Negative Responses to Taxes: Causes and Mitigation

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Abstract
Improving tax attitudes and mitigating the effects of negative tax attitudes can help policy makers fund government operations and gain support from citizens. Beliefs both about tax payments (e.g., how much a person owes) and benefits (e.g., who gains from government revenue) affect attitudes toward taxes. But, these beliefs often reflect misunderstandings and are easily swayed by contextual influences. Negative attitudes have been linked to tax avoidance and evasion, significantly reducing government revenues. Understanding reasons for negative reactions to taxes can both improve attitudes and minimize consequences of persistent negative attitudes. Small changes to the tax collection process—such as eliciting taxpayer preferences, clearly connecting tax payments to benefits, reducing hassles for taxpayers, and appealing to norms—may reduce negative attitudes and increase compliance. Because all interventions involve both benefits and costs, policy makers should carefully test interventions in the relevant context before implementing at scale.

Keywords
tax attitudes, tax aversion, policy, taxes, interventions, nudges

Introduction
Taxes are distinct from other costs. People report disliking consumption taxes more than equivalent costs and disliking income taxes more than equivalent drops in wages (Srna, Zauberman, & Schrift, 2018; Sussman & Olivola, 2011). Tax aversion—disliking taxes beyond disliking their financial costs—can reflect stable and well-informed preferences for some individuals. However, attitudes toward taxes can also reflect context-dependent or poorly informed preferences. Interventions based on psychology may help counteract tax aversion that reflects such inconsistent or unstable preferences.

Improving tax attitudes can have significant policy consequences, especially if negative attitudes lead people to evade taxes or avoid taxes legally. Illegal tax evasion cost the U.S. federal government an average of US$458 billion per year from 2008 to 2010 (Matthews, 2016), while legal corporate tax avoidance alone costs the United States another US$189 billion per year (McCarthy, 2017). Near borders, people travel to make tax-free purchases (Coats, 1995), and tax rates even appear to drive some migration patterns (Conway & Houtenville, 2003; Young & Varner, 2011). Furthermore, politicians’ tax policies may affect voter behavior and constituent support; tax aversion based on misunderstandings could lead voters to support policies or politicians that undermine their own interests.

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A traditional model of tax compliance suggests that the decision to evade taxes is based on a simple cost-benefit analysis: weighing the certain loss of tax payments against the risk of punishment for being caught (see Wenzel, 2003, for discussion). However, studies of perceptions of justice and tax attitudes suggest that individuals have strong preferences about the tax process and its outcomes. These preferences influence tax compliance decisions, above and beyond potential costs of being caught evading taxes (Wenzel, 2003). While traditional models of tax preferences can help explain some variation in tax compliance behaviors, such models fall short of describing many observed behaviors such as why individuals can be more likely to avoid taxes than equivalent costs. More broadly, traditional models do little to explain why individuals are averse to taxes in the first place. Psychological factors such as preferences about nonfinancial outcomes can supplement traditional models to explain attitudes and behaviors regarding taxes more thoroughly.

The psychology of taxes (see Olivola & Sussman, 2015, for a review) identifies sources of tax aversion—and negative responses to taxes more generally—as well as some promising ways to mitigate its effects. Individuals can have misconceptions about taxes or government spending, and they may not pay full attention to all taxes that affect them. Tax aversion might also reflect fairness-related preferences or perceived norms.

This article assumes that policy makers seek to overcome negative reactions to taxes, at least insofar as they threaten to make tax policy less effective. In the West, nearly all major political parties support having some tax to support government functions. Reducing negative reactions to a given tax policy can help that policy be more effective. The article proceeds as follows: First, we overview the psychology of tax aversion, examining the psychology of paying taxes to the government as well as the psychology of benefiting from tax-funded government services. Next, we propose a series of policy recommendations intended to reduce negative tax attitudes and increase tax compliance.

**Psychology of Tax Aversion**

The label “tax” carries a special meaning with a unique set of associations. Compared to other costs, people say that they would be more willing to travel, wait in line, or even live in a different country to avoid a tax (Sussman & Olivola, 2011). Several characteristics of taxes may make them especially unappealing. The pain of paying taxes is immediate and salient, while the benefits of paying taxes can be abstract, uncertain, or delayed from the time of payment, causing payments to loom larger in one’s mind and disproportionately affect attitudes (Trope & Liberman, 2010). Tax payments can be decoupled from their benefits, causing taxes to feel more like a loss than a payment (Prelec & Loewenstein, 1998; Soman & Gourville, 2001; Thaler, 1999). Because payments and benefits are so decoupled, distinct psychologies can emerge related to paying taxes and benefiting from tax-funded services.

