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## A Literature Review on Tax Compliance

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### Abstract

Tax compliance is a multidimensional concept that refers to the behavior of individuals and institutions to fulfill their tax obligations by legal regulations. The literature emphasizes that tax compliance is influenced by factors such as social norms, ethical values, and trust in the state, as well as individuals' decisions based on economic rationality. This study evaluates the economic, social, and psychological dimensions of tax compliance and shows that the factors affecting individuals' tax payment behavior should be addressed from a broad perspective. Within the scope of the study, the mechanisms affecting individuals' voluntary compliance behavior are detailed, and approaches to tax compliance are discussed in an interdisciplinary context. In this respect, it is revealed that tax compliance is not only an economic phenomenon but also a complex process shaped by social and ethical factors. In this context, the decisive role of individuals' trust in the state, social norms, and ethical responsibilities in tax compliance is emphasized.

**Keywords:** Tax Compliance, Tax Compliance Strategies, Ethics, Social Norms.

### Highlights

- The study evaluates tax compliance from economic, social, and psychological dimensions, emphasizing its multidimensional nature beyond mere economic rationality.
- Tax compliance is shaped by intrinsic ethical values, social norms, and trust in the state, highlighting the importance of voluntary compliance mechanisms over punitive approaches.
- The research integrates insights from economics, psychology, and sociology to provide a holistic understanding of the factors influencing tax compliance behaviors.
- Simplifying tax systems and ensuring transparency are key to fostering individuals' trust in the tax system and encouraging voluntary compliance.
- Emphasizing the role of trust, fairness, and ethical responsibilities, the study underscores the need for long-term strategies to achieve sustainable tax compliance.

## Vergi Uyumuna İlişkin Bir Yazın Taraması

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### Öz

Vergi uyumu, bireylerin ve kurumların yasal düzenlemelere uygun olarak vergisel yükümlülüklerini yerine getirme davranışını ifade eden çok boyutlu bir kavramdır. Literatürde, vergi uyumunun bireylerin ekonomik rasyonaliteye dayalı kararlarının yanı sıra sosyal normlar, etik değerler ve devlete duyulan güven gibi unsurlardan etkilendiği vurgulanmaktadır. Bu çalışma, vergi uyumunun ekonomik, sosyal ve psikolojik boyutlarını bir arada değerlendirerek, bireylerin vergi ödeme davranışlarını etkileyen faktörlerin geniş bir perspektifle ele alınması gerektiğini göstermektedir. Çalışma kapsamında, bireylerin gönüllü uyum davranışlarını etkileyen mekanizmalar detaylandırılmış ve vergi uyumuna ilişkin yaklaşımlar disiplinler arası bir bağlamda tartışılmıştır. Bu doğrultuda, vergi uyumunun sadece ekonomik bir olgu değil, aynı zamanda sosyal ve etik unsurlarla şekillenen karmaşık bir süreç olduğu ortaya konulmuştur. Bu bağlamda, bireylerin devlete duyduğu güvenin, toplumsal normların ve etik sorumlulukların vergi uyumu üzerindeki belirleyici rolü vurgulanmaktadır.

**Anahtar Kelimeler:** Vergi Uyumunu, Vergi Uyumunu Stratejileri, Etik, Sosyal Normlar.

### Öne Çıkanlar

- Çalışma, vergi uyumunu ekonomik, sosyal ve psikolojik boyutlardan değerlendirerek bu kavramın salt ekonomik rasyonalitenin ötesindeki çok boyutlu yapısını vurgulamaktadır.
- Vergi uyumunun, bireylerin içsel etik değerleri, sosyal normlar ve devlete duydukları güven tarafından şekillendiği, bu bağlamda gönüllü uyum mekanizmalarının cezai yaklaşımlara kıyasla daha önemli olduğu ortaya konulmaktadır.
- Araştırma, vergi uyum davranışlarını etkileyen faktörleri anlamak için ekonomi, psikoloji ve sosyolojiden gelen bulguları bütünleştirerek kapsamlı bir bakış açısı sunmaktadır.
- Vergi sistemlerinin sadeleştirilmesi ve şeffaflığının sağlanması, bireylerin vergi sistemine olan güvenini artırarak gönüllü uyumu teşvik etmenin anahtarı olarak öne çıkmaktadır.
- Çalışma, güven, adalet ve etik sorumlulukların rolünü vurgulayarak, uzun vadeli ve sürdürülebilir vergi uyumu sağlamak için stratejilerin gerekliliğini ortaya koymaktadır.

