

Tax Evasion and the Importance of Trust^{*}

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Abstract

Unless people pay the taxes they are obliged to pay, a general welfare state will eventually collapse. Thus, for the welfare state to survive in the long run, tax compliance is of utmost importance. Using Swedish individual survey data we analyze which factors affect the perception of *tax evasion*. The analysis is conducted on ten different taxes and the results differ widely. Hence, we show that it is important to study different taxes separately rather than treating tax evasion as one common phenomenon. In this paper we focus on the importance of different kinds of trust. Whether or not people in general are regarded as trustworthy only has a minor impact on perceived tax evasion. Instead, what matters is trust or distrust in politicians. People who distrust the parliament are more likely than others to think that tax evasion is common, and the result holds for most of the taxes studied. This may have severe long-run consequences for the welfare state. If people stop trusting their leading politicians, social norms about tax compliance deteriorate and the possibilities of collecting taxes for maintaining the welfare state are reduced.

Key words: trust in politicians, generalized trust, social capital, general welfare state, tax policy, tax compliance.

JEL classification: H26, Z13, H11

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Introduction

“If politicians are not trustworthy, then tax evasion is more common.” This is *not* our conclusion in this paper.⁴ However, it seems to be the conclusion drawn by the Swedish people in a recent survey.⁵ Instead, we find that the respondents who distrust the Swedish parliament are more prone than others to *think* that tax evasion is common. Since previous research has shown that the perception of whether others pay their taxes is very important for own tax compliance, this result is likely to also say something about real tax evasion in Sweden.⁶ It turns out that how trustworthy people consider their politicians to be is much more decisive for the perception of tax evasion than how trustworthy one thinks that people in general are.

In order to maintain a general welfare state, quite large tax revenues are required. In order to receive these large tax revenues it is important that people do not evade the taxes. Simply put, the very functioning of the system presupposes that people actually pay the taxes they are obliged to pay. There is a large body of literature on tax compliance (for a thorough survey, see Andreoni *et al.*, 1998) that gives explanations to what makes people willing to pay taxes (e.g. Vogel, 1974; Scholz & Lubell, 1998). One important aspect is the perception of what others do: If people are convinced that their co-citizens are doing their fair share, they are themselves more willing to contribute, and perceived tax evasion (true or not) among others affects their tax compliance negatively.⁷ In this paper we therefore examine which factors affect people’s perceptions of tax evasion among other people. To do this we use data for Swe-

⁴ We do not have information about the trustworthiness of politicians (how does one measure that?), or about true tax evasion.

⁵ The SOM 2004 survey, discussed later in the paper and presented at <http://www.som.gu.se/english.htm>.

⁶ Torgler (2003), Torgler & Schneider (2004).

⁷ Gordon (1989) derives a theoretical model to show the taxpayer interdependence where evasion itself generates more evasion in the long run. Also Bordon (1993) shows theoretically how others’ tax evasion has a negative impact on tax morale. When it comes to empirical evidence, Torgler & Schneider (2004) find a strong negative impact of perceived tax evasion on tax morale in Austria.

den, a country with a high tax to GDP ratio and a large welfare state. We especially focus on the importance of various kinds of trust on perceived evasion of ten different taxes.

Previous research on tax evasion and tax compliance has mainly dealt with income taxes only. However, it is likely that both the attitudes towards and the occurrence of tax evasion differ between taxes. Therefore, we do not treat tax evasion as one single phenomenon, but rather analyze evasion of ten different taxes separately. It turns out that the perception of tax evasion differs widely across taxes. More than 70% of the respondents think that gift and wealth tax evasion is common. When it comes to the vehicle tax and the carbon dioxide tax on gasoline and diesel, only 17% think that tax evasion is common. It is likely that social norms differ across taxes, as well as the technical possibilities to evade them.

