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Perception of tax evasion
and tax fraud in Portugal:
a sociological study

Maria Poço; Cidália Lopes; Alexandre Silva



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>> **FICHA TÉCNICA****PERCEPTION OF TAX EVASION AND TAX FRAUD IN PORTUGAL: A SOCIOLOGICAL STUDY**

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>> **RESUMO**

O presente artigo versa sobre a análise da perceção da evasão e fraude fiscais, dos contribuintes individuais, em Portugal.

A literatura internacional sublinha a existência de diversos fatores ou determinantes que influenciam a decisão do contribuinte cumprir ou não cumprir com as suas obrigações fiscais. Entre eles salientamos os demográficos, os económicos, os culturais, os sociológicos, os psicológicos e os técnicos (Allingham, 1972; Torgler, 2006; Tsakumis, 2007; McGee, 2009).

A nossa investigação tem como objectivo o estudo da relação entre os fatores sociológicos e o comportamento dos contribuintes em relação ao não cumprimento fiscal. Assim, e tendo em conta a revisão da literatura, os contribuintes foram inquiridos acerca dos factores que influenciam a decisão de cumprir ou não com as suas obrigações fiscais.

Para atingir estes objectivos, usamos, como técnica de recolha de informação a entrevista por aplicação directa de questionário, o qual aplicamos a uma amostra heterogénea da população de contribuintes individuais portugueses. Inquirimos 150 contribuintes e validamos 134 questionários.

Como conclusões sublinhamos o facto de a evasão fiscal, em Portugal, ser justificável em determinadas circunstâncias para alguns contribuintes inquiridos (25%). Os principais argumentos justificativos da evasão fiscal estão associados à injustiça do sistema fiscal, à elevada carga tributária, ao desperdício ou má utilização do dinheiro dos impostos e à corrupção entre a classe política. Ao invés, o facto de os contribuintes poderem vir a ser descobertos pelas autoridades fiscais não se apresentou como um argumento justificativo da evasão fiscal, verificando-se, então, que este não é um elemento dissuasor da prática da evasão e fraude fiscais em Portugal.

Palavras-chave: fraude e evasão fiscal, impostos, perceção, contribuintes individuais

JEL Codes: H26 (Evasão fiscal). K34 (Lei fiscal). H31 (agregado familiar)

>> ABSTRACT

This article aims to analyze the perception of individual taxpayers on tax evasion, in Portugal.

The international literature emphasizes the existence of several determinants that influence the taxpayers' decision in comply or not comply with their fiscal obligations. We highlight the economic, cultural, sociological, psychological and technical determinants (Allingham, 1972; Torgler, 2006; Tsakumis, 2007; McGee, 2009).

This paper intends to study the relationship between sociological factors and the behavior of taxpayers in relation to tax compliance. To achieve these objectives, we use, as a technique of gathering information, interviews using a questionnaire - survey, which we have applied to a heterogeneous sample of the Portuguese population of individual taxpayers. We have Inquired 134 individual taxpayers, in the city of Coimbra.

We conclude, by using a regression model, that tax evasion in Portugal, is justifiable, in certain circumstances, for some taxpayers respondents. The main arguments justifying tax evasion are associated with the unfairness of the tax system, the high tax burden, and the waste or misuse of taxpayers' money and finally the corruption among the political class. Furthermore, the possibility of taxpayers to be discovered by the tax authorities is not presented as an argument justifying tax evasion, thus we verified this is not a deterrent to the practice of tax evasion and tax fraud in Portugal.

Keywords: tax evasion, taxes, perception, individual taxpayers

JEL Codes: H26 (tax evasion). K34 (Tax Law). H31 (household)

>> 1 – PERCEPTION ON TAX EVASION: LITERATURE REVIEW

Tax evasion is a generalized issue that transversely affects several countries. By diminishing public revenues, this phenomenon represents a significant economic threat to the affected countries. Literature on tax evasion is currently focused on its measurement and on the identification of its underlying factors: economic, social, cultural, ethical, religious and technical. In the next section, we discuss the pertinent literature, from the traditional literature of 1972 to current research works.

1.1 The Traditional Theory of Tax Evasion and tax compliance

Traditional theory is primarily centered on the strict enforcement, where the punishment stands as the best way of solving the of tax evasion dilemma. Two of the principal defenders of this perspective, Michael G. Allingham and Sandmo, argue that the decision to declare income, regarding what is real or not, is a decision of uncertainty.

In the initial moment there has been no penalty, so the individual is free to choose between declaring their real income or below this value. If the agent chooses the latter, the benefit will be contingent on whether or not he or she is investigated by the tax authorities. If not, he will probably continue to undertake the same action in the following taxation periods. However, if the individual faces an investigation he will have to return the present undeclared amounts and the respective amounts from previous years tax evasion. However, if the tax entity knows part of the income, this amount cannot be hidden. In other words, the individual can only evade on the income unknown by the state.

Allingham et al (1972) argue that, if the payment of taxes regarding the undeclared share is lower than normal, the taxpayer will always declare less when the evasion is detected by the authorities. As a result, the form of deviation from this approach involves the application of heavy penalties. Furthermore, this work emphasizes other factors caused by the detection of tax evasion, such as the negative reputation effect.

The variation in reported income may also change depending on the risk of leakage detection, according Allingham et al. (1972). On the one hand, the tax authorities believe that the richest individuals are more likely to evade taxes, on the other hand, lower income statements may also be indicative that the taxpayer is a tax evader. The conclusion of Alingham et. al. (1972) is that an increase in penalties will lead to an increase in the values of declared income, bringing them closer to the real ones.

According to Friedland et al. (1978), fines have a positive dissuasive effect on tax evasion, while tax rates hold a negative relationship with tax evasion. In other words, lower tax rates and higher fines are related with lower tax evasion. This study also concluded that women are generally more prone to tax evasion, but that the size of the leakage is lower when compared with men. Furthermore, it was found that the perception of citizens about the justice or injustice of the weight tax burden is closely related to tax evasion. Social factors thus begin to gain prominence as determinants of taxpayer behavior.

