

Behavioural economics and taxation: insights in tax administration

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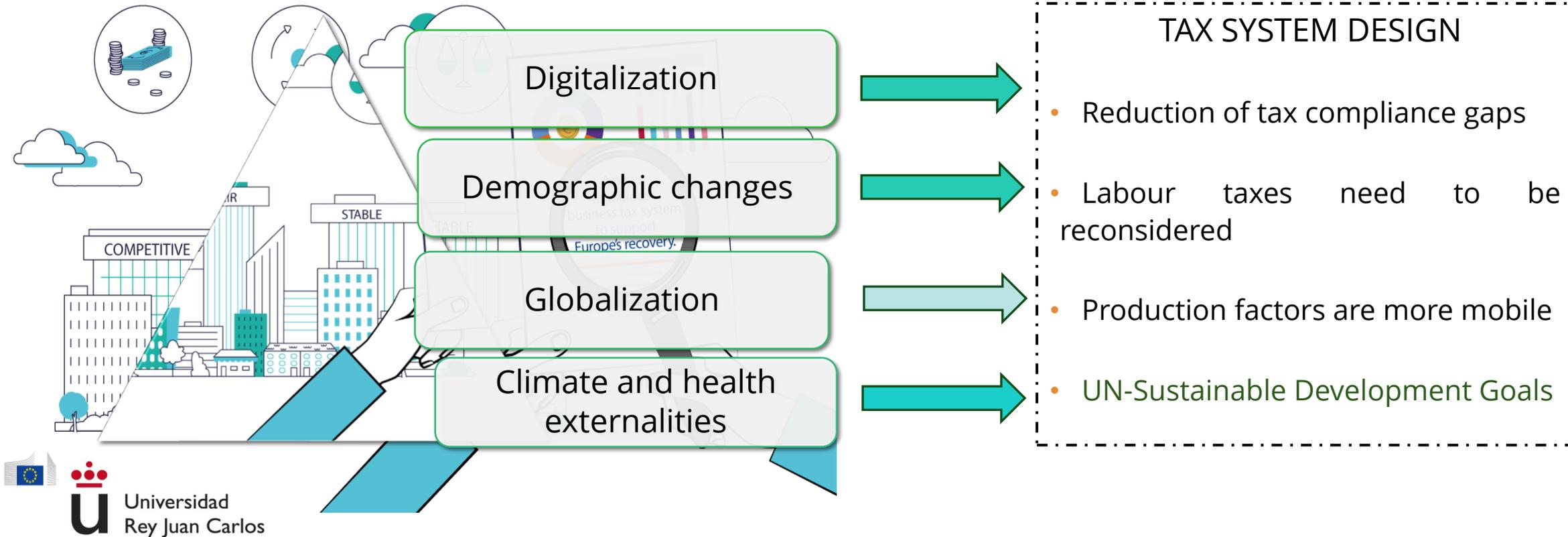

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OUTLINE. Three main questions.

1. What is the future of taxation?
2. What is the role of behavioural insights?
3. How to internalize the costs of negative behaviour?
4. Conclusions.