**Psychology of Paying Taxes to the Government**

How individuals understand tax payments can affect reactions to taxes. More specifically, knowledge about taxes, understanding of tax information, salience of taxes or tax-relevant information, perceptions of fairness, personal and social norms, and partisan beliefs can all influence tax attitudes and related behaviors.

People may have poor knowledge about taxes—how much they owe, how much others pay, what taxes affect them, what are the impacts of taxes, and so on. For example, people tend not to know their marginal tax rates (e.g., Rupert & Fischer, 1995). Even individuals who claim to care deeply about taxes, such as members of the Tea Party in the United States, often have inaccurate beliefs about taxes (Bartlett, 2010). People confuse average and marginal tax rates (de Bartolome, 1995), misunderstand progressive taxation (Roberts, Hite, & Bradley, 1994), and even express opinions about nonexistent tax plans, such as a fictitious “Panetta-Burns” tax plan asked on a survey conducted by Public Policy Polling (LoGiurato, 2012). Such poor understanding of taxes is associated with distrust of tax systems (for a review, see Hofmann, Hoelzl, & Kirchler, 2008). Consistent with this knowledge gap, interventions to improve tax knowledge can lead individuals to regard the tax system as more fair and their own tax evasion as more serious (Eriksen & Fallan, 1996).

Poor knowledge may arise in part because tax policies are often not salient features of decision environments. During Obama’s presidency, the administration quietly authorized a US$116 billion tax cut. This tax cut left typical families with a large, lump-sum tax cut at tax time. One result of this more subtle, piecemeal approach, however, was that only about 10% of Americans were aware that the administration had cut taxes at all (Cooper, 2010).

Despite being more widely publicized, the 2018 tax reform bill had a similar effect. Only 25% of registered voters (33% of Trump voters and 21% of Clinton voters) reported noticing an increase, although two thirds of voters should have a larger paycheck due to the tax cut (Weissmann, 2018). Taxpayers’ support for or opposition to the tax bill may be based on many factors, but noticing a substantial change in one’s paycheck is not one of them.

Changes in taxes may not be noticed in part because of the peanuts effect; repeated and small amounts can add up to large amounts without being noticed (Gourville, 1998; Markowitz, 1952). A tax cut that significantly decreases federal revenue may translate to a small, even unnoticeable...
change for an individual taxpayer. This failure to notice changes is even more likely when tax structures are more complex (Abeler & Jäger, 2015).

Yet, taxes are not always ignored when they are small—even as small as a few dollars or cents. Shoppers in the Washington Metropolitan Area significantly decreased their use of disposable grocery bags when a 5-cent tax was imposed; by contrast, a 5-cent bonus for using a reusable bag had no impact (Homonoff, 2013). This pattern is consistent with asymmetric reactions to losses and gains in other contexts and suggests that loss aversion played a significant role in driving behavior.

Large or small, the salience of taxes can influence tax attitudes. For example, most investors are aware of the tax consequences of buying and selling stocks, but highlighting these consequences can significantly reduce trading behaviors that trigger tax costs (Sussman, Egan, & Swift, 2018). Similarly, although consumers tend to know roughly what their sales tax rate is, including the tax on the price tag, instead of imposing the tax at the register, can reduce sales (Chetty, Looney, & Kroft, 2009; Goldin & Homonoff, 2013). These patterns suggest that consumers are not always sensitive to taxes when they are being incurred.

People also tend to ignore “hidden” taxes, such as the tax incidence (passed) on consumers from corporate taxes (McCaffery & Baron, 2006a, 2006b). Although people may understand that there is a difference between statutory incidence (who technically pays a tax) and economic incidence (who actually bears the burden of a tax), many do not spontaneously consider these differences or their implications (Sausgruber & Tyran, 2011).

Even when people pay attention to taxes, their valuation of taxes may not be stable across contexts, frames, or time periods. People prefer taxes to be labeled as “offsets” instead of “taxes,” prefer “upstream offsets” to “downstream taxes” (even when the net impact is equivalent), and react differently to taxes expressed in dollars versus percentages (Hardisty, Johnson, & Weber, 2010; McCaffery & Baron, 2003). Furthermore, people can be inaccurate about their own anticipated reactions to taxes. People predict higher income tax rates will affect both their satisfaction and their productivity but higher rates have been shown not to influence either (Sma et al., 2018). This insensitivity to income tax rates and insensitivity to taxes at the register may have a common mechanism. People may respond less to taxes after already making a purchase decision or job choice.

