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LEGAL FACTORS INFLUENCING TAX COMPLIANCE

Abstract. *The purpose* of the research is to study the influence of anthropological and sociocultural factors in tax compliance and determine an approach to understanding the state (statism or anthropocentrism) that drives tax compliance. Research methods comprise the analysis of empirical data which touch upon tax compliance. **Results.** The author has analyzed two opposite approaches to the understanding of factors influencing tax compliance: statism (by distancing oneself from the state, a person maximizes pecuniary benefits through tax evasion) and anthropocentrism (realizing the importance of tax and reciprocal interaction, a person voluntarily pays tax). It is proved that the anthropocentric paradigm (under which the state exercises exclusively auxiliary function) plays a pivotal role in tax compliance, while the primacy of the state predominant in society, under which people serve to support its existence, causes tax evasion. The research emphasizes the failure of the factors shaped following the statist approach to positively influence tax compliance in the long run. **Conclusions.** In the context of a prevalent statism-based understanding of the state and thus, a low level of confidence, citizens are about not to finance the government, which doesn't care about them. At the same time, anthropocentrism and a high level of confidence lead to voluntary tax compliance. That sort of behavior is conditioned by society's understanding of the importance to shape and distribute public goods. As a result, the progress of any long-term fiscal policy primarily depends on the way it affects the perception of taxpayers of the state, namely, whether such measures can assure the public of the government's good intentions and consolidate inseparability between citizens and the state. Therefore, the study of the factors shaped following the anthropocentric concept is a priority of domestic science because they have the greatest impact on tax compliance and thus, generate tax revenues and economic prosperity.

Key words: anthropological and sociocultural approach, statist approach, tax compliance, tax amnesty, tax evasion.

1. Introduction

Tax relations are peculiar to any society which starts generating or using public funds at some stage of its development (Adams, 1992, pp. 1–2). At the same time, the first attempts to evade taxes coincide with the origin of the very taxes and come well ahead of the origin of the very state (Havrylyuk, 2014b, pp. 347–348). The issue of tax evasion is also relevant to Ukraine. Therefore, as estimated by the State Border Guard Service of Ukraine, Ukrainian losses from using tax evasion (minimization) schemes are about USD 7.7 billion per year, including “envelop” salary – 4.3 billion USD, the activities of “twist” and conversion centers – 1.5 billion USD, offshore – 0.8 billion USD, excisable goods – 1.0 billion USD, losses of state-owned enterprises – 0.1 billion USD (Liubchenko, 2021). To advance the efficacy of tax control and fight against tax evasion, Ukraine is seeking to introduce the tools of counteracting aggressive tax planning (BEPS) into tax laws and update the system of tax administration

and payment. At the same time, according to the laws № 1539-9 and № 1542-9, Ukraine commences tax amnesty from September 1, 2021, to September 1, 2022. Under such conditions, it would make sense to update a theoretical and practical basis of tax compliance¹, in particular, in terms of voluntary tax payment.

2. The review of recent researches and publications

In recent years, the domestic scientific community has shown a growing interest in tax compliance. In particular, I.V. Lytvynchuk, L.M. Kasianenko, V.Yu. Ilin, M.I. Vykliuk, I.A. Maiburova et al. have studied either the mentioned phenomenon or subject-related issues. Western science began dealing with tax compliance (incl. in terms of voluntary tax

¹ Tax compliance is hereinafter regarded as a lack of lawful (tax avoidance) and illegal (tax evasion) ways of tax dodging as well as the accessibility of tax legislation and mechanisms of tax payment, service orientation of tax authorities, a high level of digitalization of tax payment procedure, etc.

payment) in the late 20th century. A. Mumford, W. Martin, J. Campbell, J. Backhouse studied the relations between taxes and sociology, and such scholars as A. Sandmo, M. Ellingham, J. Alm, E. Kirchler, et al. studied non-economic factors affecting tax compliance. At the same time, R.O. Havryliuk, V. Stopin, V.I. Manzhura, P.M. Rabinovych, O.S. Kulina, et al. highlighted the importance of anthropological and sociocultural approaches in examining tax relations.