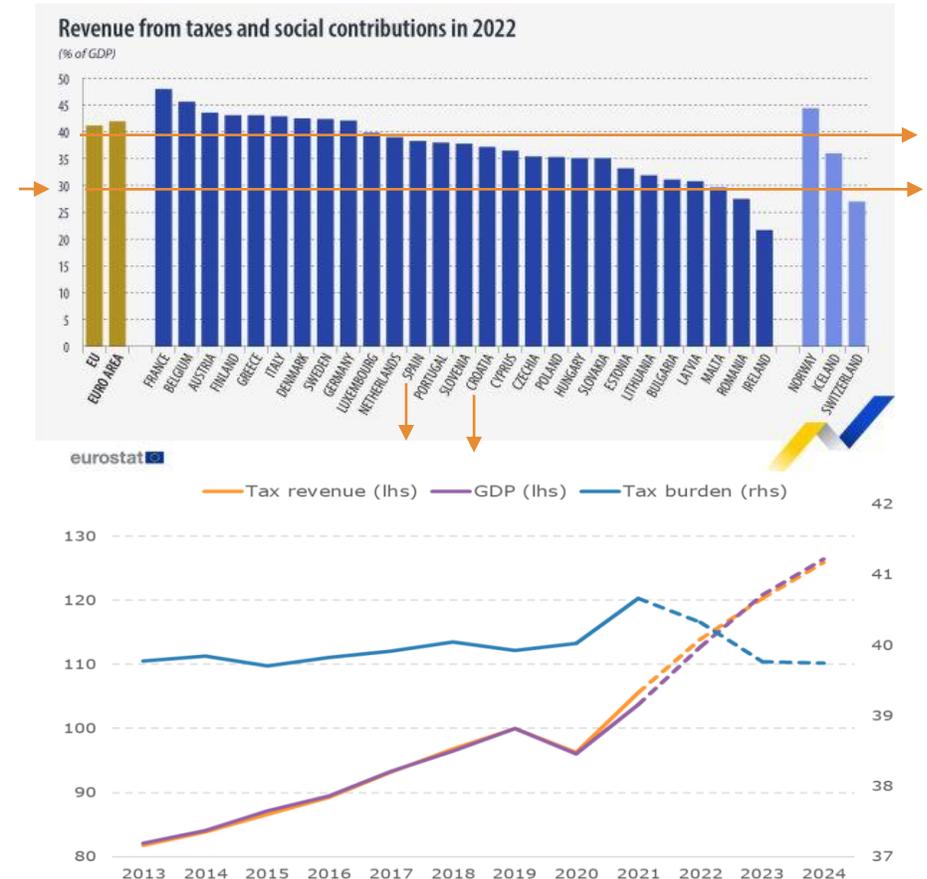


1. What is the future of taxation?



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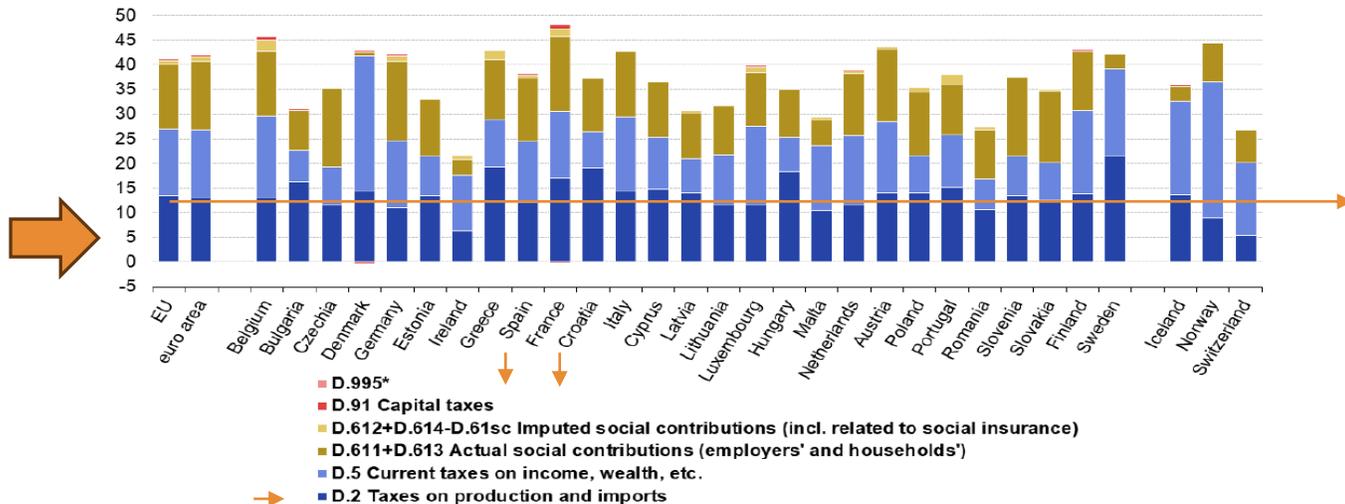
- Tax Systems must deliver the revenues needed to support public fundings and social support.
- Tax-to-GDP ratios have risen to well above 30% in the EU.
- Tax burden has been fairly constant up to 2020.
- Tax systems will be affected by structural changes: direct taxation
- Well-designed and balanced taxes on behaviour (environmental and health taxes) can play a key role for the tax systems.



