



The Effects of Behavioral Economics on Tax Amnesty

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ABSTRACT

Evaluating the economic behaviors in terms of psychology was considered as irrational at the beginning and this situation was rejected by also many economists. However, these approaches have been exposed to heavy criticism in recent years. Especially while explaining economic behaviors, the idea supporting that psychological attributes of economic agents should be taken into consideration has come forth, and dependence of economy on human psychology has been pointed out because, it doesn't seem possible to understand the motives behind economic behaviors in general and taxational behaviors in particular. From this point of view, the aim of this study is defining the concept of economic psychology primarily and then as the research subject, investigating the effects of psychological approaches on tax amnesty.

Keywords: Behavioral Economics, Psychology, Tax Amnesty, Tax compliance, Prospect Theory

JEL Classifications: D03, E03, H2

1. INTRODUCTION

Tax is the amount of money being collected in order to meet public expenditures by national or local authorities, in other words, by the state or the constituents that have the authority of transferred taxation. Nowadays, considering the fact that tax revenues constitute an important part of public revenues (Stewart, 2001), collection of tax revenues becomes such an important issue. Especially after the economic crisis of 2008, rising public finance deficits of countries have increased the need for tax revenues considerably, and the countries have turned towards more global cooperation in order to fight against tax loss and evasion.

Although the efforts spent for global cooperation are significant, in today's modern state understanding, creating a sustainable and voluntary tax paying culture is becoming the first priority. There is a necessity to maintain the relationship between the governments, tax authorities and taxpayers in cooperation and harmony in order to run the process properly. Otherwise, the "sensitivity" which occurs during tax compliance process can cause the problem of perception in taxational sense for the taxpayers. Sensitivity measurement criteria such as the comparison of benefits in return for the tax paid, the limits of acceptability of tax imposition or

coercion, perceptions of justice and how the tax system is designed shape the perceptions, attitudes and behaviors of taxpayers (either negatively or positively) (Lewis, 2008).

Unsufficient acceptance of taxational sensitivity by the society causes tax compliance issues in the form that tax duties are fulfilled inadequately or they aren't fulfilled at all. This situation both reduces the prospects of voluntary compliance and result in tax compliance costs. Compliance costs are generally interpreted as the mean loss of time and money. Compliance costs (the cost of reading detailed instructions, filling in forms and having additional records for tax purposes) are related to disincentive costs (reductions in work hours and willingness to invest); uncertainty costs (frequent tax code and law changes make it very difficult to plan the efficient use of capital and labor); enforcement and litigation costs (individuals can appeal against decisions made by tax authorities and this involves expensive court and other legal procedures); evasion and avoidance costs (individuals devote real resources to legally and illegally trying not to pay tax, e.g. using tax havens and doing work for cash in hand); government costs (expenditures on the various agencies that collect taxes), and psychological costs are also relevant, however, including feeling anxious and bothered by one's financial situation are related (Lewis, 2008; Loewenstein, 1987; Kirchler, 2007).

Smith and Stalans (1991) have made an interesting contribution to the compliance cost debate through suggesting that a simplified tax system would create more comfort for taxpayers (that is, reduce emotional/psychological costs), and in this way serve as a positive incentive for compliance. Similarly, trust to the government and the need for supporting government will reduce compliance costs psychologically and taxpayers will adjust to the tax based on their ability to pay. After considering this and many similar examples, it can be clearly seen that the psychological factors are also important as well as economic factors in terms of evaluating the attitudes of individuals towards taxes. The basic approaches employed by the economic psychologists to evaluate psychological behaviors of the taxpayers are as follows (Lewis, 2008; Downward, 2003; Webley et al., 2001): (i) The notion of satisficing, (ii) the notions of framing and prospect theory, (iii) mental accounts, (iv) the approach of etzioni, (v) notions derived from behavioral psychology, such as melioration and myopia, (vi) attitudes, particularly the theory of planned behavior. The first three (satisficing, framing, mental accounts) are all concerned with the way decisions are actually made and the impact of decision-making processes on the outcome. They are bounded rationality approaches and accept selfishness. Etzioni, by contrast, questions selfishness but accepts rationality. The last two approaches (behavioral psychology, attitude theory) emphasize the necessity to consider the actions of taxpayers psychologically, because the attitudes may turn into the habits over a certain period of time.

2. LITERATURE REVIEW

2.1. The Extent of the Relationships between Economy and Psychology

It is possible to define economy as “the study of how society uses its scarce resources” or, more snappily, “the science of choices” (Bishop, 2004). Psychology, in short, is defined as the field of science which studies human behaviors and mental processes. In the beginning, the use of psychology and economy sciences together was criticized heavily by the economists; it was seen that there were extremely sardonic manners and attitudes against psychologists and psychological research (Antonides, 1996; Webley et al., 2001).

The main reason of this situation is that for most part of the 20th century, and especially since the 1950s, the characterization of the human being as homo economicus has dominated economics. In other words, an individual is considered as an economic entity (homo economicus) who maximizes only his own interests, makes only rational choices and who is insensitive and emotionless. However, these approaches have come under heavy criticism recently; it has been argued that while explaining economic behaviors, psychological attributes of economic agents should also be considered. Then, with a less reductionist approach, the dependence of economy on human psychology was emphasized by bringing economy and psychology concepts together (Agarwal and Vercelli, 2005). Although this seems a plausible description of rational choice, it does not appear to describe the behaviour of the real world (Koppl, 2004).

