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**Tax compliance, corruption and deterrence: An application of  
the slippery model**

**Daniela C. Wilks, Luís Pacheco**

*Universidade Portucalense  
Porto - Portugal*

E-mail: [damflask@upt.pt](mailto:damflask@upt.pt)

**Abstract**

Tax evasion has been a common problem in some countries with damaging consequences to national budgets. It is thus important to understand what informs attitudes towards tax compliance. Trust, perceptions of fairness and corruption have consistently been found to play a crucial role in compliance behaviour. However, research findings have been inconsistent regarding the use of deterrence power to discourage tax evasion. The current study aims at examining the influence of perceived fairness and corruption plus sanctions used by authorities to enforce tax compliance attitudes with a sample of Portuguese economics and management students (N= 330). Findings suggest that trust in authorities and their capacity to deter and punish tax evaders are interrelated and that both are important in securing tax compliance. Findings are discussed in the current Portuguese context.

**Keywords:** tax compliance, corruption, deterrence power

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## 1. Introduction

Tax evasion has been a common problem in some countries with damaging consequences to national budgets. Attitudes towards taxes reflect attitudes towards governments and tax evasion can be the only means available to citizens to express their disapproval (Lewis, 1982). Many citizens are skeptical about how governments manage and spend their taxes. Such doubts are heightened when there are reports of corruption and in times of fiscal imbalances and harsh measures to reduce public debt. Where governments take measures to increase tax collection, citizens may be more reluctant to comply under pressure of tight personal and domestic budgets. As a result, revenues may deteriorate or diminish<sup>1</sup>. Tax evasion diminishes overall tax revenue, and the lost revenue leads to higher tax rates to make up for the loss.

Tax evasion is considered to be an illegal act in developed countries. Tax evasion in Portugal is a criminal offence that can lead to prison. However, exploiting tax loopholes and dishonestly misreporting income on a tax return may not be considered crimes and are in any case difficult to detect.

Traditionally the main policy approach to tax evasion in Portugal has been through deterrent sanctions such as tax audits, fines and ‘naming and shaming’ by means of a black list. This approach has not been successful. Although figures for compliance are difficult to obtain, it is known that these are some way below par and the shadow economy is estimated to be about 25% of GDP (Afonso and Gonçalves, 2009; The Economist, 2010).

It is thus important to understand what informs attitudes towards tax compliance. Trust, perceptions of fairness and corruption have consistently been identified as playing a crucial role in tax compliance (e.g., Torgler, 2003, 2004; Wenzel, 2003a). Where governments are seen to be fair, not corrupt and treat citizens with respect, taxpayers will tend to trust them and show more willingness to comply (e.g., Feld and Frey, 2007). Several other factors have been identified as contributing to compliance namely the sanctions

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<sup>1</sup> A result displayed by the typical Laffer-curve (for a recent discussion see Trabandt and Uhlig, 2010).

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used to enforce it. However, research findings have been inconsistent regarding the use of deterrence power to discourage evasion (Kirchler and Wahl, 2010). According to the slippery slope framework (Kirchler, 2007; Kirchler, Hoelzl, and Wahl, 2008; Kirchler and Wahl, 2010; Muehlbacher and Kirchler, 2010), trust in authorities as well as deterrence measures deployed by them increase tax compliance even though the type of compliance is clearly discrete. Power increases enforced tax compliance and trust increases voluntary tax compliance.

The current paper attempts to contribute to the understanding of the effect of trust and deterrent power on compliance intentions within the slippery slope framework using a Portuguese sample. To the best of our knowledge, this is the first empirical test of this framework in Portugal. Results allow us to conclude that trust in authorities and their capacity to deter and punish tax evaders are interrelated and both are essential in securing tax compliance.

The paper is structured as follows. First, a literature review on the determinants of tax compliance is presented. This is followed by a description of the research method and procedure used in the study. Results are then presented and discussed in the current Portuguese context.