### Atıf Bilgisi

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## Introduction

Taxes, as one of the basic building blocks of modern states, undertake the mission of ensuring economic and social balance. Financing public services, maintaining economic stability and regulating income distribution fairly are among the main roles that taxes play for states. According to Alm and Torgler, taxes should be considered not only as a financial obligation but also as a civic duty that expresses individuals' social responsibility and commitment to the state (Alm & Torgler, 2011: 636). This civic duty aspect of taxes instills a sense of moral obligation in individuals, further reinforcing the importance of tax compliance. However, the behavior of taxpayers to fulfill their obligations is shaped by social, cultural and psychological factors in addition to economic incentives, which requires a multifaceted approach to the concept of tax compliance.

Tax compliance is defined as the behavior of individuals and institutions to fulfill their tax obligations completely and on time by acting in accordance with legal regulations. However, this definition is not sufficient to explain only the economic dimension of the concept. The classical economic model developed by Allingham and Sandmo tries to explain tax compliance with economic variables such as audit probability, penalty severity and tax rates (Allingham & Sandmo, 1972: 324). According to this model, individuals shape their tax compliance behavior by conducting a cost-benefit analysis and making compliance or avoidance decisions in a way that maximizes their economic interests. However, it is frequently emphasized in the literature that individuals' behavior is too complex to be explained solely by economic interests.

In this context, the limitations of economic models have necessitated the extension of discussions on tax compliance to social and psychological dimensions. Frey and Feld argue that individuals shape their compliance decisions by economic rationality and intangible factors such as ethical responsibilities, social norms, and trust in the state. In particular, societies where high levels of compliance are observed despite low levels of control demonstrate the importance of individuals' intrinsic motivations and social ties in compliance behavior (Frey & Feld, 2002; Luttmer & Singhal, 2014: 152). On the other hand, Wenzel's social identity theory encourages this field to be addressed from a social perspective by revealing that individuals' tendency to conform to the norms of the communities they feel they belong to affects their tax compliance decisions (Wenzel, 2004: 215). Torgler emphasizes that policies aiming to increase tax compliance should be combined with mechanisms that strengthen individuals' sense of social belonging and support their ethical values (Torgler, 2007: 105). Thus, the theoretical framework for tax compliance goes beyond economic explanations and requires individuals to be evaluated in a social and ethical context.

These approaches, which emphasize the impact of social ties and norms, show that audit and punishment mechanisms offer more sustainable results than their role in tax compliance. Audit and punishment mechanisms offer effective short-term solutions to increase tax compliance; however, these methods do not support individuals' voluntary compliance behavior. According to Alm and McClelland, social norms and ethical values that encourage voluntary compliance form the basis of long-term and lasting compliance behaviors (Alm & McClelland, 1999: 146). In this context, transparency and fairness of tax systems are among the important factors that support individuals' voluntary compliance behaviors (Bird & Zolt, 2005: 1691).

The importance of structuring the tax system with the principles of transparency and simplicity draws attention to its potential to reduce non-compliance behaviors. Slemrod emphasizes that complex tax systems trigger non-compliance tendencies by increasing the compliance costs of individuals (Slemrod, 2007: 38). Therefore, simplifying tax systems and

restructuring them with the principle of transparency increases individuals' trust in the tax system and supports voluntary compliance behavior.

Considering the economic, social, and psychological dimensions of tax compliance, it is necessary to understand the multidimensional nature of individuals' tax payment behavior. In this context, this study aims to examine this multidimensional structure with an interdisciplinary approach by addressing the literature on tax compliance from economic, social, and psychological perspectives. With this comprehensive framework, the study aims to provide the literature with conceptual richness and theoretical depth. The study will first explain the theoretical foundations of the concept of tax compliance and then elaborate on the economic and social factors affecting tax compliance. Finally, policies and strategies that encourage voluntary compliance will be evaluated in light of the discussions in the literature, and suggestions for increasing tax compliance will be presented.