1.2 Ethics and Morals of Tax Evasion

In 1980, Hofstede presented a major contribution by characterizing the structure of a set of countries in terms of culture, using four main indicators.

The first is the **PDI (Power Distance Index)**, and measures the degree of acceptance of inequality - the unequal distribution of power - in a hierarchical society. It represents representing inequality measured from below, from the perspective of the less powerful members;

The second indicator is the **MASC (Masculinity)** and it measures whether a society is competitive and values material success (higher indicator) or values emotional and sentimental well-being (lower indicator);

The third is the **IND (Individualism)**. Societies with a higher indicator have more independent individuals, each one is capable of handling himself. Differently, in collectivist societies (lower indicator), people are integrated in groups and value more the "whole";

Finally, the **UAI (Uncertainty Avoidance Index)** analyzes the attitude of a society when facing uncertainty. The higher the indicator, the higher the risk aversion of members of this society. They prefer to live with more certainty, though dictated by rules and regulations.

Using these measures, Tsakumis et al (2007) studied tax evasion in fifty countries from different geographical regions and showed that cross-sectional difference could be explained by cultural traits of each country, as we see in the following table.:

Figure 1- Country sample with cultural traits' indicators

Countries	UA	IND	MAS	PD	Countries	UA	IND	MAS	PD
Argentina	86	46	56	49	Japan	92	46	95	54
Australia	51	90	61	36	Malaysia	36	26	50	104
Austria	70	55	79	11	Mexico	82	30	69	81
Belgium	94	75	54	65	Netherlands	53	80	14	38
Brazil	76	38	49	69	New Zealand	49	79	58	22
Canada	48	80	52	39	Norway	50	69	8	31
Chile	86	23	28	63	Pakistan	70	14	50	55
Colombia	80	13	64	67	Panama	86	11	44	95
Costa Rica	86	15	21	35	Peru	87	16	45	64
Denmark	23	74	16	18	Philippines	44	32	64	94
Ecuador	67	8	63	78	Portugal	104	27	31	63
El Salvador	94	19	40	66	Singapore	8	20	48	74
Finland	59	63	26	33	South Africa	49	65	63	49
France	86	71	43	68	South Korea	85	18	39	60
Germany	65	67	66	35	Spain	86	51	42	57
Greece	112	35	57	60	Sweden	29	71	5	31
Guatemala	101	6	37	95	Switzerland	58	68	70	34
Hong Kong	29	25	57	68	Taiwan	69	17	45	58
India	40	48	56	77	Thailand	64	20	34	64
Indonesia	48	14	46	78	Turkey	85	37	45	66
Iran	59	41	43	58	United Kingdom	35	89	66	35
Ireland	35	70	68	28	United States	46	91	62	40
Israel	81	54	47	13	Uruguay	100	36	38	61
Italy	75	76	70	50	Venezuela	76	12	73	81
Jamaica	13	39	68	45	Yugoslavia	88	27	21	76

Source: Schneider (2004), citado por TSAKUMIS, George T. e outros (2007)

Observing the country sample of cultural traits (Fig 1.) and the table with the levels of tax evasion (see Fig. 2), we see that the highest values of MASC (importance of material success) and IND (individualism) are associated with lower rates of tax evasion. In countries in which the values of UA (uncertainty avoidance) and PD (acceptance of inequality) are higher, there is also a predisposition to practice tax evasion.

Figure 2- Levels of Tax Evasion

Country	Indicator T.E.	Country	Indicator T.E.
Argentina	27.13	Japan	11.03
Australia	13.97	Malaysia	31.63
Austria	10.43	Mexico	31.70
Belgium	21.73	Netherlands	12.90
Brazil	41.00	New Zealand	12.57
Canada	15.67	Norway	18.83
Chile	20.33	Pakistan	37.80
Colombia	41.27	Panama	64.83
Costa Rica	27.00	Peru	60.37
Denmark	17.73	Philippines	44.50
Ecuador	35.40	Portugal	22.37
El Salvador	47.23	Singapore	13.40
Finland	17.83	South Africa	29.00
France	14.90	South Korea	28.13
Germany	16.37	Spain	22.40
Greece	28.47	Sweden	18.89
Guatemala	51.93	Switzerland	9.13
Hong Kong	16.97	Taiwan	26.57
India	24.30	Thailand	53.34
Indonesia	21.37	Turkey	33.20
Iran	19.40	United Kingdom	12.47
Ireland	15.63	United States	8.60
Israel	22.87	Uruguay	51.47
Italy	26.60	Venezuela	35.13
Jamaica	37.70	Yugoslavia	37.60

Source: Schneider (2004), citado por TSAKUMIS, George T. e outros (2007)

According to this study, and according to the degree of tax evasion for the years 2000-2002, we observe that Portugal, presents a considerably high dropout rate (22.37%) and shows high levels of PD and low levels of UA and MASK and IND. Notoriously, we observe the position of countries like Guatemala, Panama and Uruguay, which have excessively high levels of tax evasion associated with low and high levels of PD UA and IND MASK. This contrasts with the United States, which has a low rate of tax evasion and is in the opposite position in terms of the Hofstede indicators. However, these variables should not be systematically contrasted, as there may be other influencing factors, which may change the results depending on the country.

Porcano et al (2011), also used the Hofstede table and concluded that the rate of PD affects people's behavior in relation to tax in all countries. Inequality is accepted in societies with a high rate of PD – which have some indulgence for the rules of morality - as societies with a lower index number

does not take well to inequality. As a result, countries with a culture of high PD are more prone to tax evasion and non-compliance, although the relationships between the variables and behaviors are different from country to country, which determines that each should structure its tax policies combat tax evasion in a specific way.