1. What is the future of taxation?

- Taxes on Goods and Services are a significant source of revenue for the EU and its Member States.

Breakdown of tax revenue by country and by main tax categories
2022, % of GDP



* The negative amounts represent capital transfers to the relevant sectors, relating to taxes and social contributions assessed but unlikely to be collected (D.995).

Source: Eurostat (gov_10a_taxag)

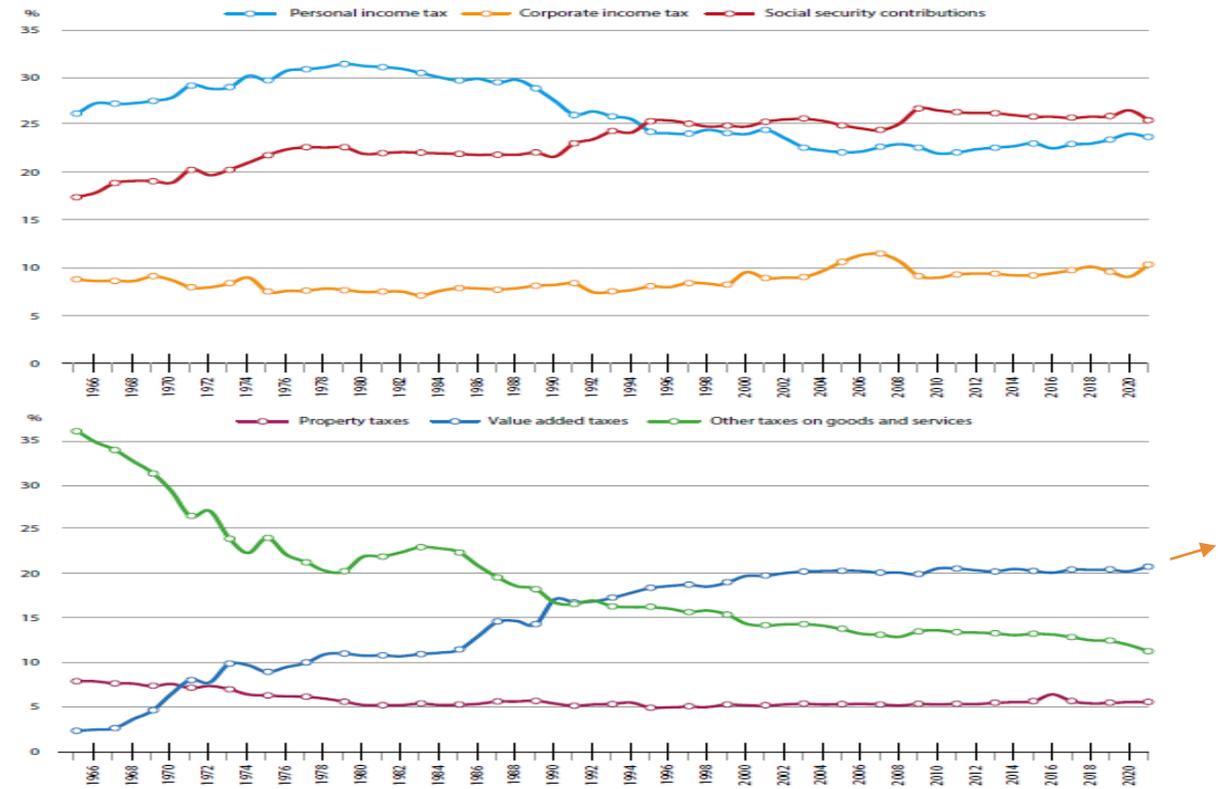
eurostat

- Tax-to-GDP ratios and tax structures vary significantly across countries..
- Taxes on Goods and Services include, amongst others, **sales taxes, value-added taxes (VAT), excise taxes and taxes levied on the import and export of goods and services.**
- The share of taxes on Goods and Services on GDP is on average 10% in the EU.

