



PROMOTIONAL MIX FOR ENHANCING TAX MORALE

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Abstract

This study is an exploratory research to understand the factors that motivate citizens to pay taxes by performing a market research on a test case of Hyderabad's Property tax payers. This research gives a brief about how Government agencies can improve their relations with the citizens and thereby, applying the concepts of Marketing, can motivate people to pay taxes. We considered about 300 respondents through in-person interviews and from their inputs for the questionnaire we analysed the people's perspective of the property tax system and recommended a Marketing Mix Model that could result in motivating the tax payer extrinsically to enhance tax morale and facilitate tax compliance.

Introduction

Practitioners, policy makers and academics recognise the necessity of addressing low-levels of tax literacy and tax morale in individuals, but the primary challenge is where to start and what to do. This research paper reports based on the empirical study conducted in Hyderabad and the scope of the study has been restricted to citizens responses on property taxation system and their perspective of the performance of the agency that is utilizing the collected taxes.

Tax is undoubtedly the most important source of revenue for any government. Without efficient and effective taxation system no government can execute the government services even on a small scale. At present, Tax payments are compulsory and unrequited: people are legally bound to pay but cannot expect any specific benefit in return like ownership of a piece of public property, or preferential treatment in a public hospital. Why do people comply? One prominent answer is that people pay taxes because the government forces them to. The entire machinery of taxation operates under a deterrence approach (e.g. Feld et al. 2006) that threatens non-compliant tax payers with audits, fines, and criminal punishment. An alternative answer holds that people pay taxes because society obliges them to. Taxes are at the heart of the social contract. They define what people owe to each other collectively. According to this civic duty approach, it is feeling of public responsibility that moves people towards tax compliance (e.g. Kirchler et al. 2008). Even in well administered and integrated societies tax evasion is common.

According to one estimate, for instance, the 28 member states of the European Union lose 864 billion Euros in annual tax revenues to tax evasion (Murphy 2012). The significance of this study is therefore to let the government understand the main issues that are playing their role in motivating or demotivating the potential tax payers to evade or compliance tax. The study is also significant as it also recommends a concrete marketing mix model through which government agencies can take inputs on short-term and long-term strategies for different segments of citizens and also understand how the concepts of marketing can boost the financial performance.

Review of Literature

Private sector organizations in India understand the importance of motivation. However public sector organizations are not utilizing marketing strategies that influence an individual behaviour in full zeal to create a favourable image of an organization in the mind of an individual. Public sector organizations including organizations that are associated with the collection of taxes need to understand the importance of extrinsic motivation to enhance the tax morale of tax payer (Buelens, 2007; Roth, 1989).

Tax is the price for government services and this price must be associated and justified by the government services. If the price is high and product or service is poor the result will always be negative motivation and unacceptability of product (Peter, 1999). The problem with organizations related with the collection of taxes is that



they cannot properly market taxation. Marketing and advertising strategies of FBR in Pakistan are usually based on threatening the tax payers to pay tax, rather than justifying tax and adding value to the tax through appropriate marketing strategies. Different studies found that the tax morale is higher in the countries where people understand the taxation system, and are sure of its just utilization (Saeed, 2011). Associating customer service as an appropriate marketing strategy that could affect tax morale Coleman (1996), concluded that enhancing customer services related to tax, provide proper information to the tax payers and make the documents easy to understand results in increased volunteer tax filing. Similarly advertising related to create awareness about tax is associated with tax morale through different studies, where tax is associated with the duty of a citizen as a countryman in advertising messages (Ottone, 2015; Luttmer, 2014). Togler et al. (2007) provided a review of the early literature that considered various theoretical considerations including an altruistic approach (e.g. Chung 1976), the Kantian morality approach (see Laffont 1975, Sugden 1984), and social customs (Gordon 1989, Akerlof 1980, Naylor 1989, Myles and Naylor 1996). Kornhauser (2007) provided a review of the next wave of literature (2000 through 2007), which further developed the theories and concepts established in the earlier literature. Her review considered the tax morale research in three major areas: cognitive and affective processes (see e.g. Kahan and Braman, 2005; Cullis et al., 2000; Hansen, 2003), social norms and personal values/norms (see e.g. Kolstad, 2007; Fehr and Fischbacher, 2004; Mazar and Ariely, 2006) and demographic factors (see e.g. McGee and Tyler, 2006; Togler, 2003 and 2006; Hasseldine and Hite, 2003)