3. A role of the anthropological and sociocultural and statist approaches in tax compliance

The analysis of tax compliance in literature relies on two approaches (James, Alley, 2002, p.28). The former is grounded on the opposition of man and the state (statism, positivism, the economic or standard model) under which a person, by distancing himself from the state, maximizes pecuniary benefits through tax evasion. The latter (anthropocentrism) touches upon anthropological and sociocultural factors which determine the behavior of a tax payer (e. g. public confidence in the government, tax equity etc.) (Kirchler et al., 2007, p. 24).

The economic model was introduced in 1972 by Agnar Sandmo & Michael G. Allingham (Allingham, Sandmo, 1972). Based on the mentioned approach, to clarify the phenomenon of tax compliance in the late 20th century, academic economists used precise calculations of benefit ratio, which on the one hand, comprises the amount of money that can be saved through tax evasion and, on the other hand – the risk of exposure together with the amount of punitive damages. In other words, following the relevant model, human behavior is focused on utility maximization during tax payment.

The standard model doesn't work in practice despite its simplicity and logical perfection. Thus, in 1992, James Alm, Harry McClelland and William Schultz concluded that models which are based on the economic approach to forecasting taxpayers' behavior drastically depreciate tax compliance (Alm et al., 1992). It became clear the impossibility to explain an individual's behavior by relying only on the concept of "rational" and "egoistic" man under which citizens, understanding their distancing from the state, seek to protect their income from external encroachments. Over time, James Alm, Izabel Sanchez, and Anna Juan looked beyond the standard approach to evaluating the rate of tax payment. The authors conducted pioneering empirical studies which addressed the impact of social norms on tax compliance and summarized: "<...> *in studying tax compliance, it is essential to consider myriads of the factors which affect a payer's motivation,*

of the factors which extend the economic theory and take into account the payer's behavior and his psychology" (Alm et al., 1995, p. 17). In 2002, Bruno S. Frey & Lars P. Feld paid attention to a fundamentally different factor of tax compliance – "tax morale", and deduced that tax morale is raised when the tax officials treat them with respect. In contrast, when the tax officials consider taxpayers purely as "subjects" who have to be forced to pay their dues. Moreover, the reduction of tax morale reduces the level of tax payment, and the taxpayers tend to respond by actively trying to avoid taxation (Frey, Feld, 2002).

It is worth mentioning that the role of non-economic phenomena in tax compliance had been studied by scientists of fiscal sociology – financial knowledge of the influence of taxes on morale, politics, culture, and ecology (Andrushchenko, Tuchak, 2013). Theorists of fiscal sociology had repeatedly highlighted the importance of human-centric preconditions when analyzing tax relations, but the advancement of empirical research coincided with the beginning of the 21st century. That period was characterized by the commencement of active studies of connections between taxes and historical specifics of society, the effect of taxation on social equity, psychological aspects of human attitude towards taxes, etc. (Martin et al., 2009).

Over time, in 2008, Eric Kirchler, Ingrid Wahl and Eric Hoelzl (Kirchler et al., 2008) introduced a "slippery slope framework" under which public trust in the state is one of two major factors which influence tax compliance. The authors consider 2 models of the existence of society: antagonistic – citizens seek to avoid taxes by all means and play the role of "a criminal" (the state becomes a "police officer" and strives to collect taxes), and synergetic – citizens and the state are inseparable and pursue the same goal (thus, the public acts as a "client" and the state – as a "servant"). In an antagonistic society, the state relies on power to ensure a high level of tax payment, and in a synergistic one – on trust. In addition, power is regarded as taxpayers' perception of the authorization of tax bodies to find and punish a trespasser, and trust – as the utility of government and taxes for the whole society. The authors of the "slippery slope" framework pay attention to the importance of both power and trust, and citizens' tax compliance may be expected if both indicators are at a high level due to functioning in synergy. At the same time, it is crucial to differentiate legitimate power from coercive power. In the former case, society understands that power is aimed at not allowing others to avoid tax payment and guaranteeing