In addition, perceptions of tax fairness may be linked to tax compliance. (For a review, see Wenzel, 2003.) But what people think is “fair” varies a lot. For example, many believe that the number of hours one works should affect tax rates, but many others do not (Saez & Stantcheva, 2016). Also, preferences for taxation are not always based solely on the outcome. Taxpayers consider procedural justice in addition to outcomes (see Wenzel, 2003, for a review).

Beyond perceptions of fairness, norms can affect tax aversion in a variety of ways. On one hand, beliefs that paying taxes is moral or ethical, concerns about one’s reputation, and social norms can all increase tax compliance (e.g., Coricelli, Rusconi, & Villeval, 2014; Cullis, Jones, & Savoia, 2012; Gordon, 1989; Shu, Mazar, Gino, Ariely, & Bazerman, 2011). On the other hand, tax avoidance (and even tax evasion) can be seen as “clever” (Hofmann et al., 2008; Kirchler, 1998). Social norms might support avoidance or evasion if individuals perceive that “everyone else is doing it” (Ashby & Webley, 2008). Hence, personal norms (such as moral convictions) and social norms (such as beliefs about others’ values and behavior) might contribute to tax attitudes and compliance.

Tax aversion may reflect the feeling that taxes result in a loss of freedom or agency (Kirchler, 1998; Lamberton, De Neve, & Norton, 2018). Some have argued that agency or autonomy—the ability to make choices affecting one’s own outcomes—is a foundational human need, and aversion can arise toward anything undermining a sense of agency (Brehm, 1966; Deci & Ryan, 1985; Lamberton et al., 2018; Weinstein & Ryan, 2010). To the extent that individuals feel that taxes are encroaching on their individual freedoms, they may resist paying taxes without necessarily thinking of themselves as “freeloaders,” because many underestimate the personal benefits of services provided by taxes (as described in the next section).

Finally, partisan beliefs and preferences can affect tax attitudes and compliance. Evasion in the United States is associated with dissatisfaction with government (Cebula, 2013). In a study of close elections, compliance increased (i.e., reported income increased, suspicious Earned Income Tax Credit (EITC) claims decreased, and audit rates decreased) in counties with high alignment between the party of the president in office and the dominant party in a county (Cullen, Turner, & Washington, 2018).

**Psychology of Benefiting From Government Services Funded by Taxes**

In part because tax payments and benefits are decoupled, beliefs about the uses of government revenue supplied by taxes—specifically, misconceptions about personal and social benefits, as well as perceptions of government—can additionally affect reactions to taxes.

People tend to have misconceptions about their own benefits. One survey found that 94% of individuals who had denied ever using “a government social program” had actually benefited from at least one social program (Mettler, 2011). Poor knowledge can be costly; approximately one in five households who are eligible for the EITC do not claim it (Wiens, 2018). In addition to misunderstanding personal benefits from taxes, many people may simply fail to attend to these benefits at relevant times. Asking people to think of
positive uses of tax dollars significantly increases support for taxes among individuals who identify with generally antitax political parties, consistent with this attentional account (Sussman & Olivola, 2011).

Beyond perceptions of benefits generally, poor knowledge about distributions of benefits and economic opportunities can affect support for progressive taxation. U.S. citizens are generally inaccurate about where their income falls in the distribution of incomes in the United States, and revealing their actual rank can increase support for progressive taxation on average (Fernández-Albertos & Kuo, 2018). Similarly, individuals tend to have misconceptions about economic mobility, and information painting a more realistic (pessimistic) view of mobility can increase support for redistribution (Alesina, Stantcheva, & Teso, 2018).

How people perceive government (either in the abstract or the particular party in power) can also affect tax attitudes and compliance. Trust in government, the favorability of a government’s policies, and the perceived efficiency of a policy all affect compliance (e.g., Alm, Jackson, & McKee, 1993; Alm, McClelland, & Schulze, 1992; Scholz, Lubell, 1998; Torgler, 2003). This pattern is consistent with the notion that a preferred government will have better uses for the tax dollars they collect.

