

# Chapter 4

## Political Ideology and Individual Values as Key Determinants of Fiscal Awareness

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### ABSTRACT

*This paper determines the key values of fiscal awareness by using a wide range of variables, mainly related to personal values, political ideology and cultural factors. After the introduction, the theoretical framework reviews key literature and define the fiscal awareness in relation to the tax morale and the fiscal ethics. The following sections introduce the methodology and examine the results of a questionnaire filled by 562 University students, analysing the variables that might have an impact on fiscal awareness. This paper contributes to the literature on tax morale analysing the influence of political ideology together with other variables. The influence of political ideology is thoroughly examined, aiming to ascertain whether students with liberal ideology would show a higher level of fiscal awareness than those with a conservative ideology. Results show that honesty and tax fairness foster higher levels of fiscal awareness. Political ideology prevails over other factors, like tax education, when explaining high levels of fiscal awareness.*

### 1. INTRODUCTION

For several decades, the study of tax compliance has generated an extensive literature. Early research focused on the identification of the economic determinants of tax evasion (Clotfelter 1983; Klepper & Nagin 1989; Feinstein 1991). Thereafter, research interest areas included the psychosocial factors that might have an impact on tax noncompliance (Pommerehne & Weck-Hannemann 1996; Alm, McClelland & Schulze 1999; Feld & Tyran 2002; Torgler 2003b). Numerous studies identified factors related to

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culture, institutions, trust in government, psychosocial aspects and even globalization, as determinants of tax morale (Alm, Jackson & Mckee 1992; Torgler 2003a; Torgler & Schneider 2005; Murphy 2004; Kirchler & Wahl 2010; Richardson 2008; Hoffmann, Hoelzl & Kirchler 2008; Hammar, Jagers, & Nordblom 2009). Despite the depth and breadth of this academic output, there continues to be a growing interest in understanding how psychosocial factors influence taxpayers' fiscal behaviour.

The main objective of this chapter is to provide new evidence on the psychosocial factors that influence tax compliance. Emphasis is placed on how political ideology and personal values, such as honesty, solidarity and perceptions of tax fairness, are some key determinants of tax morale. The results were obtained through a survey of Spanish university students. Our study adds further evidence that taxpayers' socio-cultural and individual ideologies and values, influence tax compliance. The influence of political ideology is thoroughly examined, aiming to ascertain whether Spanish students with a conservative or right-wing ideology would show a lower level of tax awareness than those with liberal or left-wing ideological beliefs.

Another important aspect of this study relates to the concept of fiscal awareness. In addressing the concept of fiscal awareness, we must, first of all, highlight its close relationship with tax ethics and tax morale. Tax ethics, tax morale and fiscal awareness have traditionally been used to refer to the same concept. All three have been applied to the set of attitudes and behaviours of the taxpayer when complying with the tax authorities, however, there are nuances of meaning that need to be explored in greater depth and which we will work on, in this study.

This chapter first discusses the theoretical framework and reviews the literature that proves that the political-institutional environment, where the relationships between the administration and the taxpayers operate, provides some key aspects shaping fiscal awareness. Next section describes the methodology and the survey, defines the fiscal awareness concept in relation to the tax morale and the fiscal ethics, as well as the explanatory variables used in the model, supporting and contrasting our results with other results obtained by previous studies. The following part of this chapter introduces the econometric analysis of the survey and the results. By using a discrete choice model, this study aims to ascertain if personal values, political ideology or tax knowledge, among others, influence fiscal awareness. And finally, last section shows the main conclusions.

Having established the objectives and scope of this study, the following section presents the theoretical framework and reviews the relevant literature that supports our analysis and provide a solid foundation for this research.

## **2. THEORETICAL FRAMEWORK**

The terms 'ethics' and 'morals' have been applied and used in the tax compliance literature. Vogel (1974) defined 'tax ethics' as the attitude and behaviour of the taxpayer necessary to comply with his tax obligations in the sense of filing his tax return properly, accurately and legally.

On the other hand, at the beginning of the 21st century, 'tax morale' is beginning to be considered in the work on tax compliance as an endogenous rather than exogenous variable, due to its relevance for the study of tax compliance (Torgler, 2002b, 2002a). How is the concept of 'tax morale' or 'tax morale' defined? For Schmolders (1965), tax morale is the attitude of a group or the totality of taxpayers towards the fulfilment of their fiscal duties, being thus rooted in the mentality of the population towards the tax authorities and in their social conscience, in their recognition of the duty to contribute and in their accep-

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