This case has caused to question the concept of “homo economicus” based on human nature; the extent of relations between psychological variables and economic behaviors have been discussed in many

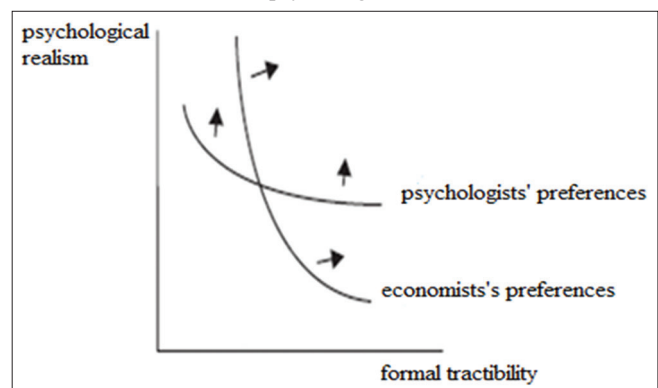
research. As a result of the research, it has been seen that rational/self-interest individual approach that directs choices and behaviors are discredited by also experimental research. Naturally, while determining the models of choice, the purposes of psychologists and economists differ from each other. Psychologists primarily struggle to reveal the realist models of cognitive processes regarding how human mind works. As for economists, they try to create models that can help to explain economic questions at collective level such as market behavior, prices, laws, institutions, by creating much more pragmatic models in general.

The cleverly models of these different orientations of economists and psychologists with indifference curves are presented in Figure 1. Economists’ preference for models is strongly influenced by their formal properties (elegance, tractability), and less so by their realism and descriptive accuracy. For psychologists the inverse is true (Lewis, 1983; Raaij et al., 1988; Rabin, 2002).

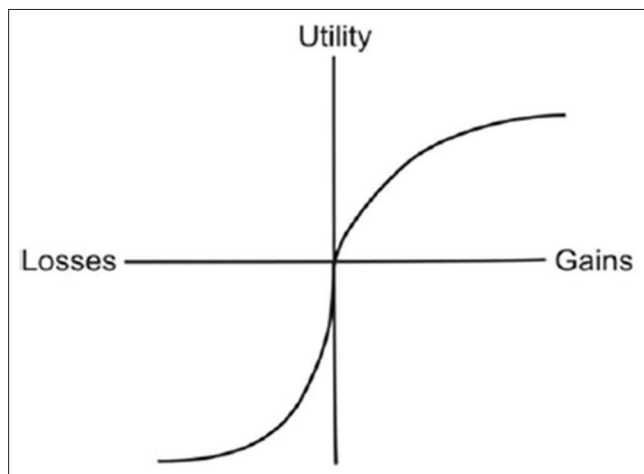
According to “prospect theory” developed by Kahneman and Tversky, people may not show rational behaviors under changing or risky circumstances. According to Kahneman and Tversky, who have established the foundations of new behavioral economics, instead of rational individual, there is individual with bounded rationality. And this situation means that individuals have incomplete ability of data processing. Consequently, individuals appeal to heuristics and rules of thumb when making their decisions. They make biased probability judgments and are often over confident. Moreover, individuals tend to anchor to seemingly irrelevant information or to the status quo, and they are loss averse. In general, they do not maximize expected utility. According to this perspective, individuals’ tendencies to avoid risks are bigger than their desires to win. Because the affliction being felt as a result of a loss is much bigger than the satisfaction of a gain. According to Pinker, this is the main motive lying under our desire to win all the time. While gains are increasing our prospects of survival and reproduction, losses can leave us “out of the game” at all (Diamond and Vartiainen, 2007; Koppl, 2004; Wilkinson and Klaes, 2012).

Prospect theory suggests that the subjective value function is concave for gains and convex for losses and steeper for losses than gains (Figure 2). This reflects the finding that decision makers are usually risk seeking for losses, risk averse for gains and reluctant

Figure 1: Indifference curves for theory preferences in economists and psychologists



Source: Rabin (2002)

Figure 2: Prospect theory

Source: Hofmann (2007)

to accept a fair bet on the toss of a coin (in fact, potential gains have to exceed potential losses by a factor of about two in order to achieve indifference). The different steepness for gains and losses introduces a “kink” in the value function which makes it difficult to treat mathematically and which has been termed “reference point.” Although not formally defined, the reference point often corresponds to the status quo or the current wealth level. Moreover, decision weights modulate probabilities according to an inverted-S-shaped probability weighting function. This reflects the finding that many decision makers overweigh small and underestimate large probabilities, at least when making hypothetical decisions (Hofmann, 2007).

The main idea in prospect theory is toward the idea that individuals’ tendency to avoid risks is bigger. Similarly, various psychological studies on this topic seem to support this idea. According to this approach, when individuals consider the potential damages that may occur in the future, they may behave shy and not take risks in order to tolerate the risk, no matter how much the gain is. As the risk and ambiguity caused by the unknown is the determinative factor at this point. With respect to this, at psychological analysis of tax amnesty which is one of the factors that affect the tax compliance process of taxpayers, it is possible to say that prospect theory on its own remains insufficient; because, taxpayers may have a tendency to take risk in prospect of a tax amnesty and they estimate a price for the risk. Therefore, it has been stated that it would be a more appropriate approach to focus on the last two approaches which are mentioned above, since they are among the basic approaches being used by economic psychologists for determining in what aspects tax amnesties affect taxpayers’ psychological behaviors (Leahy, 2003; Raaij et al., 1988; Sinn, 2007; Webley et al., 2001).

