



Axing the Taxman

The Psychology of Tax Aversion

Abigail B. Sussman
Princeton University

Christopher Y. Olivola
University College London



Abstract

Tax collection is critical for maintaining a country's infrastructure. However, most of us dislike paying taxes. Although a distaste for paying taxes could be rational on economic grounds, we show that this aversion extends beyond simply disliking the costs incurred. In Study 1, respondents were more willing to travel 30 minutes for an 8% tax-free discount on a television than for a 9% tax-unrelated discount. In Study 2, those identifying with anti-tax parties were more likely to choose a longer commute to save \$4,000 on taxes than to save \$5,000 on food, while respondents identifying with other parties did not exhibit this effect.

Background

Taxes, after all, are dues that we pay for the privileges of membership in an organized society. ~Franklin D. Roosevelt

Previous research shows several heuristics and biases affect behavior surrounding taxes [1, 2, 3], people are less likely to purchase an item when the cost of tax is made salient [4], and they derive more pleasure from voluntary than from forced contributions to prosocial causes [5].

People clearly dislike paying taxes: they devote time and money finding loopholes to legally avoid taxes and risk punishment by illegally evading taxes. Standard economic models assume this dislike of taxes is a rational reaction to monetary costs. However, people may dislike taxes more than other costs for historical, cultural, or other reasons.

We demonstrate a phenomenon of **tax aversion** in which the desire to dodge taxes exceeds the rational economic motivation to avoid a cost. Furthermore, we show that this tendency is most prevalent among those who identify with anti-tax parties.

Method

Study 1

- 240 participants were recruited from 3 populations: (i) online, (ii) Princeton University, and (iii) a local shopping mall.
- Between-subjects design with 2 conditions.
- See "Scenarios" box for scenario wording.
- We eliminated repeat-survey takers and non-US residents.

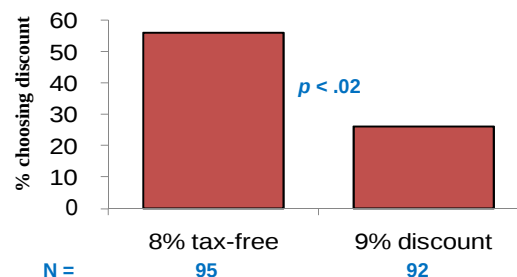
Study 2

- 500 participants were recruited online.
- Between-subjects design with 2 conditions.
- Study was replicated with 2 different amounts for cost of taxes.
- See "Scenarios" box for scenario wording.
- We eliminated repeat-survey takers and non-US residents.

Results

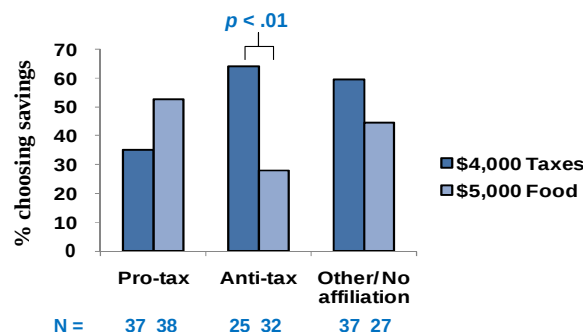
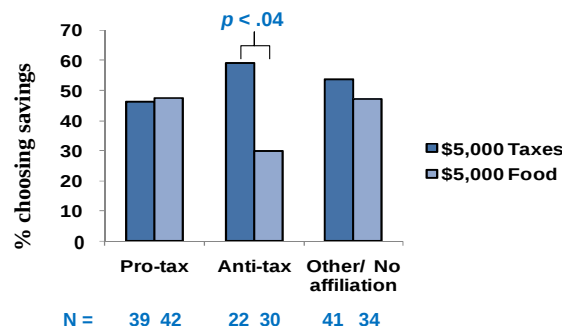
Study 1

% choosing to travel to save money when framed as tax or ordinary discount



Study 2

% choosing savings over shorter commute when framed as tax or food expense, as a function of political identification



Scenarios

Study 1

You want to buy a new television and have a particular model in mind. Calling around, you find that only two stores, Bob's Electronics and Tom's Electronics, carry that model. Bob's Electronics is located very close, about a 5-minute drive, but offers no discounts on the television set. Tom's Electronics is located farther away, about a 30-minute drive, but offers the television set [with a 9% discount/tax-free, which is equivalent to an 8% discount]. Where do you go to make your purchase?

Study 2

Imagine you have been working for an American company and your yearly salary is \$50,000 (before taxes). One day, you are offered the chance to lead one of the company's two European branches, each of which is located in a different European country. Regardless of which country you choose to live in, your duties will be the same and your salary will be raised to \$75,000. However, in Country A, your daily commute will be 30 minutes shorter each way. On the other hand, while most expenses are the same in both countries, [food is more expensive/ taxes are higher] in Country A, and you would have to [spend \$5,000 more on food/ pay \$5,000 (\$4,000) more in taxes] there, each year, than you would in Country B. The two countries are similar in every other respect. Which country would you choose to live in?

Conclusions

Our findings support the hypothesis that taxes are given special psychological treatment: participants were more willing to exert effort to save money when the savings came in tax form, even when the absolute amount of savings was lower.

Tax aversion was strongest among those identifying anti-tax parties. Those identifying with pro-tax parties did not show tax aversion, nor did they show a preference for paying fees as taxes. While not significant, these participants were sensitive to the difference in savings amount (\$4,000 vs. \$5,000) rather than in the type of savings (tax vs. food).

Future Directions:

- Investigate the breadth and depth of this phenomenon.
- Look into cross-national differences to see whether a similar effect can be found in other countries.
- Examine the underlying psychological mechanisms driving tax aversion.
- Determine ways to make individuals less averse to taxes.

References

- [1]Kirchler, E. (2007). *The economic psychology of tax behaviour*. New York: Cambridge University Press.
- [2]McCaffery, E.J. & Baron, J. (2006). Thinking about tax. *Psychology, Public Policy, and Law*, 12, 106-135
- [3]Reimers, S. (2009). A paycheck half-empty or half-full? Framing, fairness and progressive taxation. *Judgment and Decision Making*, 4, 461-466.
- [4]Chetty, R., Looney, A., & Kroft, K. (2009). Salience and taxation: Theory and evidence. *The American Economic Review*, 99, 1145-1177.
- [5]Harbaugh, W.T., Mayr, U., & Burghart, D.R. (2007). Neural motives to taxation and voluntary giving reveal motives for charitable donations. *Science*, 316, 1622-1625.