## **2. Literature review**

The traditional view of tax compliance behaviour is that it is largely contingent on coercion: the assumption being that unless citizens are forced to declare and pay taxes they will not do so (Andreoni et al. 1998; Torgler, 2008). According to this view, tax authorities should focus on deterring evasion through tax audits and penalties for noncompliance. Although incentives and responsive regulation play a role in tax compliance (Feld and Frey, 2007), empirical studies have not found a statistically significant relationship between behaviour and the threat of punishment (Feld and Frey, 2002; Kirchler et al., 2008). Furthermore, research exists which shows that the deterrent effect of audits and fines is not strong and research findings have been so far inconclusive. Some studies have found that the threat of fines is slightly more related to tax compliance than the threat of audit, while other studies find no relation between fines and tax compliance although some relation

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between audit probabilities and tax compliance (Kirchler et al., 2008; Slemrod et al., 2001).

Considering the low probability of tax audits, the above approach to tax evasion cannot by itself account for high compliance rates (Alm et al., 1992). Several other factors have been identified. Justice, either procedural or distributive, has been found to influence compliance (e.g., Murphy and Tyler, 2008; Tyler, 2006; Wenzel, 2003a). Where governments are seen to be fair and not corrupt, citizens tend to trust them and show more favourable attitudes towards compliance (e.g., Braithwaite, 2003, 2007; Frey, 2003; Tyler, 2006).

Perceived treatment by tax authorities has also been pointed out as playing an important role in compliance (Feld and Frey, 2002, 2007), and the effectiveness of taxpayer service programs has also been found to be associated with compliance (Alm et al., 2010). The main conclusion seems to be that a willingness to comply with tax authorities is related to the degree of satisfaction with public services. Also, mutual respect between tax authorities and taxpayer has been found to play an important role in compliance as well as the extent of political participation and civil rights (Kirchler et al., 2008). The case of Switzerland is often cited to show that involvement in political decisions by the public is negatively associated with evasion (Pommerehne and Weck-Hannemann, 1996). An intrinsic motivation to pay taxes (“tax morale”) has been advanced as a possible explanation for high rates of compliance (Torgler, 2002; Wenzel, 2003b). In this scenario, citizens pay taxes out of a sense of social responsibility and respect for the law.

There is a significant body of literature that shows that trust plays an important role in compliance behaviour in different settings. The main conclusion seems to be that where taxpayers are treated as trustworthy they reciprocate by way of compliance (Feld and Frey, 2002; Tyler, 1997). Trust thus appears actually to foster compliance. For example, political trust increases support for a variety of tax-cutting initiatives (though only among liberals) (Rudolph, 2009), and trust in tax authorities is positively related to tax compliance (e.g., Torgler, 2003).

The extent to which people trust authorities may partly depend on dispositional factors (Mulder et al., 2007). However, external factors count: in the wake of recent events, taxpayer levels of trust in governments seem to have reached an all-time low. The 12th

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Edelman Trust Barometer shows the steepest decline in trust in governments in its history across all the countries surveyed. Only 29 percent of respondents viewed government as credible and, of the 26 countries surveyed, Portugal scored fifth lowest for trust in government, considered by citizens as the nation's least trusted institution.

Trust is related with perceptions of corruption. In this respect, a recent European Commission survey on corruption (European Commission, 2012) revealed that 57% of Europeans believed that bribery and the abuse of power for personal gain were widespread amongst national politicians. The same report indicated that corruption was a serious concern in Portugal, where almost all respondents (97%) believed that corruption was a major problem in the country and was getting worse. According to a published report on the effectiveness of structures for preventing and fighting corruption in Portugal, the current EU/ECB and IMF-imposed austerity measures have exacerbated anxieties regarding perceived endemic corruption.

To sum up, previous studies have consistently found that where governments are seen to be fair and not corrupt, citizens tend to trust them and show more favourable attitudes towards tax compliance. On the other hand, sanctions used to enforce compliance also influence taxpayer behaviour although the degree of deterrent effect is dependent on other factors and their effect is so far inconclusive. Recent surveys indicate that in Europe the levels of trust are fairly low.