Suggested determinants of tax evasion

There are certainly a number of explanations to why people evade taxes. The most obvious reason for someone to try to earn money “off the record” is perhaps to keep his or her billfold in good shape; in other words, people may want to maximize their expected net income (Allingham & Sandmo, 1972; Andreoni *et al.*, 1998; Hammar *et al.*, 2005; Kumlin, 2002; Holmberg & Oscarsson, 2004; see also several contributions in Mansbridge, 1990). Two evasion factors that can be included in this self-interest motive are income and marginal tax rates. The higher the gross income and marginal tax rates, the more could be “gained” by withholding income from tax authorities. Slemrod & Yitzhaki (2002) point out that income tax evasion is more common within the highest income group than in lower income groups. Furthermore, Clotfelter (1983) found that high marginal tax rates clearly imply more tax evasion. Another

factor influencing expected income is the probability of getting caught. This means that tax evasion is likely to be higher with dysfunctional tax institutions.

A second fundamental factor for the understanding of tax evasion is related to *trust*. Trust is generally considered important for social and economic development in societies (Rothstein & Uslaner, 2005). Different forms of trust occur in the literature. On the one hand we find morale (Uslaner, 2002), social trust (Rothstein & Uslaner, 2005) and generalized trust (Uslaner, 2002; Yamagishi & Yamagishi, 1994), all of which are matters between individuals. Roughly speaking, these forms deal with to what degree someone trusts that others do their share, and vice versa (Rothstein, 2003). On the other hand there is trust in “the establishment,” e.g. in institutions (police, court etc.), corporate leaders or politicians, meaning trust in the execution of promises and that they do this in an effective and efficient way.

According to the tax compliance literature (see Roth *et al.*, 1989), social or generalized trust is an important reason why people tend to pay taxes (Scholz & Lubell, 1998). The reason is found in the rational choice theory and the social dilemma literature (Rothstein, 2003) and is rather self-explaining: If I trust that most other citizens pay their share, then I am more inclined to pay mine. Alternatively, if I do not trust that others contribute properly, then the incentives for me to contribute are rather small. Seen from a welfare system perspective, if the theory of social dilemma is correct, then a large number of distrusting citizens (regardless of whether their suspicions are correct or not) may jeopardize the welfare state system in the long run. Torgler (2003) describes what he calls a social taxpayer in the following way:

“ ‘Social Taxpayers’ are influenced by social norms, feel guilty when they under-report and escape detection and feel ashamed when they under-report and get caught. Furthermore, they are very sensi-

tive to people's beliefs, especially of those close to them. They react emotionally and very strongly to perceived changes next to them. They can be seen as conditional co-operators. If they perceive that others pay taxes they tend to pay them too. On the other hand, a reduction of others' contribution reduces their willingness to contribute." (Torgler, 2003: 124)

Empirical findings show that trust in the government, public officials and in the legal system has a significant positive effect on tax morale (e.g. Scholz & Lubell, 1998 and Torgler, 2003, 2004). Simply put: if I do not trust that politicians are doing what they should, then I become more tempted to evade taxes. Also, a study done by the Swedish Tax Agency (STA) (2003) found that the most common argument legitimizing tax evasion among Swedes is that those in leading positions in society violate the social norms.

In the literature on tax evasion and tax compliance, taxes are usually considered as one single phenomenon, mostly in terms of income taxes. Moreover, people are usually not assumed to have any specific preferences about taxation, except that they tend to dislike the reduction of their disposable incomes. This, we argue, is probably a too simplified view. Taxes differ, e.g., with respect to how technically easy they are to evade and how popular they are,⁸ and these factors can also be expected to affect the social norms towards evasion of different taxes. The Swedish taxes we investigate in this paper are different forms of income tax, corporate tax, tax on gifts, wealth tax, real estate tax, vehicle tax, carbon dioxide tax and tax on alcohol. These differ in popularity, with the real estate and gift taxes being the most unpopular. The (un)popularity of taxes may well influence the social norms concerning compliance.

⁸ In another paper, (Hammar *et al.*, 2005) we analyze the attitudes towards different taxes and find that some are more popular than others.