According to McGee *et al.* (2008), there are three perspectives on tax evasion ethics:

- **Tax evasion is always or almost always unethical**

There are three underlying reasons for this view: First, the belief that individuals have the obligation to pay taxes in order to meet the resources for the public sector. Second, the moral duty of individuals towards their peers in the community. Third, a religious perspective of tax payments sustained on the moral obligation before God.

- **Tax evasion is always or almost always ethical**

In this view, there is not any obligation to pay taxes because the state has no moral authority over its citizens.

- **Tax evasion may be ethical or unethical in specific circumstances**

This view is less rigid than the previous two. It is based on structural socio-political factors that may determine the ethical stance of tax evasion.

McGee *et al.* (2008) describes the results of a survey to management students from universities in Utah and New Jersey. They were asked eighteen questions (Figure 3) on the ethics of tax evasion, in order to understand which were the prevailing views and to grasp the presence of differences among states. The investigation was conducted using a Likert scale, in which each respondent classified their agreement with the question, from one ("Agreement") to seven ("Disagreement"). They obtained 379 answers, 202 from Utah and 177 from New Jersey. In Utah, the average score was 6, indicating the tax evasion is never or almost never perceived as ethical. In New Jersey, answers ranged mostly between 4 and 5, indicating that tax evasion is sometimes ethical, demonstrating more receptivity to tax evasion.

Figure 3 - Questionnaire on the ethics of tax evasion

a)	Tax evasion is ethical if tax rates are too high.
b)	Tax evasion is ethical even if tax rates are not too high because the government is not entitled to take as much as it is taking from me.
c)	Tax evasion is ethical if the tax system is unfair.
d)	Tax evasion is ethical if a large portion of the money collected is wasted.
e)	Tax evasion is ethical even if most of the money collected is spent wisely

f)	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of
g)	Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects
h)	Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me
i)	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me
j)	Tax evasion is ethical if everyone is doing it.
l)	Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends
m)	Tax evasion is ethical if the probability of getting caught is low
n)	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust.
o)	Tax evasion is ethical if I can't afford to pay
p)	Tax evasion is ethical even if it means that if I pay less, others will have to pay more
q)	Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1940.
r)	Tax evasion is ethical if the government discriminates against me because of my religion, race or ethnic background
s)	Tax evasion is ethical if the government imprisons people for their political opinions

Source: McGee et al (2008), Opinions on the Ethics of Tax Evasion: a Comparative Study of Utah and New Jersey, adaptado

The differences in scores are related to demography and religion factors: most of the sample consisted of Mormon Utah students, while New Jersey has a significant number of students with Hispanic roots, non-Hispanic Whites, African and Asian, i.e. American students mostly not a Mormon, many of them Catholics.

In the case of New Jersey, the main reasons to consider fiscal evasion as ethical are associated with corruption among politicians, abuses of human rights and unfairness of the tax system. Other strong arguments are related to cases such as tax money squandering or inability to pay. The study present weaker arguments supporting tax evasion when: there is a low probability of being exposed, others also do the same or the individual is not benefiting from the taxes.

Comparatively, the major difference between the two states concerned the question regarding Jews living in the Nazi Germany. Utah placed it in the first place, while the New Jersey group put it in the third place. One of the main explanations for the difference is that, in Utah during the nineteenth century, many followers of the Mormon religion were persecuted, which may have resulted in a perceived similar position as the Jews during the Nazi Germany period.

Another tax evasion study by McGee et al. (2009), compared Latin American countries (Argentina, Chile, Mexico, Peru, Puerto Rico and Venezuela) with the United States, focusing on demographic variables, such as level of education, religious practice, gender and age. According to this study, tax evasion can be justified when the tax system is considered unfair, when there are human rights' abuse by governments, corruption in the political classes and when the relationship between tax rates over taxable capacity becomes unsustainable. Furthermore, this study indicates that the tax evasion incentives vary according to gender, age and country. Venezuelans were the most likely to consider unjustified tax evasion while Mexicans were the most likely to consider it as justified. The author did not ask for the real reasons underlying these answers as there may have been a variety of reasons, including fear of penalty, the moral duty and the fear of God.

Regarding gender, there is a consensual opposition of women to the practice of tax evasion, with a generalized more ethical perspective. These results may, however, be influenced by the greater opportunity of tax evasion by men.

Regarding age, individuals are likely to become more ethical as they age. However, this finding is contingent on the country and culture. Comparing other studies in countries like the United Kingdom, United States and France, youngsters seem to have less ethical attitudes than older people, contrary to young Austrians who are more ethical when compared to older age groups. In this study, McGee et al. (2009) finds that in Mexico, Puerto Rico and United States tax evasion is gradually considered less ethical as people age. Nonetheless, there is no strong correlation with age in the case of Chile, Peru and Venezuela.

Regarding education, there is an increase from the primary to secondary level school, followed by a decrease on higher education, which indicates that individuals with only high school formation are more likely to justify tax evasion and evade taxes en compared to people of lower or higher education.

According to this study there is a relationship between church attendance and the propensity for tax evasion: those who does not frequently attend religious services seem to have a higher propensity for tax evasion. For instance, in Peru and United States, people who never or almost never attend religious services are more prone to tax evasion than those who attend religious services weekly.

There are several explanations for the different behaviors regarding fraud and tax evasion. The main reasons are related with demography, gender, age, level of education and religious practice, and there is also a

strong influence of the political framework. Individuals with higher economic resources usually face higher rates of tax, which may lead them to feel that they are being penalized for having a comparatively higher percentage of their income allocated to taxes. Classes of lower economic level may feel wronged in a different way: as their incomes are low, they may feel that they have no moral obligation to pay taxes due to their lower tax capacity.

Another research, conducted by Sezgin et al (2011), provides a country comparison by examining three points of view on the ethics of tax. Following McGee et al (2008), namely the questionnaire in Figure 3, they started from an opinion survey to university students in Turkey and Kyrgyzstan. They addressed people of both sexes in order to check whether there was a significant difference between men and women. They concluded that Turkish students are more averse to tax evasion than the Kyrgyz, but also noted that in the first country, women have higher moral values than men which opposes the result in Kyrgyzstan, where there is a higher ethical sense among men than among women. Furthermore, cultural and legal differences also seem to result in different perspectives on tax evasion.

