"Cosy Deals", Social Media and Tax Morale

Lynne Oats & Diana Onu
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Introduction

Compliance is central to effective tax administration, and creating an environment in which voluntary compliance is the norm requires considerable on-going effort on the part of tax authorities. Much of what we know about taxpayer compliance and morale emanates from psychology or economics which both draw on frameworks developed over a number of years, and frequently based on assumptions about incentives and motivations that have largely universal application. Yet differences in observed compliance levels across jurisdictions persist, and we are not yet at the point at which we can say we fully understand compliance behaviour, indeed most likely we will never reach that point.

Largely missing from many accounts of taxpayer compliance, or non-compliance, however is 'the social', that is, recognition that paying tax is not only an economic activity but also a profoundly social activity. Also missing is recognition of significant recent changes in the way in which information about tax compliance is communicated within society, in particular the advent of digital social media.

In the UK, the much documented publicity surrounding tax avoidance behaviour, not only of multinationals, but also high profile individuals, has generated disquiet, as have allegations of preferential treatment by Her Majesty's Revenue and Customs (HMRC) of large taxpayers portrayed in terms of 'cosy deals'. How do citizens come to know about and then make sense of these issues? How do they share knowledge and opinions to create consensus around what is 'right'? Can, the tax authority control, or at least contain, the public view of tax compliance?

This paper addresses some of these issues by reference to recent studies in tax compliance, social media and social protest. It begins by observing some recent incidents in the UK that have brought tax avoidance into the public domain to an unprecedented extent. The following section explores the implications of social media, its role in social protests and the potential impact on tax morale. There follows a brief description of two studies of tax compliance and social media, and some reflections on the use of social media by tax administrations.

'Cosy' deals

The phrase 'cosy deals', or sometimes 'sweetheart deals', began to be mobilised in the UK as early as 2010, when the press began to report on two instances of

settlements between HMRC and named large companies. In July 2010, the Daily Telegraph reported the settlement of a long running dispute between Vodafone and HMRC. The BBC news[1] quoted Campaigner, Ed Brompton, as saying 'This money - £6bn – could be spent on schools, housing and hospitals'. Also reported was an HMRC spokesman who said

> "We can't comment on the details of the settlement but we can confirm that it was reached by HMRC following a rigorous examination of the facts. It was agreed that Vodafone's liability was £1.25bn and at no point was the liability greater than that. There is no question of Vodafone having a liability of £6bn. That number is an urban myth".

In 2011, it was the turn of Goldman Sachs to attract media attention. An HMRC whistle-blower, Osita Mba, former HMRC solicitor, released details of the arrangement into the public domain indicating that HMRC had agreed to 'forgive' the bank £10m of interest accrued in relation to a long running dispute over a failed employee benefit trust tax avoidance arrangement (see Mba 2012).

Concern about the 'deals' was not restricted to the media and tax campaigners, and following investigation the UK Parliament's Public Accounts Committee (PAC) accused HMRC of having too close a relationship with big business, in its report published in October 2011 (House of Commons (2011).

In December 2011, UK Uncut, a grass roots activist movement, announced its intention to seek judicial review of the agreement between HMRC and Goldman Sachs. The UK Uncut Legal Action[2] claimed the deal was unlawful and in breach of HMRC guidelines. A spokesperson said "We are taking this case forward to get this deal declared unlawful in the High Court so that HMRC is no longer under the misapprehension that it is either legally, nor politically acceptable to let bug business off paying the tax they owe." Ultimately they were unsuccessful, and at the same time, in the wake of the PAC hearing and report, the National Audit Office reviewed five 'deals' with large companies, including Goldman Sachs, and concluded that the settlements were reasonable, although not without some criticism of HMRC. The case raised a number of issues, including the standing of a public interest group to seek judicial review. The focus of this paper is not, however, such issues, but rather the impact of their public airing in terms of 'public response'[3] (see below).