Also, the tax base (e.g. carbon dioxide, alcohol, income, gifts) and motives (efficiency,⁹ fiscal, distributional) differ among these taxes, which can also affect the perception of tax evasion. Taxes on income is by far the most revenue-building, with 2004 payroll taxes amounting to over 300 billion SEK, while the revenues from the alcohol tax amounted to “only” 10 billion SEK, and the carbon dioxide tax to roughly 25 billion SEK. The gift tax has recently been abolished, but amounted to less than one billion SEK.

From this rather broad introduction we can now specify our study by modeling the theoretical relationship between tax evasion and different forms of trust.

Model and hypotheses

According to the “standard” model of income tax evasion, as first presented by Allingham and Sandmo (1972), low probabilities of detection and mild punishments increase the probability of tax evasion.¹⁰ However, it has been pointed out that income maximization and risk aversion cannot fully explain tax evasion behavior. Recent studies have found that trust and social norms are important factors in explaining why people pay (or not pay) taxes.¹¹

When modeling the agent’s problem in an Allingham – Sandmo fashion, we add a “social-taxpayer factor” to the utility function. We also include utility from the public sector itself, i.e. an explicit modeling of the perceived benefits of public expenditures (financed by taxes

⁹ Externalities can be corrected by taxes such that a socially efficient level of consumption can be achieved in a cost effective way. This use of Pigouvian taxes (Pigou, 1924) is in line with the idea of allocative efficiency. The Swedish carbon dioxide tax, which was introduced in 1991 and has increased several times since, is a Pigouvian type of tax. Today it amounts to about 20 percent of the total price of gasoline and diesel. With such a tax, the fuel price increases. This motivates people to drive less, to drive shorter distances and to use smaller and more fuel-efficient vehicles etc. We find similar arguments behind the Swedish tax on alcohol. In some cases more than one motive lies behind the introduction of a tax. For instance, the sizable revenues from the carbon dioxide tax are for obvious reasons of fiscal concern.

¹⁰ See also Sandmo (2004) for details.

¹¹ See e.g. Scholz & Lubell (1998), Torgler (2003) and Davis *et al.* (2003).

and administered by politicians and public officials).¹² We assume that utility is strictly concave in consumption, implying that the individual is risk averse. We also assume that the individual receives two sorts of income, Y_A and Y_B , both subject to taxation, but possibly at different rates. The expected utility, $E[U]$ is

$$\begin{aligned}
E[U] = & (1-p)U[Y_A - t_A DY_A + Y_B - t_B DY_B] \\
& + pU[Y_A - t_A DY_A + Y_B - t_B DY_B - f_A(Y_A - DY_A) - f_B(Y_B - DY_B)] \\
& - d_A(Y_A - DY_A) - d_B(Y_B - DY_B) + E[V[\theta]],
\end{aligned} \tag{1}$$

where Y_i is total gross income of sort i , and DY_i is declared income, which is taxed at the tax rate t_i , $i=A,B$.¹³ Income evaded is therefore $Y_i - DY_i \geq 0$. The subjective probability of auditing is p , and in that case both kinds of income are audited.¹⁴ If the individual is caught, a fine proportional to the evaded amount has to be paid, $f_i(Y_i - DY_i)$.

We also include a possible disutility of tax evasion, d , to create a social taxpayer.¹⁵ The disutility function is assumed to be convex, i.e. $d'(Y - DY) \geq 0$ and $d''(Y - DY) \geq 0$. It captures the psychological feeling and social norm that you *should* not evade taxes and emerges irrespective of whether the individual is caught or not. Hence, it deters evasion. People may differ in their conscience regarding tax evasion, where some have high and others have low degrees of disutility evading both taxes (cf. Vogel, 1974). We also allow for different social norms re-

¹² Bordignon (1993) focuses on public goods when analyzing tax evasion.

¹³ Naturally, the model can be extended to a “many-tax” model. For reasons of presentation we choose to only model two taxes.