A study on Portuguese perceptions of the causes of tax evasion (Tavares and Iglesias, 2010) revealed that the origins are seen as two-fold: the justice of the tax system and the control of tax evasion. According to the authors, the Portuguese distinguish between two different causes of tax evasion. Firstly, there is global thinking regarding the equity of the taxation frame, characterized mainly by negative beliefs and values; secondly, citizens maintain that control and vigilance of tax evasion is ineffective. The paper concludes that evasion is due to widespread discontent with the tax system and its lack of effective measures of deterrence. Perceived injustice induces evasion and lack of control makes it possible.

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*The slippery slope framework*

On the assumption that tax compliance is based on trust in authorities as well as their power of deterrence, Kirchler (2007) and Kirchler et al. (2008) developed the so-called slippery slope model, according to which the attitudes of the tax authorities towards taxpayers affect compliance. Tax collection can be augmented either by increasing public trust in tax authorities or by increasing their deterrence power. Trust is here defined as a “general opinion of individuals and social groups that the tax authorities are benevolent and work beneficially for the common good” (Kirchler et al., 2008, p. 212) and includes a perception of fairness. Power is defined as a general perception of deterrence capability and in this way incorporates subjective evaluations concerning the ability of authorities to detect and deter tax evasion.

The framework conceives two distinct forms of tax compliance, namely voluntary and enforced compliance. The former is based on trust in tax authorities and citizen good will in paying taxes, whereas the latter depends on the power of tax authorities to forestall evasive intent. In this latter case, if deterrence power increases and citizens lack trust in authorities they will tend to weigh up the gains and costs of evasion and decide to pay their taxes only where such costs are seen to exceed possible benefits. However, use of excessive deterrence power by authorities generates a feeling of distrust and reduces cooperation, while trust generates more trust. Trust increases and power decreases voluntary compliance, whereas power increases enforced compliance.

To summarize, the slippery slope framework consists of three dimensions: (1) trust in tax authorities; (2) power of tax authorities, and (3) tax payments. Tax payments are assumed to be influenced by the twin determinants of trust and power. The main aim of this study was to analyze the influence of trust and deterrence power on tax compliance within this framework. It was hypothesized that:

- intended evasion would be lower and intended compliance would be higher in conditions of high trust (authorities perceived as fair and trustworthy) and high power (draconian deterrence, frequent audits and heavy fines) (hypothesis 1);
- intended compliance would be lower and intended evasion would be higher in conditions of low trust (authorities perceived as untrustworthy) and low power (authorities perceived as ineffectual) (hypothesis 2);

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- voluntary compliance would be higher in conditions of high trust and low power (hypothesis 3);
  - voluntary compliance would be lower in conditions of low trust and high power (hypothesis 4);
  - enforced compliance would be higher in conditions of low trust and high power (hypothesis 5);
  - enforced compliance would be lower in conditions of low trust and low power (hypothesis 6).

### **3. Method**

#### *Sample*

The sample comprised 330 undergraduate and master's degree students in economics and business administration of two universities. Fifty-two per cent were females. The mean age was 23 years (SD = 1.11). Concerning income, 36% reported an average monthly net income equal to or below € 500, 30% an income between €500 and €1000, and the rest above €1000.

Students were invited to participate in a research project on tax compliance attitudes and were all volunteers. Questionnaires were distributed during class time from February to March 2012. The participation rate was 100%.

#### *Instrument*

This study used Kirchler and Wahl's (2010) questionnaire, translated into Portuguese by one of the authors and back-translated into English by the other author to ensure that the wording used reflected the original English items, and was then cross-checked. The translation was further tested on a sample of twenty students. The procedure followed the author guidelines as follows.

Respondents were asked to read the description of a hypothetical country (Varosia) and imagine themselves living and working in that country in which they had to pay taxes. Factors such as the size and population of Varosia were adjusted to fit with current data on Portugal to allow identification with the home country. The description varied according to the conditions and words indicating these differences were in bold. There were therefore four types of questionnaires combining low vs. high trust in authorities, low vs. high power of authorities, which were randomly distributed.

