

# Shaming for Tax Enforcement – Online-Pranger zur Reduktion von Steuerschulden?

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im Erscheinen: *Management Science*

NETZWERK BESSERE RECHTSETZUNG UND BÜROKRATIEABBAU

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# Capacity to Tax is a Major Economic Variable

## **Capacity to tax is essential for economic growth**

- ▶ E.g., Acemoglu, Johnson, and Robinson (2005)
- ▶ The capacity to raise tax revenue = a “Pillar of Prosperity” (Besley and Persson 2011)

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Tax revenue raised depends on **tax code** and **tax enforcement**

- ▶ Economic incentives: audits, penalties
- ▶ Social incentives: social norms, recognition, shame etc.

# Contribution of This Paper

Large literature on the impact of economic incentives.

**Though, limited understanding of social incentives.**

## **This paper**

- ▶ Identifies the causal effect of shaming on tax compliance
- ▶ Exploits a large shift in social incentives: new shaming policy
- ▶ Takes advantage of rich administrative tax data
- ▶ Studies corporations and self-employed individuals
- ▶ Differentiates between threat of shaming and actual shaming

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→ In this talk: **focus on threat of shaming**

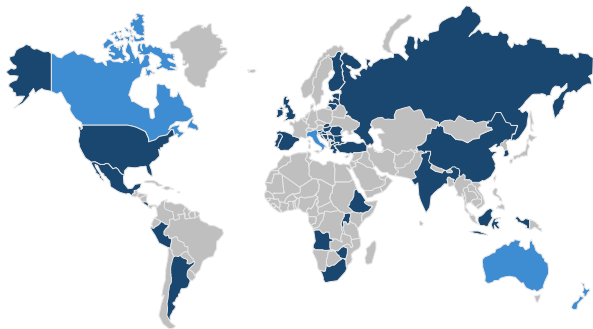
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1. Context and Data
2. Findings
3. Reflection

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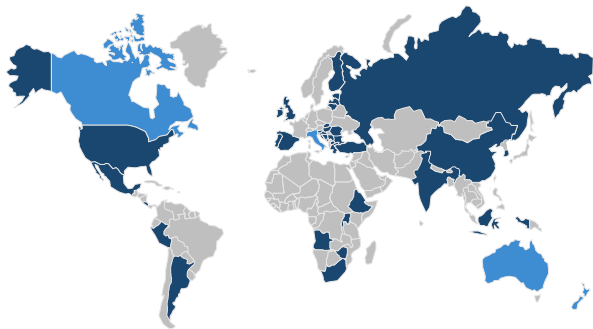
# Shaming Widely Used for Tax Enforcement



Source: Own depiction.



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## **Shaming is widely used despite lack of empirical evidence**

- ▶ 50% of OECD tax administrations can use shaming
- ▶ and 90% thereof used this power in 2015 (OECD 2017)



Source: If you don't pay these taxes, expect a troupe of drummers at your door, 2016, Wall Street Journal.

# New Shaming Policy in Slovenia: Four Key Features

## **Feature 1: shaming list is published on the internet**

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## **Feature 2: shaming is a new action**

- ▶ Slovenian parliament adopted shaming law in 2012
- ▶ prior to that only classical enforcement
- ▶ introduction of shaming = large shift in social incentives

# New Shaming Policy in Slovenia: Four Key Features

## **Feature 3: shaming policy focuses on tax delinquents**

- ▶ shaming depends on level of tax debt
- ▶ tax debt important part of enforcement problem  
OECD: undisputed tax debt  $>10\%$  of annual tax revenue  
Slovenia: tax debt = 5.1% of GDP
- ▶ behavioral response shows up in tax debt in admin data

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## **Feature 4: shaming policy was announced**

- ▶ shaming starts 4 months after adoption of shaming law
- ▶ between adoption and implementation: threat of shaming
- ▶ timing allows to separate threat of shaming & actual shaming