By 2012, UK Uncut had turned its attention to Starbucks in the wake of accusations of tax avoidance on a large scale by the media and the PAC, and a number of protests at Starbucks outlets were reported throughout the UK. The summer of 2012 also brought to the pubic gaze revelations of participation in tax avoidance schemes by some high profile celebrities. One such celebrity was British comedian Jimmy Carr, who participated in a particular tax avoidance

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[1] http://www.bbc.co.uk/news/business-11658950

[2] http://ukuncutlegalaction.org.uk/2013/04/hmrc-in-the-high-court-over-goldman-sachs-sweetheart-tax-deal/

[3] see James (2012) for an analysis of the UK Uncut challenge.

scheme dubbed K2. The BBC news reported[4] that Jimmy Carr, who had used the scheme to shelter income from UK tax using an offshore vehicle, made a statement on Twitter that he was no longer involved in the scheme. Carr said he:

> "met with a financial advisor and he said to me 'Do you want to pay less tax? Its totally legal. I said yes. I now realise I've made a terrible error of judgement… I am no longer involved in it and will in future conduct my financial affairs much more responsibly. Apologies to everyone."

The UK Prime Minister, David Cameron saw fit to comment on the Jimmy Carr case, using the phrase 'morally wrong'. Also on the BBC News website, a spokeswoman from the Prime Minister's office is reported as saying 'HMRC are working hard to investigate the sort of scheme that Jimmy Carr had been reported to be involved in to ensure that they are not aggressively avoiding tax, and if they are, they are closed down."

The rapid diffusion of comment and opinion in relation to each of these stories is largely facilitated by social media, to which the paper now turns.

Social media

There is consensus that social media are dramatically changing relationships between individuals, and between individuals and society. 'The media that flows over digital social networks offers individuals and communities opportunities to communicate with broad global reach as well as with personal intimacy. For the first time, people can 'see each others' worlds across previously socially defined boundaries, one to one across time and space, or one to millions.' (Lewis et al 2010). The OECD (2011) quotes from Li & Bernoff (2008) who remind us that understanding the technologies used in social media will not be enough to equip us for the 'new world'. Indeed, they note that not only are the technologies rapidly changing but they are not actually the point; we should concentrate on the relationships created by the technologies and not the technologies in themselves.

Technology more broadly, but social media in particular has contributed to the emergence of 'new kinds of social relationships and a host of new activities and practices' (Wajcman 2009). According to Aula (2010), 'social media is characterised by interactivity – participants freely send, receive and process content for use by others'. Importantly social media content cannot be controlled and the content cannot be managed. For organisations; not just taxpayer organisations such as those mentioned earlier, but also tax authorities, this leads to a new dimension of reputation risk. In social media, users generate substantial amounts of unverified information and is capable of fuelling 'new expectations or beliefs about organisations to which organisations should respond. Aula notes that reputation risk arises not only in the observations of

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[4] http://www.bbc.co.uk/news/uk-politics-18531008

others, but also from how organisations manage their own communications, including reactions to allegations in social media.

An important element of social media is its capacity to create a collective truth. 'Users create and search for information, gain knowledge and make interpretations.… Once they have built a picture, they share it with others and the subjective truth turns into a collective truth about what an organisation is and what it should be' (Aula, 2010). Which makes it a powerful tool for social protest movements and the formation of public opinion.

Social protests and public opinion

Social media is changing the face of global activism also. Garret (2006) reviews the academic literature discussing the role of new information technologies in social movements, which have long been the subject of scholarly inquiry in sociology, anthropology and political science amongst other disciplines. He notes that 'activists have devised numerous ways to use these technologies for mobilizing, realizing new political opportunities, and shaping the language in which movements are discussed". This latter feature can be observed in the UK over the past five years when new ways of talking about tax avoidance have emerged for example 'tax dodging'.

The UK Uncut protests[5] began in October 2010 targeting Vodafone in the wake of the revelations of a 'cosy' deal discussed above. UK Uncut is a grass roots organisation "made up of the people who take part in actions… We are you. We are ordinary people standing up (or sitting in) for what we believe in".[6] The UK Uncut website further reports that since 2010 "there have been over 800 UK Uncut actions all over the country". The organisation makes extensive use of social media to generate interest and organise protests, including website, blogs and Twitter.

