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# **Exploration of the Most Important Political, Social, Institutional and Cultural Factors affecting tax morale in Greece.**

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## **ABSTRACT**

The purpose of this article is to explore the basic political, social, institutional and cultural factors affecting tax morale in Greece. In order to achieve the above goals, we use a questionnaire based on the opinions of Greek citizens about political, social and institutional issues in Greece. We conclude that Greek citizens in general are disappointed with formal institutions like parliament, the political system and the tax authorities and as a result they have developed a low level of tax morality.

## **KEYWORDS**

**Tax morale, Tax compliance, Institutions, Tax Authorities, Greece, Social Capital.**

## **1. INTRODUCTION**

This article addresses the issue of tax morale in Greece. The tax morale of citizens of a state is a very important parameter for economic development, social cohesion, trust on the effective functioning of political institutions, justice in the allocation of tax burdens, depending on the capabilities of a country's citizens. In addition, the importance of tax morale lies in the fact that it creates a voluntary sense of participation in the social process, in the reciprocity of public goods and the strengthening of the welfare state and the rule of law, without which a modern self-sufficient democracy cannot function. The redistribution of income, to the benefits of economically and socially vulnerable groups, can only be financed through the necessary state expenditure, most of which comes from tax revenue. Furthermore, when tax morale is high, tax compliance is also high. In this case there is a clear competition among companies. This factor could be a reason for attractive Foreign Direct Investments, which can lead to an economic growth in the country. All the above factors, leads to a need to create a positive tax ethics which, in addition to tax revenues, will not only lead to a fairer way of redistributing income, but will also bring about a reduction in the transaction costs imposed by the tax authorities through ongoing tax audits on thousands of businesses and households.

Tax morale is a concept that has been explored in economic and tax psychology. This is because there is a pervasive social dilemma about whether we should pay taxes, whether we should focus on a one-dimensional individual interest, but also what should be the total amount of taxation that we should be burdened with. Regardless of the fact that the payment of taxes is mandatory for citizens within a state entity, tax morale is something more internal, depending on a set of factors

that may be (apart from purely economic factors) social, institutional and primarily psychological (Daude et al 2013). Tax ethics or tax morale, is an internal norm or motivation of the individual to comply with his obligations to the state (Torgler 2007). With this term (tax morale), B. Torgler & F Schneider (2004), refer to the moral obligation to pay taxes. This term also be defined as a prudence or belief by which the act of non-tax compliance in one's consciousness is assessed. The more reprehensible an act of tax evasion is in the person's mind, the higher the level of his tax morale.

According to I. Horodnic (2018), there is a strong interaction between formal (state, public administration, state bodies) and informal institutions (social norms) in the tax compliance of individuals. Both informal and formal institutions play a very important role in a taxpayer's final decision on whether or not to fully comply with his tax obligations. Koumpias et al. (2020) using data from questionnaires from global organizations such as the WVS (World Value Surveys) and the Freedom House in 92 countries with the use of the econometric regression model "logit" conclude that there is a strong positive correlation between trust in the government, trust in the parliament and tax morale, while the parameters of all independent variables are statistically significant and positively correlated at 1% with the dependent variable. The higher the trust in the above political institutions, the greater the fiscal morality of citizens. According to K. Fotiadis and P. Chatzoglou (2022) after empirical research in Greece, using the questionnaire method, the degree of perception of tax justice as well as the quality of a country's governance directly influence the tax morale of the citizens. As the quality of governance increases, the tax ethics increases as well. Also, when individuals feel that the tax system is fair, they increase their tax morale.

Koumpias et al. (2020), applying a logit regression, concludes that there is a strong positive correlation between trust in public services and tax ethics of citizens. According to Alm & Torgler (2011), in order to develop the variable of citizens' trust in the tax authorities, tax administration should be more citizen-friendly. Frey & Feld (2002) believe that tax consciousness is supported when taxpayers are treated with respect, while on the other hand tax morality diminishes when the tax administration treats taxpayers as persons who are forced to pay taxes.

## **2. METHODOLOGY**

The methodology of our article concerns the statistical analysis of a questionnaire distributed in 2014 to a representative sample of 3,975 citizens located within the Greek territory. These individuals (sample) were asked to answer a number of questions, most of which are in a numerical scale from 1 to 7. For example, number 7 expresses absolute concordance with the question and number 1 absolute disagreement. We use descriptive statistics to analyze every question separately and to try to find out if there is any correlation between the responses of these question and the responses of the question refers to the opinion of the people about tax morale in Greece. In this paper we will focus on the statistical analysis of the questions that help us to understand why people from Greece has a relatively low tax morale and what are the most important factors that affects this phenomenon. If we find the factors, we will be able to correct the mistakes and make policies that favors to increase tax morale of Greek citizens and as a result, we will be able to have a more justice tax procedure and more efficient tax authorities. The questionnaire has been created by the author, during a scientific program in University of Macedonia that includes many financial irregularities like:

the size of Shadow Economy in Greece, the self-consumption, the size of concealment in insurance contributions and the level of tax morale.