These approaches are: (i) Behavioral psychology and, (ii) attitude theory. Behavioral psychology and attitude theory are considered highly important in terms of revealing the relationships between attitudes and behaviors (Webley et al., 2001). At the same time, it is seen that these approaches present also an appropriate point of view for understanding how the attitudes of taxpayers on tax amnesties can turn into action.

Considering in general, the position of people in relation to the events they experience is consisted of the “perception-attitude-behavior” triplet. The attitudes of people performed in the face of the events are related to what they understand from those events and in what way they interpret them. This condition is called as “perception” in psychology and it is defined as transmitting signals that are created by stimulants around in sense organs to the brain, being organized in brain and gaining a meaning. Therefore, it is suggested that perception has the prime importance on the attitudes people adopt. As for attitude, in many definitions and conceptualizations the expressive qualities of attitudes are emphasized, i.e. the expression of the feeling. In other words, it is defined as a tendency which is attributed to an individual and which creates ideas, feelings and behaviors in an individual about a psychological object. As it can be understood from the definition, the most significant feature of an attitude is that it presents not an observable behavior but a preparatory tendency or point of view to the behavior. Consequently, attitudes are not seen with naked eye, however, they cause observable behaviors and these behaviors maintain their presence as a result of observing them. For this reason, attitudes causing behaviors are considered as highly important for analyzing the social events (GIB, 2007; Raaij et al., 1988).

Attitudes can be defined as dispositions to respond in a consistently positive or negative way to a class of stimuli. For example, the attitude that a consumer adopts for a brand can turn into a behavior such as buying that brand. According to Campbell, attitudes are the result, the residual, of past experience. This experience may be direct, i.e. own experience, or indirect, i.e. communicated experience from others. If attitudes are the result of cognitive learning, cognitions or beliefs are expected to give rise to the attitude. On the other hand, according to differentiated attitudes approach, attitudes reveal their behavioral intentions, and the pressure from social environment is accepted as important for turning attitudes into actions or behaviors (Lewis, 2008; Raaij et al., 1988).

2.2. Psychological Aspect of Taxation

There are many researches and evidences suggesting that taxational behaviors vary based on the attitudes. Additionally, classical writers like Hobbes and Smith point at especially the emotional side of taxation. As argued by Hobbes and Smith, psychologically this induces the emotion of anger on the side of the taxpayer, characterized by an action tendency of aggression, which may lead to welfare losses. Manifestations of anger by taxpayers include the well-known phenomena of the destruction of crops by farmers and road blockades by truckers. Tax revolts, with a strong emotional component, are historically a steady companion of taxation. Dramatic cases in point are the levy by the Duke of Alva which sparked the 80-year war between the Dutch and the Spanish, the tax-induced American revolution against England, and (albeit less dramatic) the more recent revolt in the UK against the poll tax that contributed to the fall of Prime Minister Margaret Thatcher. Welfare losses related to emotional responses to taxation may show up directly - as in the case of the destruction of crops - but also indirectly. The latter happens when the frustration caused by taxation leads to an emotional response to reduce effort (labor

supply) which is to be distinguished from the (reasoned) price distortion-induced substitution effect acknowledged in tax theory (Lewis, 1983; Pardo and Schwartz, 2007).

Similarly, negative beliefs throughout the society about topics such as the extension of tax losses and leakages, taxational exceptions for certain sectors, exemption, extensiveness of deduction practices, tax amnesties, tax deferrals, inadequacy of tax burden on capital income can cause emotional reactions against taxation and decisions of policymakers. This situation causes welfare losses; on the other hand, it necessitates taking emotional hazard into account in politic analyses. By this way, it would be possible to comprise a progressive taxation system to enhance efficiency, to prevent adverse effects of envy that taxpayers feel about each other and to reduce income disparities throughout the society. Once again, it is important to pay attention to the emotional reactions and take them into account in order to keep competition at a considerable level in markets, reducing fraud, and also lightening adverse selection problems (Agarwal and Vercelli, 2005; Diamond and Vartiainen, 2007; Kaul and Conceição, 2006; Pardo and Schwartz, 2007). Because there are feelings like moral considerations, love, loyalty, altruism and commitment, responsibility, anger, hatred, malice and revenge between people; and these are not generally included in benefit or cost functions (Antonides, 1996). Excluding the emotional reactions from calculations causes current problems to grow increasingly. At the same time, this situation manifests itself in also the issue of “tax amnesties” which is one of the factors affecting tax compliance process.

Tax amnesty is a term used to describe a one-time offer to settle an outstanding tax debt for an amount that is less than the current debt. In other words, this approach means enabling taxpayers to pay unpaid tax debts under suitable circumstances without incurring additional late fees and other penalties (Wisegeek, 2014).

Along with the current amnesties, taxpayers are freed from administrative and legal penalties; considering in general, it is seen that the mentioned amnesty regulations are handled in three contexts (Franzoni, 1996):

1. Revision amnesty: the possibility offered to taxpayers to revise the tax returns of specific tax years with a reduced penalty. The amnesty enables taxpayers to correct their income returns (upwards) and pay the missing taxes. Taxpayers accepting the amnesty are not immune from the investigation and auditing activities of the tax administration
2. Investigation amnesty: the possibility offered to taxpayers to get exemption from audits on specific tax years on payment of an amnesty fee. This is essentially an offer not to investigate the real amount, or the origin, of the taxable income of the taxpayers who take part in the programme
3. Prosecution amnesty: the partial waiving of the penalty for indicted taxpayers who, pleading guilty, ease the judicial course. The administration suspends its prosecution power with respect to specific tax years in exchange for lump-sum compensation.

