

Strictness of Tax Compliance Norms: A Factorial Survey on the Acceptance of Inheritance Tax Evasion in Germany

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Rational Choice Sociology 2014

Venice, November 11, 2014

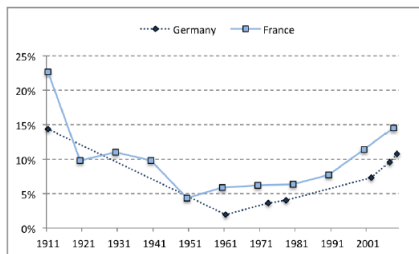
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Large and increasing inheritance flows

- U-shaped pattern of inheritance flows as share of national income in France (Piketty, 2011), UK (Atkinson (2013), Sweden (Ohlsson, 2013), Germany (Schinke, 2012)

Figure 1: Economic flows of inheritance and gifts as a share of national income, France and Germany, 1911 – 2009



Intergenerational immobility

- Wealth and inheritance related to intergenerational mobility:
 - ▶ “Parental income and wealth are strong predictors of the likely economic status of the next generation” (Bowles & Gintis, 2002)
 - ▶ Channels: inherited ability, social capital investment (norms, networks), human capital investment, inherited wealth
- Persistent and high intergenerational immobility:
 - ▶ Rank-based measures of intergenerational mobility have remained stable (for 1971-1993 cohorts in the US) (Chetty et al., 2014)
 - ▶ Surname-occurrence measures of social mobility are stable across countries and over time (Clark, 2014)
- Because inequality has increased, the effects of intergenerational immobility are larger than in the past (Chetty et al., 2014)

Tax evasion

- Standard deterrence model (Allingham and Sandmo, 1972) cannot fully explain (observed) compliance behavior (Alm, Jackson, McKee, 1992)
- Further explanations put forward, such as institutional factors and (social) norms
 - ▶ perceived vs true audit probability
 - ▶ third-party-reporting reduces evasion possibilities (Kleven et al, 2011)
 - ▶ Personal and social norms (Wenzel (2004), Traxler (2010))

Contribution of the paper

- **Question:** What makes people accept violations of the (inheritance) tax compliance norm?
- **Answer:** People accept compliance norm violation if it is not (strongly) in conflict with main objectives and principles of taxation (e.g. equity & efficiency).
- **Contribution of this paper:** Provision of experimental survey evidence for Germany

Optimal inheritance taxation

- Equity-efficiency trade-off (Cremer & Pestieau, 2006; Boadway et al., 2010; Kopczuk, 2013)
 - ▶ **Inefficiency**: Tax distorts the savings of farsighted bequeathers. In the deterministic infinite-life model, the optimal long-run capital income tax is zero (Chamley, 1986; Judd, 1985). Non-linear earnings taxes are a more efficient tool for redistribution (Atkinson & Stiglitz, 1976).
 - ▶ **Equity**: Wealth is increasingly unequally distributed, the distribution of wealth transfers is strongly positively skewed, and the administration of an annual wealth tax is rather costly
- The welfare-maximizing inheritance tax rate is positive and is larger as more bequests are concentrated and the weight of those receiving little inheritance increases (Piketty & Saez, 2013)
- **Bequest motives** matter (Cremer & Pestieau, 2006): taxation of accidental bequests non-distorting, this is not so with altruism or exchange motives.
- Transfer taxes should internalize **externalities from giving** (Kaplow, 2008; Kaplow, 2010; Kopczuk, 2013).

Inheritance taxation and the family

- Family is legally and socially seen as a unit of care and support (Pollak, 1985; Becker & Murphy, 1988).
- Bequests can be seen as a last support for the remaining family members.
- Families are considered as an institution that is investing in its members wellbeing and education.
- Parents leave bequests and gifts to their children because of altruism (Becker, 1988) or paternalistic preferences (Pollak, 1988).
- Tax subsidy to internalize positive externalities
- Integrated in the tax design in Germany by the division of heirs in different tax classes depending on kinship and by allowing exemptions for close family members.

Tax compliance norm

- **Tax compliance norm:** Compliance with the tax paying norm
 - ▶ **Legal norm** enforced by audits and sanctions (deterrence model)
 - ▶ **Social norm** enforced by informal sanctions as negative attention, critic, or ostracism (external sanction) and guilt and shame (internal sanction)
- **Legitimacy of tax system:**
 - ▶ Value of public goods financed by taxes (e.g., Alm et al., 1992)
 - ▶ Absence of corruption; trust in government (Andreoni et al., 1998; Alm & Torgler, 2006)
 - ▶ Efficiency and fairness of the tax (tax base, tax rates) (→ theory of optimal taxation)