### 3. ANALYSIS OF THE ANSWERS OF THE QUESTIONARY

Our sample include 3.975 Greek citizens or permanent residents in Greece by using a questionnaire and the most questions where of Likert type with grades from 1 to 7.

**The proxy question for tax morale (tax ethics) is:**

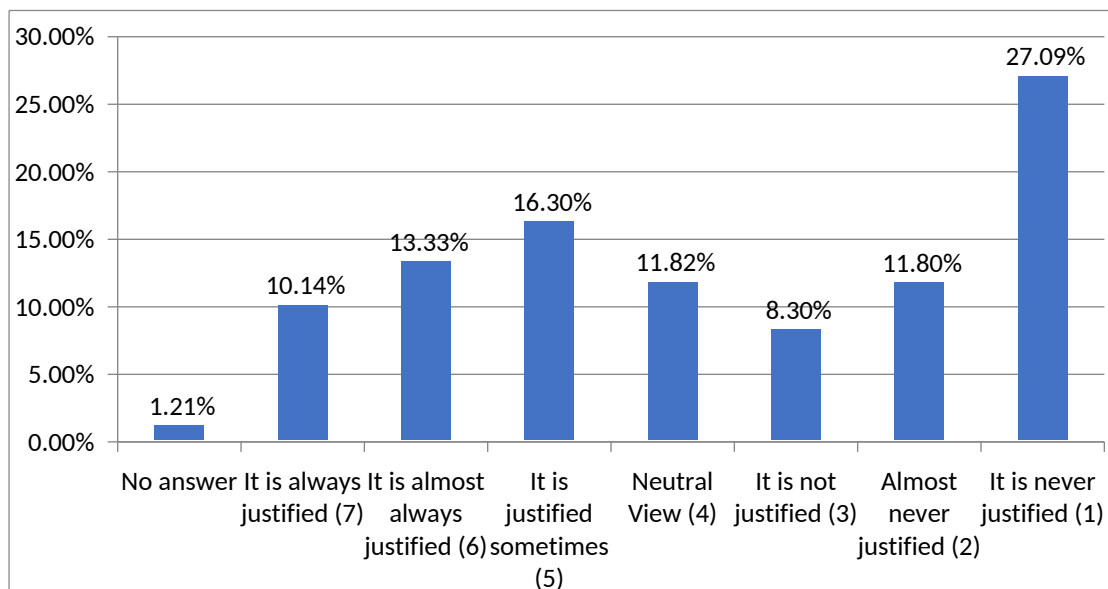
*"Given the difficulties we are facing in Greece, is it expected that some individuals may try not to declare part of their financial activities (eg. undeclared work, pensions from abroad, income without the issue of proof, etc. Do you justify this?"*

*Never justified Grade 1*

*Always justified Grade 7*

The next chart gives us the responses of the people on a percentage basis.

**Justification of tax evasion (Tax Ethics – Tax Morality).**



Graph No 1: Justification of tax evasion (Tax Morale – Tax Ethics)

On the basis of the chart, we can see that nearly 40% of respondents justify tax evasion or generally transactions that reduce taxable income or increase taxable costs. On the other hand, 27% of respondents always consider tax evasion to be unjustified. In the sum of the non-justification of tax evasion in general we have a total of  $8.30 + 11.30 + 27.09$  is equal to approximately 47% which is very low compared to surveys carried out in other countries, mainly EU countries and the OECD.

In the following paragraphs we are going to present the more represented questions and the related responses of the perception of the people about some phenomena or institutions that happen to the

Greek country and that directly affects their tax compliance and their tax morale according to the modern literature.<sup>1</sup>

#### **A. Questions about trust in Formal Political Institutions.**

**Question 1: How much do you trust the Judicial System in Greece**

**Question 2: How much do you trust the Parliament in Greece?**

**Question 3: How much do you trust the Political System in Greece?**

The responses of the sample of Greek citizens to the trust of official institutions, mainly show a negative sign. In particular, there is a great lack of confidence in the Parliament and in the Political System, while trust in the judiciary system seems to be rather greater in relation to the first two questions. People believe that the decisions of the courts are in general fair and they are not influenced by political persons, or by people with economic power.