¹⁴ Allingham and Sandmo (1972) discuss what affects p , and Sandmo (2004) extends this discussion. In this paper we do not analyze this probability *per se*.

¹⁵ Gordon (1989), Torgler (2003) and Sandmo (2004) analyze the inclusion of this disutility function. In Gordon’s paper, the disutility is linear in the evaded amount, whereas Sandmo assumes it to be strictly convex.

guarding the two taxes. It may be the case that the social norm for not evading tax B is stronger than that for not evading A , implying that $d_B > d_A$ for the same amount evaded.

Moreover, in line with Bordignon (1993), we include a public good, θ , in the utility function. For simplicity, the expected utility of the public good, $E[V[\theta]]$, enters additively. The good is provided by the public sector and financed by taxes. The expected value of the public good is simply the total amount of tax payments in the economy (taxes A and B paid by all N taxpayers in the economy) multiplied by the expected quality of the politicians, $E[q]$. The better the job the politicians do in administrating tax revenues, the larger the value of the public good. However, total tax payments as well as the quality of politicians are not known with certainty to the specific taxpayer. Hence, the expected value of the public good is

$$E[\theta] = E\left[q \sum_{i=A,B} \sum_{n=1}^N t_i DY_{in} \right] = E[q] \sum_{i=A,B} \sum_{n=1}^N t_i E[DY_{in}]. \quad (2)$$

The individual taxpayer maximizing (1) wrt DY_A and DY_B results in the following first-order conditions:

$$\begin{aligned} \frac{\partial E[U]}{\partial DY_A} &= -(1-p)t_A U'(Y) - p(t_A - f_A)U'(Z) + d'_A + V'(\theta)E[q]t_A \geq 0 \\ \frac{\partial E[U]}{\partial DY_B} &= -(1-p)t_B U'(Y) - p(t_B - f_B)U'(Z) + d'_B + V'(\theta)E[q]t_B \geq 0 \end{aligned} \quad (3)$$

A condition holds with equality if there is positive evasion of the tax. Y and Z refer to the situations with and without audition, respectively. If the individual does not evade any of the taxes, the following conditions must hold when $Y_i = DY_i$, $i=A,B$:

$$\begin{aligned} \Delta_A &= U'(Y)(t_A - pf_A) - d'_A - V'(\theta)E[q]t_A < 0 \\ \Delta_B &= U'(Y)(t_B - pf_B) - d'_B - V'(\theta)E[q]t_B < 0 \end{aligned} \quad (4)$$

We can immediately see that, compared to the standard Allingham & Sandmo (1972) model, tax evasion is less prevalent if we also consider social norms and public good provision. If there *is* tax evasion, which of the taxes is most likely evaded? The individual evades *A* but not *B* if and only if

$$\frac{d'_A + t_A V'(\theta) E[q]}{t_A - pf_A} < U'(Y) < \frac{d'_B + t_B V'(\theta) E[q]}{t_B - pf_B} \quad (5)$$

at the point where no evasion takes place. The social norms are important: if d'_A is close or equal to zero while d'_B is large, then *A* and not *B* would be evaded if tax and penalty rates were the same.¹⁶

When it comes to the expected quality of politicians, we have the condition for no tax evasion from (4):

$$\Delta_i = U'(Y)(t_i - pf_i) - d'_i - V'(\theta) E[q] t_i < 0,$$

which is differentiated wrt $E[q]$:

$$\frac{\partial \Delta_i}{\partial E[q]} = -V'(\theta) t_i < 0, \quad i=A,B. \quad (6)$$

Thus, a higher expected quality of politicians means that tax evasion is less likely.¹⁷ However, the higher the tax rate, the stronger the effect of the quality of politicians. The same holds true for the marginal utility of the public good: a higher marginal utility increases the importance of $E[q]$.¹⁸

¹⁶ In other words, all else equal it is less costly from a “bad conscience” point of view to cheat with a tax if there is a social norm that says that it is relatively socially acceptable.