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In the low trust condition, the text stated that the Varosia tax authorities were highly untrustworthy, authorities were not service-oriented and were perceived as being corrupt. The text of the high trust condition stated that the tax authorities were highly trustworthy, acted in service-oriented ways, and were not perceived as corrupt. In the low power condition, tax authorities were described as highly ineffective in detecting tax evasion and in the high power condition tax authorities were described as working efficiently.

After reading the description of Varosia, respondents answered three items on their general intention to pay taxes in Varosia (intended tax compliance) (e.g., “How likely will you be to pay your taxes completely honestly?”; 1= very unlikely to 7= very likely). Furthermore, respondents answered a set of items regarding voluntary compliance (e.g., “When I pay my taxes in Varosia as required by the regulations, I do so because to me it’s obvious that this is what you do”) and enforced compliance (e.g., “When I pay my taxes in Varosia as required by the regulations, I do so because I know that I will be audited”; 1= strongly disagree to 7= strongly agree). To assess intended evasion, five short items asked respondents to indicate how they would behave in situations where they were able to evade taxes with an extremely low probability of detection. A specimen item was: “You could intentionally declare restaurant bills for meals you had with your friends as business meals. How likely would you be to declare those restaurant bills as business meals?”; 1= very unlikely to 9= very likely). Finally, respondents were asked to indicate their net income on a 5 item-scale: < €500; €500-1000; €1000-1500; €1500-2000; > €2000.

#### **4. Results and discussion**

Explanatory Factor Analyses were conducted on the items of trust, power, intended compliance, voluntary compliance, enforced compliance, and tax evasion intention scales. For each scale a Varimax rotation extracted one factor with eigenvalues greater than 1, and the Cronbach’s alpha coefficient indicated a very good internal reliability. Negative items were reverse-scored and a global mean score was computed for each scale. Correlations suggested significant correlations between the variables except, as might be expected, for enforcement and intended compliance, and enforcement and voluntary compliance. Table 1 presents the

descriptive statistics, Cronbach's alpha coefficients and correlations among the study variables.

**Table 1. Means, standard deviations, Cronbach's alphas and intercorrelations among variables (N=330)**

Variables	<i>M</i>	<i>SD</i>	<i>α</i>	1	2	3	4	5	6
1. Intended comp.	6.20	1.87	.91	-					
2. Trust	4.22	2.53	.85	.42**	-				
3. Power	5.09	2.68	.85	.39**	.31**	-			
4. Voluntary comp.	6.18	1.82	.87	.48**	.29**	.13*	-		
5. Enforced comp.	4.69	2.47	.92	.20**	.08	.53**	-.02	-	
6. Tax evasion	5.06	1.02	.88	-.42**	-.24**	-.13*	-.38**	.14**	-

Note: comp. = compliance. \*  $p < .05$  level; \*\*  $p < .01$  (2-tailed). All means are given based on the 7-point response scale except for tax evasion which are the 9-point response scale.

Following Wahl et al. (2010), a two-way MANOVA was conducted to check manipulations of power and trust with power (high power: authorities perceived as effectual; low power: authorities perceived as ineffectual) and trust (high trust: authorities perceived as trustworthy and not corrupt; low trust: authorities perceived as untrustworthy and corrupt) as independent factors, and the responses on trust and power scales as dependent variables. Findings showed a significant interaction effect between power and trust for trust manipulation,  $F(1,326) = 17.54$ ,  $p < .001$ , partial  $\eta^2 = .05$ , but not for power manipulation. The power of authorities had a statistically significant main effect for trust ( $F(1,326) = 24.50$ ,  $p < .01$ , partial  $\eta^2 = .07$ ) and for power scores,  $F(1,326) = 493.58$ ,  $p < .001$ , partial  $\eta^2 = .51$ . Trust in authorities had a significant main effect for trust,  $F(1,326) = 333.27$ ,  $p < .001$ , partial  $\eta^2 = .51$ , and for power,  $F(1,326) = 9.36$ ,  $p < .01$ , partial  $\eta^2 = .03$ . Given the results, we concluded that both trust and power were successfully manipulated.

