

The pandemic

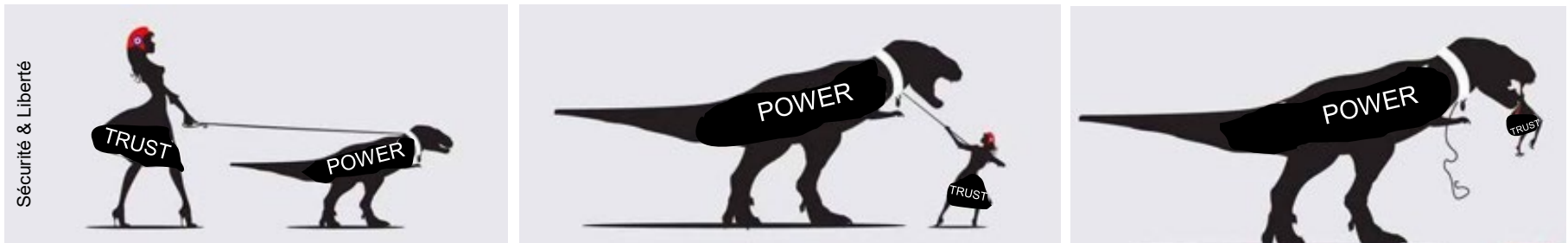
Policy decisions and reflections on strengthening future cooperation between citizens and the state

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Sécurité & Liberté

Overview

1. Measures to safeguard health and the economy and public opinion
2. Strategies to ensure future compliance

**Tax Policy Measures to Combat the SARS-CoV-2
Pandemic and Considerations to Improve Tax
Compliance: A Behavioral Perspective**

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Economic Psychology & Crisis



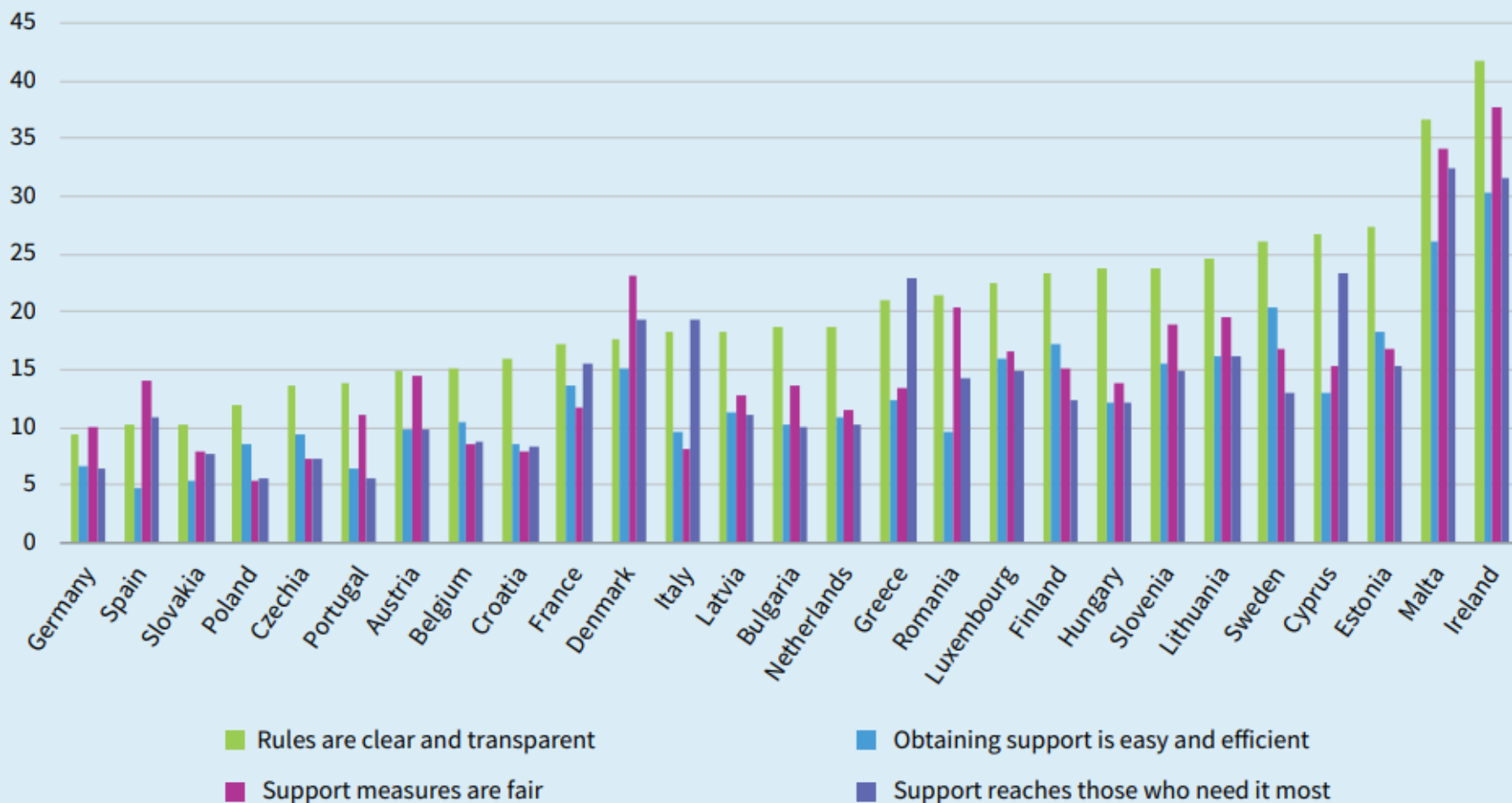
Measures to safeguard
health and the economy