Research Methodology: 300 respondents have been considered for this research study out of which 225 are non-default tax payers and 75 are tax defaulters.

Segmentation of Tax Payers

1. Duration of Ownership
2. Annual Tax amount payable
3. Type of Property

In our study we divided the taxpayers (t.p) into 3 segments based on ownership duration.

Duration of Ownership (Years)	Number of Respondents
0-5	56
5-15	64
15-above	105

Segmentation of Tax Payers Based on Tax Amount Payable

Tax Amount Payable (Rupees)	Number of Respondents
Less than 5000	87
5000-15000	79
15000-above	59

Segmentation Based on Type of Property

Type of Property	Number of Respondents
Self-Occupied Property	76
Rented property	77
Commercial property	71

Segmentation of Tax Defaulters

1. Default tenure
2. Type of Property

Segmentation Based on Default Tenure

Default Tenure(years)	Number of Respondents
1-2	37
2-4	24
4-above	14

Segmentation Based on Type of Property

Type of Property	Number of Respondents
Self-Occupied	28
Rented	31
Commercial	16

The respondents were interviewed and asked to fill the questionnaire. The following questions were asked in the questionnaire

1. Age of Respondent
18-25 26-40 41-above
2. Sex of the Respondent
Male Female Other Private
3. Education of Respondent
None-10th 10th-12th 12th-bachelors bachelors-above
4. Employment
Private Employee Government Employee Business None
5. Awareness level scale from 0-5
a) tax pricing
b) utilization of revenue
c) Digital means of communication
6. Present Mode of Payment
Offline online both
7. Preferred mode of Payment
Offline online both Tax Collector
8. Would you Pay Taxes if you are not legally obliged?
Yes, No Can't say
9. Factors that motivate you to pay taxes on a scale of 0-5
1.coercive power
2 legal bounding
3. rewards
4.social responsibility
5.moral obligation.
10. Service Satisfaction on a scale of 0-10

Research Findings

1. Out of 225 tax payers and 75 tax defaulters 22 and 8 were skewed respectively. We finally Considered 200 tax payers and 65 tax defaulters for our analysis.
2. Surprisingly, we observed that 25-35 age group citizens preferred to pay taxes the least and above 40 age group preferred the highest. 67.34 % of the tax defaulters were between 25-35
3. Among the 56 responses 68% of the tax defaulters were female Ironically 90 %(approx.) of those properties were commercial or rented properties, indicating that other social factors such as family inherited property, financial dependence on husbands may still be evident.
4. We observed that literacy rate is not the primary reason for non-compliance of taxes as commonly thought. Infact there is only a very minor positive correlation between tax compliance and education.
5. As the ownership duration increases from 0-5 to 5-15 years the tax compliance deceases by 18% but increases from 5-15 to 15-above years by 12.8%.