To examine the effect of trust and power on intended compliance a two-way ANCOVA was run with trust and power as independent

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factors, intended compliance as dependent variable and controlled by gender, age and income. The interaction between power and trust was not significant, but the main effects were statistically significant, respectively  $F(1,225) = 27.42$ ,  $p < .001$ , partial  $\eta^2 = .11$  for power, and  $F(1,225) = 26.86$ ,  $p < .001$ , partial  $\eta^2 = .11$  for trust. Findings suggested that both power and trust affected intention to pay taxes. Covariates were not significant.

Univariate tests were used to evaluate differences among means and they were found to be significant at .001 level for both power and trust. Respondents showed a higher intention to pay taxes when power and trust were high than when they were low. When authorities were described as both powerful and trustworthy and not corrupt respondents were more willing to pay taxes (see Tables 2 and 3).

A MANCOVA examined the influence of trust and power on the two types of compliance, with voluntary and enforced compliance as dependent variables, trust (high and low) and power (high and low) as independent factors with age, sex and income as covariates. There was no significant interaction effect of trust and power. The main effect of trust on voluntary tax compliance was significant,  $F(1,225) = 10.28$ ,  $p < .01$ , partial  $\eta^2 = .04$ , but not on enforced compliance. Conversely, the main effect of power was significant on enforced compliance,  $F(1,225) = 85.03$ ,  $p < .001$ , partial  $\eta^2 = .27$ , and not on voluntary compliance. For the covariates gender, age and income no significant effects were found.

The estimated mean for voluntary compliance was higher for high trust than low trust, which suggests that voluntary compliance was higher when authorities were seen as trustworthy and fair than untrustworthy and unfair. As for enforced compliance, when authorities were seen as having a strong power to detect and punish tax evasion, enforced compliance was higher than when they were seen as having weak power (see Table 2).

**Table 2. Estimated means and standard errors of mean intended compliance, tax evasion, voluntary compliance and enforced compliance in the four conditions.**

Dependent variables	Power		Trust	
	High power	Low power	High trust	Low trust
Intended compliance	5.79 (.07)	5.27 (.07)	5.84 (.07)	5.22 (.07)
Voluntary compliance	6.41 (.16)	6.22 (.17)	6.55 (.16)	5.82 (.16)
Enforced compliance	5.98 (.19)	3.39 (.20)	4.84 (.20)	4.53 (.20)
Tax evasion	5.31 (.19)	5.91 (.20)	5.30 (.20)	5.92 (.20)

Note: Higher scores indicate higher acceptance of the items. Means are corrected for covariates gender, age and income and are significant at the .05 level. Standard errors are given in parenthesis.

Voluntary compliance was higher when authorities were described as powerful and trustworthy and lowest when trust was low and power high. For enforced tax compliance, respondents tended to report the highest intended compliance when authorities were described as powerful independently of trust. The lowest intended compliance occurred when trust and power were low (see Table 3).

A ANCOVA analyzed tax evasion intentions and trust (high and low) and power (high and low) with trust and power as independent factors, tax evasion intentions as dependent variable and gender, age and income as covariates. The interaction effect between trust and power was not significant. However, significant effects were found for trust,  $F(1,225) = 5.05$ ,  $p < .05$ , partial  $\eta^2 = .02$ , and power,  $F(1,225) = 4.63$ ,  $p < .05$ , partial  $\eta^2 = .02$ . As shown in Table 3, mean differences between high and low trust were significant at the .05 level. Higher scores indicated increased evasion intentions. Respondents were less willing to evade when authorities were described as trustworthy and fair and more willing to do so in the low trust condition. Mean differences were also significant between high and low power at  $p < .05$ , and were lower in the condition of high power than in the condition of low power. Evasion intentions were equal in the condition of low power and low trust. The

covariates age and sex significantly influenced the mean of tax evasion intentions, respectively  $F(1,225) = 5.89, p < .05$ , partial  $\eta^2 = .03$  and  $F(1,225) = 4.21, p < .05$ , partial  $\eta^2 = .02$ . Income did not affect tax evasion intentions (see Table 3).