Partisans can have strong beliefs about how the quality of identical uses of tax dollars relate to the party identification of those in office. For example, when support for an administration is low, support for an otherwise favored use of tax dollars can be low. One poll found that in Kentucky, a largely Republican state, 57% of respondents disapproved of “ObamaCare” but only 22% disapproved of the same program labeled as “Kynect” (Al-Faruque, 2014).

**Policy Recommendations**

Policies to reduce tax aversion could affect more than compliance. For example, a family who experiences tax payments and benefits as decoupled may opt to live in an area with lower property taxes and send their children to private school, whereas that same family nudged to recouple payments and benefits might opt to pay higher property taxes for a high-quality public school.

Interventions to improve outcomes that stem from negative views of taxes may address negative attitudes directly or may simply mitigate their effects. Below are examples of possible interventions that include eliciting feedback on taxes, providing simple explanations of tax liabilities and benefits, removing hassles, and using norm-based messaging to improve compliance. Because the effectiveness of a particular intervention may vary from one context to another, government entities interested in implementing a policy to reduce tax aversion or increase compliance should pilot test the intervention (ideally including multiple versions, for example, with slightly different language) against an untreated control group before launching a new policy at scale.

**Elicit Feedback on Taxes**

Eliciting taxpayer preferences on how they want their tax dollars spent may decrease tax aversion and increase compliance (Lamberton et al., 2018). Such an intervention could take a number of forms. Local, state, or federal government entities could post a survey or public comment section on their websites. The Internal Revenue Service (IRS) might request that tax preparation services include questions eliciting feedback at the beginning of income tax forms. Feedback could be unstructured, as in free-text response boxes, which could be analyzed at low cost with the help of content analysis software. Alternatively, feedback could be elicited in a structured manner, such as describing existing and potential uses of tax revenues and asking taxpayers targeted questions about allocating a fixed sum across different possible uses of tax dollars.

This approach could affect tax aversion for multiple reasons. Prompting individuals to think about how taxes could be used recouples payments and benefits (Lamberton et al., 2018), potentially allowing tax payments to feel less like a loss. Merely voicing preferences may give individuals a sense of agency, perhaps by increasing perceptions of procedural fairness (Alm et al., 1992; Lamberton et al., 2018; Torgler, 2005; Wenzel, 2003), even if the act of voicing one’s preferences ultimately does not affect policy outcomes (Tyler, Casper, & Fisher, 1989). Eliciting positive preferences can help make salient positive uses of taxes, which has been shown to decrease tax aversion (Sussman & Olivola, 2011). Finally, to the extent that elicitation reveals information about uses of taxes, and the extent to which government entities respond to public feedback, individuals’ perceptions of government transparency and their trust in government could increase (Buell, Porter, & Norton, 2017).

**Provide Simple Explanations of Tax Liabilities and Benefits**

Providing simple, easy-to-understand explanations of tax liabilities and benefits may decrease tax aversion and increase compliance. Such explanations could be embedded in tax software, such that taxpayers encounter a page describing benefits before completing their taxes. Benefits might also be displayed on W2 forms, such that benefits are salient at the time when individuals determine their withholding rates.

Alternatively, taxes with specific uses could be labeled in a way that makes their uses salient. For example, some phone companies include a “state 911 tax” line item on billing statements, clearly connecting taxes paid on phone services to emergency services from which individuals and their communities benefit.
Ideally, labels or descriptions of benefits would be easy to understand (e.g., using dollars instead of percentages) and use concrete (rather than abstract) language to make the benefits seem psychologically “closer” to taxpayers (Trope & Liberman, 2010). In this manner, improving transparency about how tax dollars are used might improve taxpayers’ knowledge and understanding of taxes.

Simple explanations may improve reactions to taxes for many of the same reasons that eliciting feedback could be effective. Connecting benefits to payments can make tax payments feel less like a loss, making positive uses salient could increase support for taxes (Sussman & Olivola, 2011), and providing explanations could improve perceptions of transparency and trust in government (Buell et al., 2017). Furthermore, providing explanations for any changes in tax law can improve perceptions of fairness (Wartick, 1994), perhaps by increasing perceptions of procedural justice (Wenzel, 2003).

**Reduce Hassles in the Tax Filing Process**

Efforts to reduce hassles in the tax filing process could take many forms. The IRS could file taxes on behalf of qualifying individuals, prepopulate forms, or simply improve its interactions with taxpayers.