1. What is the future of taxation?

- Taxes on income and profits (direct taxes) are the most important source of revenues; **34%** on average.
- Social security contributions account for **25,6%** of total revenues on average.
- The share of taxes on properties fell to **5,6%** in this period.
- Growing importance of **VAT**.

➔ **Using behavioral insights in taxation**



Note: The OECD average tax revenue in 2016 from main categories includes the one-off revenues from stability contributions in Iceland. This predominately affects the average revenues from property taxes, as a percentage of total tax revenues, in that year only.
Source: Revenue Statistics 2023. <https://oe.cd/revenue-statistics>.

2. What is the role of behavioural insights?



Behavioural insights focus on understanding human decisions and behaviours to design practical policies and interventions



Tax Administrations are using behavioural insights approach: health behaviour, savings behaviour or consumer behaviour



Behavioural insights require research, analytical thinking and methods for testing and evaluating proposed solutions



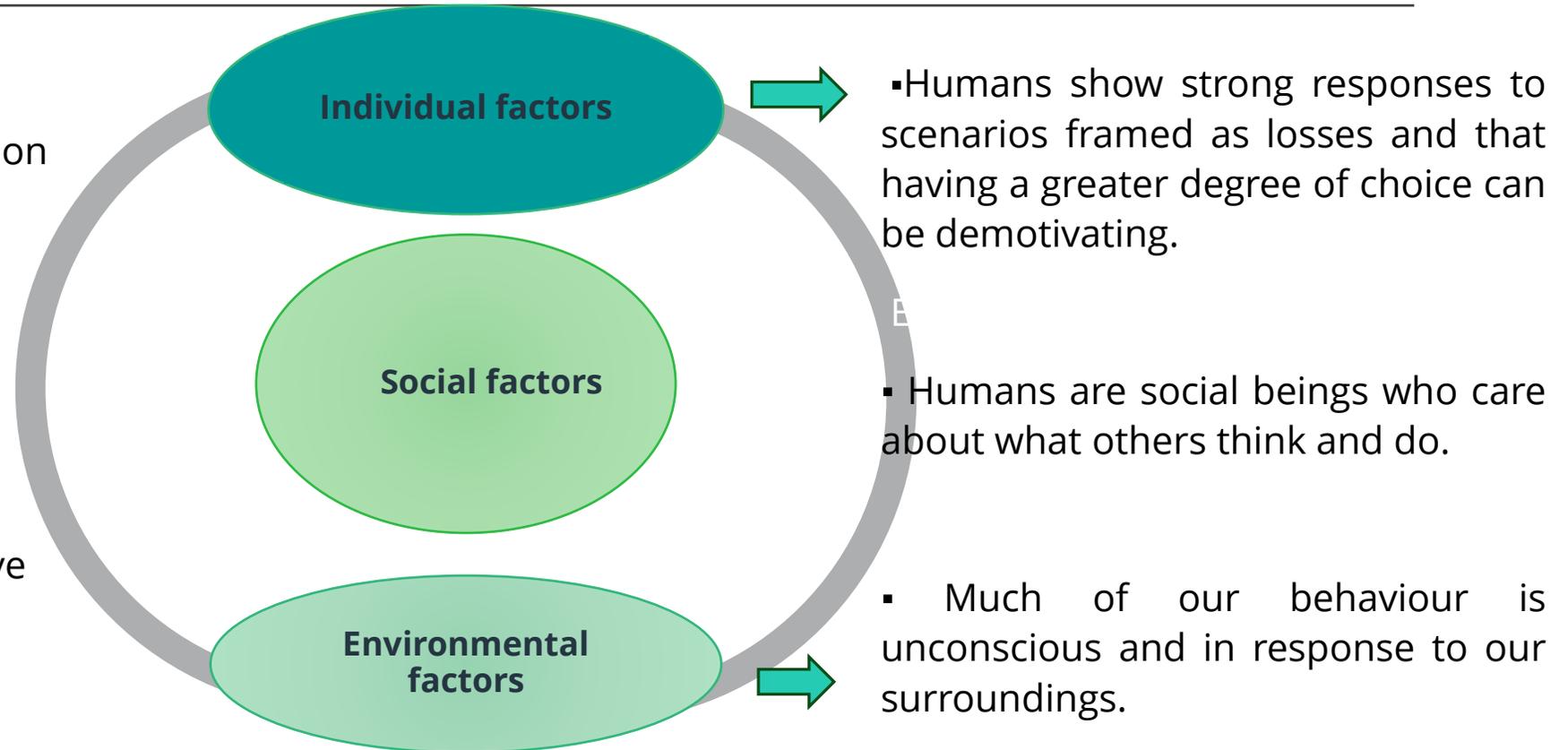
Behavioural insights in practice: “nudge” techniques