Measures to safeguard health and the economy

Measures	Countries
Objective: Enhance firms' liquidity	
Enhanced loss offset provisions	Belgium, Czech Republic, Germany, Iceland, Netherlands, New Zealand, Norway, People's Republic of China, Poland, San Marino, Singapore, Slovak Republic, United States, Uzbekistan
Enhanced tax refunds (CIT, SSC, VAT)	Australia, Belgium, Chile, Colombia, Germany, Georgia, Greece, Guatemala, Guinea, Hungary, Indonesia, Kenya, Latvia, Malta, Pakistan, People's Republic of China, Peru, Saudi Arabia, South Africa, Sweden, Thailand, United Arab Emirates, United States
Non-repayable grants / Subsidy of non-wage business costs	Cook Islands, Denmark, France, Germany, Israel, Italy, Norway, San Marino, Serbia
Tax filing extensions, Tax payment deferrals	Albania, Algeria, Andorra, Angola, Argentina, Australia, Austria, Azerbaijan, Belgium, Bermuda, Bhutan, Bosnia and Herzegovina, Brazil, Bulgaria, Cambodia, Canada, Chile, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, Finland, France, Georgia, Germany, Greece, Guatemala, Guernsey, Guinea, , Guyana, Honduras, Hungary, Iceland, India, Indonesia, Isle of Man, Israel, Italy, Japan, Jersey, Jordan, Kazakhstan, Kosovo, Laos, Latvia, Lesotho, Lithuania, Luxembourg, Malaysia, Malta, Moldova, Monaco, Montenegro, Morocco, Mozambique, Myanmar, Myanmar, Netherlands, New Zealand, Norway, Oman, Pakistan, Paraguay, People's Republic of China, Peru, Poland, Portugal, Puerto Rico, Qatar, Republic of North Macedonia, Russia, San Marino, Saudi Arabia, Serbia, Seychelles, Slovak Republic, Slovenia, South Africa , Spain, Sri Lanka, Sweden, Switzerland, Thailand, Tunisia, Turkey, Uganda, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, Uzbekistan, Vietnam
Tax rate reductions	VAT: People's Republic of China CIT: Hungary, Indonesia, Korea, Romania, Uzbekistan, Vietnam
Tax waivers	Albania, Azerbaijan, Belgium, Brazil, Cambodia, Colombia, Costa Rica, Czech Republic, France, Georgia, Guinea, Hungary, Indonesia, Italy, Kazakhstan, Laos, Latvia, Norway, People's Republic of China, Romania, Singapore, South Africa, Tajikistan, United Arab Emirates, United Kingdom, United States, Uzbekistan
Objective: Support employment	
Enhanced and/or extended eligibility of sick-pay	Malta, United Kingdom, United States
Enhanced tax refunds	United States
Special tax deductions	Fiji, Honduras
Tax exemptions	Austria, Belgium, Poland
Tax and SSC waivers	Argentina, Hungary, Kenya, Poland, Spain
Wage subsidies	Albania, Australia, Austria, Cambodia, Canada, Cook Islands, Denmark, Estonia, Fiji, France, Georgia, Germany, Guernsey, Iceland, Jersey, Lithuania, Malta, Moldova, New Zealand, Peru, Portugal, Republic of North Macedonia, Serbia, Singapore, Slovak Republic, Slovenia, South Africa, Sweden, Thailand, United Kingdom
Objective: Support investment	
Accelerated / bonus depreciation	Australia, Chile, Fiji, Germany, New Zealand, Malaysia, Singapore, United States
CIT rate reduction	Chile, Kenya, Malaysia, Vietnam
Increase in R&D tax incentives	Denmark, Germany, Iceland, Italy
Reduction of withholding taxes on interest/dividend payments	Cambodia, Egypt
Tax credits, Tax rebates	Italy, Malaysia
Objective: Support consumption	
Cash transfers for households (incl. vouchers)	Canada, Denmark, Germany, Malta, Peru, Slovenia, United States
Enhanced or extended eligibility for unemployment benefits	Albania, Brazil, Canada, Chile, Cook Islands, Egypt, Georgia, Greece, Iceland, Israel, Lithuania, Malta, Moldova, Netherlands, Norway, Portugal, Serbia, Slovenia, Spain, Sweden, Switzerland, United States
Tax credits	Italy
Tax waivers	Cayman Island, Malaysia
VAT rate reduction	Austria, Azerbaijan, Belgium, Bulgaria, Czech Republic, Colombia, Cyprus, Germany, Greece, Isle of Man, Jamaica, Kazakhstan, Kenya, Moldova, Norway, Spain, Turkey, United Kingdom

Note: The table is based on information provided by the OECD, <http://www.oecd.org/coronavirus/policy-responses/tax-administration-responses-to-covid-19-measures-taken-to-support-taxpayers-adc84188/> (update 29 June 2020; retrieved 15 January 2022).

Figure 9: Views about pandemic support measures by country, spring 2021, EU27 (%)



Eurofound (2021), *Living, working and COVID-19 (Update April 2021): Mental health and trust decline across EU as pandemic enters another year*, Publications Office of the European Union, Luxembourg.

