

HOW DIFFERENT IS OPINION ABOUT THE TAX SYSTEM AMONG CITIZENS AND EXPERTS: THE CASE OF SLOVENIA

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***Abstract:** Following the tax policy priorities put forward by different theories about fostering economic growth through tax systems, different tax changes were made in last decades in different countries. In the paper, we will present research results of experts' and citizens' opinion about the tax system in Slovenia. Our survey covers citizens and three sectors of experts: academic, private and government. We wanted to find out whether all four groups agree/disagree with the statements connected to the tax system and, consequently, with changes in the field of taxation. The central thesis of this paper is that, despite the known theoretical assumptions on tax reforms that would promote economic growth, tax experts and citizens in Slovenia in general do not support such changes and are in favour of changes that are actually focused on fiscal consolidation. We also made binomial probit regressions in order to determine how values influence their opinion.*

***Key words:** experts' opinion, tax system, citizens' opinion, Slovenia*

INTRODUCTION

At the end of the year 2013 and the beginning of 2014, a survey about Slovenian tax system was conducted among different experts in Slovenia. The same survey was after send to group of citizens in May 2015. The survey followed the example of a 2013 survey conducted in the USA, which was carried out for the purpose of comparison with similar surveys in 1994 and 1934 (NTA, 2013, Lim et al., 2013, Slemrod, 1995), and a survey in Croatia (Šimović et al., 2014). We tried to research several issues: is there any difference in experts' and citizens' opinions? Do both groups approve tax changes in the direction which according to some research promote economic growth? And if their values influence their opinion.

The growing economic crisis has resulted in a range of reforms, and tax system is no exception. As part of the Europe 2020 Strategy, the European Commission has decided to report on and propose measures to increase economic growth

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using the Annual Growth Survey. Consequently, at the end of 2012, the European Commission proposed that the following taxation measures be implemented in 2013: shifting the tax burden away from labour, broadening the tax bases, improving tax compliance and reducing company debts as a result of corporate income tax (European Commission, 2013). Special recommendations for Slovenia for the years 2011–2013 did not include measures in the field of taxation (Council of the European Union, 2013). Regardless of the recommendations for Slovenia, in the past three years, the country has begun to implement a number of changes, including the field of taxation, which do not necessarily comply with the recommendations of the 2012 Annual Growth Survey.

In the paper we wanted to evaluate experts' and citizens' opinion and their view on recent tax changes. To answer the questions mentioned above we present some results from the survey on selected statements. The paper is structured as follows: after the introduction, a short literature review is presented. Afterwards, we present methodology of the research conducted among tax professionals and citizens. The following sections present the research results. The paper concludes with final remarks and discussion.

LITERATURE REVIEW

There are several opinion surveys adopted by researchers on general opinion or on selected issues in taxation (i.e. Behrens, 1973; Dornstein, 1987; Ashworth and Heyndels, 1997; Kirchler, 1999; Petersen et al., 2000; McGowan, 2000; Murphy, 2004; McCabe and Stream, 2006; Hammar et al., 2008; Campbell, 2009; Ventry, 2011; Hulse, 2012; Sanandaji and Wallace, 2014, The free library, 2014, Borrego et al., 2015). In the most cases surveys focus on special issues, like taxing labour, companies etc. There are some general opinions on tax systems, but in most cases the surveys did not cover each tax separately. The main results of the mentioned surveys showed that experts usually did not reach consensus on tax policy, that there are some political and other determinants that can influence the opinion etc.

As mentioned before, we have chosen a broad survey on several tax issues already used in the USA (Lim et al., 2013) and Croatia (Šimović et al., 2014). At the same time as in Slovenia the similar survey was done in Bosnia and Hercegovina. The survey of that kind is the first one in Slovenia and therefore of great contribution in the field. Since we used similar methodology in the future comparisons in the region on different tax issues can be discussed.