¹⁷ Note that we assume no income effect to be associated with the public good, θ .

¹⁸ A high marginal utility could be a result of a low level of θ or a strong personal preference for it.

Hypotheses

As already stated, the purpose of the empirical part of the paper is not to analyze the effects on tax evasion itself, but rather on people's perceptions of tax evasion among others. How people expect others to behave depends partly on their perceived d_i 's, which are influenced by what is socially acceptable and if people think that others are trustworthy (do they have a bad conscience if they cheat?). Hence, people who generally distrust other people can be hypothesized to expect tax evasion to be more common than those who trust others. Furthermore, they would believe that it is more common to evade taxes that are more socially acceptable to cheat with, i.e. the conscience is assumed to be relatively better off when cheating with such taxes. Hence, we formulate the hypothesis:

H1: A high level of generalized trust decreases the perception of tax evasion.
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From equation (6) we assume that distrust in politicians would result in more perceived tax evasion, i.e. we find it reasonable to expect that those who do not trust politicians do not expect others to trust politicians either. Moreover, if the individual trusts that politicians do what they promise and that they do it in an effective and efficient way, the perceived tax evasion is affected negatively.

H2: Distrust in politicians increases the perception of tax evasion.
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We assume that political distrust can have different impacts on different taxes depending on the level and purpose of the tax. Some of the analyzed taxes are not intended to just finance a general public sector, θ , but rather to affect certain behaviors. Whether one likes that intention

or not may affect the importance of political trust. Also, the social norms not to evade probably differ among the analyzed taxes. The importance of generalized trust would therefore also differ among taxes. For a tax that is socially accepted to cheat with we would expect generalized trust to play a minor role, since in this case cheating will tend to produce less disutility in this case. Hence, the following general hypothesis can be formulated:

H3: The perception of tax evasion differs among taxes.

In our model, as well as in the previous literature, high marginal tax rates increase the probability of tax evasion. In the empirical part of the paper, we will analyze several different taxes where for example a marginal tax rate of 30% on earned income may be regarded as low, at the same time as a marginal tax rate of 2% on real estate may be regarded as high. We therefore state the following hypothesis in a subjective way.

H4: If the tax rate is regarded as too high the perception of tax evasion increases.

Data

We use survey responses from a mail questionnaire sent out in the fall of 2004 to a random sample of 3,000 Swedes, aged 18 – 85, whose addresses were collected from the National Register. In total 1,774 individuals returned the questionnaire (net response rate is 64%). The sample is rather representative of the Swedish population at large.¹⁹ Today the Swedish gen-

¹⁹ The SOM institute (Society-Opinion-Media) administers the data collection. The institute is managed jointly by the Department of Political Science, Public Administration and Journalism/Mass Communication at Göteborg University. See <http://www.som.gu.se/english.htm> for more information on the SOM institute.

der distribution in the 15 – 85 age group is 50/50. In the sample, females slightly outnumber males with a distribution of 51/49. The gender pattern was similar across age groups. However, since young people tend to respond less frequently than older people (especially the 50 – 75 age group), a small imbalance is present. Also geographically the distribution is representative for the Swedish population in general. In summary, the drawn sample corresponds very well to the National Register (Nilsson, 2005).

Perception of Tax Evasion

In this section we briefly comment on the general picture of the perception of tax evasion, in order to effectively move towards the explanatory part of the paper.

In Table 1, the perception of tax evasion is presented for ten different taxes. As shown by the “opinion balance”²⁰ to the far right in the table, we see that the perceptions differ significantly among taxes. This fact supports the idea that it might be beneficial to look at several taxes as opposed to a general perception of tax evasion. The two taxes that the respondents think are most cheated with are the gift tax (+ 31.5%) and the wealth tax (+ 36%). Conversely, people perceive the annual vehicle tax (- 49 %) and the tax on CO₂ (- 44%) to be the least evaded. It is important to stress that these figures only consider those who actually state an opinion on tax evasion, and that there are many (between 22 and 35 percent) who do not have any opinion on this at all.