**Table 3. Estimated means and standard errors of mean intended compliance, voluntary compliance, enforced compliance, and tax evasion as a function of power and trust in the four conditions.**

Dependent variables	High trust	High trust	Low trust	Low trust
	High power	Low power	High power	Low power
Intended compliance	6.03 (.09)	5.65 (.09)	5.55 (.09)	4.89 (.09)
Voluntary compliance	6.72 (.22)	6.39 (.24)	5.57 (.23)	6.06 (.24)
Enforced compliance	5.97 (.27)	3.71 (.29)	5.9 (.28)	3.07 (.28)
Tax evasion	5.00 (.24)	5.44 (.24)	5.65 (.24)	6.16 (.26)

Note: Higher scores indicate higher acceptance of the items. Means are corrected for covariates gender, age and income and are significant at the .05 level. Standard errors are given in parenthesis.

This study examined the influence of trust and power on tax compliance intentions within the slippery slope framework. Trust and power were successfully manipulated. Participants who were told that Varosia's politicians were trustworthy trusted the authorities more than those who were told that the politicians were untrustworthy; participants who were told that authorities were powerful perceived Varosia's authorities as more powerful than participants who were told that authorities' power was weak.

Four of the six hypotheses were fully supported. Findings suggested that tax evasion intentions were lower and tax payment intentions were higher when authorities were perceived as fair, not corrupt and trustworthy and when deterrence power (frequent audits and heavy fines) was high (hypothesis 1). Findings suggested the opposite when authorities were perceived as untrustworthy and ineffective in detecting tax evasions (hypothesis 2). Voluntary compliance was lower in the conditions of low trust and high power

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(hypothesis 4), and enforced compliance was lower in the condition of low trust and low power (hypothesis 6). However, voluntary compliance was not at its highest in the conditions of high trust and low power as posited in hypothesis 3, but rather when trust and power were both high. Nor was enforced compliance at its highest in conditions of low trust and high power, as posited in hypothesis 5, but rather in conditions of high power independently of whether trust was high or low.

Respondents were therefore more likely to comply when authorities were described as fair and trustworthy as well as when they were described as having the ability to detect and punish tax evasion. Furthermore, voluntary compliance diminished in the condition of high power and low trust and enforced compliance was higher when authorities were described as powerful. Given this, the current study on the whole gives support to the assumptions of slippery slope framework (Kirchler, 2007; Kirchler et al., 2008; Wahl et al., 2010). However, in this study voluntary compliance was at its highest when both power and trust were high and remained high even in the condition of low trust. Moreover, when authorities were described as powerful, respondents trusted the authorities more than in the low power condition.

In line with the slippery slope framework, it may thus be said that both power and trust are necessary to obtain tax compliance. Citizens who spontaneously feel inclined to comply will do so if they trust the authorities but those who do not feel so inclined may do so if motivated by the fear of being audited and punished. Moreover, if they can evade without being caught they will attempt to evade. On the other hand, “honest citizens” feel that non-compliers should be punished (Kirchler et al., 2008; Wahl et al., 2010). Intuitively, it seems plausible to suggest that this tendency would be more evident in times of austerity.

As Feld and Frey (2007) point out, citizens may be willing to declare their taxes honestly, even if they do not receive the equivalent social wage in return, providing that the political process is perceived as fair and legitimate. Given that power of authorities to deter tax evasion is accepted when considered legitimate, the current fiscal imbalances in many countries may well legitimize the use of such power in the eyes of citizens. This being the case, coercive power may be accepted.

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Voluntary compliance scores were higher in all conditions than for enforced compliance. This could be interpreted as expressing a general potential willingness to comply. Another interesting result is the difference between tax compliance specific to the case of the hypothetical country (intended tax payment) and voluntary compliance. Here too voluntary compliance scores were higher across all four conditions.

Findings must be interpreted in the cultural and social context of the respondents. Deterrence has long been the prevalent strategy in Portugal and few campaigns have been implemented to appeal to Portuguese citizens' sense of civic duty. Deterrence has not been successful in lowering tax evasion. Tax increases collides with public resentment towards the government due to perceived profligacy in public expenditure, and well publicised reports of corruption gone unpunished. As it is usually the case in times of economic austerity, disapproval of supposed benefit-scrounging by the "undeserving poor" is more in evidence. Moreover, citizens sense a shortfall between the taxes they pay and the services they receive. To this should be added the evidence, widely accepted, that the present sovereign debt crisis was due to a huge build-up of public debt and mismanaged taxpayer contributions. Considering all this, as Alm et al. (1992) have remarked, it is to be wondered why so many citizens continue to pay their taxes.