METHODOLOGY

Our survey covers three sectors of experts: academic, private and government. We wanted to find out whether all three groups agree/disagree with the statements connected to the tax system. There are a total of 92 statements, which the participants evaluated with grades out of five. The survey concluded with questions about the participants' age, education and area of work. The survey was carried out in a population that is professionally involved with the tax system. The survey was carried out from December 2013 to April 2014 among three groups: employees at the Ministry of Finance (including the Tax Administration and Customs Administration), tax consultants and academics in the field of finance and economics. The academics and tax consultants were sent the survey using e-mail addresses available on the websites of various faculties and institutes or in the business register. The survey was sent to a total of 53 academics and 300 tax consultants. The employees at the Ministry of Finance were forwarded the survey through the managing director of the Tax Administration, the Customs Administration head office and the Ministry of Finance. The total number of recipients is therefore unknown, as it depends on how many heads of departments forwarded the survey, but the response in this group was considerable, with 101 employees filling in the survey. The response was poorest in the private sector (just 18%) and somewhat better among academics (22.6%). In total, 169 individuals responded to the survey.

In May the survey was also conducted among population. We used several web pages to promote on-line survey, in most cases those connected to daily news. Since the survey was open only a short time – two weeks- we received only 133 responses. The structure of the respondents is in accordance with total population in gender and employment status, since the income structure of respondents is a little bit higher than in total population.

We used SPSS for common statistical tests. For comparisons between both groups we used Mann-Whitney test and binominal probit regression to analyse the possible influence of values on attitudes on tax policy.

RESULTS

For better explanation of 92 statements, we divided them into several groups concerning special tax issues. If we compare the answers from both groups of respondents, we can find out that almost the same number of questions reach the consensus in both groups but not the same one. Further we will consider only those statements which reached the consensus in both groups. The first group of 13 statements concerns property taxation and eight of them reached the percentage for consensus (61%) among experts and citizens. During the survey, a very strong

debate on real estate tax in Slovenia was going on. The government announced new taxation, and public opinion was very much against the introduction of new/changed taxation. Therefore, it is interesting to note that the statement on introduction of real estate tax reached an agreement between experts (71%) and citizens (63%). At the same time, further statements indicate that the majority of answers show that some aspects of the current situation are supported (i.e. general allowance on determined size should be included also in the new tax; tax revenues thereof should remain at the local level). The highest disagreement was reached on the statement that individuals should pay higher tax than businesses (experts 94%, citizens 69%).

Personal income taxation was a topic of the next 14 statements. It is interesting that the evaluation of these statements was the most confusing. The both groups disagreed with lowering the number of tax brackets. Both groups also supported re-introduction of some to expenditure connected allowances (buying apartment or medical expenses) and both groups also support pre-filled tax returns. All together they have the same opinion only on four statements.

Statements considering business taxation were included in statements 30-41. These group of questions reached similar consensus in both groups of respondents, since all seven statements that reached consensus among experts reached it also among citizens. Citizens reached consensus in 9 questions. The conclusion is derived that nobody support further decrease of the tax rate, and at same time both groups of respondents reached high consensus for research and development allowances, as well as investment ones. It is interesting that strong support is provided for introduction of allowance for education and training of employees.

The following 11 statements were evaluating VAT. Both groups reached the same consensus only on three questions (lower rates for food and agriculture services). It is interesting that only in that group of questions experts and citizens had different opinions. On the one hand citizens would support zero rate for some goods and services, the same goes for lower rate for tourism, on the other hand experts are against. Statements 53 to 66 include different issues of excise duties. The consensus among both groups of respondents are similar at almost all statements. Most think that different excise taxes on energy and electricity should not be raised. In contrast, most think that excise taxes on tobacco products and alcohol should be increased, and that a special excise tax on unhealthy food should be introduced, but not for coffee. Considering other statements we can conclude that respondents would support a maximum base (a ceiling) for social security contributions, and tax on banks' active.

With Man Whitney test we tried to answer to our first research question. If there is any statistically significant difference among both groups of respondents. The test

showed that 50 statements ($p < 0.1$) among 92 were statistically different evaluated by both groups and 31 statements with $p < 0.001$. The main differences among both groups are not in agreement or disagreement but in the level of consensus on the statement. Nevertheless there are some statements with different opinion of two groups and at the same time statistically different. 18 statements were evaluated oppositely and with only three of them the consensus inside the group was reached (Compensation tax on using building land should remain local tax after introduction of real estate tax; Tourist and restaurant services should be taxed at lower VAT rate; The reduced VAT rate should be higher for scientific journals than for the daily press.) For all three statements experts reached the consensus with disagreement, while citizens support the statements with consensus.

