ECONOMIC AND PSYCHOLOGICAL DETERMINANTS OF TAX COMPLIANCE

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SUMMARY

Purpose

Taxation serves as a fundamental source of funding public expenditures on goods and services accessible to all citizens. When considering the broader role of taxation, it is important to note that a well-balanced tax system plays a pivotal role in fostering a sustainable economy and society as a whole. This balance is not only reflected in providing accessible education, healthcare, and public infrastructure but also in offering sustainable support to the most vulnerable groups in society, fostering a conducive business environment, and ensuring social equity.

Regarding taxpayer behavior in addressing their tax obligations, there are two primary categories: those who comply with their tax responsibilities (either voluntarily or enforced) and those who choose not to comply, which can take the form of either tax avoidance or tax evasion, as noted by the Organisation for Economic Cooperation and Development (OECD). These behaviors illustrate that citizens possess varying attitudes towards adhering to the law and meeting their tax obligations. While prior research has identified these two main taxpayer behavior types, there is no consensus among researchers regarding the determinants that drive and influence these behaviors.

Consequently, this doctoral thesis aims to systematically analyze and integrate existing theoretical and scientific knowledge related to the concept of tax compliance. The purpose of the research is to identify tax compliance key determinants and to provide a broader and deeper understanding of this concept. At the same time, to investigate on the example of Croatian taxpayers how the new paradigm of tax compliance could be used within the framework of future tax policies. Ultimately, the goal is to develop a model that can predict taxpayer behaviour and foster an optimal and cooperative interaction climate within the tax system.

Methodology

This doctoral thesis comprises three interconnected research papers that focus on the identification and examination of factors influencing tax compliance behaviour in a national sample of Croatian taxpayers. These papers delve into the mechanisms by which these factors impact taxpayers' compliance. A complex research methodology was employed across all three papers, and this methodology was validated through preliminary research. To carry out this investigation, participants were invited to willingly take part in the survey, with a commitment to ensuring the confidentiality and anonymity of the data. To safeguard the rights of all participants, the questionnaire began with an introduction explaining the research's objectives and a guarantee that all collected data would be used exclusively for scientific research purposes.

Two sampling strategies were used to achieve adequate reach of the respondents – random SMS invitations to mobile phones and invitations through social networks (Facebook and Instagram). This resulted in two complementary subsamples with adequate representativeness in relation to the parameters of the population (age, gender, level of education). The data were collected directly from Croatian taxpayers through questionnaires (using mobile phones and social networks). A total of 862 valid questionnaires were collected.

Initially, an exploratory factor analysis was utilized, and subsequently, a cluster analysis was employed, resulting in fresh insights into the motivations and preferences of taxpayers in Croatia. Additionally, the empirical research involved assessing the relationship between specific determinants of tax compliance and actual tax compliance using the partial least squares

structural equations modeling method (PLS-SEM). Furthermore, the study examined both the direct and moderating effects of sociodemographic variables on tax compliance through OLS regression analysis.

Findings

In the first paper, after excluding the items with low communalities, exploratory factor analysis revealed following significant factors in explaining tax compliance: tax audits, tax rates, tax system complexity, tax morale, social norms and fairness perceptions. Furthermore, cluster analysis identified four different taxpayers' groups deriving from their perceptions of the previously mentioned factors.

Second paper followed the established two-stage analytical procedures for PLS-SEM to test eight hypotheses. The effects of social norms and tax morale on tax compliance were positive and significant.

In the third paper, besides economic and psychological determinants, the focus was on interactions of sociodemographic variables and tax compliance. Moderating effects of these variables between psychological/economic determinants and tax compliance were also tested. The results have identified tax morale, social norms, tax audits and tax rates as determinants that affect tax compliance behaviour in the Republic of Croatia. It has been established that sociodemographic variables are an indispensable component of the tax compliance model. Taxpayers' age, gender, and education level are significantly associated with their compliance behaviour. Finally, moderating role of gender, education level and income level between economic/ psychological determinants and tax compliance have been confirmed.

The main hypothesis in the thesis, stating that economic and psychological determinants have a significant impact on taxpayers' compliance, was confirmed. The first and second supplementary hypotheses also receive partial support, whereas the third auxiliary hypothesis related to sociodemographic variables receives full support. Both papers provide evidence of the importance of social norms and tax morale in influencing taxpayer compliance. However, in the third paper, which employs a different methodology, tax audits and tax rates have also been identified as significant factors affecting tax compliance.

Originality of the research

Regarding the conceptual aspects of the papers and the dissertation, the contribution is evident in the advancement of scientific thinking and a more comprehensive knowledge of the concept of tax compliance and the factors influencing it.

In the methodological section, the contribution is evident in the identification of economic and psychological factors, along with sociodemographic variables, which can play a role in enhancing tax compliance in the Republic of Croatia. The research also assesses the impact of these established determinants on tax compliance, shedding light on crucial gaps in understanding taxpayer diversity. During the initial stages of the research, a significant contribution is made through the development and validation of a measurement instrument, adapted tailored to Croatian tax system specificities. Additionally, this thesis contributes methodologically to the existing knowledge by employing PLS-SEM for analyzing the proposed model, a notable departure from the prevailing use of regression analysis in the field.

Consequently, these results contribute to existing knowledge of the taxpayers' behaviour and its determinants in the context of the ongoing change of paradigm in this field. This research emphasizes the need of encompassing and analysing psychological determinants, as well as the undoubted need for models to contain and further analyse the impact of taxpayers' sociodemographic characteristics on tax compliance.

The implications of these results are related to strengthening tax compliance and creating fairer and more efficient tax systems. Finally, in accordance with these results, it is obvious that the modern concept of tax compliance is a very complex one. Considerable attention of tax authorities and governments should be given to this concept, if adequately treating taxpayers is a part of their taxation strategies. This includes considering the complexity and mixture of determinants that shape compliance behaviour.

Consequently, there is a greater potential within the tax system to enhance cooperation and predict future taxpayer behavior, with the goal of reducing tax evasion and avoidance. Research results serve as the basis for creating recommendations with the purpose of ensuring adequate tax policy measures. These measures suggest the potential for achieving an optimal level of tax compliance in the Republic of Croatia, as the results affirm that nudging mechanisms and non-deterrence approaches (such as social norms and tax morale) should be integrated into tax strategies.