the satisfaction of public needs. In other words, that kind of power is meant not to punish but exercise the right of a prompt payer to taxes (Havrylyuk, 2014a). Therefore, coercive power (numerous audits, high penalties, “authoritarian” attitude of tax authorities towards taxpayers, etc.) reinforces the mutual antagonistic attitude of the state and taxpayers. In extreme cases, such opposition evolves into the fight in which a taxpayer has the moral right not to finance rogue government, and tax authorities treat society as the soulless crowd which needs external impact for further mutual existence. In fact, it refers to the statist and anthropocentric concepts in the analysis of tax compliance. The “slippery slope” framework is grounded on a deal of theoretical and empirical researches (Bose, Jetter, 2012). In the first instance, one should draw special attention to the research “Trust and power as determinants of tax compliance across 44 nations” which was conducted by 63 scientists worldwide. The authors interviewed 14 509 respondents in 44 nations and concluded that trust and legitimate power have the most pronounced effect on the level of tax payment (at the same time, trust demonstrates more strong influence than legitimate power), and coercive power without trust has slight impact on tax compliance and in some case even increases tax evasion (though legitimate power with frequent audits and control causes the opposition of the citizens of Australia, Sweden, and Switzerland, i. e. when there is a high level of mutual trust, it is better not to “doubt” it using excessive control) (Batrancea et al., 2019).

In addition to the mentioned empirical data, the significance of the synergetic co-existence of man and the state is also supported by international practice as it is impossible to name any country with high tax compliance that does not care about its citizens. Despite the unambiguity of international experience, the author is limited to the China case, which despite its peak economic growth in the nineties of the 21st century (above 9–10% per year), demonstrates a correlation between a low level of observance of human rights and a low level of tax compliance. Thus, in 2015, only 2% of the Chinese paid income tax, which accounted for 8% of total tax revenues (compared to 24% in OECD members) (The economist, 2018).

Therefore, the anthropocentric paradigm (under which the state conducts exclusively auxiliary function) plays a pivotal role in tax compliance, and the primacy of the state predominant in society, under which people serve to support its existence, leads to low tax compliance. This conclusion seems paradoxical as the more we praise the state and concurrently neglect a man, the weaker the state (keeping in

mind an obvious fact that tax revenues and their effective distribution are the backbones of any state). However, there are no contradictions in this context. The above statement naturally originates from the anthropocentric approach positing that the prosperity of the state and an individual is equal.

4. The anthropocentric paradigm as a way of ensuring tax compliance

Since the Revolution of Dignity and thus the commencement of becoming the anthropocentric paradigm, Ukrainian society is under the formation of a political-legal tradition of exercising human rights (Havrylyuk, 2014b, pp. 443–444). However, this process is far from being completed. At this stage, Ukrainian society especially needs to change the understanding of the state’s role and the realization of its inseparability. This goal also can be achieved by applying tax regulation as there is no better way to convince society of the importance of establishing the rule-of-law state than to guarantee a transparent formation of public goods, effective tax collection, and fair redistribution. At the same time, economic liberalization (it mainly depends on tax revenues and adequate funding priorities) leads to improving public trust, which causes economic growth. Thus, the mentioned processes reinforce each other, and it is the state which has to make the first step.

Researchers regard the factors as ones that boost the rate of tax payment in the state and are focused on switching the paradigm of public understanding of the state from statist into anthropocentric. Confidence in the state, transparency of the procedure of collection and redistribution, citizen participation in state tax policy, “service” orientation of fiscal authorities, concern about taxpayers’ opinion, fair and reasonable redistribution of goods, clearness of tax rules and free consultation – integral features of the anthropocentric state in which society understands the necessity of forming and redistributing public goods and ensures mutual satisfaction of public needs through reciprocal cooperation.

At the same time, statism-based understanding of the state as well as control techniques, which arise from that sort of understanding, cost taxpayers dear and establish favorable conditions for corruption (Muthukrishna et al., 2017) that further discredits the state that relies on power and neglects trust and thus, creates a favorable environment for tax evasion. Measures strengthening control over taxpayers, the sophistication of tax laws, and the increase of tax burden can be fruitful in the short run, but they will negatively affect subsequent tax compliance in the context of low trust.