Negative attitudes towards country's coronavirus responses

PEW Research Center
(Report June 23, 2021)

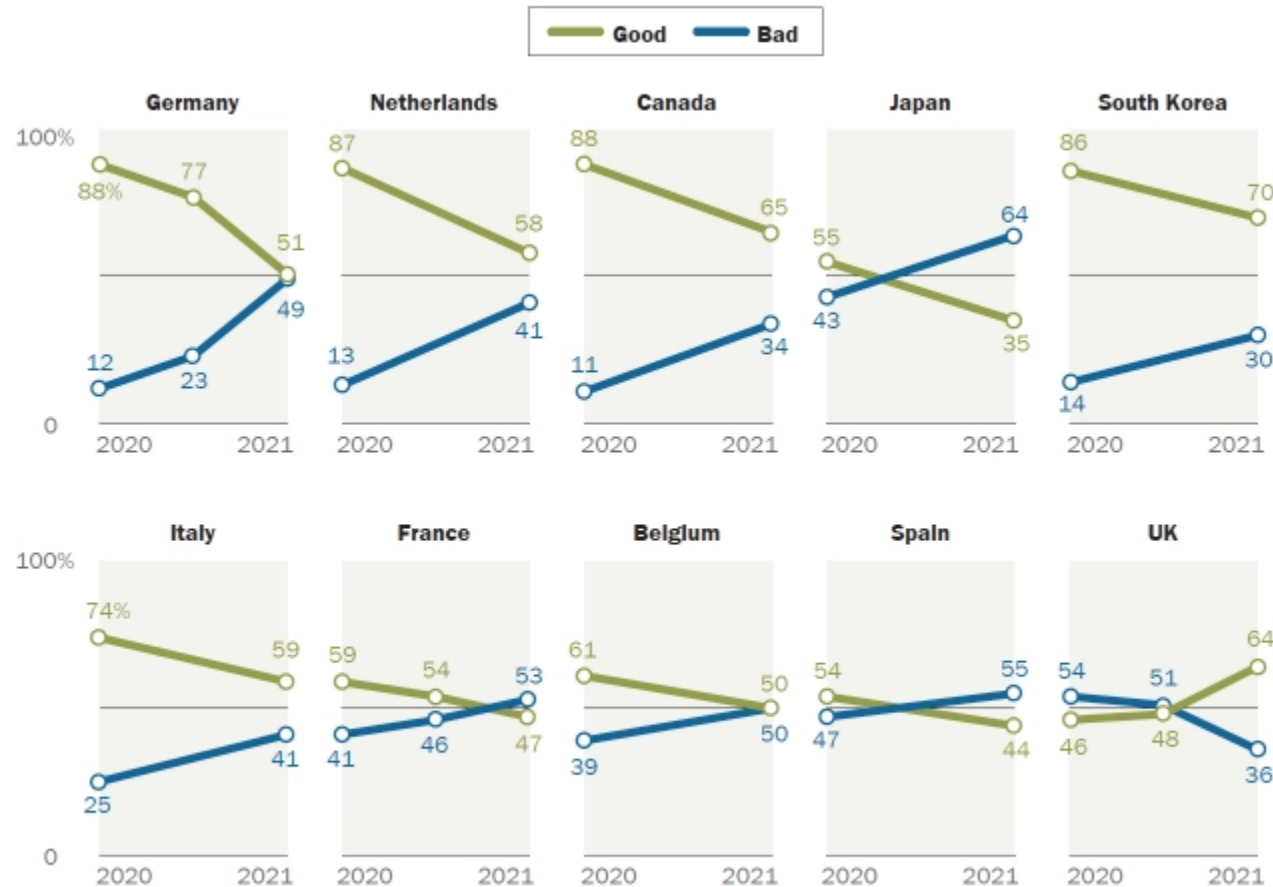
People in Advanced Economies Say Their Society Is More Divided Than Before Pandemic

KAT DEVLIN, MOIRA FAGAN & AIDAN CONNAUGHTON

Retrieved from: [People in Advanced Economies Say Their Society Is More Divided Than Before Pandemic | Pew Research Center](#) (26 June 2021)

Assessments of own country's coronavirus response more negative, except in UK

% who say (survey public) has done a ___ job dealing with the coronavirus outbreak



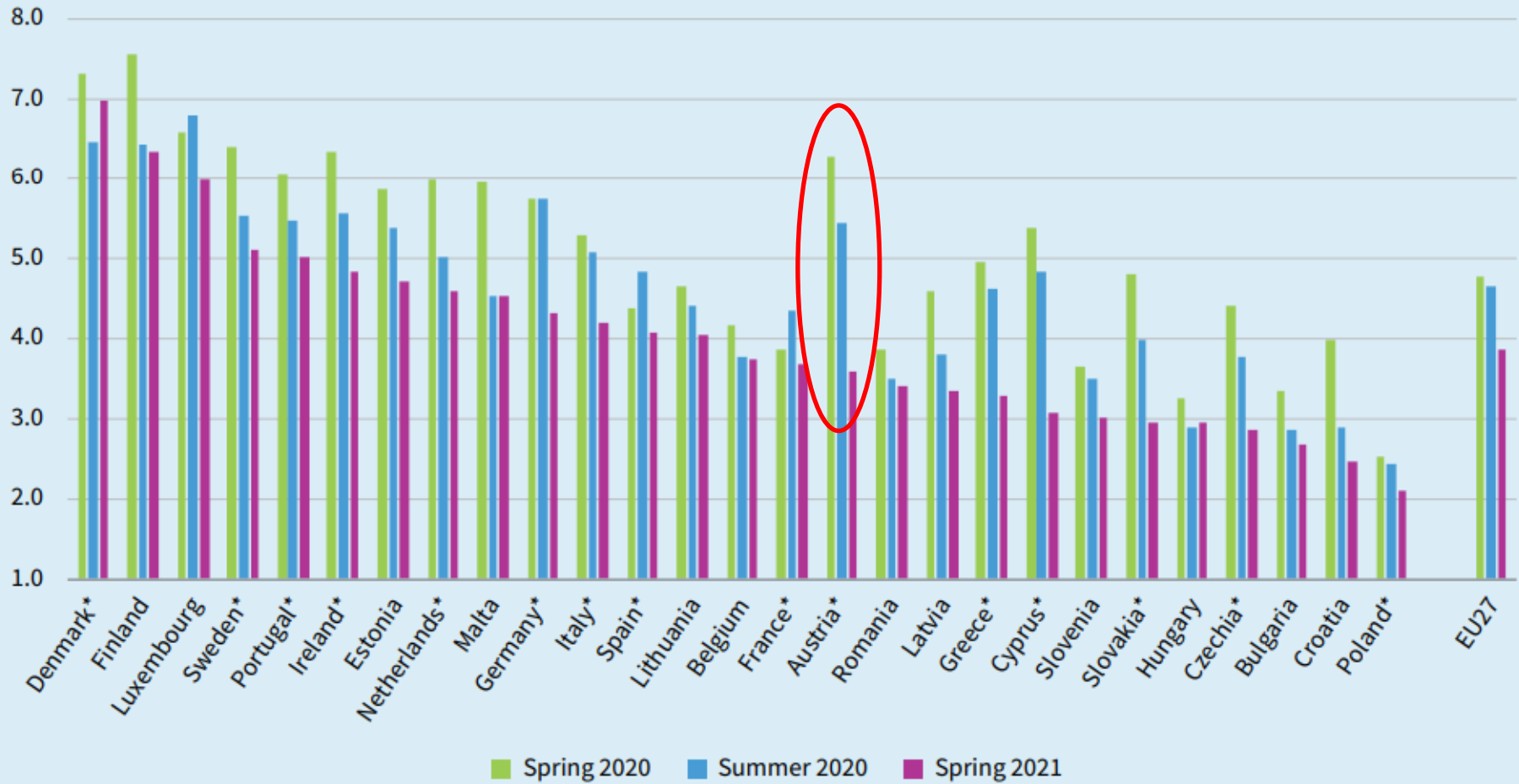
Note: Those who did not answer are not shown.