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Covers all taxpayers with **tax debt older than 90 days** > € 5000

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Shaming list published **monthly** on the website of the tax admin

- ▶ Compiled on the 25<sup>th</sup> of each month
- ▶ Published on the 10<sup>th</sup> of the following month (no updating)

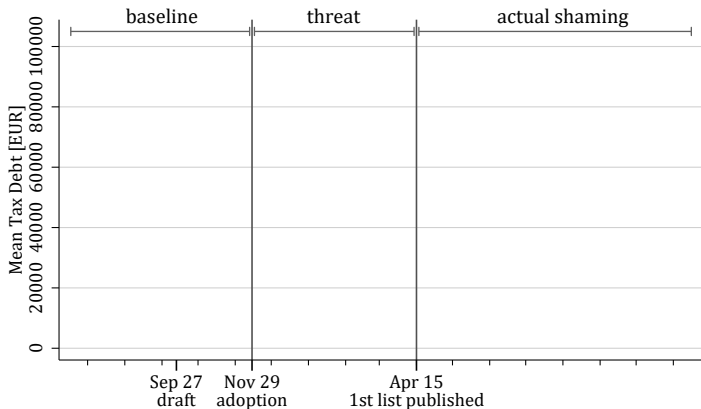
## **Linked administrative panel data 2012-2013**

- ▶ payment records: tax type, due date, payment date, amount
- ▶ main variables from tax records: taxable income, income tax
- ▶ background characteristics (individuals & legal persons)
- ▶ balance sheet items for a sub-sample of corporations
- ▶ information on insolvency