While most adults in the United States must file income taxes every year, in the United Kingdom, the majority of adults do not; the government tracks and collects taxes through a “Pay As You Earn” system. Only individuals with special circumstances—such as significant self-employment income—must file taxes (Self assessment tax returns, n.d.). A similar system has been proposed in the United States but has met resistance from interest groups (Huseman, 2017; Jones, 2018).

Automatic filing could have mixed impacts on tax aversion and compliance. Lower salience of taxes and fewer hassles might reduce tax aversion, but automatic filing may undermine individuals’ sense of agency, beliefs about government transparency, or trust in government. An alternative could be to prepopulate tax forms. A similar intervention showed that prepopulating student loan applications increased application filing rates (Bettinger et al., 2012), suggesting that complex forms can be so intimidating that individuals will miss out on thousands of dollars in aid without assistance.

Such an intervention may be especially beneficial to lower-income individuals who may be eligible for money, such as the EITC, when filing taxes and might otherwise forego the credit (Wiens, 2018). Free tax preparation sites currently require that taxpayers bring all relevant documents upfront, which may include a Social Security card, all W-2s, 1099s, evidence of health insurance coverage, 1098-T forms for education-related expenses, and a lengthy list of additional items. Anecdotally, individuals sometimes do not remember receiving required forms; others remember receiving them but forget to bring them. Because the IRS already has individuals’ tax information, most of these hassles are unnecessary. Prepopulating forms would save individuals time and, in many cases, significant amounts of money—either in the form of tax preparation services or in the form of foregone late fee payments—so prepopulating tax forms would effectively constitute a type of tax break.

Finally, the IRS could invest in improving its taxpayer relations processes. Less responsive tax authorities can give taxpayers the impression that auditors are not trying to be fair (Stalans & Lind, 1997), and numerous customer relations metrics—such as speed of correspondence, clarity of instructions, waiting times on the phone, and waiting times before auditors reveal determinations about audits—can all influence compliance (Smith & Stalans, 1991; Wenzel, 2003). Improving IRS–taxpayer relations would be expensive, but the gains—both in terms of increased tax compliance and increased perceptions of institutional integrity—may outweigh the costs.

**Use Norms-Based Nudges to Increase Compliance**

Appealing to personal or social norms—norm messaging—could increase tax compliance. Priming sympathy or empathy for others (Bazar & Bonein, 2014; Christian & Alm, 2014), appealing to inclusive identities (e.g., national identity; Wenzel, 2007), and communicating injunctive or descriptive norms (e.g., the portion of people who have paid their taxes on time; Hallsworth, List, Metcalfe, & Vlaev, 2017) can all increase tax compliance. Such messaging could be included on tax forms at the time of filing or on reminder letters for individuals who have not paid all of their taxes on time.

In addition, making small changes to income tax forms could make moral obligations to pay taxes more salient. For example, the form could require individuals to sign their names at the beginning of income tax forms instead of at the end, making moral standards top-of-mind before they have the chance to lie about their incomes (Madrian et al., 2017; Shu et al., 2011). Also, because individuals tend to feel more comfortable with lying by omission (leaving out a truth) than by commission (uttering a lie), researchers have suggested adding a question to tax forms: “Did you report all of your income accurately?” While lying about income by leaving out a source of income may seem relatively benign, lying in response to such a question may be seen as more active and egregious form of lying (Madrian et al., 2017). Framing wealth as a “responsibility” improves attitudes toward taxes (Whillans, Wispinski, & Dunn, 2016); including such language on tax forms or in past-due notices might improve tax compliance.

Finally, framing behavior as an opportunity to affirm an identity can lead people to engage in the behavior (Bryan,
Caveats

In practice, policy makers must consider tradeoffs before implementing any of the above policies. Interventions may not be revenue-neutral, as costs could vary significantly, especially if interventions increase EITC distributions. Interventions increasing transparency could also backfire, as they may highlight undesired uses of tax dollars, policies that appear to favor one group over another, and so on. Every intervention should be tested before implementing the intervention at scale.

Conclusion

Any government that provides services to its constituents must also collect revenues. For many countries, a significant portion of their services is funded through taxes. Policies for collecting taxes and distributing benefits are effective only if their design is congruent with taxpayer behavior. If policy makers focus on increasing compliance through methods based on traditional models, such as by increasing the probability of being audited, the net impact on revenues may be small. Understanding the psychological underpinnings of negative responses to taxes provides policy makers with the tools necessary for improving tax attitudes and compliance.

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