Hypotheses: Acceptance of norm deviation

- **H1:** The smaller the value of the evaded good, the more acceptable is evasion in this case.
 - ▶ Positive correlation between inherited wealth and total wealth
 - ▶ Low amount of evaded tax
- **H2:** The evasion of non-monetary transfers is more acceptable than the evasion of money.
 - ▶ Heir values non-monetary item more highly than the government
 - ▶ Associated with positive within-family externalities
- **H3:** Gift or inheritance tax evasion is more likely to be accepted when the transfer takes place between family members.
 - ▶ Positive within-family externalities
 - ▶ Positive externalities of family support on society
 - ▶ Individualistic vs. familiar perspective / wealth

Factorial survey method

- Survey technique
- Description of a fictitious situation with systematically varying characteristics
- Respondents judgements (dependent variable) are explained by vignette characteristics, respondent attributes, and stochastic error
- Variation in vignette characteristics used as treatments to identify causal effects
- Mainly used to measure justice perceptions, attitudes, norms, WTP
- Main advantages:
Experimental design; More realistic descriptions of a situation (compared to standard survey)

Data

- Data collection

- ▶ Data source: WISO-Panel, online access panel with > 10000 registered users.
- ▶ Survey period: September 2012
- ▶ 524 participants
- ▶ Survey included questions on socio-demographics, on judgments on the government's role in redistribution, on family values, and on gift and bequest transfers.

- Representativeness

- ▶ Heterogeneous panel population, but not fully representative of the German population
- ▶ In our sample, the proportion of women (53%) was slightly larger, and the respondents were significantly younger (more than 51% are younger than 45) and better educated (58% hold at least a degree from a higher secondary school).

Vignettes

The **45**-year old **Mr. Miller inherits** stocks from his/her **father**, which are equal to the amount of the tax allowance and thus remain tax free. In addition, he/she inherits **50,000 Euros in cash**. Therefore, the total bequest exceeds the tax free allowance and the cash money is liable for taxation. Mr. Miller does not declare the cash money to the tax authority and thus evades taxes.

In your opinion, how acceptable or unacceptable is the behavior of Mr. Miller?

5-point Likert-scale: 1 - "completely unacceptable" to 5 - "completely acceptable"

Dimensions

Dimension	Level
Type of Transfer	inheritance, gift
Relationship	father, uncle, close friend, acquaintance
Type of Inheritance(Assets)	money, painting, family jewels, over many years collected coin collection
Gender	male, female
Value of Assets (Euro)	5000, 10000, 50000, 100000
Age of Heir	25, 45, 65

Brief overview on answers

Evasion ...	Total
completely unacceptable	623
2	529
3	614
4	505
completely acceptable	595
Total	2,866

Multilevel mixed-effects linear reg. (random intercept)

dv: acceptance	(1)	(2)
Female heir	-0.068* (0.030)	-0.066* (0.032)
25.Heir's age	0.104** (0.037)	0.119** (0.039)
45.Heir's age	0.033 (0.038)	0.039 (0.040)
Gift transfer	0.046 (0.030)	0.045 (0.032)
father.Relation	0.169*** (0.048)	0.177*** (0.051)
uncle.Relation	0.141** (0.048)	0.123* (0.050)
close friend.Relation	0.049 (0.046)	0.036 (0.049)
painting.Type	0.294*** (0.049)	0.271*** (0.051)
jewels.Type	0.239*** (0.053)	0.240*** (0.058)
coin collection.Type	0.256*** (0.050)	0.255*** (0.052)
10000.Value of bequest	-0.313*** (0.047)	-0.284*** (0.051)
50000.Value of bequest	-0.596*** (0.049)	-0.580*** (0.053)
100000.Value of bequest	-0.855*** (0.060)	-0.850*** (0.064)
High.Income		0.608** (0.227)
Other respondent characteristics	NO	YES
Constant	3.077*** (0.082)	3.148*** (0.805)
Ins1.1.1	0.166*** (0.026)	0.124*** (0.030)
Insig_e	-0.322*** (0.028)	-0.327*** (0.030)
Observations	2866	2484

Robust standard errors, *** p<0.001, ** p<0.01, * p<0.05

Support for hypothesis 1

- H1: Tax evasion less accepted if monetary value of transfer is high.
- Reference category: 5000 €

dv: acceptance	(1)	(2)
10000.Value of bequest	-0.313*** (0.047)	-0.284*** (0.051)
50000.Value of bequest	-0.596*** (0.049)	-0.580*** (0.053)
100000.Value of bequest	-0.855*** (0.060)	-0.850*** (0.064)
High.Income		0.608** (0.227)
Other respondent characteristics	NO	YES

Robust standard errors, *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$

Support for hypothesis 2

- H2: Concealing of non-monetary assets (painting, jewels, coin collection) more accepted than concealing of money.
- Reference category: cash money

dv: acceptance	(1)	(2)
painting.Type	0.294*** (0.049)	0.271*** (0.051)
jewels.Type	0.239*** (0.053)	0.240*** (0.058)
coin collection.Type	0.256*** (0.050)	0.255*** (0.052)
Respondent characteristics	NO	YES
Robust standard errors, *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$		