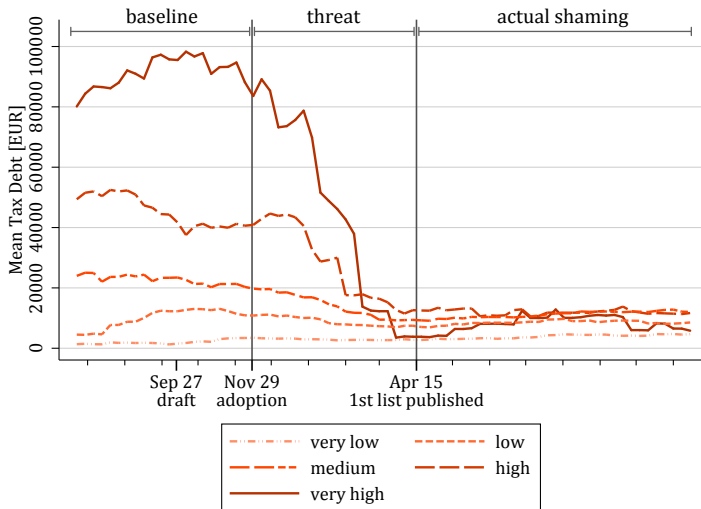
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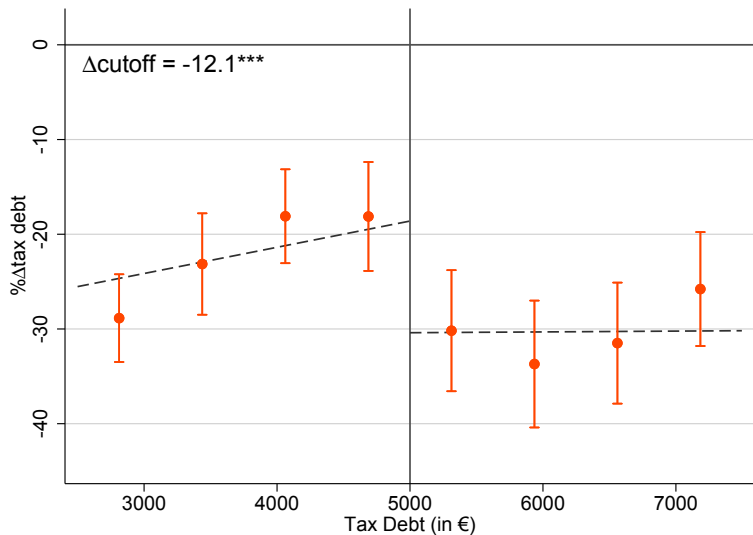
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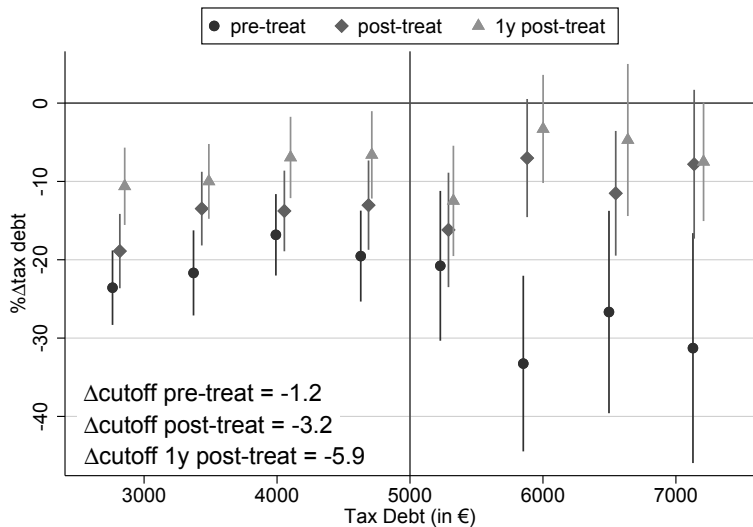
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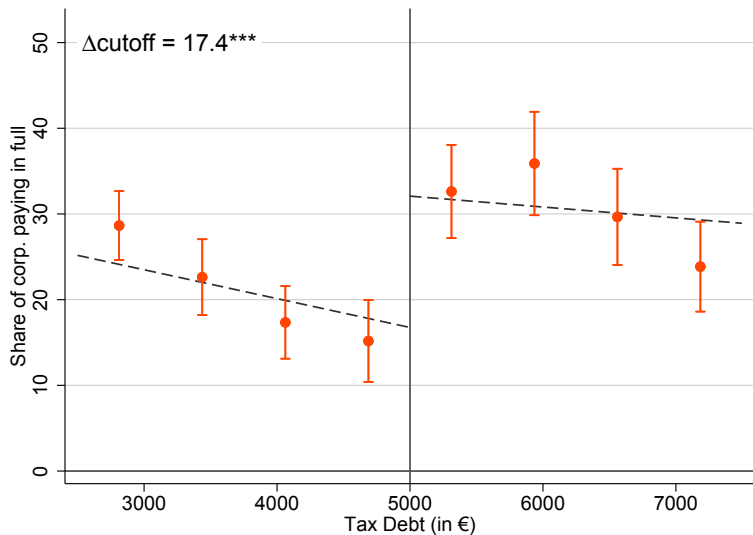
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# Placebo Test



## Finding 2: Corporations Pay Tax Debt in Full





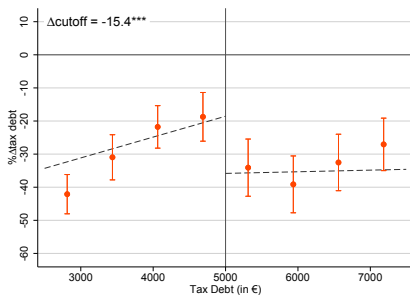
## Finding 3: Stark Heterogeneity Among Corporations

Average effect is driven by firms with high reputational concerns

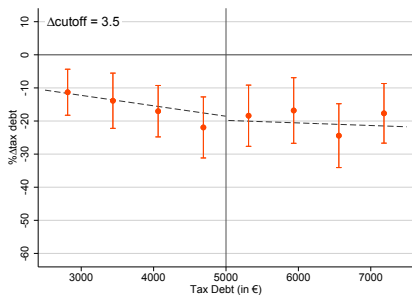
- ▶ sellers to end customers (such as those in tertiary sector)
- ▶ non-exporters (only serve domestic market)

