Self-employed taxpayers’ compliance by procedural justice perception and social identity

Martina Hartner, Silvia Rechberger, Andrea Poschalko
and Erich Kirchler
University of Vienna

Ljubljana/ IAREP, 10th September 2007

Outline

1. Theoretical Background
   - Procedural Justice
   - Procedural Justice and Tax Compliance
   - Incorporation of Social Identity

2. Online Study
   - Hypotheses
   - Operationalization
   - Results

3. Conclusions & Implications
Procedural Justice

- People think of fairness when it comes to tax compliance
- ...is the **perceived fairness of the procedures** involved in decision-making and allocation processes (Tyler, Boeckmann, Smith, & Huo, 1997)
- Originally operationalized as voice or process control (Thibaut & Walker, 1975)
- Extension because treatment of authority is also relevant for perceiving procedures to be fair (Tyler, 1987)
  - separation in procedural and interactional justice (Bies & Moag, 1986)

Procedural Justice and Tax Compliance

- Wenzel (2002) investigated the influence of procedural justice on tax compliance by self-reports of Australian taxpayers (N=2040)

When taxpayers highly identified with Australians, they were more compliant with tax laws
Social Identity

- People **categorize themselves** with social categories (e.g., being self-employed) and **identify with** that group which is positively valued for them
- **Salience** of the respective group is dependent on the **context** (e.g., self-employed taxpayer is also a husband, father, friend, etc.)
- If a social category membership is salient for people and they identify with that category, the **group specific characteristics** (e.g., self-employed people are innovative) are **internalized** as their own characteristics (Turner, 1982)
- „Process theories such as social identity and self-categorization require the incorporation of specific **content** into their analyses before they can make predictions (…)“ (Turner, 1999, pp. 33; cf. Deaux, 1992).

Research Aim

- Replicating Wenzel’s study in the Austrian tax context and extending it by the following points:
  - Including the content of the social identity
  - Incorporating the social identity of being “self-employed” instead of only investigating the social identity “nation”
  - Splitting the former concept of procedural justice into interactional and procedural justice as suggested by Bies & Moag (1986)
Hypotheses

H1: Perceived high procedural justice results in higher tax compliance

H2: Perceived procedural justice will have a more positive influence when people identify more rather than less strongly with the relevant social identity

H3: The content (i.e., the meaning) of social identities has an influence on tax compliance

Online-Questionnaire

- Identification with self-employed people (5-point-scale)
  - Semantic Differential for Content (7-point-scale)
  - Identification with Austrians (5-point-scale)
  - Semantic Differential for Content (7-point-scale)
- Interactional Justice (5-point-scale)
- Procedural Justice (5-point-scale)
- Outcome Favorability (5-point-scale)
- Distributive Justice (5-point-scale)
- Tax Honesty (5-point-scale)
- Demography
Sample

- **Sex**
  - Male: 96 (50.5%)
  - Female: 98 (49.5%)

- **Age**
  - 20-30yrs: 68 (35.1%)
  - 31-40yrs: 72 (37.1%)
  - 41-50yrs: 29 (14.9%)
  - 51-60yrs: 22 (11.3%)
  - 60+: 3 (1.6%)

- **Austrian Citizenship**
  - Austrian: 183 (94.3%)
  - Non-Austrian: 11 (5.7%)

- **Tax liability in Austria**
  - Tax liable in A: 188 (96.9%)
  - Not tax liable in A: 4 (2.1%)
  - Missing: 2 (1.0%)

- **Self-employment**
  - Self-employed: 118 (60.8%)
  - Non-self-employed: 73 (37.6%)
  - Missing: 3 (1.5%)

Results

**The influence of Justice on Tax Compliance**

H1: Perceived high procedural justice results in higher tax compliance

Hierarchical Regression Analysis with 2 steps:
- **Demography**
- **Justice**

<table>
<thead>
<tr>
<th>Demographic Factor</th>
<th>Step 1</th>
<th>Step 2</th>
</tr>
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<tbody>
<tr>
<td>Age</td>
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<td>.18</td>
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<tr>
<td>Sex</td>
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<tr>
<td>Income</td>
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<td>.08</td>
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<td>Procedural justice</td>
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<tr>
<td>Interactional justice</td>
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<td>Distributive justice</td>
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<tr>
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<td></td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.03</td>
<td>.10</td>
</tr>
<tr>
<td>$\Delta F$</td>
<td>2.08</td>
<td>2.54*</td>
</tr>
<tr>
<td>df</td>
<td>3, 98</td>
<td>7, 98</td>
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</tbody>
</table>

Self-employed taxpayers perceiving high procedural justice were more tax compliant, interactional justice showed no effect.