6. Though it might appear strange, as the amount of tax payable increased the tax compliance increased almost exponentially probably because higher tax amounts imply higher probability of the property being a commercial entity, thus a source of income so, the due tax was promptly paid.
7. The mean awareness level about pricing mechanism and decisions of property taxation system is only 1 and upon further enquiry they only knew that as rental value increases the tax increases. Infact only 2 people could briefly explain about the system.
8. The mean awareness level about the utilization of tax collected for the previous financial year was 0.3, indicating the fact that citizens are completely unaware of how their tax money is being spent.
9. The mean awareness level about the means of communications is 3.7 which indicates moderate awareness about the app, grievance redressal. 37 People who used social media to complain received 98% response rate from the officials.
10. Though 96% of the owners paying above 15000 strongly support an online mode of payment, 63% of the owners paying below 5000 prefer the old tax collection method of tax collectors.
11. Particularly female respondents paid taxes through online mode and preferred only online mode of payment.
12. 34%,45%,21% of the respondents answered the question of would you pay tax if you are not legally bound with a yes, can't say, no respectively.
13. On a scale of 0-5 the mean level of motivation for the below mentioned factors is as follows:
 1. Coercive power – 3.6
 2. Legal Bounding – 3.22
 3. Rewards system – 3.94
 4. Social Responsibility – 4.27
 5. Moral Obligation – 2.9

Perceived Problem Statements

One major drawback in the present marketing campaign is that it has more or so only been a promotional campaign not a complete marketing campaign involving all the 4 P'S of marketing. Even in the promotional campaign the previous marketers have followed a deterrence approach which in terms of theoretical concepts of marketing is used as a last thread for transactional selling. But what they failed to realize is that tax payers are like long-term customers for the authorities and long term marketing can only sustain with enhancement of relations and provision of value added benefits model .

Recommendations From This Research Study

Proposed Marketing Strategies For Enhancing Tax Moral: They must be divided into short time and long term strategies. Each strategy can only be implemented to specific cluster of tax defaulters and for each class of defaulter we must pertain with a different strategy.

Short Term Strategies

Informing The Tax Defaulters Through The On – Field Workers Not Through Tax Inspectors

1. This project needs to be taken on a pilot basis.
2. On-Field workers are incentivized with 10% of the tax collected
3. This will emerge as a guilt-based motivation for tax defaulters
4. This can be only implemented to defaulters who have not paid taxes since 2-3 years.

Decentralized Messaging System

1. we will need to segment the tax defaulters locality based and have tax defaulters list for every 100 buildings.
2. bulk SMS for all the 100 buildings will be sent stating the names and house numbers of all long term defaulters in those 100 buildings.
3. This will more act like shaming tax defaulters not just personally and also not on a very large but strategically placed platform.

Pamphlets for low tax compliance zones

1. Localities where tax payer percentage is less than 30% we put in a pamphlet stating that it has been a hindrance for development of their own locality
2. We must also provide a grievance redressal number in case of any major complaints to be registered for non-compliance.

Long Term Strategies

All through The year SMS campaign

Bulk messaging campaign on how the tax payers amount is being spent for the welfare and development of their particular circle need to provided every month and a feedback link needs to be provided on their satisfaction levels with the service provided.

Dynamically Active Customer Grievance Redressal System

1. Complaint must be registered and thee has to be a follow -up on the complaint registered after 72 hours on complaint through an automated system .
2. Incentivizing feedback receivers based on no.of issues resolved within the stipulated time(72 hours).
3. In the SMS itself that is being sent we must stress on a functioning system of grievance redressal.

Incentivizing Tax collectors and Inspectors

1. We ought to have a thresh-hold point after which we should incentivize both financially and socially based on no.of properties brought under the Tax Net.
2. All the Tax Collectors need to be incentivized as well as severely punished if any complaints are received from the feedback taken through SMS immediately of payment of taxes.

Have An Emotionally Connecting Mass-Media Campaign

The deterrent approach has to be replaced with a civic duty approach where customers through your campaigns need to have a long lasting positive impression on the utilization of tax-payers money.

1. one approach would be a video stating how difficult is it for low -level on field workers working in sewage ,garbage recycle departments and their tax money filling their empty pockets.
2. video as well on how are taxes are generally utilized which has never been trailed by any government in India.

Forming a Social Brigade

Like the system being followed by our very own traffic police where any person who provides us information about un-assessed propertied is heavily incentivized and his identity is maintained a secret. This way people who evade taxes will start fearing because tax inspectors may be bribed but they cannot determine who has complained as anyone wanting to earn few bucks might provide the information to tax authorities.

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