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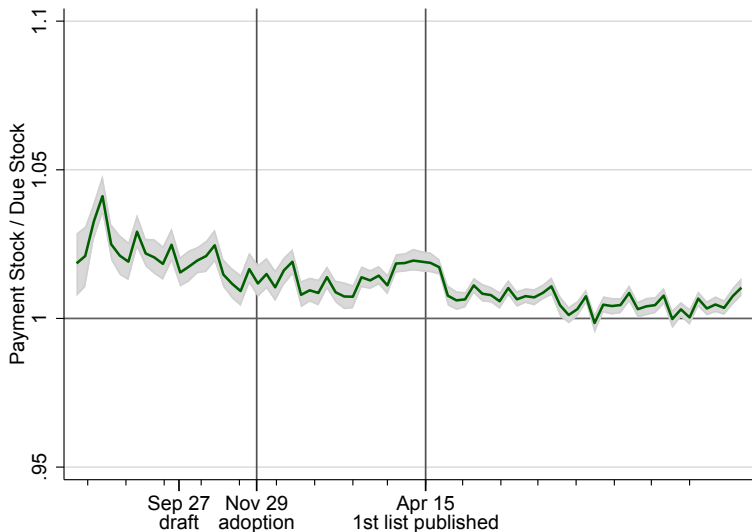
(a) High Reputational Concerns



(b) Low Reputational Concerns



## Finding 4: Negligible Contagion



# Outline

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# What We Found

We have shown: **social incentives matter** for compliance

- ▶ Threat of shaming is very effective
- ▶ Works on both corporations and the self-employed (paper)
- ▶ Small impact of actual shaming with threat in place (paper)
- ▶ Shamed taxpayers are unable to pay instead of unwilling (paper)

# What This Implies

Focusing on **tax revenues**, shaming = cost-effective measure

Focusing on **welfare**, policy might have adverse effects:

- ▶ can impair relationship b/w tax admin and taxpayer
- ▶ can cause default of credit constrained taxpayers
- ▶ can increase avoidance and evasion
- ▶ can lower investment and economic growth

# Should Shaming Belong to Tax Admins' Tool Box?


## Normative question!

4 issues are important for an **optimal design**:

1. high visibility of shaming threat
2. careful design of threshold
3. don't shame too often to keep the audience interested
4. reintegrate shamed taxpayers quickly

**Thank you!**

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## APPENDIX

# How Does Tax Debt in Slovenia Arise?

**Self-assessment regime** for corporations & the self-employed  
(but withholding for employees)

→ Focus on **corporations and the self-employed**

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→ Focus on **corporations and the self-employed**

**Inattention no issue:** payment reminder for each tax item →

**Classical tax debt collection measures unchanged**

# Shaming List in Slovenia

[Non-payers legal persons – search by alphabet](#)

[Taxpayers in insolvency proceedings](#)

(taxpayers against which bankruptcy or arrangement proceedings have been initiated)

[Taxpayers that are not in insolvency proceedings](#)

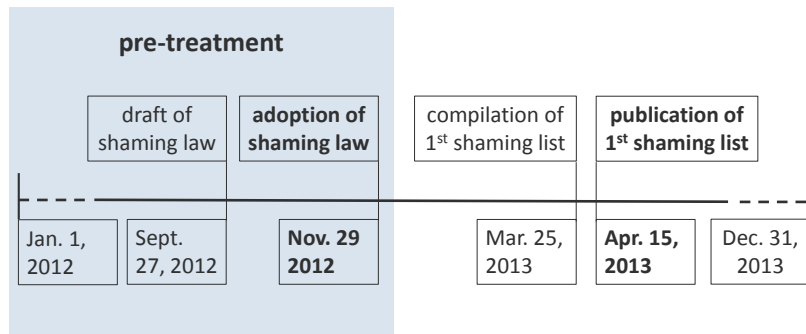
(taxpayers against which bankruptcy or arrangement proceedings have not been initiated)