Amnesty practices constitute an encouraging and desired situation in economic terms for the ones who benefit from these regulations.

This situation is considered as a suspicious and unfair perception for the rest of the population; because, honest taxpayers think that tax revenues that are lost with amnesties will be added into cost functions by the governments in the forthcoming periods and they will face a heavier tax burden. Consequently, in order to prevent non-compliant behaviors: it is necessary to ensure effective control, to provide aggravating punitive sanctions, to create an effective system of taxation and to pay special attention to some variants such as attitudinal factors. It is expressed that efforts in this aspect will increase the rate of voluntary compliance, and the unobservable elements such as psychological factors will be added into the cost functions more easily. Also, the thoughts of taxpayers based on amnesty expectations will be prevented from turning into a habit. Therefore, tax amnesties should be put into force for one-time or it should be spread into long time intervals in a form that won't result in new expectations if it cannot put into force only for one-time. In addition, it is especially important that current regulations should not become permanent or uniform in the manner that will create expectations in the psychology of taxpayers (Frey and Benz, 2002; IMF, 1989).

Tax amnesties are accepted as one of the politically popular ways used for increasing the state revenues, and their importance in tax policies rises day by day. While such regulations are creating an additional income opportunity for taxpayers, at the same time, psychological understanding about tax amnesties may become expectations.

Thus, everyone gains from an amnesty, in the sense that those who participate are made better off, and the government collects additional revenue. However, amnesties also have costs. Andreoni (1991) underlines the possibility of a tax amnesty actually decreasing, rather than increasing, the efficiency and equity of the tax system. As the probability of an amnesty rises, and thus the future opportunity to declare any dishonesty free of penalty, people report less income. For this reason, there are valid concerns about tax amnesty. First, if anticipated, an amnesty may increase cheating and reduce the efficiency of the tax system. Second, an amnesty may be inequitable by letting cheaters “off the hook.” Furthermore, Alm et al., (1990) found in an experimental setting that the introduction of a tax amnesty in which participants can pay previously unpaid taxes without penalty lowers post-amnesty compliance. Stella (1991) draws attention to the beneficial impact of tax amnesties on revenue collections. On the other hand, she has stated that if taxpayers are in expectation for an amnesty, this situation may risk tax compliance in the long term and also it may cause negative outcomes on honest taxpayers' perceptions about justice. In Table 1, the aforesaid situation is summarized (Kirchler, 2007; Summers, 1987).

2.3. Tax Amnesties in Terms of the Country Practices

Experimental studies within taxation psychology have reached strong findings about the fact that tax amnesties have negative effects on tax compliance. Mental or psychological factors are the main elements that affect tax compliance negatively. People develop a strong perception with the expectation about a future tax amnesty and this perception is the main determinant at this point. Considering in general, tax amnesty practices have been introduced

Table 1: Advantages and disadvantages of tax amnesty

Major potential advantages	Likely importance of actual effects
Collects back taxes	Important
Increases future compliance by lowering its cost (no longer necessary to evade to hide past bad behavior)	Important
Improves records, e.g., adding non-filers, which enhances future control of evasion	Important
Reduces deadweight costs from burden of guilt; fosters repentance	Potentially important, but not a salient political argument
Permits politically feasible transition to harsher enforcement regime	Very important
Lowers short-term penalties, raises long-term; such twisting can raise or lower on net	Important in forging political compromise between soft hearts and disciplinarians
Avoids “inequity” from sudden change	Limited importance given lack of political constituency supporting tax evasion
Permits imposition of severe penalties on those who refuse amnesty offer	Important
Permits productive and vigorous enforcement against future evasion	Very important
Angers honest taxpayers	Important
Undermines guilt from tax evasion	Does not apply if amnesty is combined with substantial strengthening of enforcement, harsher penalties, etc.
Reduces fear of future sanctions that may be annested	Only relevant if managed poorly

Source: Summers (1987)

in the USA especially in 1980s; and recently in Australia, Belgium, France, Ireland, Italy, Argentina, Bolivia, Columbia, Chile, Ecuador, Mexico, Panama, Peru, and the Philippines. Another motivation that of the French and Belgian amnesties has been the desire to facilitate the repatriation of capital illegally transferred abroad. Furthermore, within tax amnesties, taxpayers were enabled to get rid of tax debts without paying any tax penalty fees in the Philippines. In another tax practice, it was aimed to carry out tax inspections on offshore accounts of the taxpayers by the tax amnesty proposed by Internal Revenue Service (IRS) and ended on October 22, 2009 for the U.S. taxpayers. Within this practice, more than 14,700 U.S. taxpayers applied to IRS. Australian Taxation Office promulgated a year-long amnesty for private companies to fix their past mistakes. Thus, it has been seen that attempts for tax amnesty have been used frequently in order to increase tax revenues in other countries as well. On the other hand, it is necessary to sharpen or support the amnesty practices for past tax crimes with tax inspection and penalty arrangements in pursuit of the practice. It is expressed that by this means, the targeted compliance to tax amnesties can be reached to a certain extent (Braithwaite, 2009; Schmolders, 2006; Stella, 1989; Vasavada, 2010).