Source: Spring 2021 Global Attitudes Survey. Q7c.

"People in Advanced Economies Say Their Society Is More Divided Than Before Pandemic"

PEW RESEARCH CENTER

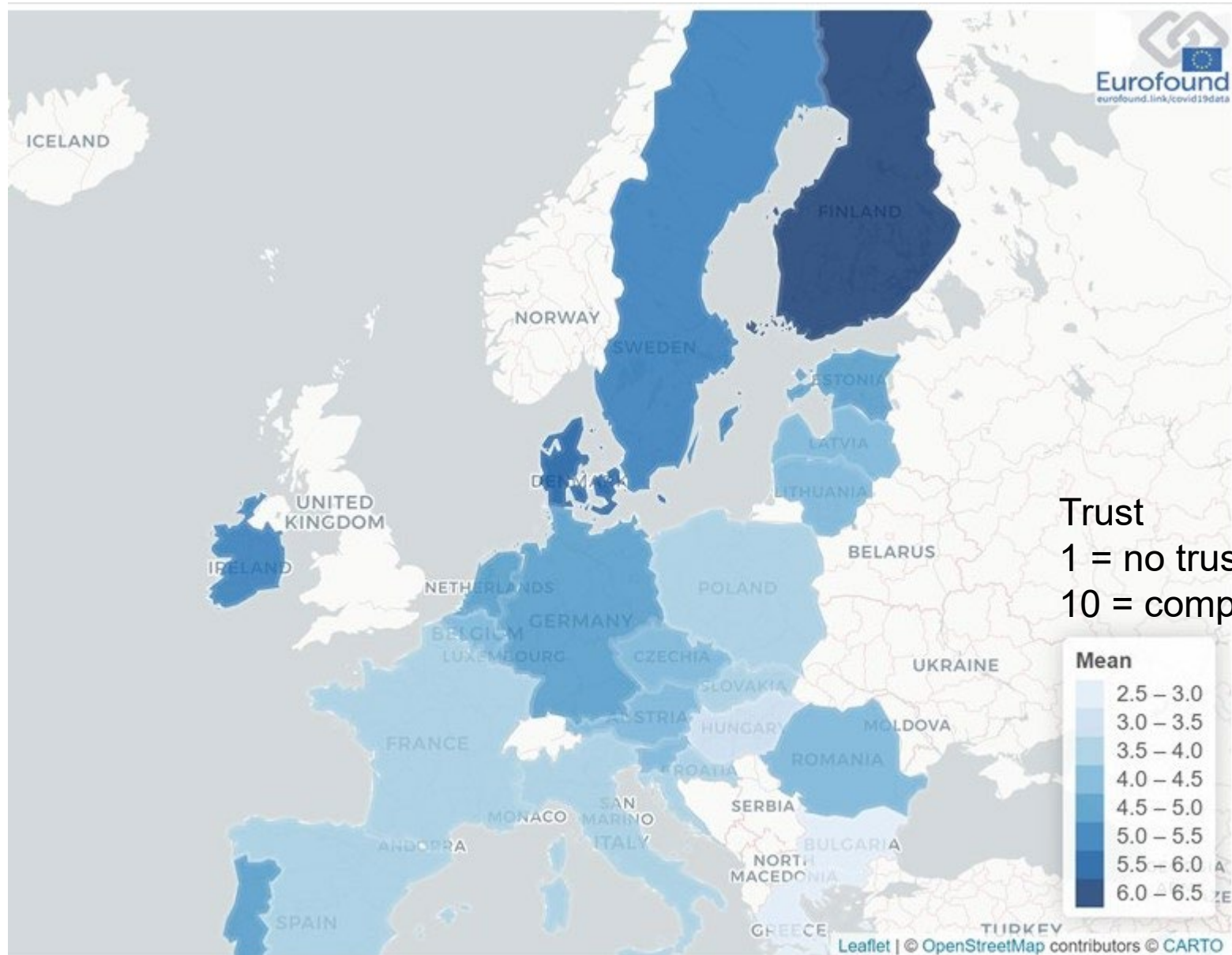
Figure 15: Trust in national governments by country and survey round, EU27 (%)



Notes: For information on the survey question, see notes to Figure 13. *Statistically significant change since summer 2020.