Table 1. Perception of tax evasion for ten different taxes, in percent (n=1670).^A

	No	Very	Rather	Rather	Very	No opinion	Opin-
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²⁰ The opinion balance is calculated by (“*Very common*”+”*Rather common*”)- (“*Rather unusual*”+”*Very unusual*”)

	an- swer	com- mon	com- mon	unusual	unusual		ion bal- ance ^B
Municipal income tax	1.0	7.1	23.1	36.0	10.0	22.8	-15.8
State income tax	1.4	8.6	26.6	32.5	8.8	22.1	-6.1
Payroll tax	1.7	7.9	28.7	28.8	5.1	27.9	+2.7
Corporate tax	1.6	10.4	29.0	20.6	3.5	34.8	+15.3
Gift tax	1.6	17.5	34.2	16.9	3.3	26.3	+31.5
Wealth tax	1.4	18.6	37.2	15.6	3.8	23.5	+36.4
Real estate tax	1.5	4.7	17.3	35.2	16.6	24.8	-29.8
Annual vehicle tax	2.0	2.6	10.0	35.3	26.5	23.7	-49.2
CO ₂ tax on gasoline and diesel	1.5	2.7	9.6	31.4	25.0	29.8	-44.1
Alcohol tax	1.3	9.9	17.4	24.0	18.9	28.4	-15.6

^A Answer to the question: *How common do you think tax evasion is among people who are obliged to pay the following types of taxes?*

^B The opinion balance is calculated by (“Very common”+”Rather common”)- (“Rather unusual”+”Very unusual”).

If we view Table 1 from the perspective of tax motives, we see a rather interesting pattern.

The two taxes most people assume others evade turn out to be “political” taxes, i.e., taxes primarily aimed at redistributing wealth within society (gift and wealth taxes). The least evaded taxes according to the respondents (vehicle and CO₂ taxes) can both be viewed as efficiency taxes. Many, but not all,²¹ of the taxes “in between” the two extremes, e.g., municipal income tax (-15.8%), state income tax (-6.1%) pay roll tax (+2.7%) and real estate tax (-29.8), are primarily motivated by fiscal reasons.²² It should also be noted that the perception of tax evasion of the heavily debated (and very unpopular) real estate tax is relatively low.

Explaining Perceptions of Tax Evasion

Logistic regression

In order to analyze what makes people think that others evade different taxes, we run logistic regressions. As the dependent variable we use whether one thinks that tax evasion is very or

²¹ For example the tax on alcohol has both a fiscal motive and an ambition to affect behavior .

²² Anecdotally it can be mentioned that the unpopular gift tax was actually abolished by the government some months after the questionnaires were distributed (i.e., December 17th, 2004).

rather common (=1) compared to rather or very unusual (=0).²³ In order to avoid endogeneity problems we use predicted probabilities of thinking that the tax rate is too high as one of the explanatory variables.²⁴ The other explanatory (dummy) variables used in estimations are assumed to be exogenous.

When analyzing Table 2, we find that the hypothesized result that a too high tax rate increases tax evasion only holds for the two income taxes, but the effects are strong. People who regard the municipal income tax rate as too high are almost six times more likely than others to believe that evading this tax is rather or very common.

²³ In order to have enough variation in the dependent variable, however, the gift and wealth taxes are coded according to whether one believes it is very common (=1), and the “rather common” category is included in the reference group (=0).

²⁴ Since the other explanatory variables can be expected to also determine attitudes towards the tax levels, we first run logit regressions where whether one wants to decrease the tax in question constitutes the dependent variable. Then we predict probabilities for wanting to decrease the tax and we finally use these predicted probabilities as instruments in the particular logistic regressions. In Table 2, the descriptive statistics of this variable are not presented for space reasons (since it varies among taxes), see Hammar *et al.* (2005).

Table 2. Explanations of the perception that tax evasion is rather or very common (=1), estimated odds ratios.