However, it is important not to put tax amnesties into practice frequently. When it is promulgated, strict inspection and sanctions will increase also voluntary compliance to taxes in the long term. On the contrary, negative psychology that tax amnesty creates in justice perceptions of honest taxpayers may interrupt voluntary compliance process in the future (long-term). Because there is no guarantee that new amnesty practices are not promulgated by the governments and there is also a considerable amount of taxpayers who made a habit of tax amnesty expectation. This situation is explained in the self-awareness theory. According to this theory, individuals compare and evaluate their behaviors under certain stimuli by focusing on themselves. Ultimately, this situation directs attitudes and behaviors; consistency of the attitudes and behaviors turns into monotonous actions increasingly. These findings are consistent with the results of other studies conducted on this subject. For example, according to a study conducted by Arkes and Blumer, it has been seen that the ones who have

commutation tickets for the theatre attend the plays more regularly compared to the people in the discount group. In India, it has been determined that taxpayers, who apply for a tax amnesty, are generally the same people. Similarly, it was witnessed that the same people and groups (institutions) generally get benefit from tax amnesties which have been promulgated for 21 times in a 35-year period in Argentina. This case causes both to lose expected trust on tax amnesties and to increase the perception in the society that amnesty practices are promulgated in favor of some certain groups. Thus, future amnesty expectations may reduce tax compliance. Persistent pricing of expectations earns investors (free-riders) considerably. On the other hand, according to the statements of Buchanan, each tax which is not paid by the current generations is nothing but a tax burden that will be transferred to next generations, and it will come back to the society with a boomerang effect (Arkes and Blumer, 1985; Alm et al., 1990; Bird, 2004; Franzoni, 1996; Kirchler, 2007; Parle and Hirlinger, 1986; Raaij et al., 1988).

One of the goals of the government is to maximizing citizen compliance with tax law. Besides providing resources to the state, tax compliance serves as a route for state-society relations. Nevertheless, it is not always possible to catch the mentioned compliance. Because, policy makers don't have the power to control individuals all the time and at the same time, taxpayers are encountered with various factors that cause tax incompliance. The issues like educational level, age intervals, income level and religious perspective are the factors that affect tax compliance. Also in the country; basic problems such as appropriate conditions for tax evasion and tax avoidance, existence of policies designed with short-term approaches, regulations for satisfying some certain groups, belief that tax systems are unfair and unequal, psychological factors, inadequacy of inspection and audits by tax authorities, immature moral obligation, inefficiency of coercion and deterrence mechanisms and the lack of state legitimacy direct the process of tax compliance negatively; and according to some authors, this case reflects the entire tax paying culture. According to Alm and Torgler, exhibition of cultural differences is more important than everything. According to J. Braithwaite (2005), it is necessary to defend the body of rules in order to enable creative

compliance and to direct behaviors (Bird, 2004; Kirchler, 2007; McGee, 2012; Schmolders, 2006).

However, the latest studies searching the effects of criminal sanction and audit based on the body of rules over tax compliance show that in many countries the precautions with high level of deterrence are insufficient for explaining tax compliance and at the same time, they are not convincing. Therefore, during tax compliance period, it is a necessity to take notice of many factors that are listed above as well as criminal sanctions, in which the psychological factors are the most important ones. According to Torgler (2002) human beings are biological creatures, but in fact they are also psychological creatures. For this reason, it is necessary to consider this issue in terms of psychology, and it is also essential to focus on motivating and directive effects of experiences in addition to thoughts and behaviors. By this way, it may be possible to reveal the behaviors towards the processes of liability awareness and tax compliance with a better understanding (Alm, 1999; McGee, 2012; Torgler, 2002).

Some detailed information about taxpayers in Organisation for Economic Co-operation and Development (OECD) and non-OECD countries are given in Table 2. In the study of OECD, the ratio of the taxpayers who pay tax return and income tax was taken as basis of the study, and the taxpayers who are taxed by means of withholding are not included in the calculations. Considering the ratio of taxpayers to entire population, it has been seen that in many countries, the number of the individuals who pay tax has reached significant amounts. In these countries, where almost half of the population is taxpayers, the tax paying culture is also considerably high in accordance with the awareness of taxation. It is revealed that in Saudi Arabia and India, which are among non-OECD countries, only 1.51% and 2.57% of the population are taxpayers, which proves that in these countries institutional tax understanding is not accepted very well. In the (developed) countries, where institutional tax system is rooted, a significant part of the taxpayers pay their taxes on due time. Even Alm et al., ask the question, which becomes one of the basic problems of tax compliance literature: why do so many people pay their taxes on time although there is a very low probability of being detected? Or why are the taxpayers voluntary to pay taxes even though it is proved that deterrent precautions (audit-penalty) have a low effect on taxpayers' willingness? The answer is that the feeling of risk aversion can explain high level of compliance just like it is in the prospect theory. In the "prospect theory" developed by Kahneman and Tversky, similar findings have been found. Individuals (taxpayers) show "voluntary compliance" to pay taxes in an awareness of responsible citizenship and they avoid taking risks by regarding potential damages that may occur in the future. For example, 85% of the population in Australia, 88% of the population in Canada is taxpayers. In Scandinavian countries like Finland, nearly all of the individuals are taxpayers (98%). Even in countries such as Greece and Hungary, where there is a comparatively low income level, the number of the taxpayers is considerably high.