Sezgin et al. (2011) analyzes the relationship between tax evasion and ethics from a different perspective: first, they address the relationship between the individual and the state. Second, between the individual and God. Third, between the individual and the community (McGee and Smith, 2004, cited by Sezgin et al, 2011). Some studies suggest that the moral factors are very important in the fulfillment of tax obligations, due to the influence of ethics on human behavior (Reckers et al, 1994, cited by Sezgin et al, 2011).

Another study by Berger et al. (2009), focused on comparing business sectors in Brazil. Using the same questionnaire (Figure 3), they inquired 277 people, consisting of students of Management, Economics and Accounting. They observed higher scores - indicating less rejection of tax evasion - when the justification is governmental mismanagement of financial resources, when the tax burden too heavy or when there is a relationship with human rights, such as political impositions, discrimination by race, religion or ethnic origin.

Regarding gender, they observed that men are less averse to tax evasion, and their high scores are related to high and unfair taxes and to squander and corruption in the political class. For women, the score reaches higher values when it comes to religious and racial discrimination, and imposition of political beliefs.

Regarding professional area (job), they observed that economists are the most likely to support tax evasion while accountants are the less likely.

The justification may be due to the fact that accountants have a greater perception of the risks underlying tax evasion. For economists and administrators the highest score pertains unfair taxes and political corruption, while for accountants the highest score is related with public resources squandering.

In terms of age, and contrary to evidence of other studies, this work found out that older people are less averse to tax evasion when compared with younger individuals.

Bame-Aldred et al (2011) studied firms in 31 countries, focusing on how demographic and behavioral factors may influence the likelihood of tax evasion. According to this study, the income tax is necessary for the country's investment in social services and economic infrastructure. In this sense, both personal and business tax evasion, eventually affects the poorest, exactly those who need these services most of the state. The values institutional factors (rule of law and the rates of corporation tax), demographic (company size, ownership and audit probability) and attitude toward taxes (justice and perception of the tax burden) were analyzed and cultural continue to influence tax evasion, after controlling those factors.

A study on fiscal morality by Alm and Torgler (2006) compared the United States with Spain and, later, with fourteen other European countries (including Portugal), and concluded that fiscal morality differs systematically across countries, and may also differ from region to region within the same country. It was found that there are strategies to increase tax morality, this being strictly related to fiscal confidence: By inducing confidence at a political and economic level, it is possible to increase social trust. This relationship between taxpayers and state can be strengthened through positive actions by the government, which by itself will generate an increase of morality, improving the ability of citizens to participate in political and social life by strengthening the ties between taxpayers and state. It was also found that religious organizations have a key role, as they can affect morality (Anderson & Tollison, 1992, cited by Alm), and that the higher church attendance leads to greater willingness to pay taxes.

Country level differences in the behavior of individuals with respect to tax compliance can be explained by the impartiality and fairness of tax administration, by the compensation and by the attitude of governments. Feld and Frey (2002), cited by Alm et al (2006) argue that the way government treats taxpayers (fairness or unfairness) affects the tax morality and the demonstration that the government relies on taxpayers is rewarded with a higher confidence by individuals, which subsequently improves morality. Smith (1992) and Smith and Stalans (1991), cited by Alm et al (2006) argue

that reciprocity (positive rewards for honest behavior) may be an incentive for compliance.

Schneider (2006) studied the size and development of the shadow economy in 145 countries over the period 1999-2003. Specifically, it corresponds to 38.7% in 96 developed economies, 40.1% in 25 countries in development, 16.3% in 21 OECD countries and 22.3% of 3 left wing economies. Furthermore, the driving forces of the shadow economy are the weight of taxes and contributions to social security, combined with the regulation of the labor market.

Underground economy exists in all countries, and the usual measures aimed at controlling these illegal activities involve punishment, education or aiming at economic development. It was observed in several works that social security burden is a major cause for the existence of shadow economy, and the greater the difference between the total labor cost in the official economy and the after-tax labor earnings, the greater the incentive to avoid this difference and to work in the "shadow". However, even major tax reforms with reductions in tax rates are insufficient to substantially reduce the informal economy and only serve to stabilize and prevent a further increase. It was also found that informal economy in Africa is not mainly contingent on the tax burden. This happens because in such excessive under-developed economies, people are unable to survive legally and, consequently, working in the shadow economy is often the only way to survive. Moreover, some South American countries present this feature though, in such cases, this factor it is also mentioned the marked income inequality.

Albano Santos (2003) presents the field of "supply-side economics", advocated by Arthur Laffer. In this area, excessively high taxes undermine the basis on which they are based: *"High taxes, sometimes by diminishing the consumption of the taxed commodities, and sometimes by encouraging smuggling, frequently afford a smaller revenue to government than what might be drawn from more moderate taxes."* (Adam Smith, quoted by Santos, p.467)

Soares (2004) gives us an account of the lack of civic consciousness to tax compliance, in Portugal. This is justified, in one hand, by the excessive pressure of the state over its citizens when compared with what it is offering to the society. There is also the conception that there is a lot of inequality in the control of taxpayers, since private sector employees do not have the same freedom of tax related actions as liberal professionals and entrepreneurs. The Portuguese population is very unmotivated due to the feelings of injustice and unequal treatment. Moreover, the population is also unhappy with the tax administration, as it is mostly concerned with so-called minor

crimes at the expense of fraud run by big business and by those near the main power, in other words, run by those for whom the system appears to be inactive.

Saldanha Sanches (2010) argues that tax evasion and underground economy is higher in countries with more lenient approach to non-compliance with tax obligations, which leads, consequently, to greater fiscal injustice in relation to compliant taxpayers. This injustice affects not only the quantity and quality of services offered by the state at different levels, but also burdens the state with the tax fraud control costs, which ultimately fall on the same abiding taxpayers.