2. What is the role of behavioural insights?

▶ Traditional Economic models consider that individuals make decisions on tax compliance based on the calculated costs and benefits.



▶ Behavioural insights understand human behaviour to design effective policies and interventions.



2. What is the role of behavioural insights?

Behavioural insights in practice:

- Risk assessment
- Impact measurement
- Enforcement strategy
- Taxpayer awareness

- ▶ Personalized messages
- ▶ Increased visibility of enforcement
- ▶ Nudging taxpayers.

Who

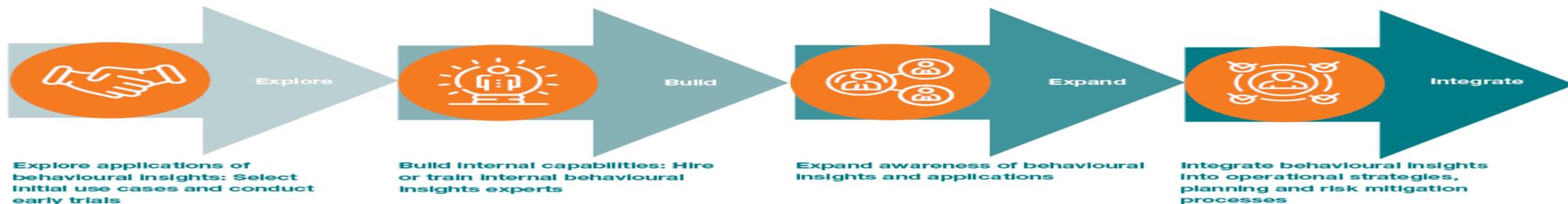


What

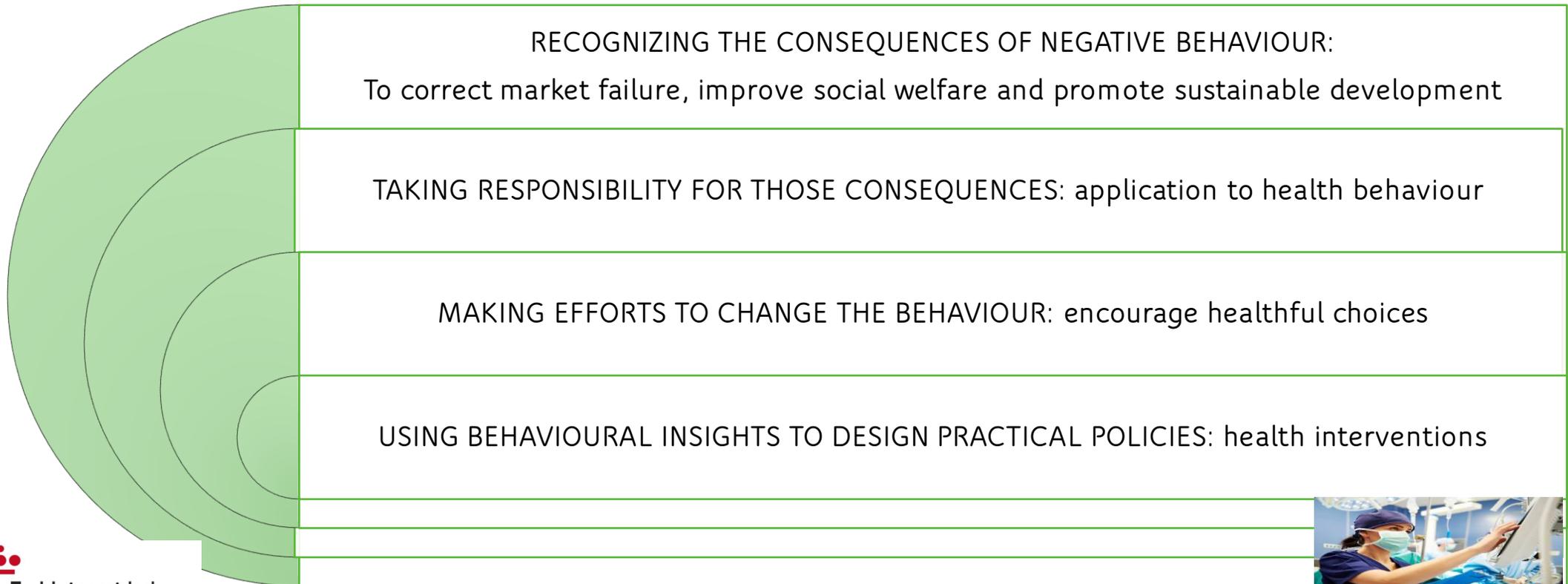
When



How

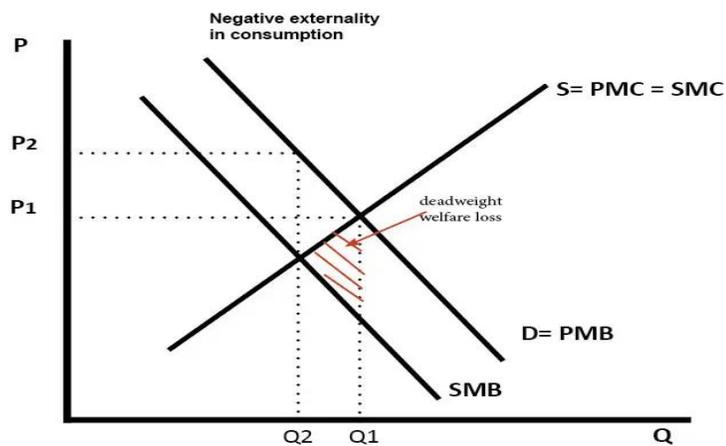


3. How to internalize the costs of negative behaviour?



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- **Taxation according to economic theory:** a negative behaviour/externality causes an efficiency cost. Importance of the tax design process in order to minimize the loss of both individual and social welfare.