Support for hypothesis 3

- H3: Tax evasion of daughter/son and niece/nephew more accepted than tax evasion by non-related heir.
- Reference category: acquaintance

dv: acceptance	(1)	(2)
father.Relation	0.169*** (0.048)	0.177*** (0.051)
uncle.Relation	0.141** (0.048)	0.123* (0.050)
close friend.Relation	0.049 (0.046)	0.036 (0.049)
Respondent characteristics	NO	YES
Robust standard errors, *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$		

Results: Further effects

Effects of age, transfer type and respondent's income:

- Evasion is more accepted, if done by a younger person (reference: 65-year-old heir)
- acceptance does not differ significantly depending on transfer type (gift vs inheritance)
- respondents with higher income consider evasion as more acceptable (reference: low income)

Conclusion

- According to experimental survey evidence, in Germany, evasion of the inheritance tax is more accepted if
 - ▶ the transfer and the amount of evaded tax is low,
 - ▶ the transfer takes place within the family,
 - ▶ a non-monetary item is transferred.
- Our interpretation of this finding is that norm violation is more acceptable if tax objectives and principles are not at stake.

Comments are welcome!

Descriptive Statistics

Variables		Relative shares
Gender	Female	53.05
	Male	46.59
Age	15 bis 25	8.21
Groups	25 bis 45	42.94
	45 bis 65	37.98
	65 und älter	10.88
Education	No certificate	1.53
	Lower secondary school certificate (Hauptschule)	9.35
	Middle secondary school certificate (Realschule)	31.49
	Higher secondary school certificate and higher (Abitur und höhere)	57.63

Employment Status	(self)-employed	57.82
	Schooling & training	13.74
	retired	15.08
	unemployed	8.40
	Parental leave	0.76
	others	4.20
Family status	married	45.59
	single	40.00
	Divorced	12.04
	widowed	2.37
Income	Less than 1500 €	35.97
	1500 to 3000 €	40.69
	More than 3000 €	14.56
	Not stated	8.78

Controls

Model 2 is controlled for

- age
- gender
- employment status
- education
- family status
- household size, number of children, place of birth,
- attitudes to redistribution, family values,
- dummy variables whether respondent already paid inheritance tax, received gifts, expects inheritance, expects gift

OLS, Mixed, and FE (vignette level only)

dv: acceptance	OLS	Mixed	FE
Female heir	-0.075 (0.058)	-0.068* (0.030)	-0.068* (0.030)
25.Heir's age	0.122* (0.060)	0.104** (0.037)	0.103** (0.037)
45.Heir's age	0.022 (0.064)	0.033 (0.038)	0.034 (0.038)
Gift transfer	0.087 (0.057)	0.046 (0.030)	0.042 (0.031)
father.Relation	0.189* (0.081)	0.169*** (0.048)	0.168*** (0.048)
uncle.Relation	0.131 (0.088)	0.141** (0.048)	0.141** (0.048)
close friend.Relation	0.115 (0.082)	0.049 (0.046)	0.044 (0.046)
painting.Type	0.252*** (0.075)	0.294*** (0.049)	0.298*** (0.049)
jewels.Type	0.184* (0.077)	0.239*** (0.053)	0.243*** (0.054)
coin collection.Type	0.225** (0.078)	0.256*** (0.050)	0.259*** (0.051)
10000.Value of bequest	-0.415*** (0.080)	-0.313*** (0.047)	-0.305*** (0.048)
50000.Value of bequest	-0.668*** (0.083)	-0.596*** (0.049)	-0.591*** (0.050)
100000.Value of bequest	-0.896*** (0.088)	-0.855*** (0.060)	-0.851*** (0.060)
Constant	3.123*** (0.117)	3.077*** (0.082)	3.076*** (0.064)
Observations	2866	2866	2866

Standard errors clustered at the respondent level, *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$

Ordered Logit (vignette level only)

dv: acceptance	odds ratio
Female heir	0.83* (0.071)
25.Heir's age	1.32** (0.140)
45.Heir's age	1.09 (0.123)
Gift transfer	1.14 (0.099)
father.Relation	1.60*** (0.221)
uncle.Relation	1.40* (0.195)
close friend.Relation	1.06 (0.141)
painting.Type	2.60*** (0.378)
jewels.Type	2.27*** (0.364)
coin collection.Type	2.35*** (0.347)
10000.Value of bequest	0.38*** (0.051)
50000.Value of bequest	0.15*** (0.023)
100000.Value of bequest	0.07*** (0.012)
Observations	2866
Number of groups	485
Robust standard errors in parentheses	
*** p<0.001, ** p<0.01, * p<0.05	