## **1. Tax Compliance: Concept and Scope**

Tax compliance is a complex concept that refers to the behavior of individuals and corporations in fulfilling their tax obligations in full and on time according to legal regulations. Tax compliance plays a central role in maintaining the fiscal stability of modern states and ensuring the sustainability of public services. According to Alm and Torgler, this concept should be considered as a behavior of individuals to maximize their economic interests and as a multidimensional process reflecting their ethical values, social norms, and trust in the state (Alm & Torgler, 2011: 636). Similarly, Wenzel emphasizes that tax compliance is a process that represents individuals' tendency to conform to social norms and their ethical responsibilities (Wenzel, 2004: 215).

Although the definitions of tax compliance are generally based on theories to explain the economic behavior of individuals, broader approaches that include social and psychological elements have been adopted more recently. One of the most important findings showing that tax compliance is not limited to economic foundations is the ethical values of individuals and their sense of social belonging. According to Wenzel's social identity theory, when individuals see themselves as part of a community, their tendency to comply with the norms of that community increases (Wenzel, 2004: 215). This theory reveals that external pressures and intrinsic motivations shape individuals' tax payment behavior. For example, Torgler argues that in societies with strong ethical values, individuals perceive tax compliance as a social responsibility, increasing voluntary compliance (Torgler, 2007: 102). Tax compliance is addressed in the literature with different definitions on the axis of individual morality and social norms.

Tax compliance is also considered a part of the social contract between the state and the individual. According to Frey and Feld, individuals' attitudes towards tax payment are directly related to trust in the basic principles of the state, such as transparency, fairness, and accountability (Frey & Feld, 2002). In societies where public resources are used efficiently and fairly, individuals' tax payment behaviors are positively affected; this shows the importance of the trust relationship between the state and citizens. However, according to Bird and Zolt, political instability, corruption, and injustices in the tax system undermine this trust and reduce tax compliance rates (Bird & Zolt, 2005: 1628).

An in-depth examination of these definitions of tax compliance is important to understand the multidimensional nature of the concept. In the literature, it is frequently emphasized that factors such as individuals' expectations of economic benefits, social norms, ethical responsibilities, and trust in the state should be evaluated together. In this context, the table below presents the definitions of tax compliance that are prominent in the literature.

**Table 1.** Definitions of Tax Compliance

<b>Definition</b>	<b>Source</b>
Tax compliance refers to the behavior of taxpayers in filing and paying taxes, depending on audit and penalty mechanisms.	Allingham ve Sandmo (1972)
Tax compliance is the tendency of individuals to voluntarily provide the financial contribution required for the sustainability of public revenues.	Frey ve Feld (2002)
Tax compliance is the level of individuals' compliance with legal regulations, influenced by ethical values, social norms and individual benefit perception.	Wenzel (2004)
Tax compliance is a process shaped by individuals' trust in the state and social norms.	Torgler (2007)
Tax compliance is a multidimensional behavioral pattern in which individuals' economic, social and psychological motivations come together.	Slemrod (2007)
Tax compliance is a behavioral pattern in which individuals reflect their commitment to the state within the framework of ethical responsibility.	Frey ve Torgler (2007)
Tax compliance is the behavior of individuals and institutions to fulfill their tax obligations completely and on time, by acting in accordance with legal regulations.	Alm ve Torgler (2011)
Tax compliance is a two-way process that depends not only on economic factors but also on individuals' trust in the state.	Luttmer ve Singhal (2014)

Source: Created by the researcher based on literature review.

The definitions in Table 1 emphasize that tax compliance is an economic issue and a comprehensive concept that should be examined with its social and ethical dimensions. While the early studies mainly focused on tax compliance within the framework of economic approaches based on penalties and audit mechanisms, modern approaches emphasize social norms, ethical values, and individuals' trust in the state. In this context, tax compliance is considered not only as the behavior of individuals to fulfill their legal obligations but also as a reflection of social responsibility and mutual trust towards the state. An interdisciplinary perspective provides an important contribution to understanding this dynamic concept.

## 2. Theoretical Framework

Tax compliance is addressed within various theoretical approaches that explain how individuals and organizations fulfill their tax obligations. These approaches range from economic modeling to social and ethical factors. While the Allingham-Sandmo Model in the theoretical framework focuses on financial benefit and risk analysis, modern approaches emphasize the relationship between individuals, social norms, and ethical values. The prominent theories in this framework are discussed in detail below.