On the other hand, the current harsh fiscal measures to reduce public debt and the budget deficit have been imposed by the IMF/EU/ECB "to save the country" from bankruptcy. So far, and in spite of some opposition, the Portuguese have appeared to accept these measures. However, at the time of writing it is still unknown whether this acceptance will prevail. Ultimately the question that Portuguese tax authorities must address is how to increase taxes and revenues at a time when the public are more than ever likely to feel that they are getting, by necessity, less in return for their taxes.

As mentioned before, surveys suggest that the Portuguese believe that corruption amongst politicians is rife. Corruption "legitimizes" tax evasion as seems to be the case in Greece.

Prior research has found inconsistent findings regarding enforcement factors. This study suggested that both trust in authorities and their deterrence power are important in securing compliance. Appeals to the common good will be effective only if all citizens comply, but "non-compliers" will always exist, either

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because they are resistant or disengaged (Braithwaite, 2007). This may explain the importance of power in the findings. In the long run, voluntary compliance works best, but building trust is a long process and the crisis calls for more immediate remedies.

This study focused on a student population this clearly constitutes a limitation on generalizability. With few exceptions, students do not have much experience with tax issues, but they are nonetheless fully enfranchised citizens. Students are also better educated than the average of the population and thus may not be representative of it, but their education may better enable them to understand the hypothetical scenario presented to them in this study. Moreover, there is evidence that student attitudes on the subject are not different from other adults (Torgler, 2008). In the case of Portugal, given the large number of unemployed young graduates, it is particularly interesting to know students' attitudes towards tax compliance. In any case, results should be interpreted with care and future research should extend the study to employed and self-employed adults. Another limitation is that the sample was collected using economics and management students, which may bias the results. Further research should include a more diversified student population.

This study ignored a variety of socio-demographic variables outside its scope which may be nonetheless relevant to understanding tax compliance intentions. As Lewis (1982) remarks, it is not clear that antipathy towards taxation increases as income rises. Although this study included one question about income, it did not solicit information about family income and origin (rural, urban). The importance of fiscal knowledge and awareness should also be included as variables in other studies. Another interesting research avenue would be to investigate the role played by individual dispositions towards authority in general and tax compliance.

## **5. Conclusions**

Tax evasion is a particularly serious problem in times of economic austerity. The current study contributes to an increased understanding of tax compliance intentions by shedding light on the influence of trust and sanctions on tax compliance intentions. Findings allow us to conclude that trust in authorities and their capacity to deter and punish tax evaders are interrelated and both are

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important in securing tax compliance, as suggested by the Slippery Slope framework. However, of these factors trust is essential and since corruption erodes trust, corruption must be addressed as a pre-condition.

Results were discussed in regard to the financial crisis affecting EU and especially Portugal. The main conclusion seems to be that in a climate of distrust, high power is needed by authorities to enforce compliance and increasing fines and audit probabilities may be an effective tax policy.

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## Appendix

### Description of Varosia (different wording of the four versions is underlined)

Please read the following description of a country:

In the last census of population in 2010 Varosia had 10,570,803 inhabitants and the territory of Varosia occupies 92,090 km<sup>2</sup>. The unemployment rate is at an average.

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

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

Varosia's legislation is/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 very/little service-oriented and interested/not interested in supporting Varosia's citizens.

The budget expenditures of the state are traceable/not traceable for Varosia's citizens, because they are informed/not informed about the use of tax money. In an opinion poll in October 2010 78% of Varosia's citizens indicated to have the impression that their tax money is used/not used reasonable.

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

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

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

The government assigns a high/low budget to the tax office to punish tax evasion. With the means at hand it is/ 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 very/little present.

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

All these factors cause that the citizens of Varosia assess their government as very/little powerful.