On the issue of how individuals are averse to tax burden, Albano Santos, (2013) states this is something historically very old, judging by the saying of Lagash, a city of ancient Sumer “*you can have a Master, you can have a king, but the man to fear is the tax collector*” and by the demonstrations against the existing taxation level at that time. Taxes initially arose in the form of in-kind payments, complemented by a registration of persons and goods. But as such taxes emerged, also the complaints rose. These anti-tax protests were only the beginning of a list that continued over years and that Santos dubs as “tax allergy” The innate predisposition against paying taxes appears to be a feature of human nature.

Soares (2013) citing Campbell (p.154) discuss the division of interests between employees (and unions) and employers. In the first case, increased tax burden may be perceived as a leading factor for better wages, increased job security, unemployment support and access to training programs. Employers may benefit through an increased social stability. According to Soares (2013) “this is one of the reasons that justify the widespread applicability of the law of Wagner in advanced societies. Different interests converge and lead to the growth of public spending at rates that exceed the growth of the economy” (Soares, 2013, p.155).

>> 2 – SOCIAL DETERMINANTS OF FISCAL NONCOMPLIANCE – EMPIRICAL EVIDENCE OF PORTUGAL

2.1 - Methodology

This study aims to identify and characterize the perception of portuguese individual taxpayers, with respect to tax evasion and fraud. For this purpose, as a technique of data collection, we adopted the questionnaire method. Individual taxpayers were interviewed, in person, in commercial areas of Coimbra and Aveiro, during week-ends in the month of September and October 2012.

The questionnaire is divided in two parts. In the first part, and after identifying some demographic data (age, education, profession, etc.), respondents were asked about their behavior in relation to tax liabilities, e.g., if they fail to meet tax payment deadlines and why, if they indicate improper or undocumented deductions, and if they omit of income.

In the second part, they were asked about their perception on tax evasion and ways to minimize it. The first question sought to know whether they agree with the existence of higher tax inspection in order to combat fraud and tax evasion. If the response was positive, we asked who should be given more control tax: taxpayers with higher, lower or equal income. The second question was focused on whether they consider that tax evasion may be ethical. From this question we organized the answers into three groups: never justified, always justified and justifiable in certain circumstances. For the first situation, we established a framework with five grades, for which the respondents signaled as “somewhat important”, “important” or “very important”, according to the following statements:

- a. It is a moral obligation before God
- b. It is an obligation to our peers
- c. It is an obligation to the state, in order to meet social needs
- d. It is necessary for the development of the country
- e. Because tax money does not belong to us

For answers marked as “always justifiable” or “justifiable in certain circumstances” we relied on in McGee et al (2008) model, in Opinions on the Ethics of tax Evasion: a Comparative Study of Utah and New Jersey, also used in other international studies, entitled “Questionnaire on the ethics of tax evasion”, as presented in Figure 3.

2.2 Analysis of the Results

We obtained 134 valid responses. The demographic distribution is presented in the following table.

Figure 4 – Demographic distribution

Gender		District of Residence		Age		Education		Job		Higher profession		Religion	
Men	57	Coimbra	57	<25 y.o.	16	Basic	9	Occupations unspecified	34	Lawyers Accountants Economists	37	Catholic	105
Women	77	Aveiro	20	25 a 55	94	Secondary	35	Medium professions	38	Others	25	Other	3
		Lisboa	20	> 55 y.o.	24	University	90	Higher professions	62			No religion	26
		Santarém	13										
		Porto	6										
		Others	18										
Total	134	Total	134	Total	134	Total	134	Total	134	Total	62	Total	134

As for the results obtained, and on the question about the agreement or disagreement on more tax inspection to combat fraud and tax evasion, it was observed a majority of positive responses are the majority. This was also verified in terms of gender, age (Fig.5), education (Fig.6) and jobs.

Figure 5 – Opinion on the existence of more tax inspection (by age)

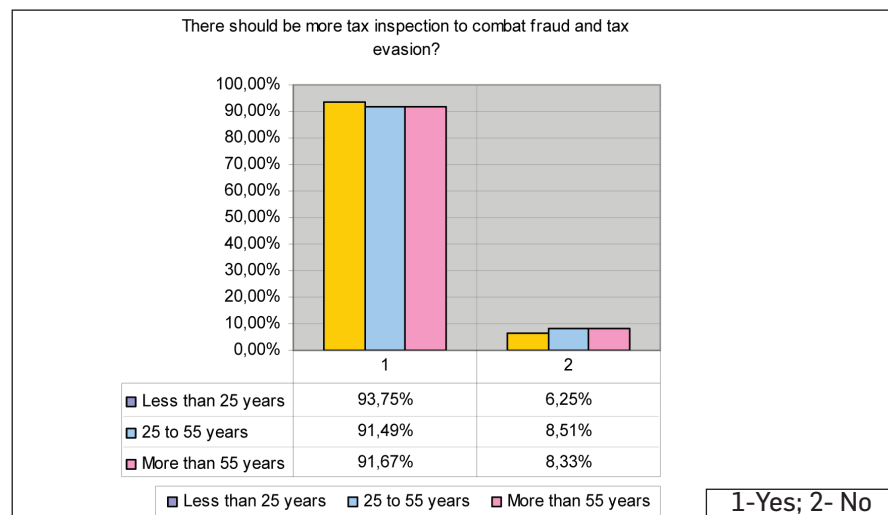
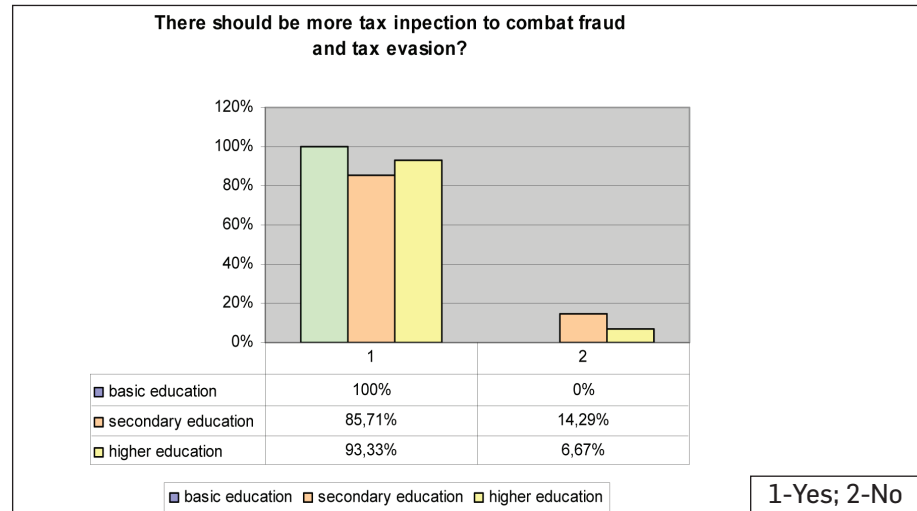