Another important social protest movement that has come to the fore in recent years is the Occupy movement. There have been more than a thousand Occupy protests around the world, which as Juris (2012) notes 'is testament to the viral circulation of protest in an era of social media'. In an ethnographic study of Occupy Boston, Juris further posits that social media such as Facebook, YouTube and especially twitter were particularly important during the initial mobilisation phase of Occupy and argues that social media allows for a logic of aggregation whereby individuals from diverse backgrounds can assemble in physical spaces, by way of extension to the traditional logic of networking associated with social protest movements. He suggests that the participation of large numbers of people not previously politically active is a consequence of 'the ability of social media to reach far beyond traditional activist circles'.

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[5] See Christians (2012) for a discussion.
[6] http://www.ukuncut.org.uk/about/

Notwithstanding the increasing fluidity and speed of transmission of opinion and knowledge (truthful and otherwise), care is needed when considering the question of 'public' opinion and how pervasive or otherwise it may be. Within management studies, but drawing on mass communication theory, Clemente & Roulet (2015) highlight the way in which a 'spiral of silence' can lead to an apparently homogeneous public opinion. The theory of the spiral of silence was developed in the 1970s as a way of understanding how people are less and less likely to express a view when the believe themselves to be in the minority. The voice of the majority becomes progressively stronger in the absence of challenge until 'public opinion' is achieved.

The combination of the accelerated success of social protest movements, empowered by the use of social media and the spiral of silence in the process of creating 'public' opinion, has serious implications for social perceptions of tax compliance of both selves and others.

Wither Tax Morale

All of which leads to the question of how tax morale has been or can be affected by the rise and rise of social media. Academic research into tax compliance has a long history, although the vast majority of such work is firmly entrenched in a positivist research paradigm using surveys, experiments and mathematical manipulations. While early scholarship largely took the view that tax compliance decisions are rational and that taxpayers are amendable to deterrence strategies, more recently we have seen growing recognition of other, non-rational, factors at play in compliance decisions, albeit with a continued focus on the binary decision of comply/not comply. Tax morale is defined by the OECD (Daude, Gutierrez and Melguizo) as "the motivation of a country's citizens to paying taxes, in addition to legal obligations" (2012, p.9). It has become a collective term for those unquantifiable influences which may affect an individual's tax compliance and includes political, cultural and personal influences such as a sense of what is morally right, integrity, selflessness, social norms, trust in the government/tax authority, levels of democracy and a sense of fairness or justice. These factors are all interrelated and appear to be amenable to manipulation.

The 'slippery slope framework'(Kirchler et al 2008) attempts to reconcile multiple theories, balancing the audit and punishment capabilities of the government with public trust in order to explain different levels of compliance. Numerous studies supporting the idea that a strong sense of morality or, as put by Wenzel, "personal norms" have a significant impact on the tax compliance of those who make individual tax returns (2002, p. 224). Social norms' can also have a profound effect on the behaviour of individuals who seek to either align, or distance themselves, with certain social groups by acting in a particular way (Oats & Onu 2015a; Wenzel, 2002).

An important strand of research concerning the make-up of tax morale focuses on fairness, or equity, recognising three main types: 'vertical refers to the differential treatment of taxpayers by the government; 'horizontal refers to how the interactions of taxpayers with one another can result in a sense of injustice, thus a change in opinion and behaviour (Bazart and Bonein, 2013); and finally, 'exchange, the

perceived fairness of what one receives in the form of public services, in return for the tax burden one must assume (Kirchler, 2007).

There is also considerable evidence that trust affects compliance: Gangl et al. identified different tax climates, whereby the presence of trust reduced the need for power (2012); Wahl et al. (2010) found that trust increases voluntary tax compliance through experimenting on tax returns under different climates; Lisi (2012) and Kogler et al. (2013) also found trust increases voluntary compliance, moreover trust was found to affect the perceptions of retributive and distributive justice.

In a social climate in which public opinions are formed and influenced by social media, it is reasonable to expect that it will have an impact on tax morale, and consequently compliance behaviour, although it is conceded that the link between expressed views and actual behaviour is not well understood empirically.