Eurofound (2021), *Living, working and COVID-19 (Update April 2021): Mental health and trust decline across EU as pandemic enters another year*, Publications Office of the European Union, Luxembourg.

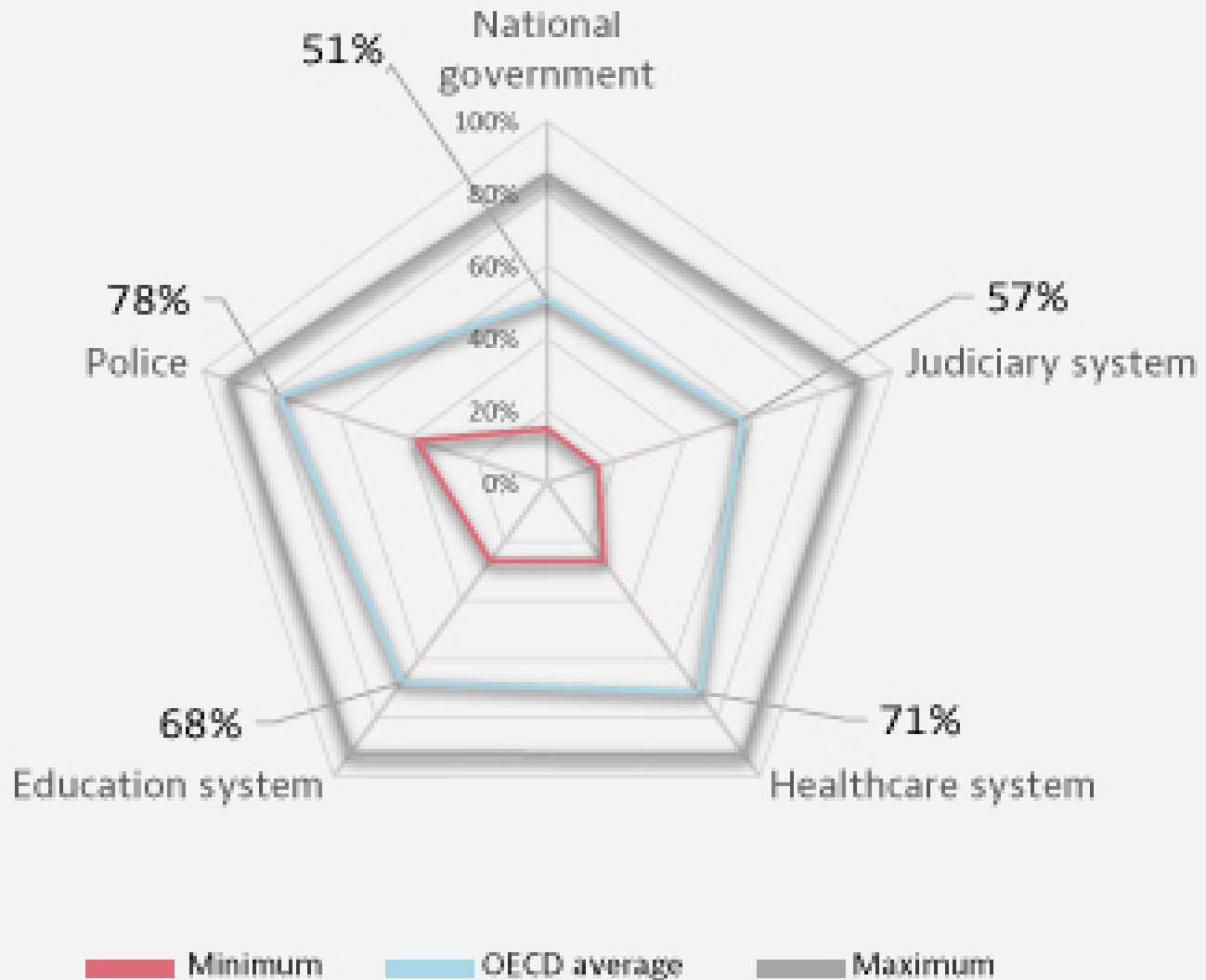
Democracy and trust during COVID-19



Eurofound (2020), Living, working and COVID-19 dataset, Dublin, <http://eurofound.link/covid19data>; retrieved 15 January 2022