Figura 6- Opinion on the existence of more tax inspection (by education)

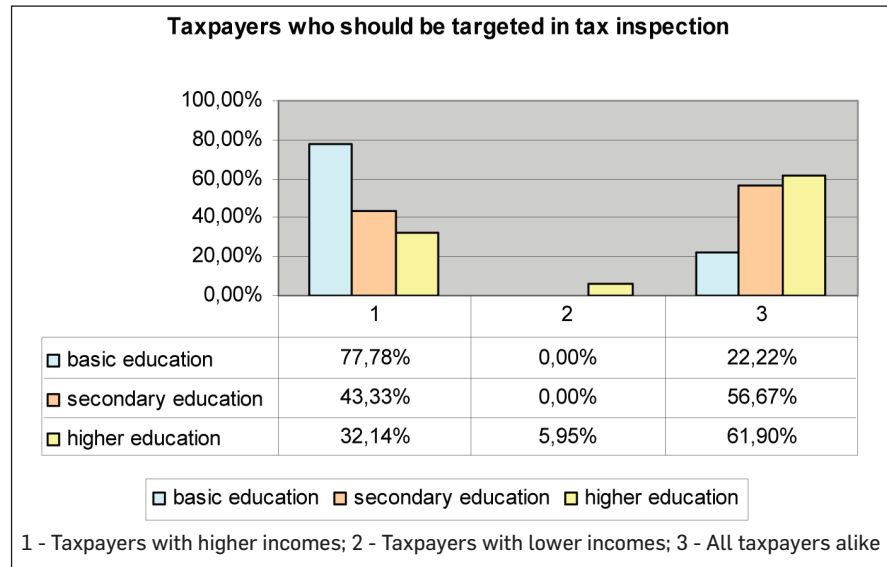


As for the question of who should be targeted for higher tax inspection, the answers were not as consistent as in the previous case. Overall opinion is that it should be equal for all taxpayers, the same happening with respect to gender. However, this is not verified when observed by age, educational and professional level.

In terms of age, it was found that people over 55 years agree that there should be more tax inspection over taxpayers with higher incomes (54.55%). Respondents with less than 25 years or between 25 and 54, agreed that the focus should be on all taxpayers equally (these responses correspond to 66.67% and 59.3% of the sample, respectively).

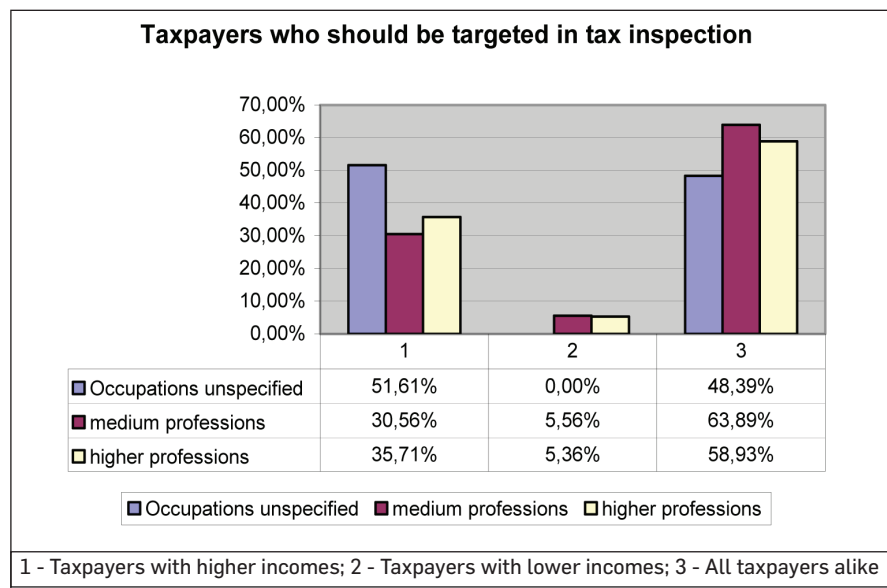
In the following tables we find that the differences in responses by education and profession level are more pronounced. In the first case the answer 1 (taxpayers with higher incomes) holds the highest score among respondents of the basic level and the lowest score among higher-level respondents (Fig.7). The answer 2 (taxpayers with lower incomes) had a zero score by primary and secondary level respondents, and had a small percentage of choice (5.95%) for university level respondents.