### 1.1. The Allingham-Sandmo Model and the Expected Utility Approach

The classical economic model developed by Allingham and Sandmo is a pioneering work that lays the mathematical foundations of tax compliance (Allingham & Sandmo, 1972: 325). The model considers individuals' decisions to declare their income within a rational cost-benefit analysis framework. According to this approach, individuals' decision whether or not to declare their taxes correctly depends on factors such as the probability of being audited and the severity of potential penalties. The model's basic assumption is that individuals always seek to maximize their economic self-interest. Frey and Feld argue that increasing audits and penalties may improve the accuracy of individuals' tax returns, but this is far from strengthening individuals' perceptions of ethical and social responsibility (Frey & Feld, 2002).

However, there are criticisms that the model does not sufficiently consider individuals' behavior's social and ethical dimensions. According to Alm and Torgler, economic factors alone are far from explanatory in societies where high levels of compliance are observed

despite low levels of control (Alm & Torgler, 2011: 637). As Wenzel emphasizes, individuals' moral values, perceptions of social responsibility, and trust in their relationship with the state play a decisive role in tax compliance behavior (Wenzel, 2004: 216). Therefore, while the Allingham-Sandmo model effectively explains the economic foundations of tax compliance, it ignores individual and social dynamics.

Luttmer and Singhal argue that individuals exhibit compliance that exceeds economic rationality due to social norms (Luttmer & Singhal, 2014: 150). In this context, it has been observed that ethical standards and a sense of social belonging lead individuals to behave beyond their rational interests. Moreover, Torgler and Schneider's studies reveal that high compliance rates are observed in societies with strong ethical values despite low control rates (Torgler & Schneider, 2009: 232). These results explain only a part of economic decision-making processes and suggest that social-psychological approaches should support them.

## **1.2. Social Norms and Ethical Approach**

Tax compliance is a form of behavior shaped by individuals' ethical values, social norms, and sense of belonging, and it is not limited to economic choices. Social norms stand out as a key factor explaining how individuals respond to expectations and social pressures from their environment. According to Alm and Torgler, individuals' ethical values and social expectations significantly affect their tax compliance behavior (Alm & Torgler, 2011: 640). In particular, the fact that individuals shape their behavior based on their perceptions of society's general level of compliance clearly shows the role of social norms in tax compliance. In this context, Grasmick and Bursik emphasize that individuals form their tax payment behavior by balancing social pressures and perceptions of ethical responsibility (Grasmick & Bursik, 1990: 841).

Wenzel's studies within the framework of social identity theory further clarified how social norms and ethical values increase compliance. Wenzel states that when individuals see themselves as part of a community, their tendency to comply with the norms of this community is strengthened (Wenzel, 2004: 220). According to this theory, individuals' tax payment behavior is directly related to social acceptance and community belonging. For example, in societies with strong ethical values, individuals' voluntary compliance behavior reaches high levels when combined with the pressure to comply with social norms. Luttmer and Singhal state that societies with strong ethical and social norms provide long-term stability in tax compliance (Luttmer & Singhal, 2014: 153).

Empirical studies have also supported the effect of ethical norms on individual behavior. According to Alm and McClelland, the combination of social norms with individuals' intrinsic ethical values enables high levels of compliance without the need for auditing or enforcement mechanisms (Alm & McClelland, 1999: 147). These findings suggest that individuals' tax compliance cannot be explained solely by economic factors; on the contrary, ethical responsibility and social ties strongly impact behavior.

Social norms and ethical values are important factors that strengthen social trust and perception of fairness beyond individual behavior. Frey and Feld argue that in societies with a fair tax system and harmoniously functioning social norms, individuals' tax payment behavior is shaped more positively (Frey & Feld, 2002). This suggests that sustainable tax compliance can be achieved at both individual and societal levels by reinforcing individuals' trust in the state and strengthening ethical values. Addressing ethical norms and social pressures together increases compliance at the individual level and contributes significantly to the sustainability of social trust.

### 3. Research Areas of Tax Compliance

Tax compliance is a multidimensional research area at the intersection of different disciplines. It is addressed with other approaches and methodologies in various fields, such as economics, psychology, sociology, and public administration. In this section, a general framework for related fields is presented.