	Municipal income tax	State income tax	Payroll tax	Corporate tax	Real Estate tax	Gift tax	Wealth tax	Alcohol tax	Vehicle tax	CO ₂ tax
The tax is too high	5.91***	3.04**	0.53	0.35**	0.86	0.92	0.29***	0.85	2.55	0.61
Generalized trust	0.66**	0.74*	0.81	0.69*	1.11	1.14	0.88	0.90	0.83	0.66
Generalized distrust	1.35	1.39	1.27	0.80	1.56*	1.21	1.07	1.48*	0.71	0.52*
Political trust	0.88	0.88	0.97	0.98	0.93	0.98	0.96	0.92	0.85	0.70
Political distrust	1.43	1.59*	1.82**	2.42**	1.94***	1.95**	2.54***	1.21	1.44	1.33
Trust in large corporations	--	--	1.26	0.77	--	--	--	--	--	--
Distrust in large corporations	--	--	1.48**	1.90***	--	--	--	--	--	--
Trust in small businesses	--	--	0.67***	0.81	--	--	--	--	--	--
Distrust in small businesses	--	--	1.19	2.60***	--	--	--	--	--	--
University or College	0.96	0.88	0.90	0.85	0.75*	1.25	1.07	1.02	0.56	0.66
High income	1.48**	1.26	1.32	0.89	1.23	1.61**	1.14	1.06	1.11	0.79
Low income	0.82	0.86	0.89	0.91	1.37*	0.71	1.12	0.83	1.02	0.93
Home owner	--	--	--	--	0.62**	--	--	--	--	--
Big city	--	--	--	--	--	--	--	--	0.86	0.63**
Countryside	--	--	--	--	--	--	--	--	1.16	1.27
Car owner	--	--	--	--	--	--	--	--	0.58	0.48**
Company owner	--	--	0.44***	0.44***	--	--	--	--	--	--
Aged 15-29	0.85	0.84	1.36	1.16	1.68***	1.39	0.61**	1.36*	2.19***	1.21
Aged 65-85	0.90	0.89	1.06	1.26	0.48***	1.18	0.59**	1.24	0.50**	0.68
Female	0.96	1.10	1.66***	1.52**	1.51***	0.72**	0.92	1.16	1.79***	1.40*
Number of observations	1 039	1 039	845	766	1 006	891	1 024	939	1 013	936

*p<0.10; **p<0.05; ***p<0.01.

We hypothesized that generalized trust should have a negative, and distrust a positive, impact on perceived tax evasion.²⁵ However, it turns out that this dimension is only significant for two types of taxes. Generalized trust decreases the perceived evasion of the municipal income tax. Hence, those who think that people in general are trustworthy believe that the municipal income tax is evaded less than other people think, but this belief of trustworthiness has no impact on the perceived evasion of other taxes. Those who distrust people do not generally suspect more tax evasion than others, with alcohol tax being the only exception.

Political trust is defined as trust in the parliament.²⁶ We notice that distrust is more important than trust. Those who distrust the parliament are more likely than others to think that tax evasion is common. This result is significant for the payroll and corporate taxes, as well as for the taxes on real estate, gifts and wealth. According to the theoretical model, distrust in politicians means that one does not think that politicians do a good job regarding the use of tax revenues, which thereby makes it understandable that tax evasion might be common.

As mentioned in the introductory part of the paper, this distrust result is also in line with the findings by the STA (2003), which claim the second most common explanation of tax evasion in Sweden to be that "Individuals in prominent positions are breaking social norms," a pattern also later verified and enhanced by STA (2005, attachment 2 p. 7-8).²⁷

Also, trust in taxpayers appears to be important. As mentioned above, generalized trust has significant effects for the municipal income tax. In a similar vein, when it comes to taxes paid

²⁵ Respondents answered the question regarding to what extent people in general can be trusted. They chose an alternative between 0 (not at all) and 10 (absolutely). The variable *Generalized trust* takes a value of 1 if the answer is 8 – 10 (38 % of responses), and *Generalized distrust* takes a value of 1 if the answer is 0 – 3 (12 % of responses).