Figure 7 – Taxpayers that should be more inspected (by education)



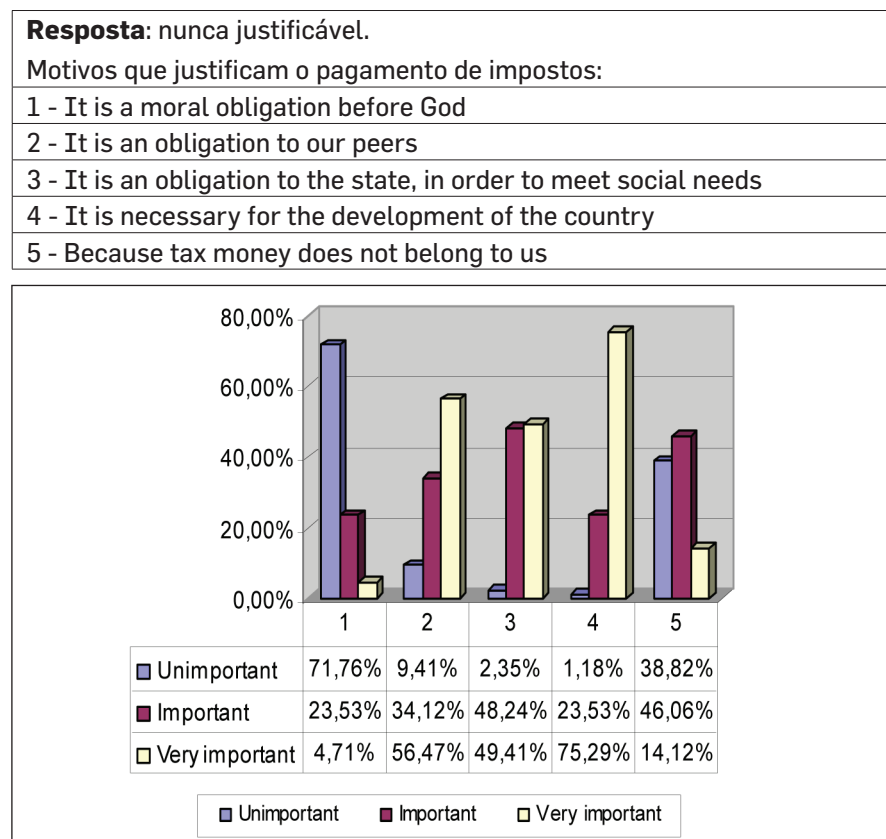
At a professional level (Fig.8), it was observed that the answer of those with unspecified occupations, although not very significant, was mainly focused on taxpayers with higher incomes (51.61%), while the choice of high-level technicians was focused on all taxpayers equally.

Figure 8 - Taxpayers that should be more inspected (by job type)



Overall, and for the total sample, the answer 2 (taxpayers with lower incomes) had a minimal or null choice. As for the answers to the question: “Do you consider that tax evasion may be ethical or morally justifiable?” it was found that most of the respondents (63.43%) believes that tax evasion is never justified, compared to 36.57% who considers it always justifiable or justifiable in certain circumstances. The results are consistent by gender, age, education level and occupation. The following figures focus on the reasons of their answer.

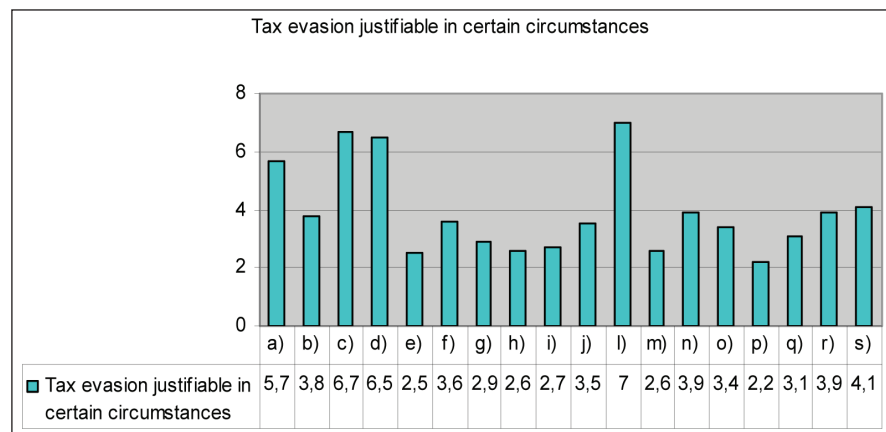
Figure 9 - Ethics of tax evasion on the answer “never justifiable”



Regarding the answers provided by those who considered that tax evasion is “always justified” or “justified in certain circumstances” (Fig.10), and analyzing the eighteen statements in the survey, which were assigned a score of 1 to 10 (being 1 the score that least and 10 the score that most justifies tax evasion), it appears that the statement (l) - “ Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends “ - was the one that scored

highest, with an average of 7, followed by (c) - “Tax evasion is ethical if the tax system is unfair” - with an average of 6.7 and (d) - “tax evasion is ethical if a large portion of the money collected is wasted”- with 6.5. Those who had lower scores were (p) - “tax evasion is ethical, even if it means that if I pay less, others will have to pay more” - with 2.2 and (e) - “tax evasion is ethical even if most of the money collected is spent wisely “ - with 2.5.

Figure 10 - Ethics of tax evasion for response “justified in certain circumstances”



In the following section, we will contextualize the portuguese case in some of the results obtained internationally.

Utah e New Jersey

In Utah, the average score indicated that tax evasion is never or almost never ethical, while in New Jersey the answers pointed out that, sometimes, tax evasion is considered ethical, demonstrating more receptivity to this phenomenon. The difference may be due to religious practice, which in Utah is more intense. In our study it was found that most respondents are Catholic and, despite the low frequency of religious attendance, 63.43% of the respondents believe that tax evasion is never justified.

The main justifications, in New Jersey, for considering tax evasion as ethical are associated with corruption among politicians, abuses of human rights and unfairness of the tax system, followed by tax money squandering or inability to pay taxes. Likewise, in our study, the strongest arguments are associated with corruption, misuse of tax money and unfairness of the tax system and also when the tax burden is excessive. The weakest argument in New Jersey is associated with the low probability of being exposed, while

the weakest argument in our study is that tax evasion is justifiable, even if to pay less, others have to pay more taxes.

United States and Latin America

In the study by McGee et al (2009), “Opinions on the Ethics of Tax Evasion: a Comparative Study of the USA and Six Latin American Countries”, tax evasion can be justified when the tax system is considered unfair, when tax rates becomes unsustainable, when there is corruption among politicians, and when there is human rights abuse by governments. The findings indicated that tax evasion support varied according to gender, age and country.