#### 3.1. Psychological Approaches

Psychological approaches aim to understand the underlying motivational and emotional factors that shape individuals' tax payment behavior. In the context of tax compliance, psychological processes reveal that individuals are driven not only by economic rationality but also by ethical values, social norms, and emotional factors. According to Wenzel, individuals make tax payment decisions based on ethical and conscientious values shaped by interaction with social norms (Wenzel, 2004: 215). Studies conducted in the context of social identity theory show that a sense of social belonging strengthens individuals' tax compliance behavior. Luttmer and Singhal state that when individuals see themselves as part of a community, their voluntary compliance behavior increases (Luttmer & Singhal, 2014: 151).

Emotional factors are another important psychological factor affecting individuals' tax compliance behaviors. Grasmick and Bursik state that individuals avoid tax evasion behaviors due to feelings of guilt and social pressure (Grasmick & Bursik, 1990: 839). The desire for social acceptance causes individuals to avoid illegal behaviors; in this context, individuals who care about social reputation exhibit higher compliance rates. However, the impact of social norms is also influenced by the behavior of the people around the individual. Wenzel states that individuals perceive the general level of harmony in society and shape their behavior accordingly (Wenzel, 2004: 216).

Psychological approaches focus not only on individuals' intrinsic motivations but also on the psychological effects of external factors on the individual. For example, Alm and Torgler emphasize that individuals' moral values and social pressures are a determining factor in cases where high tax compliance rates are observed despite low audit rates (Alm & Torgler, 2011: 638). This finding suggests that tax compliance is not only an economic decision but also shaped by individuals' ethical and moral obligations. Frey and Feld state that tax evasion behaviors are significantly reduced in societies with strong ethical values (Frey & Feld, 2002).

In addition to individual psychology, group dynamics also play a decisive role in tax compliance. Torgler emphasizes that the sense of social belonging causes individuals to evaluate their behavior within a collective framework (Torgler, 2007: 102). In this context, in societies with high social capital, individuals' voluntary compliance levels are also observed at high levels. On the other hand, in societies with low social capital, non-compliance behaviors are more common.

Psychological approaches should be combined with different methods better to understand individuals' decision processes on tax compliance. Fields such as behavioral economics and experimental psychology offer practical tools to measure and improve individuals' compliance behavior. Alm and McClelland emphasize that tax compliance policies should focus on the psychological needs of individuals by analyzing how individuals balance their past experiences, ethical values, and social expectations in empirical studies (Alm & McClelland, 1999: 148).

#### 3.2. Economic Models and Applications

Economic models of tax compliance are built on assumptions based on the rational behavior of individuals and often focus on exogenous factors such as audits, penalty rates, and tax rates. The expected utility theory developed by Allingham and Sandmo forms the

basis of these approaches and argues that individuals shape their decisions to pay or evade taxes in line with cost-benefit analysis (Allingham & Sandmo, 1972: 324). According to this model, individuals determine their compliance behavior by evaluating the probability of audit and the severity of penalties to be faced; it is assumed that increasing the frequency of audits and penalties will reduce tax evasion tendencies. However, the proposition that individuals act only under economic pressures reveals this model has an incomplete understanding.

Empirical research on the effects of audit and penalty mechanisms on tax compliance has shown that these factors have only limited explanatory power. Alm and McClelland argue that audit frequency and penalties may affect individuals' tax payment behavior in the short run, but they are insufficient to sustain voluntary compliance (Alm & McClelland, 1999: 146). In particular, it is stated that high penalties may increase individuals' fear-based compliance behavior. Still, this fear may negatively affect voluntary compliance by damaging trust in the tax system in the long run (Alm & Torgler, 2011: 635). These findings suggest that individuals act based on economic rationality and are influenced by intangible factors such as ethical values, social norms, and trust in the state.

Tax rates stand out as another vital component in economic models. Allingham and Sandmo argue that high tax rates will increase individuals' tendency to evade taxes and explain this situation with the desire of individuals to protect their economic gains (Allingham & Sandmo, 1972: 325). However, experimental and empirical studies have only sometimes confirmed this prediction. Clotfelter states that the tax evasion behavior of high-income individuals is more prevalent because the economic gains from taxes evaded by these individuals are more significant (Clotfelter, 1983: 363). On the other hand, an increase in tax rates for low-income individuals does not increase noncompliance tendencies to the same extent. This situation reveals that the behavior of individuals, depending on their income level, has a complex structure that goes beyond economic models.

