Mist Over a Meadow: Tax Designation Effects on Compliance *

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Abstract

Tax designation has been a popular attribute of the tax plans in a rising number of countries, yet evidence of its effects on tax compliance remains scarce. We conduct an online experiment with 830 Czech taxpayers who are self-employed or regular employees. Our approach mimics the actual tax designation mechanism: it allows subjects to express their preferences for how a part of their taxes is used by redirecting some of the money to a non-governmental organization (NGO). We exogenously vary the presence of the tax designation mechanism, the possibility to choose the recipient NGO from a list, the tax rate, and the use of tax revenues. We find no consistent significant effects of the tax designation mechanism on overall compliance, though for employees, we do find a small effect on the probability of them being fully compliant. This result complements previous findings of experiments with students, who, like employees, also do not personally file their tax returns. Our results imply that the tax designation mechanism does not encourage higher compliance among taxpayers with the greatest opportunities for tax evasion.

Keywords: tax-enforcement, tax compliance, online tax experiment, tax designation

JEL Classification: C91, C93, D02

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