To answer to the second question of our research we analyzed selected questions at the end of the survey. Most of the respondents are in favor of equity, when evaluating the traditional "equity-efficiency trade-off". This attitude is expected, taking into consideration the previous survey parts about particular taxes. Both groups reached consensus in all statements concerning the tax changes in favor of supporting economic growth. Most think that lower marginal income tax rates increase work effort and reduce leisure (63% of experts and 66% of citizens), and that such a change would increase the tax base so that the revenue lost could be compensated for (71% of experts and 66% of citizens). Also, the majority think that non-taxation of interest encourages saving (75% of experts and 87% of citizens), and respectively, that non-taxation of financial capital gains encourages investment and promotes economic growth (68% and 71% respectively).

To answer the third question, we analyzed the influence of tax equity values and general values concerning the government's role in the economy on attitudes about the tax system and policy. We used two questions as predictors (Q77 and Q91 as independent variables), which express different views of respondents concerning tax policy. The respondents who support the reduction of the entire level of public revenues (and public expenditures) expressed as the level relative to GDP, could be regarded as those advocating a smaller role of the government in the economy. On the other hand, those that claim that equity is more important than the efficiency principle (compared to those who answered negatively) support a greater role of equity, i.e. higher state intervention regarding redistributive issues. As a dummy variable we use two groups of respondents and reference variable is the group of experts. Table 1 presents the results of binomial probit regression for variables Q77 (The entire level of public revenues (and public expenditures) relative to GDP should be lowered), and Q91 (The equity principle should have precedence over the efficiency principle in creating tax policy) reflecting values in the field of taxation and variable 'group of respondents' as a dummy.

Table 1
Values and respondents opinion

	Q91 <i>The equity principle should have precedence over the efficiency principle in creating tax policy</i>	Q77 <i>The entire level of public revenues (and public expenditures) relative to GDP should be lowered</i>	Group of respondent	hi2-stat	Pseudo R2	N
Slovenia should introduce the real estate tax.	0.322 (0.357)	-0.004 (0.296)	0.062 (0.449)	2.261 [0.894]	0.018	93
Taxation should include other forms of property, too (movable property, financial property, etc.), i.e. should be a synthetic taxation of property (net wealth tax).	0.353 (0.386)	0.176 (0.291)	0.144 (0.393)	6.066 [0.532]	0.045	100
Compensation tax on using building land should remain local tax after introduction of real estate tax.	0.652 (0.424)	0.36 (0.29)	0.988** (0.393)	24.156 [0.001]	0.162	107
Property is a necessary additional indicator of the ability to pay besides income.	0.265 (0.375)	1*** (0.306)	1.026** (0.464)	24.514 [0.001]	0.202	103
Instead of more PIT rates, only one rate should be introduced (a flat tax) along with maintaining personal exemption.	0.121 (0.401)	0.108 (0.325)	0.072 (0.453)	9.327 [0.23]	0.06	99

