TO PAY OR NOT TO PAY: ENTREPRENEUR’S ATTITUDES TOWARDS TAX EVASION (SUMMARY)

Tomasz Mickiewicz
Aston University, t.mickiewicz@aston.ac.uk

Anna Rebmann
University College London

Arnis Sauka
Stockholm School of Economics

Recommended Citation
Mickiewicz, Tomasz; Rebmann, Anna; and Sauka, Arnis (2012) "TO PAY OR NOT TO PAY: ENTREPRENEUR’S ATTITUDES TOWARDS TAX EVASION (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 32: Iss. 12, Article 10.
Available at: http://digitalknowledge.babson.edu/fer/vol32/iss12/10
Principal Topic

We posit that tax morale of business owner-managers’ is related to their perceptions of the institutional and social context, in particular to the perceptions of political and tax institutions, to the likelihood and severity of punishment if caught evading tax, and to social norms relating to tax evasion as documented by observed behaviour of other entrepreneurs. To explain these relationships, we extend the institutional theory framework that links the cognitive and the normative aspects, and distinguish between behaviour that becomes institutionalised from that which is seen as legitimate. We also argue that as well as looking at macro institutions, one needs to consider the micro social structures: norms of behaviour observed in the close neighbourhood of the entrepreneur. Following that, while our direct objective is to add to understanding of the institutionalisation of the informal practices, our research makes also a significant contribution providing a theory framework that can be applied to other areas of entrepreneurship research.

Method

Survey data was collected in winter 2010 via telephone interviews from a sample of business owner-managers of 348 firms selected randomly from the Latvian company register. Based on this, we estimated models of entrepreneurial attitudes towards tax avoidance applying single equation and bivariate ordinal probit models.

Results and Implications

Our results show first that trust in the tax authority is positively related to tax morale; however the effect of trust in other state institutions was not found to be robust to adding controls. Second, the severity of the consequences if caught has a positive relationship to tax morale; in contrast, the likelihood of being caught does not link significantly to the level of tax morale, which we interpret as consistent with concave utility (risk aversion). Third, the more business owners-managers perceive underreporting of income, employee numbers and salaries to occur in other businesses, the lower their tax morale is. Additionally, our results indicate that owner-managers of smaller firms have higher tax morale, suggesting that they are more concerned with legitimacy considerations and thus adopt postures consistent with accepted values.

CONTACT: Tomasz Mickiewicz; t.mickiewicz@aston.ac.uk; (T): +44 121 204 3007; Aston University, Aston Business School, Aston Triangle, Birmingham, B4 7ET, UK.