This effect was not shown for non-self-employed $F (7, 53) = 0.70, p = .67$ or the total sample; $F (7, 154) = 1.63, p = .13$.
**Interaction of Procedural Justice and Social Identity**

**H2**: Perceived procedural justice will have a more positive influence when people identify more rather than less strongly with the relevant social identity.

Hierarchical Regression Analysis with 4 steps:
- Step 1: Demography
- Step 2: Justice
- Step 3: Social Identity
- Step 4: Interaction Social Identity & Justice Variables

<table>
<thead>
<tr>
<th></th>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Step 4</th>
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<td>$df$</td>
<td>3, 90</td>
<td>7, 90</td>
<td>9, 90</td>
<td>17, 90</td>
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</table>

The interaction effect of procedural justice with social identity could not be shown.

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**Influence of Content of Social Identities**

**H3**: The content (i.e., the meaning) of the social identities has an influence on tax compliance.

- Self-employed people
- Austrians

Content stands for tax compliant behavior:

- Austrians are... Self-employed people are...

Content stands against tax compliant behavior:
What do self-employed/non-self-employed Austrians think about the group of SELF-EMPLOYED and AUSTRIANS?

Content

|-------------|------------|---------------|--------------|----------|---------|---------|---------|----------|----------|---------|--------|-----------|--------|-----------------|----------|------|----------|----------|-------|---------|----------|--------|--------------|---------|---------|----------|--------|-------------|----------|----------------|---------------|
Influence of Content of Social Identities

Hierarchical Regression Analysis with 3 steps:
- Content & SI self-employed
- Content & SI Austrian
- Interaction Social Identity & Content Variables

<table>
<thead>
<tr>
<th>Variables refer to self-employed</th>
<th>M</th>
<th>SD</th>
<th>β</th>
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</thead>
<tbody>
<tr>
<td>Selfish - social</td>
<td>4.18</td>
<td>1.60</td>
<td>-.15</td>
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<tr>
<td>Risk-seeking – risk-averse</td>
<td>2.43</td>
<td>0.95</td>
<td>.19</td>
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<tr>
<td>Dishonest - honest</td>
<td>5.15</td>
<td>1.30</td>
<td>.43**</td>
</tr>
<tr>
<td>Irresponsible – Responsible-minded</td>
<td>5.97</td>
<td>1.11</td>
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<tr>
<td>Social Identification</td>
<td>4.04</td>
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</table>

Only the content dimension “honest” is significant with $\beta = .43$, $p = .001$ and only for the social identity of the self-employed people (This effect was not achieved for the non-self-employed people $F (5, 61) = 0.98$, $p = .44$)

Interaction-effect with social identity could not be shown

Results

Conclusions

- Perceived procedural justice had an influence on tax compliance, perceived interactional justice had none
  - separation between interactional and procedural justice seems advisable
  - most self-employed respondents (82%) had a tax advisor – maybe therefore judgment of interactional justice was hard

- The interactive effect between social identity and procedural justice could not be replicated
  - refinement of social identity scale (ceiling effect)
  - rather small sample size

- The content (i.e., the meaning) of social identities should be incorporated in future studies
  - especially tax-related content
Implications

- In order to improve tax compliance for self-employed taxpayers, they need to perceive the decision-process as fair and relevant because self-employed taxpayers have more opportunity to evade taxes.

- Tax policy makers should aim for the decision-making process to be procedurally fair (e.g., consistent, accurate, correctable, bias suppressed, representative, and ethical as suggested by Leventhal, 1980).

Thank you for your attention and I appreciate any suggestions as I am still doing some analyses!
Literature


Procedural Justice and Social Identity

<table>
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<tr>
<th>INGROUP</th>
<th>Fair treatment</th>
<th>Unfair treatment</th>
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<td>++</td>
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<td>Negative outcome</td>
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<tr>
<td>OUTGROUP</td>
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<td>Favorable outcome</td>
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<td>++</td>
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<tr>
<td>Negative outcome</td>
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<td>+</td>
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Group Value bzw. Relationales Model (Lind & Tyler)
Interaction of Procedural Justice and Social Identity

n=91 self-employed Austrians being tax liable in Austria only step 1 & 2 can be interpreted!

<table>
<thead>
<tr>
<th>Predictors</th>
<th>M</th>
<th>SD</th>
<th>Step 1</th>
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<td>.22*</td>
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</tbody>
</table>

Social Identity consists of those aspects of an individual's self-image that derive from the social categories to which he perceives himself as belonging (Tajfel & Turner, 1986, p. 16).

Social identity is an individual's knowledge that he or she is a group member together with emotional and value significance this group membership has for that individual (Haslam, 2004).

Individuals strive for a positive self-image.

They categorize themselves in terms of social categories that are positively valued and internalize this self-image (Turner, 1999).

The salience of social identity leads an orientation towards the collective interest of the group instead of the personal self-interest (Turner, 1999).

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