Some studies: Tax issues and social media

Two studies are presented here as examples of work that adopts a different approach to analysing tax compliance; drawing on empirical evidence from social media. Analysis of organically generated comments posted on the internet has several advantages over traditional methods using surveys and experiments. The data is naturally occurring and not elicited by researchers; described by Robinson (2001: 706) as 'naturalistic, revelatory and authentic'. This is not to say, however, that internet data sources are without limitations. The anonymity of commentators precludes analysis by demographic features and therefore representativeness of samples can be difficult to ascertain. It is also possible that aliases are used to express false opinions or misleading information.

In the first study, notwithstanding these limitations, Lay et al analyse data extracted from news website comments reflecting public opinion on tax avoidance immediately after the Jimmy Carr story broke into the news in June-July 2012. Three news sources are analysed to reflect a diversity of political background. In addition, Twitter comments are used as an additional source of data to widen the scope of commentators. A thematic analysis (Braun & Clark, 2006) is used drawing on the tax morale literature in order to identify and categorise discussions of tax avoidance.

Themes identified inlcude tax avoidance as:
1. an issue of right or wrong, exploring public comments voicing opinions as to whether tax avoidance (as described in the relevant news articles) is acceptable. The most frequent opinion here was that Jimmy Carr should repay what he has avoided.
2. an issue of fairness, frequent references to the divide between wealthy and others
3. a political issue – blaming politicians for avoidance, express lack of trust in politicians and remark on hypocrisy of politicians.

Those who find tax avoidance unproblematic see taxes as wasted, hence removing the obligation to pay them. These opinions corroborate that exchange equity (Alm, Kirchler and Muehlbacher, 2012) and trust in the government affect tax compliance. The extracts gathered extensively question the integrity of the government and of

individual politicians in relation to tax avoidance. Therefore, according to the slippery slope framework one would expect voluntary compliance to suffer and those who have the opportunity to avoid paying tax to do so (Kirchler at al., 2008).

The dynamic between taxpayer and authorities may approach a 'confidence climate' based on implicit trust as identified by Gangl et al. (2012), this could be achieved through increased retributive justice (Wenzel 2002), justice which is only attainable if the laws are changed.

The analysis suggests that public debates about tax avoidance is contributing to the increasing divide between different groups in society as well as the disillusionment of the public with politicians.

The second study (Onu and Oats 2105b) is of naturally occurring online discussions on an online forums for particular occupational groups. Taxpayers' communication with each other can alter the perceived strength of social norms, prevalence of evasion, knowledge of laws, sanctions and audit probability, as well as perceptions of fairness. As noted earlier, prior research has placed considerable emphasis on deterrence factors. This study sought to explore some of the assumptions underpinning previous tax compliance research. By focussing on particular occupational groups, who are likely to interact and exchange information on a regular basis, this study follows up on prior work that suggests that occupational sub-cultures exist (eg Ashby, Webley & Haslam 2009). All of the data used in the study is publicly available. The authors used discourse analysis and conversation analysis, ie analysing how people use communication to perform certain social actions; concerned not only with what people say, but also the consequences of the communication for the social interaction between them.

By way of example, one potential taxpayer asks a question about income tax online:
- "I have been doing design competitions now on websites and have built up quite a nice amount of money. But my dad is [...] saying that I really need to stop or the IRS will come after me".

In this example, the father does more than just convey information (that the IRS will audit his son), he uses language to persuade his son to perform a certain action ('stop it') and to issue a warning ('the IRS will come after [you]'). Discourse analysis does not stop at analyzing what is communicated, but is concerned with what people do through communication, and how they attempt and succeed in influencing others. This study uses conversation analysis that looks at interactions between statements.

The majority of the comments referred to the tax rules and comprised either:
- making sense of the rules, including trying to understand the logic behind the rules (I have ABSOLUTELY no clue when it comes to this sort of thing, I take it I have to register with [the tax authority] who will advise what I owe them. Can you guys give ANY advice on the matter or refer me to any books or articles.); and

- negotiation, which comprised discussing using the rules to pay less tax (Do I still have to pay the tax on work that I've picked up from overseas? Thinking if there is any clause whereby I can avoid paying as much tax (hope!)).