#### **B. Questions about the reasons that Greek citizens avoid tax evasion.**

**Question: Why do citizens avoid tax evasion**

- 1. In order to avoid a high fine and other penalties.**
- 2. Ethical Issues**
- 3. The possibility of bad reputation.**

From the responses we conclude that a very remarkable percentage of the answers do not consider that there are ethical issues in evading taxes. On the other hand, the majority of the persons discourage to evade taxation due to the high fine. Also, there is a remarkable percentage of responses (approximately 36%) who believes that bad reputation is not a serious reason for someone to avoid tax evasion).

#### **C. Questions about the role of tax authorities**

**How the tax administration treats citizens?**

- 1. Justice of Tax Authorities**
- 2. Efficiency of Tax Authorities**
- 3. Assistance and good services to citizens**
- 4. Corruption in Tax Authorities.**

With regard to the answers given to the questions formulated above, on the behavior and effectiveness of tax authorities, we must say very briefly that Greek citizens face the tax

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<sup>1</sup> Due to the lack of the space we have omitted to quote the graphs about the answers of the questionnaire. If the reader desires more information about the responses she can communicate with the author due to the following email address: pmitrakos@yahoo.gr.

administration with great caution and often hostility because they are generally not given any help in solving their tax problems. At the same time, citizens consider that there is a high level of corruption, poor performance and insufficient training on the subject of the tax authorities' specialization. In this case we should undermine that the recent reforms concerning the introduction of digital transactions between taxpayers and tax officials have minimized the chances of face-to-face transactions and therefore the conditions that create corruption should also be reduced. We consider that this kind of reform is very helpful in order to fight corruption not only in tax administration but also in public administration as a whole.

#### **D. Questions related to Government tax policy.**

We consider that the way of construction of Governmental Policy related to the Taxation Policy has very important role to the financial decision of tax payers about the amount of money they are going to declare in order to be taxed. If people are not pleasant with the quality and quantity of public services, if they believe that the tax burden allocated unfairly and if they perceive that tax evasion is widespread, they will not have intrinsic motivation to pay their taxes.

**Question 1 How Fair or Unfair is the distribution of Tax Barden in your country?**

**Question 2. How much widespread is tax evasion according to your opinion?**

**Question 3. What you believe about the quality and quantity of public goods.**

**Question 4. Do you thing that there is reciprocity in related to the tax you pay?**

**Question 5. How complicated do you thing that there is the tax system in your country?**

With regard to the answers given to the questions concerning government tax policy as a whole, we can see that Greek citizens consider that tax evasion is very widespread (more than 75%). In this case there is no social norm which acts repressively towards the Greek society. It also should be said that an overwhelming majority of the sample estimates that there is an injustice in the distribution of tax burdens, while a figure of 42% expresses that there is a great injustice in the way taxes are distributed to citizens. Moreover, most citizens (83%) feel that their tax contribution is disproportionate to the quantity and quality of the public goods and services they receive. The same is true of the complexity of the tax system, where 35% of the sample figure find it extremely complex. A tax complexity system contributes to a relaxing of individual's tax ethics.

#### **4. CONCLUSIONS**

From the brief statistical of the answers to questions concerning trust in political institutions, the effectiveness of tax authorities and the assessment of government tax policy, we conclude that citizens are not satisfied with either the state, the government or the tax policy being pursued, while at the same time maintaining a very cautious attitude towards the tax administration. The above stated conclusions suggest that when citizens are unsatisfied with the state benefits, the public services and the political system, they have no incentive to pay their taxes in full unless strong sanctions and penalties prevail. All of the above leads to the very low tax morale of Greek citizens

where the only reason for tax compliance is to avoid fines or other sanctions that they will face if during tax audits they are found to be in breach of tax legislation. The solution to the problem of tax evasion requires a change in the attitude of citizens towards the state and the public as well as a big reform on political institutions and the way that tax authorities works.

For instance, open data policies, e-government, and strengthening legislation that gives citizens full access to government information are some measures towards that direction. To take on one such example, designing tax measures in accordance with the principle of fairness is fundamental for increasing their effectiveness, promoting a shift from the negative to the positive tax morale, and alleviating corruption concerns. This can be successfully achieved in conjunction with the use of artificial intelligence tools, machine learning and the digitalization of tax audits. The proposed measures will also help to reduce corruption among tax administration officials, as the basic procedures of the cases that arise for tax audits and the ways of tax audits are done more often or even exclusively in a digital manner, through specific algorithms and are not based on the discretion of the audit staff.

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