- Taxes can serve as a self-control device to help reduce externalities: corrective taxes.
 - Whether taxes are appropriate depends on how people perceive the harm from consumption: tobacco.
 - Differences in the traditional and behavioral approaches.
- People overvalue present benefits and undervalue future risks.



3. How to internalize the costs of negative behaviour?

A behavioural insights perspective to tackle negative behaviour: health challenges on taxation - application to tobacco products

1) Policy planning

→ . Understand how people value the present versus the future.

2) Implications for equity .

→ Price sensitivity and regresivity

3) Tobacco interventions.

→ Incentive deductions.

→ Preventive health messages

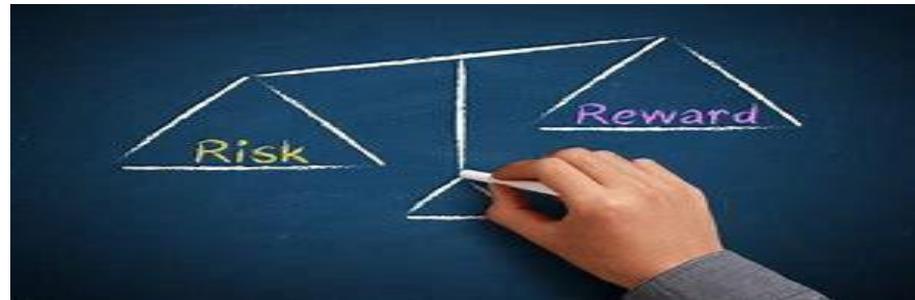
→ Behaviour replacement: NCAs.