OECD
countries

PEOPLE'S TRUST VARIES ACROSS INSTITUTIONS

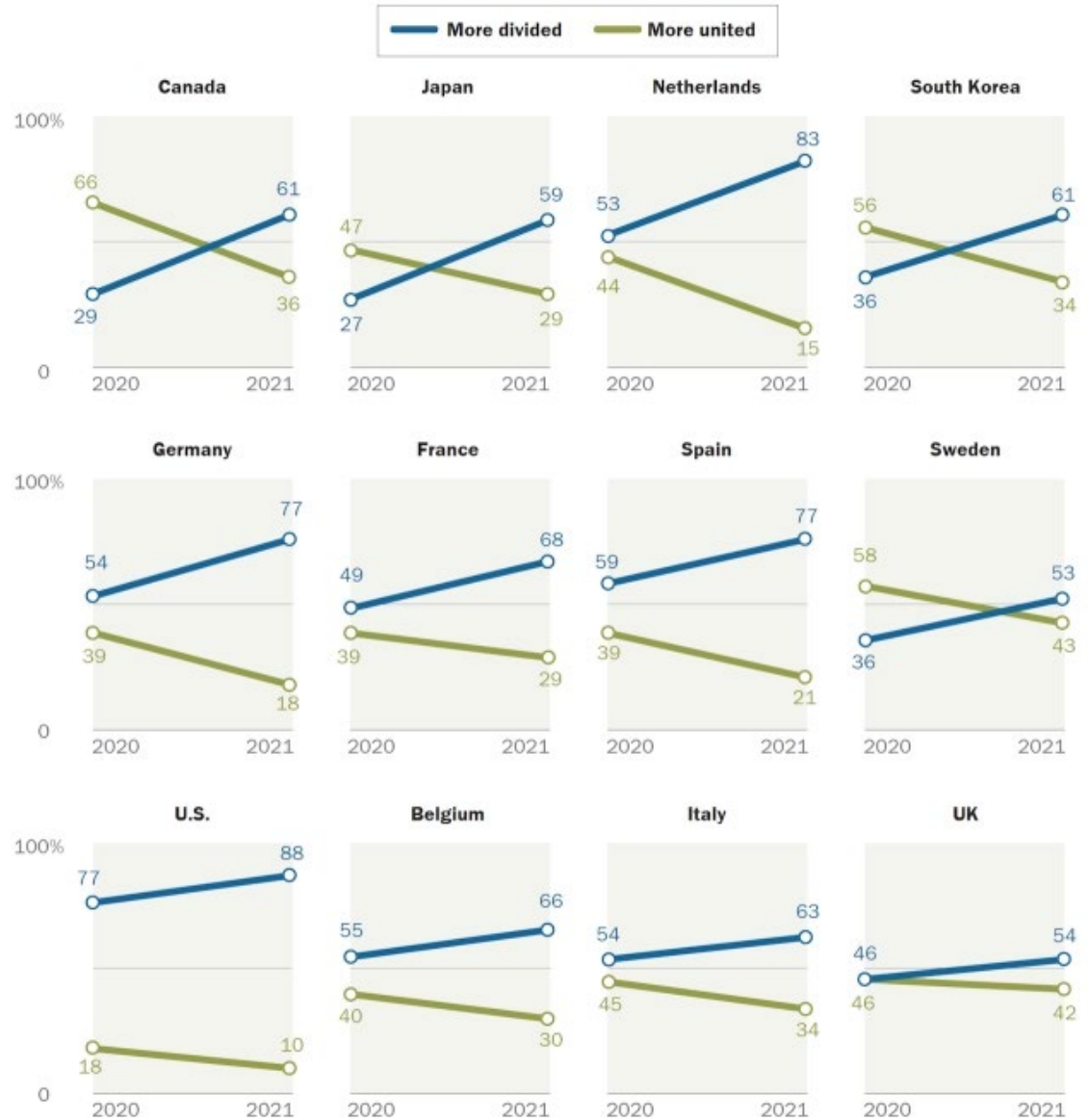


Source: OECD Government at a Glance 2021

Countries are divided

Sharp increases in share who say their country more divided than before pandemic

% who think (survey public) is now ___ than before the coronavirus outbreak



PEW Research Center (Report June 23, 2021)


People in Advanced Economies Say Their Society Is More Divided Than Before Pandemic

KAT DEVLIN, MOIRA FAGAN & AIDAN CONNAUGHTON

Retrieved from: [People in Advanced Economies Say Their Society Is More Divided Than Before Pandemic | Pew Research Center](#) (June 26, 2021)

Note: Those who did not answer are not shown.
 Source: Spring 2021 Global Attitudes Survey, Q9.
 "People in Advanced Economies Say Their Society Is More Divided Than Before Pandemic"

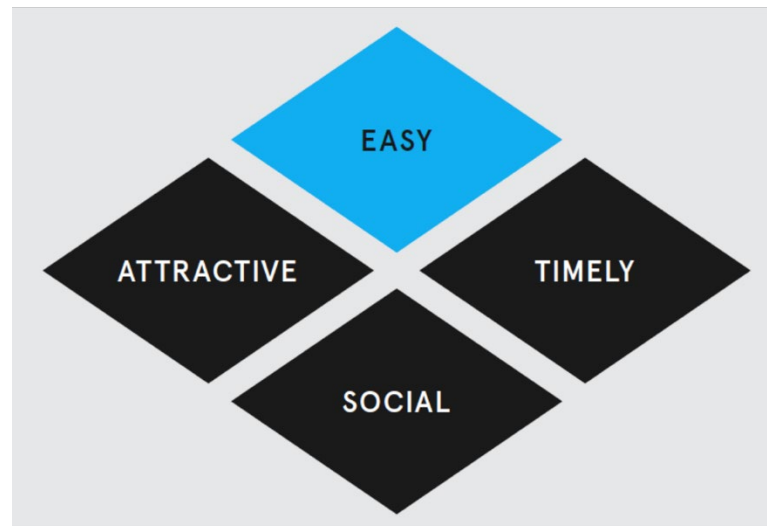
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Understanding, acceptance & trust

Strategy suggestions: preconditions

- Trust in politicians and experts (competence, integrity, transparency, benevolence, value congruence, reputation, stability)
- Credibility of effectiveness and efficiency of measures (explanations, taking recipients' perspectives, etc.)
- Facilitation of desired behavior (testing, vaccination - nudging)



UK Behavioral Insights Team - BIT

Economic Psychology & Crisis



Strategies to ensure future compliance

Strategy suggestions

- Communication
 - Communicate, communicate, communicate
 - Justify clearly and transparently
- Service
 - Keep bureaucracy simple
 - Provide services
- Power
 - Use controls and penalties
 - Target controls
 - Reward tax compliance
- Nudges
 - Establish cooperation as a socially binding norm
 - Recognize that framing affects choices
- Foresight
 - Plan for the future
 - Beware of hindsight bias

Strategy suggestions

Communication

- The first rule of crisis management is to communicate. Provide the population with clear information about support, access to support, and justify the measures and their (intended) impact as well as rights and obligations.
- Address misinformation and disinformation quickly and consistently.
- Justify clearly and transparently the necessity of measures and the use of tax money.
- Messaging should also aim to manage expectations, especially in volatile, unfolding situations where guidance is likely to change. It should be reassuring but also honest about 'learning on the job' so as to minimize distrust when guidance changes as the situation evolves.”
- Not-knowing, missing justification and uncertainty breed distrust.