Neplačniki fizične osebe z dejavnostjo z začetnico dejavnosti A na dan 25.1.2018

[Prejšnja stran](#) [Vstopna stran](#) [Naslednja stran](#) [Razredi neplačnikov](#)

F03	[REDACTED]
F03	[REDACTED]
F02	[REDACTED]
F03	[REDACTED]
F03	[REDACTED]
F01	[REDACTED]
F01	[REDACTED]
F01	[REDACTED]
F03	[REDACTED]
F02	[REDACTED]
F02	[REDACTED]
F04	[REDACTED]
F03	[REDACTED]
F02	[REDACTED]
F04	[REDACTED]
F01	[REDACTED]

# Timing of Shaming Policy

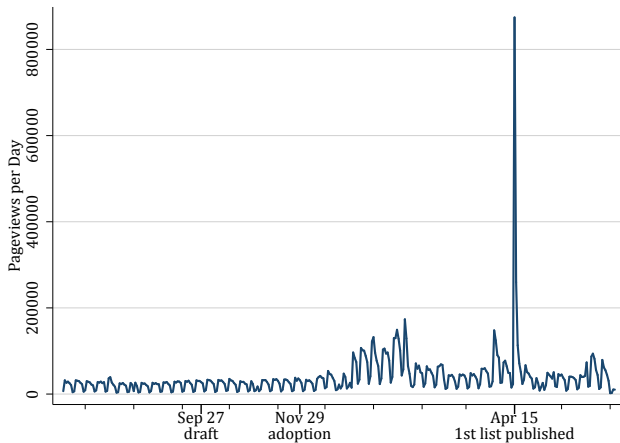


Taxpayers might respond after two events:

- ▶ adoption of law: shaming policy becomes certain  
⇒ threat of shaming
- ▶ publication of first shaming list: shaming becomes effective  
⇒ actual shaming

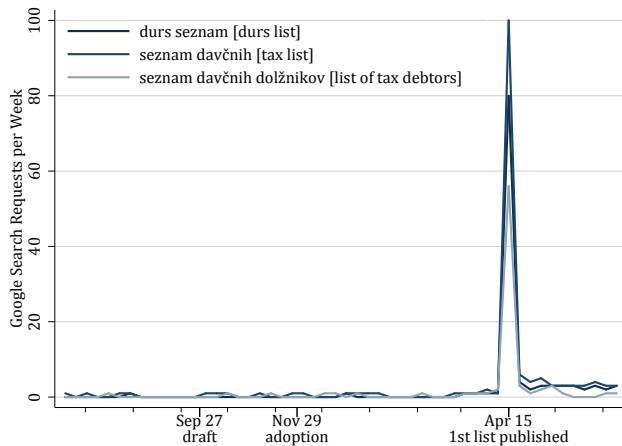
# High Visibility of the Shaming Policy

(a) Website of the Tax Administration: Page Views



# High Visibility of the Shaming Policy

## (b) Google Searches





# Payment Reminder (1/2)



REPUBLIKA SLOVENIJA  
**MINISTRSTVO ZA FINANCE**  
DAVČNA UPRAVA REPUBLIKE SLOVENIJE  
Generalni davčni urad, Uprava za davčno računovodstvo in finance,  
Referat za pripravo na davčno izvršbo -  
Center Maribor  
Titova c. 10, 2502 Maribor