3.1. How to internalize the costs of negative behaviour?. **Policy planning**

- A **behavioural insights approach** to compute optimal tax rates incorporates self-control.
 - Users underestimate health harm.
 - Consumption results from time preference and excessive impatience.
 - Perceptions of harm are lower the further into the future this harm is incurred.

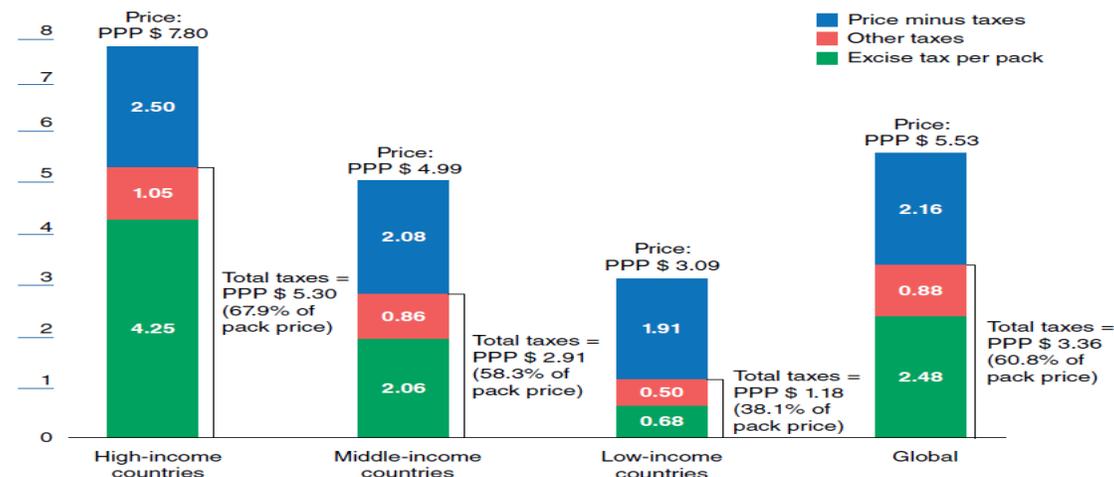
- ▶ Private costs
- ▶ Quasi-external costs
- ▶ External costs



3.2. How to internalize the costs of negative behaviour? Implications for equity in the burden

- **Price sensitivity:** differing income levels don't share the same sensitivity to taxes.
- **Regressivity:** taxes impose higher burden on lower income levels and tend to distort horizontal equity.

Cigarette prices and taxes by country income



3.3. How to internalize the cost of negative behaviour.

Tobacco interventions

Interventions to better understand the long-term consequences of actions and make decisions:

- Incentive deductions: offer a set amount of money to all who complete a smoking cessation program.
- Preventive health messages: influencer campaigns
- Behaviour replacements: provide alternatives to cigarettes that mimic the smoking experience but with less risks; NCAs (e-cigarettes...)

Cigarettes
All cigarette products



Smokeless Tobacco
Moist, Snus, loose leaf and dry products



Vapor Products
Electronic cigarettes, vapor, tanks, and mods



Cigars
All little, popular-priced, and hand-rolled cigar products



Roll Your Own / Pipe Tobacco
Bags, pouches, and cans



4. Conclusions

- We present the key challenges for taxation systems that are generating more complexity.
- Difficulties for direct taxation and more options for indirect taxation.
- Behavioural insights offer new perspective for the design of optimal taxation.
- Climate change and Health have central places in the UN Sustainable Development Goals and taxation can play a role in achieving these goals by 2030.
- We offer some insights for health interventions: application to tobacco.

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THANK YOU FOR YOUR ATTENTION

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