Clear, transparent communication is important. Fight misinformation, disinformation and malinformation. Too much information can harm like too poor information.



Source: Adapted from Wardle C., Derakshan H. (2017), Information Disorder: Towards an interdisciplinary framework for research and policy making, Council of Europe report, DGI(2017)09.

<https://www.oecd.org/coronavirus/policy-responses/transparency-communication-and-trust-bef7ad6e/> (Retrieved 21 June 2021)

Strategy suggestions

Service

- Keep things simple: The bureaucratic hurdles must be kept as low as possible. This applies both to support and obligations in relation to extension of deadlines to file tax returns, payment schemes (e.g., installments).
- Bureaucratic hurdles must be kept low in relation to financial support. This increases procedural justice which is the basis of trust. Staff needs to be efficiently trained to respond to the needs of different segments of citizens.



Strategy suggestions

Power

- The crisis has presented many self-employed people and companies with economic difficulties and causes financial losses for many. It can be assumed that the tendency towards exploitation of public support, of engagement in undeclared work and tax evasion increases in those sectors where the financial losses are severe. Therefore, audits and fines are necessary.
- However, coercive power is a double-edged sword, especially if its measures are not precisely targeted to free riders. If coercive power is perceived as directed randomly at anyone and everyone, or disproportionately toward vulnerable populations, people might perceive the authorities as untrustworthy, react with anger or fear.
- Rewards

Targeted control and corrections

Der Standard, Austria (14 January 2022)

Millions of Euros of economic support to institutions which made high profit during the pandemic (auction houses, art traders (N = 2.660 applications), ...)

Momentum Institute, Austria (12 January 2022)

Over-excessive support for restaurants, pubs, etc. which led to duplication of profit on average.

Correction  welfare fraud

Links

<https://www.derstandard.at/story/2000132516368/millionenhilfen-fuer-florierende-kunsthändler>

<https://kontrast.at/corona-hilfszahlungen/>

<https://www.momentum-institut.at/ne>

Study 2021^{a)}

(1 Year after the beginning of SARS-CoV-2 pandemic)

- How objectionable is tax evasion and benefit fraud [welfare fraud]?
- N = 286 citizens in Austria and Germany (snowball sample, online, approx. 50% women, ages 20-84; 84% college or university education; household size Md = 2; income / M = 2-3.4 T €)
- Comparison of offenses
- Subjective concern
- Evaluation: direct comparison of tax and social fraud
- Before / after and during the pandemic
- Damnability of the fraud, satisfaction with the government and political orientation

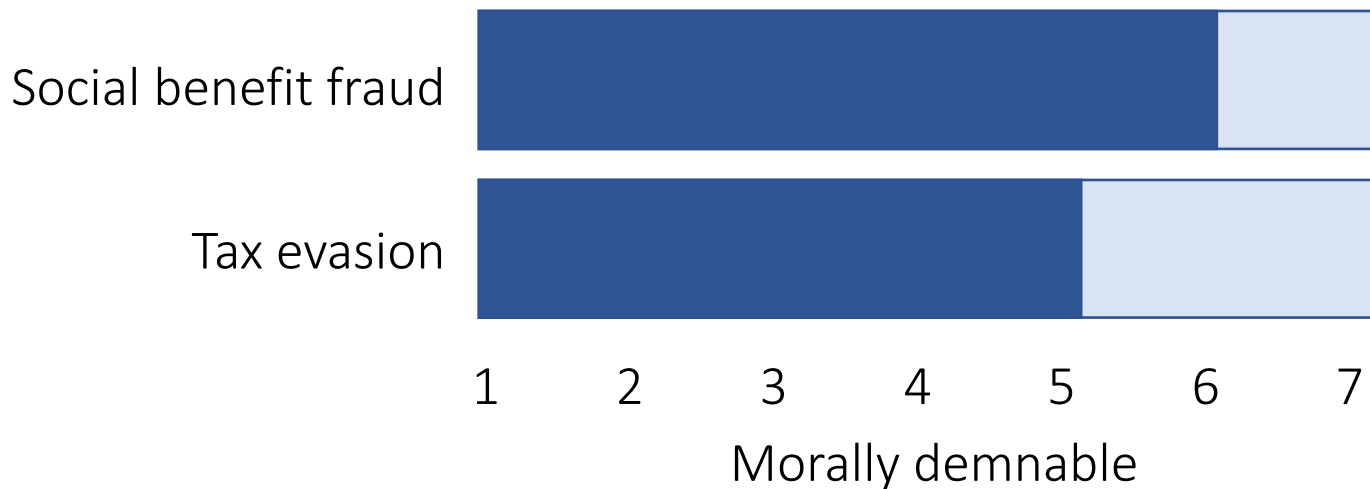
^{a)} Research seminar at the Faculty of Psychology, University of Vienna, academic year 2020/21. I am grateful (development of research design and material and data collection) to Johannes Ayrlé, Marianne Gonsa, Sebastian Grund, Laura Henseler, Tomislav Katic, Stefanie Krauth und Lisa Schabhüttl.