Although Turkey is among the OECD countries, only 2.3% of the population is taxpayers. The number of the taxpayers who

pay taxes by means of withholding is not included in this rate. However, even if we add the number of taxpayers who pay taxes by means of withholding, the total rate of taxpayers to the population reaches only 8%. Consequently, considering the fact that tax amnesties are repeated in every 2.3 years in Turkey, it can be suggested that the statistics of OECD can explain the situation in Turkey partially. This case is a proof that awareness of liability is not rooted yet and at the same time, it points at the existence of informal economy. In particular, the regulations similar to taxational amnesty practices that occur as a reflection of populist politics prevent the spread of taxes through the base, and they are also accepted as one of the obstructions against steady growth. Disappointment that occurs in the justice perception of honest taxpayers turns out to be an incentive or reward in terms of economy for the taxpayers who don't pay tax (Alm et al., 1992; Alm, 1999; Frey and Benz, 2002; Graetz and Wilde, 1985; Koppl, 2004; Torgler, 2002; OECD, 2013).

2.4. Other Approaches

Incentive or reward mechanism is Skinner's (1957) analysis of "operant conditioning" focused on observable environmental events that predict and control behavior, in particular events proceeding (e.g. discriminative stimulus) and succeeding (e.g. reinforcer) the target behavior. In what behaviorists refer to as an experimental analysis of behavior, behavior is described in terms of a rich conceptual framework encompassing concepts such as punishment, avoidance, escape, discrimination, generalization, acquisition, and extinction to name just a few. One of the key terms, "reinforcer," was defined by Skinner in beyond freedom and dignity (1971) as follows: "when a bit of behavior is followed by a certain kind of consequence, it is more likely to occur again, and a consequence having this effect is called a reinforcer (Frey and Feld, 2002; Sinn, 2007)."

Thus, as Skinner states out, if a behavior is rewarded, that behavior is being learnt and the recurrence possibility of that behavior increases. If that behavior is not rewarded, the person stops exhibiting that behavior. At this point, it is important to reward the taxpayers in terms of their behaviors and attitudes towards tax practices. If taxpayers or persons make a profit out of their previous amnesty expectations, they also expect to be rewarded by new taxational regulations, and aside from tax compliance, they even start to question the awareness of being a taxpayer. The ones who make a profit in the past revive tax amnesties and have them made for particular groups or particular portions of the tax base (for example, foreign income, smuggled goods of particular kinds) by especially lobbying on the government. It is important to provide immunity from prosecution in such amnesties for tax evaders in order to protect themselves from punitive sanctions. "Plea bargaining" is one of the most well-known procedures in such amnesties in the US (Bird, 2004; Frey and Feld, 2002; Morgan, 1998). Similarly, in Turkey with the act in 2003, tax evasion crimes including fraudulent billing arrangement are taken into the scope of amnesty. Once again in Turkey, with the tax amnesty thought to be put into action in 2014, it is aimed to bring assets from abroad like foreign currency and gold to the country, to make informal money registered with a 3% tax, to legalize smuggled goods (for example, cars) and to renounce some of

Table 2: Comparison of registered taxpayer populations (OECD countries)

Country	Populations		Number of registered taxpayers (millions)			Relative indicators	
	Citizens	Labour force	PIT	CIT	VAT	Registered PIT payers labour force (%) 1	Registered PIT payers/citizen population (%)
Australia	22.34	12.11	19.05	1.67	2.67	157.3	85.3
Austria	8.39	4.32	6.57	0.14	0.80	154.2	79.5
Belgium	10.44	4.99	6.9	0.47	0.78	138.2	66.1
Canada	34.11	18.70	30.0	2.86	3.25	160.4	88.0
Chile	17.2	8.10	8.37	0.8	0.78	103.3	48.5
Czech Republic	10.52	5.24	2.82	0.48	0.53	53.8	26.8
Denmark	5.54	3.00	4.7	0.24	0.45	156.6	84.8
Estonia	1.34	0.70	0.63	0.18	0.69	90.6	47.0
Finland	5.36	2.67	5.3	0.38	0.31	198.3	98.8
France	65.63	28.40	37	1.7	4.8	130.3	56.4
Germany	81.31	43.60	26.49	1.16	5.89	60.8	32.6
Greece	10.77	4.97	8.2	0.27	1.1	165.0	76.2
Hungary	10.00	4.26	3.7	0.59	0.52	86.8	37.0
Iceland	0.32	0.18	0.26	0.05	0.03	144.4	81.8
Poland	4.47	2.12	3.2	0.16	0.26	151.3	71.6
Israel	7.62	3.50	1.48	0.21	0.49	42.3	19.4
Italy	61.26	25.07	41.5	1.1	5.1	165.5	67.7
Japan	127.37	65.45	22	3	3	33.6	17.3
Korea	50.52	25.10	19.89	0.56	5.02	79.2	39.4
Luxembourg	0.51	0.24	0.2	0.08	0.06	84.0	39.3
Mexico	106.40	48.86	31.9	1.1	5.1	65.3	29.4
Netherlands	16.73	8.92	8.4	0.8	1.6	94.2	50.2
New Zealand	4.37	2.37	3.62	0.47	0.53	152.7	82.8
Norway	4.89	2.63	4.4	0.24	0.34	167.4	90.0
Poland	38.19	17.85	17.44	0.41	2.39	97.7	45.7
Portugal	10.78	5.51	7.0	0.4	1.4	127.0	64.9
Slovak Republic	5.43	2.72	0.98	0.28	0.22	36.0	18.0
Slovenia	2.00	1.02	1.01	0.1	0.1	99.1	50.6
Spain	46.07	23.10	19.3	2.36	3.23	83.5	41.9
Sweden	9.38	5.02	7.5	0.5	1.0	150.0	80.0
Switzerland	7.82	4.65	4.6	0.3	0.35	98.9	58.8
Turkey	72.70	27.23	1.7	0.66	2.3	6.2	2.3
United King	61.35	31.74	30.3	0.93	1.91	94.5	49.1
United States	309.05	153.62	270.3	212	n.a	176.0	87.5
Non-OECD countries							
Argentina	42.19	16.8	1.22		0.93	7.28	2.89
Brazil	199.32	104.7	188	14	n.a	179.56	94.32
Bulgaria	7.04	2.5	1.06	0.54	0.21	43.00	15.06
China	1.343	795.5	n.a	n.a	n.a	n.a	n.a
Colombia	45.24	22.5	4.5	0.3	0.37	24.04	9.95
Northern Cyprus	0.84	0.43	0.33	0.2	0.08	79.69	29.00
Hong Kong, China	7.15	3.7	3	0.8	n.a	81.02	41.94
India	1.205	487.6	31.03	0.49	n.a	6.36	2.57
Indonesia	248.6	117.4	20.17	1.92	0.8	17.18	8.11
Latvia	2.19	1.2	0.86	0.08	0.09	73.57	39.24
Lithuania	3.53	1.6	1.46	0.1	0.08	89.90	41.41
Malaysia	29.18	0.0	7.2	0.7	n.a	60.45	24.67
Malta	0.41	0.2	0.27	0.04	0.05	158.3	65.88
Romania	21.85	9.3	0.46	0.77	0.57	4.97	2.11
Russia	142.5	75.4	138.6	5.1	n.a	183.8	97.25
Saudi Arabia	26.53	7.6	0.4	0.03	n.a	5.24	1.51
Singapore	5.35	3.3	1.73	0.15	0.08	52.91	32.32
South Africa	48.81	17.7	13.77	2.04	0.65	77.97	28.21