At the moment, the Western scientific community has reached a consensus about the influence of anthropological and sociocultural factors on tax compliance. In the last few years, Ukrainian legal scholars heightened their interest in tax compliance in the context of European integration. In particular, the issue of a voluntary administration of tax compliance (as the mechanism of voluntary tax compliance) is one of the elements of the EU program entitled "Public Finance Management (PFM) for Ukraine – EU4PFM". Domestic scientists have recently become interested in tax compliance. Tax mentality, tax morale, culture, well-built interaction between taxpayers and tax authorities are among the factors that have already been noted by Ukrainian scholars as necessary for an effective tax strategy (Striashko, 2019, pp. 345–347). Attention has also been paid to the formulation of the definition of tax compliance (Koliada, 2020, pp. 791–794), its tasks, and the introduction of compliance strategies (Paltsun, 2013, pp. 134–141). However, there are not today comprehensive studies of anthropological and sociocultural factors affecting tax compliance.

5. Conclusions

As a result, the progress of any long-term fiscal policy primarily depends on the way it affects the perception of state taxpayers, in

other words, whether such measures can assure the public of the government's good intentions and consolidate inseparability between citizens and the state. Reforms directed at public understanding of unity between citizens and the state result in voluntary tax compliance. Moreover, technical changes of tax collection mechanisms based on the utility maximization model have long proved to be inefficient and solely complicate tax laws by compelling taxpayers to perceive taxes as an encroachment on the property and look for new ways to evade them. The significance of these conclusions involves their universal nature: despite the legal scholar's penchant for the statist or anthropological and socio-cultural approach in understanding the state's role, the goals of tax policy (including the generation of public revenue) coincide: it is essential to create an environment for mutual trust when society realizes the functional role of the state and the need for taxes.

Thus, keeping in mind the importance of taxes, on the one hand, and a traditionally high level of Ukrainians' tax evasion, on the other hand, the study of factors based on the anthropocentric concept is a current priority of domestic science since they have the greatest impact on tax compliance and thus lead to the economic prosperity of the country.

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ПРАВОВІ ФАКТОРИ ВПЛИВУ НА ДОТРИМАННЯ ПОДАТКОВОГО ЗАКОНОДАВСТВА

Анотація. Метою статті є дослідження впливовості антропосоціокультурних факторів у податковому комплаєнсі та визначення підходу до розуміння держави (етатистського чи людиноцентристського), що зумовлює дотримання податкового законодавства. **Методи дослідження.** Методом дослідження обрано аналіз емпіричних даних, що стосуються податкового комплаєнсу.

Результати. Проаналізовано два протилежні підходи до розуміння факторів впливу на податковий комплаєнс: етатистський (за якого людина, відсторонюючись від держави, максимізує грошову вигоду шляхом ухилення від сплати податків) та людиноцентристський (за якого людина, розуміючи важливість податку та реципрокної взаємодії, добровільно сплачує податок). Доведено, що парадигма людиноцентризму (коли держава виконує виключно обслуговуючу функцію) відіграє вирішальну роль у податковому комплаєнсі, тоді як панування в суспільстві концепції верховенства держави, за якої люди покликані лише підтримувати існування держави, призводить до ухилення від сплати податків. Зазначено неспроможність факторів, що сформовані за етатистським підходом максимальної вигоди, позитивно вплинути на податковий комплаєнс у довгостроковій перспективі.

Висновки. Констатовано, що в разі панування етатистського розуміння держави та, відповідно, низького рівня довіри громадяни відчують моральне право не фінансувати владу, яка про них не дбає. Водночас парадигма людиноцентризму й високий рівень довіри зумовлює добровільне дотримання податкового законодавства. Така поведінка зумовлена розумінням важливості формування та розподілу публічних благ у суспільстві. Отже, успішність будь-якої фіскальної політики в довготривалій перспективі залежить насамперед від того, яким чином вона вплине на сприйняття держави платниками податків, тобто від того, чи зможуть такі заходи переконати суспільство в добрих намірах влади та затвердити нерозривність громадян і держави. Таким чином, дослідження факторів, сформованих за людиноцентристською концепцією, є пріоритетним напрямом вітчизняної науки, оскільки саме вони здійснюють найбільший вплив на податковий комплаєнс та, відповідно, зумовлюють податкові надходження й економічне процвітання загалом.

Ключові слова: антропосоціокультурний підхід, етатистський підхід, податковий комплаєнс, податкова амністія, ухилення від сплати податків.

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