen.*

*Die Budgetausgaben des Staates sind für die Bürger Varosiens **[nicht]** nachvollziehbar, denn sie werden **[nicht] regelmäßig durch ein übersichtliches Amtsblatt** über die Verwendung der Steuergelder informiert. Bei einer Meinungsumfrage im Oktober 2007 gaben 78% der Bürger Varosiens an, den Eindruck zu haben, ihre Steuergelder würden **[nicht]** sinnvoll genutzt.*

*Außerdem werden sehr **[viele] wenige** Steuergelder von den Politikern veruntreut. Entsprechend einem internationalen Korruptions-Index (CPI) ist Varosien eines der europäischen Länder mit der **[höchsten] geringsten** wahrgenommenen Korruptionsrate.*

*All diese Faktoren führen dazu, dass die Bürger dem Staat Varosien **[wenig] sehr** vertrauen.*

Furthermore the descriptions were adapted to the manipulation of tax authorities' power ([low] high):

*Die Verfolgung von Steuersündern ist **[nicht]** sehr effektiv. Aufgrund der Steuergesetzgebung ist es für den Staat **[schwierig] einfach**, Steuerkontrollen bei seinen Bürgern durchzuführen und somit Steuerhinterzieher zu verfolgen.*

*Seitens der Regierung wird der Steuerbehörde ein **[geringes] hohes** Budget zur Verfügung gestellt, um Steuerhinterziehung zu ahnden. Durch die vorhandenen Mittel ist es den Steuerbehörden Varosiens **[nicht]** möglich, qualifizierte Finanzbeamte anzustellen. Zudem werden die Mitarbeiter der Steuerbehörden von Varosiens Bürgern als **[wenig] sehr** präsent wahrgenommen.*

*Die Steuerprüfwahrscheinlichkeit für Selbständige ist in Varosien sehr **[gering] hoch**, das heißt Selbstständige werden **nicht sehr** häufig überprüft. Deshalb können auch **[nicht]** sehr viele der begangenen Steuerdelikte aufgedeckt werden. Zudem sind die Strafen für Steuerhinterziehung in Varosien **[nicht]** sehr streng. Werden Steuerhinterzieher aufgedeckt, müssen sie **[nicht]** mit empfindlichen Strafen rechnen. Die Steuerbehörde lässt bei Steuerhinterziehung **[..] keine** Milde walten.*

*Aus diesen Gründen, wird der Staat Varosien von seinen Bürgern als **[wenig] sehr** mächtig beurteilt.*