Source: OECD, Tax Administration (2013), PIT: Personal income tax, CIT: Corporate income tax, VAT: Value added tax, OECD: Organisation for Economic Co-operation and Development

the social security premiums receivable. As a result, with the tax amnesties granted in every 2 or 3 years in Turkey, taxpayers who don't pay their debts are simply rewarded.

Bandura's social learning theory which developed along with the impulse of behavioral approach is a good example. It supports that

individualistic behaviors can be affected by means of observation and modeling. This case directs also our behaviors that we can exhibit in the future. While Bandura is focusing on the effect of environment on behaviors, he also emphasizes the importance of social interaction. For example, people don't or can't make actions that are not welcomed by the society due to the social

pressure or social and legal sanctions, at the same time; they try to make actions that are considered positively and indulgently by the society. Similarly, according to the differential reinforcement theory developed by Akers and Burgess, a behavior is learnt from social environment via conditioning or experiments within the social structure and it is taken as an example by others. By means of social interaction, individuals foresee which behaviors are suitable to the norms and which ones confront a sanction based on operant conditioning. According to Akers, human beings adjust their own behaviors in accordance with the behaviors of the groups or individuals around themselves whom they care or observe. Consequently, in societies where tax paying is considered as a heavy burden; resistance and reluctance against taxes is transferred to the future generations as a system of attitude, behavior and values via domestication effect in the following periods (behave in accordance with the desires and expectations of the society). Furthermore, as Frey and Stutzer have stated, the concept of environmental morale and motivation is highly determinative at this point. According to Kornhauser, while common collective action problems caused by environmental interaction are enabling individual behaviors to be invisible, this case has generally weakened tax compliance as well (Akers, 2000; Kornhauser, 2007; Lee et al., 2004; Lewis, 2008).

Personal circumstances or service inequalities are the most important factors affecting the psychology of taxpayers negatively. This situation reduces also tax compliance considerably. The biggest one of these reactions that directs personal approaches is psychological perception about the concept of unfair and unequal taxation practices. According to Frey and Benz, experimental economics shows that individuals often care about social norms, like fairness or reciprocity. Especially the amount of the tax paid and the low amount of the benefits provided by public service in return of these payments, prevalence of the ones who get free public service without paying any taxes and the beliefs about that tax incomes are not used in accordance with their goals are important motives that make people to avoid paying taxes. Emotional reaction against political authority, absence of a fair taxation system, the fact that tax burden is shared by certain sectors and illegal transfers are the main factors causing negative feelings psychologically against taxation. Taxpayers start to have strong feelings such as grudge, hate, jealousy and selfishness motive as they come into prominence. At this point, it is important to provide educational programs for citizens and to begin these programs at schools in order to solve the problems related to tax issues. Furthermore, it is possible to reduce the negative impressions of individuals against taxation through using the power of media even if it is partial, because media has an important role to transfer what we desire into the minds of people. In the broadcast made through mass media, the necessity of paying tax should be presented to social perception by also supporting with financial data. This situation will increase selective perception considerably. For example, it should be shared throughout the society that unpaid taxes would cause more damage on data such as debt burden, interest rates, budget deficits, growth, employment, investment and inflation. This case will both eliminate the ignorance of taxpayers about financial issues and address to moral feelings of individuals and make sure that tax evasion is considered as a crime (Lewis, 1983; McGee, 2012; Sinn, 2007; IMF, 1989).