There was a significant opposition from women to the practice of tax evasion, reflecting a more ethical stand. It is known, however, that the results may have been influenced by the presence of a higher number of opportunities for men to practice tax evasion. In our study, women are also more averse to tax evasion, covering 66.23% of women and 59.65% men, whereas 32.47% women and 36.84 % of men say it is “justified in certain circumstances”.

Concerning age, there is a higher probability that people will become more ethical as they age, although it depends from country to country as in the United States, Mexico and Puerto Rico there is a decrease for the justification of tax evasion, with increased age, while in Chile, Peru and Venezuela this does not seem very relevant. In our study, there is also a decrease for tax evasion support as age advances. Specifically, 50% of younger people, 61.70% of intermediate ages and 79.17% of the oldest class answered that tax evasion is never justified.

Regarding education, the work of McGee shows that people with medium level are more prone to tax evasion than those with lower or higher education. Likewise, in our study, 88.89% of respondents with primary, 57.14% with secondary and 63.33% with higher education answered that tax evasion is never justified. In other words, for citizens who support tax evasion, there is a rise from the lowest to secondary school, followed by a decrease to the highest level of formation.

Turkey and Kyrgyzstan

Sezgin, Seyfi Yasar Yildiz and Ayyildiz (2011) concluded that Turkish students are more averse to tax evasion than their Kyrgyz peers. They also noted that, among Turkish students, women have higher moral values than men, unlike Kyrgyzstan, where there is a higher level of tax ethics among male students. Our study is closer the results obtained in Turkey. The strongest arguments in Turkey to justify tax evasion, refer the situation of the revenues collected

being diverted by corrupt politicians and their family members. In our study, this choice is also in first place. This argument is, however, weaker and less relevant among students of Kyrgyzstan.

Brazil

Berger et al. (2009) observed higher scores for tax money mismanagement, high tax burden and race discrimination, religious belief or ethnic origin. Comparatively, in our study the first two answers are also the most scored, but the third is among the reasons that hold the lowest score. It was found that men are usually more prone to tax evasion than women, as in the Portuguese case.

Regarding age, contrary to the results obtained in most international studies and also ours, it was found that older people are less averse to tax evasion than younger taxpayers.

We ended the study with an open question regarding the respondents view in relation to the tax system. Among the answers, we sensed a perception of injustice by the taxpayers. They refer the need for more tax inspection, stronger penalties for businesses and individual contributors, not forgetting for those who receive social subsidies, i.e., RSI. They indicate that those who pays taxes, do not like to pay for themselves and for others, which sustains the injustice feeling. They are consensual in highlighting the significant state bureaucracy, thinking it would be better to improve simplicity in the tax system, to increase effective means and provide better information for taxpayers. Many defend the use of data mining as an effective mean to fight tax evasion. They also point out direct observation of real standard of living of taxpayers as a tool to infer about the effective income sources of taxpayers. Furthermore, they invoke the need to create an early warning system of firms' owners that have recently ceased activity. It seems quite appropriate as the observation of the living standards after the reported termination can provide information about a possible entry into parallel economy.

The answers are generally consistent in highlighting the need for greater equality in the tax system, more transparency and honesty among politicians, and better use of public money.

>> 3. CONCLUSIONS

This article examines the tax evasion perception of Portuguese taxpayers. Respondents are aware of the problem of tax evasion and fraud, and address the issue by advocating in favor of increased tax inspection. There was a significant number of affirmative answers, thus indicating that the majority of the Portuguese population is in favor of higher tax inspection in order to combat fraud and tax evasion. Furthermore, the respondents indicated that all citizens should be inspected equally, regardless of their income. However, citizens older than 55 years diverged from the average, by defending that tax inspection should focus primarily on citizens with higher incomes. People with lower level of education and unskilled professionals also agree with this argument.

This analysis concluded that the Portuguese are not only aware of tax evasion and fraud, but also support the fight against these phenomena. In terms of the incidence of tax inspection in relation to income, we believe there is a direct relationship with its own contributive situation, i.e., there seems to be a strong tendency to “blame” others and believe that their way of behaving is correct. This tendency explains the support of more tax inspection, particularly on the highest incomes. This conclusion is justified by the fact that people with lower incomes feel wronged as they believe they have no moral obligation to pay taxes due to its low ability to pay, thus defining their choice of tax inspection over those who can afford to pay taxes. Regarding age, it is possible that their support for this statement is related to the fact that, among the respondents, there might be individuals retired with low pensions, or in other situations that promote the idea that they should not be subjected to greater scrutiny.

Regarding the second question - if tax evasion may be ethical or morally justifiable – though most of the respondents said that they comply with the tax report deadlines, pay their taxes and do not usually deduct undue expenditure or omit income, about one third said that tax evasion is justifiable in certain circumstances. In this case, and from a gender perspective, women present a more ethical position than men.

With regard to age, young taxpayers under 25 years are the highest supporters of tax evasion. Furthermore, this is also the case for taxpayers with an intermediate level of schooling. This finding is consistent with McGee et al (2009), who indicate a greater likelihood that people become more ethical as they age. Furthermore, our study is also consistent with McGee et al (2009)

as we observe that the support of tax evasion decreases from the lower level education to the medium level, followed by rise of higher level education. However, our results differ from other studies in terms of age and gender, which could be an interesting point of further exploration, from a cultural and sociological point of view.

In our study, taxpayers justify tax evasion by the presence of corruption among politicians, the diversion and waste of tax money, the unjust tax system, and high taxes. The fact that taxpayers may come to be discovered by the tax authorities do not seem to be a deterrent, as it is one of the least strong arguments.

Even though there is a low tax evasion support, it seem to be the cultural and sociological reasons that make the difference. This study concluded that there is less opposition to tax evasion when respondents perceive a government as corrupt and oppressive or when the tax system is considered unfair.

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