²⁶ Respondents answered the question regarding how much they trust the government and chose an alternative between 1 (I trust it very much) and 5 (I distrust it). The variable *Political trust* takes a value of 1 if the answer is 1 or 2 (24% of responses) and *Political distrust* takes a value of 1 if the answer is 5 (10% of responses).

²⁷ It should also be noted that the variable political distrust and its effects are independent of political attitudes.

by companies, trust in large corporations and small businesses²⁸ also turns out to have significant effects. This indicates that if people trust the taxpayers, they believe them to pay their taxes. Our results regarding trust are very much in line with the findings of Scholz & Lubell (1998), who found that both generalized trust and political trust are important for explaining tax evasion.

People who are likely to pay a particular tax also think that evasion is less common with this tax. Compared with people not owning a home, home owners are less likely to suspect evasion from the real estate tax. The same is the case with the carbon dioxide tax and car owners, and company owners think that evading the payroll tax and corporate tax is less common than others think. One possible explanation of this is that they “know” or have experienced the relative difficulties in evading these taxes, alternatively that their own experience is that people do not cheat with these taxes (for other reasons).

Besides the considerable heterogeneity in perceived evasion of different taxes there are also different explanations for the perceptions of tax evasion. This is of course no strong evidence that social norms towards tax evasion differ among taxes, but it is indeed consistent with this view. If “everybody” thinks it is OK to cheat with a particular tax and if people you trust also cheat, one could also expect that generalized trust will have no significant effect on the perceived tax evasion. This might be the case with the wealth tax, where 74% think that evasion is very or rather common and where the corresponding figures for trusting and distrusting re-

²⁸ About 20 % have high trust in large corporations (=1 if 1 or 2 on a scale from 1-5) and about 36 % have low trust in large corporations (=1 if 4 or 5). About 49 % have high trust in small businesses (=1 if 1 or 2 on a scale from 1-5) and about 7 % have low trust in small businesses (=1 if 4 or 5).

spondents are 74 and 73%, respectively. The result is similar for the gift tax: more than 70% think that evasion is common, including those who really trust their fellow citizens.²⁹

Conclusions

Quite clearly, several factors affect the Swedish people's perceptions of other people's tax evasion. Our main result is that distrust in politicians increases perceived tax evasion. This holds true for most of our studied taxes and the effects are strong. Thinking a couple of steps ahead, we find important implications for politicians and for countries with large welfare states. The general welfare state requires large tax revenues, and in a non-totalitarian society taxes must to some extent be paid voluntarily. In order to make people want to comply they need to feel that their taxes are used in good ways. They especially need to trust that the politicians do a good job, both in official and private matters. If those in leading positions do not set good examples it may have severe effects on social norms, making people in general believe that tax evasion is more common, irrespective of whether or not they trust their fellow citizens. This in turn may have a negative impact on true compliance: "If I am convinced that everyone else is cheating, why should I be honest?" Hence, setting a good example and avoiding scandals become important for politicians, not only when it comes to the possibilities of being re-elected, but also in terms of the probabilities of financing the politics during the current term of office.

We have also shown that the perceived tax evasion and the factors explaining it vary across taxes. This points out that it is important to analyze tax evasion and compliance of different

²⁹ The gift tax was probably technically easy to evade, because it mainly depended on self-reported information and was difficult to monitor. Recipients of gifts worth more than SEK 10,000 (equivalent to ~ € 1,111) were supposed to provide a tax declaration.

taxes separately, instead of treating tax evasion as one common phenomenon. The two taxes people think are the most evaded are the gift and wealth taxes. Here political trust is a very important determinant of perceived tax evasion. These taxes are to a large extent based on self-reported information and therefore rely on people's willingness to comply. If one distrusts the politicians this willingness decreases.

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