Tax allowances for donations should be re-introduced instead of the possibility to re-direct personal income tax revenues.	0.978** (0.407)	-0.271 (0.313)	0.013 (0.376)	7.197 [0.303]	0.064	93
All sources of income inside PIT should be taxed in the same way (at statutory rates or at flat rate).	0.465 (0.409)	0.163 (0.295)	0.177 (0.375)	6.729 [0.458]	0.06	99
Capital incomes should be taxed at lower rates than other incomes.	-0.306 (0.393)	-0.269 (0.318)	-0.062 (0.376)	11.528 [0.117]	0.091	92
Dividends should be taxed at lower rates than other incomes.	0.084 (0.388)	-0.267 (0.313)	0.556 (0.371)	15.44 [0.031]	0.153	99
CIT (general) rate should be reduced.	0.23 (0.392)	-0.238 (0.305)	-0.195 (0.384)	3.022 [0.883]	0.025	90
CIT burden for SMEs should be reduced.	0.392 (0.358)	0.107 (0.299)	0.345 (0.389)	3.572 [0.828]	0.039	90
Re-invested profits should be exempt from taxation.	0.621 (0.403)	-0.119 (0.304)	-0.387 (0.501)	4.992 [0.661]	0.06	92
Tax incentives for investment should be maintained.	0.023 (0.504)	0.717** (0.362)	-0.031 (0.411)	12.537 [0.084]	0.183	99
There should be only one VAT rate.	-0.676 (0.455)	1.135** (0.454)	1.061*** (0.411)	16.752 [0.019]	0.235	107
A special tax on "junk food" should be introduced.	-0.098 (0.37)	0.232 (0.299)	0.381 (0.383)	3.135 [0.872]	0.027	93
The ceiling for pension insurance contributions should be introduced.	0.106 (0.379)	0.491 (0.344)	-0.609 (0.449)	19.221 [0.008]	0.175	90

A financial transaction tax is justified special tax.	-0.172 (0.415)	0.466 (0.323)	-0.606 (0.433)	19.094 [0.008]	0.178	84
Tax on banks balance sheet assets is justified special tax.	0.909** (0.429)	-0.281 (0.358)	-0.393 (0.492)	9.691 [0.207]	0.099	78
General government should be financed less from taxes and more from different non-tax revenues (with an emphasis on different user charges).	0.886** (0.402)	0.921** (0.409)	0.451 (0.588)	10.875 [0.092]	0.17	95
Penalties for tax evasion should be increased.	-0.484 (0.429)	-0.041 (0.309)	0.27 (0.429)	10.922 [0.142]	0.109	94

Notes: Robust standard errors are in parenthesis. The p -values of the χ^2 are in brackets. Other regressors include indicators of sector of employment, age and education.

Wald χ^2 tests the hypothesis that at least one of the regression coefficients is not equal to zero.

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Source: Authors' calculation.

Results of the analysis imply relatively inconsistent attitudes of Slovenian tax experts and citizens. For the majority of observed models, representatives of both groups of values have almost similar preferences. The differences are visible in bank taxation, financial taxation, dividend taxation and corporate income taxation. Furthermore, Q77 is a more significant predictor than Q91, which could imply that general government burden is the dominant value in shaping tax attitudes for most of the respondents. We expected that more liberal tax experts, i.e. those who answered Q77 positively, compared to those who are "less" liberal (who answered Q77 negatively), would prefer to decrease most of the taxation and would devote less attention to equity principle. The results showed that this was not fulfilled in several cases.

Influence of the group of respondents was statistically significant only for three statements (Compensation tax on using building land should remain local tax after introduction of real estate tax.; Property is a necessary additional indicator of the ability to pay besides income; There should be only one VAT rate.). All three statements citizens support more than group of experts.

DISCUSSION AND CONCLUSION

Research results imply that there is no high and broad consensus on tax policy among Slovenians, which is also evident in Slovenian practice. In most cases, tax changes in Slovenia were made soon after political changes in the country, which was quite often in the past four years. It is also important to note that consensus was in most cases low, or not reached at two groups of questions: those that are frequently debated in public (i.e. increase of VAT), or those that are never an issue in public debates (tax incidence). Surprisingly, most of the respondents think that different tax incentives influence economic growth, but at the same time, in most cases, they do not agree with lower taxation on labour. It is interesting that in most cases experts have the same opinion about tax policy as citizens, with very few exemptions. At the same time consensus among both groups are quite different, since one group supported selected statements much more than other. When we compare both groups we also found out that 'more complicated' statements did not reach consensus among citizens, probably because they are not familiar with the issue.

A relatively low level of consensus is probably also the reason for greater inconsistency and lesser importance of predictors we used in probit regression. Unfortunately, this also leads to inconsistent decisions in practice. For better conclusion greater samples would probably improve our research results, specially those from tax advisor group and citizens. It would be also better if we did not use 5-grade evaluation, since neutral answers would be omitted and therefore higher N would be reached.

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