

# CIFREM SEMINARS

## WHY PAYING TAXES? A REVIEW OF TAX COMPLIANCE DECISIONS

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*Since the standard model of income tax evasion (Allingham & Sandmo, 1972; Srinivasan, 1973) was published, a bulk of research tested its four parameters (i.e., level of actual income, tax rate, audit probabilities, magnitude of fines) for empirical validity. Surveys, laboratory experiments and analysis of aggregate data revealed ambiguous evidence for the model's behavioral implications. The present article reviews these studies and concludes that compliance decisions can only partly be explained by the rational choice approach. We suggest that depending on the climate in a society, compliance stems from two different factors. In a climate of distrust, high power of authorities is needed to enforce tax compliance and increasing fines and audit probabilities may be an effective tax policy. In a climate where taxpayers trust the authorities of their state, however, other variables gain in importance. Knowledge, attitudes, moral appeals, fairness and democracy may lead to voluntary compliance. In this case, draconian fines and intrusive audits can take unintentional effects and would corrupt tax morale.*