2. Subjective concern

	Social benefit (M, Std.)	Tax (M, Std.)
I am <u>concerned about the high levels of welfare fraud [tax evasion]</u> in society.	4.70 (1.698)	5.06 (1.677)*
I think welfare fraud [tax evasion] is a <u>more serious offense</u> than tax evasion.	4.06 (2.039)	4.26 (1.955)
People who commit welfare fraud [tax evasion] are fully aware that they are doing <u>something illegal</u> .	5.08 (1.618)	5.66 (1.571)*
People commit welfare fraud [tax evasion] if they believe they will <u>not be caught</u> .	5.11 (1.657)	5.62 (1.562)*
Welfare fraud [tax evasion] must be <u>severely punished</u> .	4.66 (1.585)	5.14 (1.525)*
Social welfare fraud [tax evasion] must be <u>strictly controlled</u> .	5.56 (1.511)	5.64 (1.535)
People who commit welfare fraud [tax evasion] should be <u>punished as harshly</u> as people who steal from others.	4.45 (1.924)	4.84 (1.789)*

3. Evaluation: Direct comparison of tax evasion and social benefit fraud

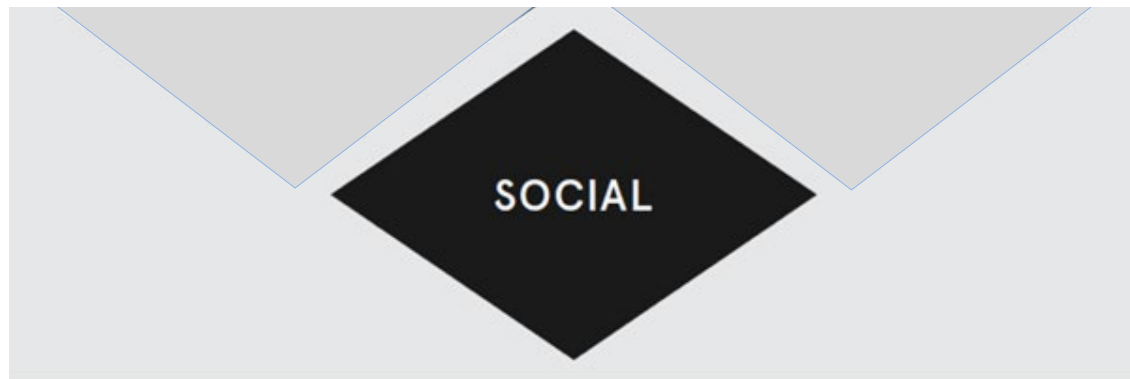
Social welfare/benefit fraud vs tax evasion (Scala 1 – 7 = very demnable)



Strategy suggestions

Nudges

- *Communicate social compliance norms*
- *Recognize framing effects*



... behavioral insights

VAT

- Germany: temporary reduction from 19% to 16%
- Austria: reduction in pubs and restaurants to 5% (no change for guests; reduced transfer to tax office by businesses)
- Question: effects on consumption following reduction (gain) vs re-establishment of traditional rate (loss)
meaning of VAT for businesses (is VAT their tax debt and their „loss“?)

Strategy suggestions

Foresight

- Plan for the future: The extensive economic stimulus packages, state guarantees, and reduced tax revenue have caused enormous fiscal deficits. Governments will still need to deal with uncertainties and fiscal pressures in the future. They need to be aware of possible fiscal risks, be flexible, and be ready to adjust their strategies to yet unforeseeable developments, such as the spreading of the Delta-, Omicron etc. mutations and possible further lockdowns. They need to beware of surprises. It is of paramount importance to plan for all possible future scenarios and intervention strategies and to document why and how measures were taken, to prevent from

Hindsight bias

OECD work has identified 5 main public governance drivers of trust in government institutions. They capture the degree to which institutions are responsive and deliver on long-term interests, as well as to design and implement plans that are fair, trustworthy, and open to public scrutiny. ... Recent revisions to the framework identified 3 additional dimensions generating public trust.

1. Responsiveness
2. Reliability
3. Integrity
4. Openness
5. Fairness
6. Political participation (i.e. ability and perception of having a say in politics and potential cynicism or distrust towards the system)
7. Public services
8. Evaluation of government action on long-term and global challenges.

<i>Policy Dimension</i>	<i>Responsiveness</i>	<i>Reliability</i>
<i>Public institutions role leading to trust</i>	<i>1</i> ----- <i>Provide or regulate public services</i>	<i>2</i> ----- <i>Anticipate change, protect citizens</i>
	<i>Integrity</i>	<i>Openness</i>
<i>3</i> ----- <i>Use power and public resources ethically</i>	<i>4</i> ----- <i>Listen, consult, engage, & explain to citizens</i>	<i>5</i> ----- <i>Improve living conditions for all</i>

<https://www.oecd.org/gov/trust-in-government.htm>; retrieved 15 January 2022

Summary: strategy suggestions

- ✓ **Communication**
 - Communicate
 - Justify clearly & transparently
- ✓ **Service**
 - Keep bureaucracy simple
 - Provide services
- ✓ **Power**
 - Use controls and penalties
 - Target controls
 - Reward tax compliance
- ✓ **Nudges**
 - Cooperation = social norm
 - Framing affects choices
- ✓ **Foresight**
 - Plan for the future
 - Beware of hindsight bias



Thank you!

... and thanks to James Alm, Kay Blaufus, Martin Fochmann, Peter N. C. Mohr, Benno Torgler