Economic behavior is defined here as the behavior of individuals that involves economic decisions and the determinants and consequences of economic decisions. Economic decisions deal with scarce resources such as money, time and effort. As many determinants and consequences of behavior are subjective, these fall within the scope of psychology. Expressive/communicative approach forces us to understand the emotional aspects of economic behavior. The main problem is that it is difficult for individuals to understand this by using only their own point of view because in communicative approach, individuals are affected by the human-centered environment, in which they are in a constant relationship with both the environment and themselves. Although it is expressed in economic decisions that it is necessary to consider five important personality dimensions initially such as extraversion, agreeableness, honesty, emotional stability and intellect; as Brandstätter suggests, the elements of personality are already the factors of “personality psychology” and when considering economic decisions, actually it is necessary to make use of well-established and comprehensive systems of economic psychologists. Without comprehending the importance of psychological approaches first, it doesn’t seem possible to comprehend the reasons underlying economic behaviors in general and taxational behaviors in particular. Just like as it is in desensitization theory, bringing regulations like tax amnesty into question all the time and emphasizing these regulations frequently on mass media would cause insensitivity over individuals by reducing emotional reaction against such behaviors throughout the society. Within this period, individuals feel an indifferent acceptance about the regulations and they even feel a nonsense interest in this topic. In fact, while some individuals consider tax amnesty as taxation form that should be repeated every year, the idea that such a behavior is a common practice form has spread throughout the society. According to Antonides, if societies encounter such regulations frequently, they will justify and accept even more serious crimes like smuggling throughout the society and these societies will be familiar with these crimes (Antonides, 1996; Carter and Weaver, 2003; Huesmann et al., 2006; Webley et al., 2001).

Consequently, “economics without psychology” has not succeeded in explaining important economic processes and “psychology without economics” has no chance of explaining some of the most common aspects of human behavior (Antonides, 1996).

3. CONCLUSION

Up until yesterday, it was accepted as irrational to consider economic behaviors in terms of psychology and according to neo-classical economics; individuals were regarded as egoist and individualistic creatures running after the maximized benefits. However, it is not possible to see such an approach in every part of life because when people make decisions, they are not rational and realist at all and at the same time they behave sentimentally (Antonides, 1996). As the philosopher Rawls (1983) states, emotions are extremely important for the continuity of the vital principles. In addition, psychological studies (including neurological ones) have shown that there is a very clear relationship between psychology and action, and it would be an insufficient analysis to try to explain this

relation with only personality elements, since personality elements are already part of psychology science and it is not also possible to say that “psychological structure” is composed of/affected by merely personality elements (McGee, 2012).

“The concept of psychology” has a special importance within social studies. Torgler disagrees that individuals are identified within the concept of “homo economicus” and points out emotional dimension of the topic. The recent studies are also consistent with this case. According to results of the study, even though the possibility of being caught is low, the reason why taxpayers show compliance to taxes considerably is mainly “psychological factors.” Thus, these findings are not consistent with the concept of homo economicus. On the contrary, rational individuals or homo economicus are expected not to pay their taxes and to take risk in expectation of an amnesty. Then, this situation defines an area which is far beyond the concepts of “pay-off maximize,” “self-interested” or “rational individual” and it emphasizes the fact that psychological factors cannot be ignored no matter which scientific field it is.

According to Karl, this situation is related to psychological perception; because, psychological factors are the foremost elements directing economic attitudes and behaviors. For example, it is possible to present the tendencies of individuals about taxation by means of attitude surveys and opinion polls. In addition, it can be said that with perceptual stimulations being sent to the psychology of taxpayers by the media, taxational sensitivity can be increased considerably.

It has been aimed to remove the inconsistencies between the state and taxpayers and their results by tax amnesties. Apparently, tax amnesties are put into action for different reasons such as to end litigations lasting for years in tax courts, to settle the amassed conflicts, to allow individuals to open a new page and to re-provide tax compliance. However, mainly there are two reasons for tax amnesties. The first one is that politicians spend some effort to satisfy a certain part of the society with populist policies. The second one is that the state desires to get the revenues that it needs urgently as soon as possible. However, the repeated amnesty practices cause “emotional hazard or psychological anomaly” for taxpayers and this situation encourages individuals to compare and question the perceptions of justice and equality.

In general, it has been stated that by implementing inspection, audit and criminal sanctions together, tax compliance can be increased considerably after tax amnesties. However, this discourse does not reflect the reality completely; on the contrary, it becomes a controversial approach even in itself. Bringing such regulations into the agenda expands continuously with the changes added to law articles and now it grants privileges to the certain people or groups opposing its main purposes. For example, even freedom restricting crimes such as entrance of smuggled goods and fraudulent document arrangement can be included in the tax amnesty practices. This situation shows that economic assets, which are in a way a part of money laundering traffic, are gained back into the system legally. In the process, “laundered money” turns back to the “laundering political

authority” as a trade-off in the form of money-vote-rent. While this situation results in negative consequences on behalf of the first one and to the detriment of the second one (honest taxpayers), the number of the taxpayers who show resistance to taxes increases. Despite this, today it is possible to encounter with tax amnesties in various states of the US and in many countries throughout the world and various regions like China, Korea, Spain and Turkey. This case is important in terms of showing that current regulations have become an inseparable part of the taxation systems.

However, negative effects of amnesty practices on voluntary compliance cannot be ignored. The obvious result of such regulations is that individuals have an expectation of tax amnesty and they make a habit of it. However, expected positive results can be provided if only tax amnesties are well-designed, the aforesaid practices are not applied frequently, and the losses and earnings that would occur in the short and long terms are presented clearly enough. Furthermore, it is important to apply positive discrimination for rewarding honest taxpayers at this point. Making a discount on the taxes for the taxpayers, who pay their taxes regularly, can be considered as “justice coming from injustice” partially.

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