DAVČNA TAJNOST



T: 08 209 00 00  
F: 02 235 65 28  
E: gp.durs-mb-urf@gov.si  
www.durs.gov.si

DŠ: 14780534

██████████  
██████████  
1351 BREZOVICA PRI LJUBLJANI

Številka: DT 42902-948/2014-1  
Datum: 11.01.2014

## OPOMIN

Na podlagi tretje točke prvega odstavka 13. člena Zakona o davčnem postopku - ZDavP-2 (Uradni list RS, št. 13/11 – uradno prečiščeno besedilo, 32/12, 94/12, 101/13 – ZDavNepri in 111/13), ki določa, da ima zavezanec za davek pravico do podatkov o stanju svojih davčnih obveznosti, vas obveščamo, da po podatkih knjigovodske evidence na dan 11.01.2014 izkazuje neplačane zapadle obveznosti, navedene v nadaljevanju. V opominu niso zajete obveznosti, ki so zapadle v plačilo 8 dni pred izdajo opomina.

Od davkov, ki jih zavezanec za davek ni poravnal v predpisanem roku, se plačajo zamudne obresti, v skladu s prvim odstavkom 96. člena ZDavP-2. Zamudne obresti od zapadlih neplačanih obveznosti na opominu so izračunane do vključno dne 11.01.2014. V opominu so upoštevana plačila do vključno dne 10.01.2014.

Pozivamo vas, da dolžni znesek, **vključno s pripadajočimi zamudnimi obrestmi, obračunanimi do dneva plačila**, plačate na posamezne vplačilne podračune, v skladu s Pravilnikom o podračunih ter načinu plačevanja obveznih dajatev in drugih javnofinančnih prihodkov (Uradni list RS, št.103/10, 48/11 (51/11 popr.) in 102/12).

# Payment Reminder (2/2)

Na univerzaini plačilni nalog - UPN se obvezno vpiše koda namena plačila. Za plačila obveznih dajatev se uporablja koda **TAXS**. Seznam kod namenov plačila je objavljen na spletnih straneh UJP <http://www.ujp.gov.si>. Pri izpolnjevanju podatkov je v vseh primerih potrebno vpisati kodo BIC banke prejemnika, ki je za plačilo davkov **BSLJSI2X**.

**Podatki iz knjigovodske evidence:**

Vrsta obveznosti	Vplačilni podračun	Sklic	Znesek
44 PPIZ od zaposlenih pri PO	SI56011008882000003	19 14780534-44008	273,31
44 PPIZ za zaposlene pri PO	SI56011008882000003	19 14780534-44008	156,04
44 Zamudne obresti - ZPIZ	SI56011008882000003	19 14780534-44008	2,54
45 PZDV od zaposlenih pri PO	SI56011008883000073	19 14780534-45004	112,14
45 PZDV poškodbe-pokl.bolezni PO	SI56011008883000073	19 14780534-45004	9,34
45 PZDV za zaposlene pri PO	SI56011008883000073	19 14780534-45004	94,55

**DAVČNA TAJNOST**

1 / 2



# Difference-in-Differences

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= % of days taxpayer would have been shamed on Jan.1–Nov.28, 2012

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**Difference-in-Differences** with policy based treatment intensity  
(Rajan/Zingales 1998, Finkelstein 2007)

← → regression framework

→ common trend

→ no selection into treatment

# Regression Framework: Threat of Shaming

$$\begin{aligned} \% \Delta \text{tax debt}_{i,t} = & \alpha + \beta_1 \text{shaming prob}_i \times D\text{threat}_t \\ & + \beta_2 \text{shaming prob}_i + \beta_3 D\text{threat}_t \\ & + \gamma \ln(X_{i,2011}) + \delta_i + \varepsilon_{i,t} \end{aligned}$$

- ▶  $\beta_1$ : percent impact of shaming threat on tax debt
- ▶  $D\text{threat}_t$ : indicates when shaming law was adopted but not yet implemented
- ▶  $\delta_i$ : taxpayer fixed effects
- ▶  $X_{i,2011}$ : vector of controls



# Finding 1: Corporations Reduce Debt to Avoid Shaming