In addition, the study looked at persuasive communications, and also responses to such persuasive appeals. The most defiant responses were found to occur when people were threatened by the coercive power of tax authorities, but more amenable responses are observed to more subtle forms of influence. Of course the conversations analysed may not be indicative of actual behavior, any more so than surveys or experiments, but they do highlight the potential for persuasive messaging that could be used in media compliance campaigns.

The conclusions of this second study are that, contrary to the assumptions underpinning much tax compliance research, compliance is not a binary variable but rather is much more complex; the taxpayer and tax authority are not the only actors, indeed professional groups, friends, family and tax practitioners play a role; taxpayers seldom discuss audit probability and penalty rates; and finally that some taxpayers base their decisions on social norms.

Analysis of naturally occurring data as demonstrated by these studies, has potential to strengthen our understanding of tax compliance, providing new insights and opportunities for creating more nuanced surveys and experiments.

Use of social media by tax administrations

Having considered the role of social media in diffusing and stabilising public opinion on questions of attitudes towards tax compliance and importantly, tax avoidance, the remaining issue for consideration is the current and potential use of social media by tax authorities; the other side of the coin.

A recent task force of the OECD Forum on Tax Administration Taxpayer Services Sub Group undertook a study of practices in member countries in relation to the use of social media. The results were published in October 2011 as an information note [7]. The study examines the potential for social media technologies to be used to the benefit of both the tax agency and the taxpayer population. The report notes that (as of 2010) use of social media technologies varies among countries, with Japan, Korea and North America using blogs more than the rest of the world, but that mapping regional differences is not helpful given the rapidly changing environment. Apart from more familiar technologies such as blogs, twitter, Facebook etc, the report also describes the potential for co-creation based on the idea that public sector innovation should go beyond merely asking citizens for ideas by involving them in exploring prototype solutions. One specific method here is crowdsourcing, which entails outsourcing tasks through an open call to an undefined community. In Denmark, for example, Mindlab [8] is a cross ministerial innovation unit that engages citizens to

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[7] http://www.oecd.org/tax/administration/48870427.pdf
[8] http://mind-lab.dk/en/

participate in 'developing new solutions for the public sector'[9]. An example of the work includes testing mobile devices for doing tax returns.

In Finland, an innovative approach to providing help for taxpayers was introduced in 2010 in support of the strategy to provide proactive guidance. The service is delivered on the largest Finnish online discussion forum and customers can ask questions 24/7 anonymously. The result was significant savings and 97% of questions answered within one working day. In New Zealand, social media has been used for policy consultation, providing access to the process for users who were unlikely to participate using conventional channels.

Reported downsides of social media use for tax authorities including the ongoing support and monitoring requirements (Norway), and in the case of the UK negative feedback about our services and criticism of tax policies through social media channels. Risks identified include breaches of security, involvement in political content and exchanges and risks of phishing, spoofing and other malicious attacks.

Conclusion

Digital social media such as Twitter, Facebook, YouTube and more specific online forums are a powerful force in modern society, allowing for the co-production of meaning across diverse populations and cutting across traditional social barriers. The OECD (2011) report observes that 'social media technologies can be a powerful ally or a formidable adversary to all established organisations or regimes that rely on public image or communications'.

In the tax sphere social media facilitates rapid diffusion of intelligence, fuelled by a time constrained journalistic field with the power to sensationalise otherwise trivial events. For the tax authority, the online environment provides a collection point to gather intelligence as to what taxpayers find difficult to understand about their tax obligations and explanations, often from peers, that taxpayers find helpful. The online environment has also, however, been used to mobilise protest about the tax system and the manner in which it is administered.

As a double edged sword, therefore, digital social media provides an opportunity to foster compliance by providing intelligence that can be used to inform tax authority messaging. It also provides an opportunity for the spread of misinformation to the detriment of tax morale, potentially undermining tax authority efforts to improve compliance.

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[9] http://www.opengovguide.com/country-examples/denmarks-mindlab-involves-citizens-and-business-in-developing-new-solutions-for-the-public-sector/

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