Tax amnesty practices have a controversial place in the context of economic models. Alm and Beck argue that tax amnesties may increase government revenues in the short run. Still, the frequent repetition of these practices may weaken voluntary compliance in the long run by creating an expectation among individuals that “there will be another amnesty anyway” (Alm & Beck, 1991: 55). Such practices may negatively affect tax compliance by weakening trust in the tax system and individuals' perception of ethical responsibility.

In conclusion, although economic models provide an essential framework for understanding the key determinants of tax compliance, they do not explain individuals' behavior. It is clear that external factors such as audits, penalties, and tax rates affect individuals' compliance behavior; however, individuals' intrinsic motivations, ethical values, and their role in the social context should also be considered. In this context, supplementing economic models with social and psychological approaches will allow for a more comprehensive understanding of the multidimensional nature of tax compliance.

### **3.3. Social Norms and Cultural Approaches**

In the academic literature where tax compliance is comprehensively discussed, it has been frequently emphasized that individuals' economic behaviors are shaped not only by rational expectations but also by social norms and cultural codes. The normative structures of societies that have developed over the historical process and determine individuals' behaviors directly affect individuals' perceptions and attitudes toward taxes. In this context, an interdisciplinary perspective is required to understand the effects of social norms and cultural approaches on tax compliance (Alm & Torgler, 2006: 225).

Social norms ensure that individuals follow behavioral patterns accepted by others. This normative framework is critically essential in collective actions such as tax compliance. For



example, Alm and McClelland's experimental studies have shown that individuals take into account not only criminal sanctions but also widespread tax payment behaviors in society in their tax compliance decisions (Alm et al., 1992: 24). It is seen that the social environment they live in has a decisive effect on individuals' behaviors and that social norms direct these behaviors.

Cultural approaches aim to understand the value systems and behavioral models deeply rooted in the social structure. Comparative studies, especially between countries, reveal that cultural diversity creates significant differences in tax compliance. For example, Alm and Torgler, in light of studies conducted in the United States and European countries, determined that the effect of social norms on tax compliance varies from country to country. According to these studies, voluntary tax compliance increases in countries with a higher level of "tax morality" (Alm & Torgler, 2006: 233). In this context, it is clear that tax policies developed must take into account different cultural structures and norms to produce effective results.

The findings that individuals experience a positive acceleration in tax compliance indicators as social norms strengthen emphasize the role of providing a normative framework in increasing tax compliance. The "slippery slope framework" developed by Kirchler, Hoelzl and Wahl addresses tax compliance in the context of two essential factors: trust in authority and the power of authority. According to this approach, substantial authority and a high level of trust create a synergy that increases tax compliance (Kirchler et al., 2008: 214). The importance of social norms and trust-based approaches is considered the cornerstone of policies that encourage voluntary tax compliance by individuals.

### **3.4. Institutional Approaches**

One of the most important factors affecting tax compliance is the efficiency, transparency, and understanding of justice of tax administrations. The state's institutional structure and functioning directly shape individuals' perceptions of the tax system and, accordingly, their compliance behaviors. The efficiency of tax administrations in tax collection processes is of critical importance not only in terms of ensuring financial stability but also in terms of encouraging individuals' voluntary compliance tendencies. Frey and Feld argue that the psychological contracts established between individuals and the state are one of the main factors determining tax payment behaviors (Frey & Feld, 2002). In this context, the state's transparent, accountable, and fair management approach is decisive in increasing individuals' voluntary compliance behaviors.

Understanding justice in institutional structures is another important factor that deeply affects individuals' motivations for tax payments. A fair tax system enables individuals to fulfill their economic obligations and strengthens the bond of trust between the state and the individual. Luttmer and Singhal stated that individuals' voluntary compliance rates are significantly high in societies where tax liabilities are distributed relatively and public resources are used efficiently (Luttmer & Singhal, 2014: 155). On the other hand, in societies where corruption is widespread, public resources are mismanaged, or the tax burden is distributed unfairly, individuals' voluntary compliance behavior weakens; this situation harms the state's tax collection capacity.

The compliance of tax administrations with the principles of transparency and accountability is one of the cornerstones of individuals' trust in the state. Torgler states that individuals' confidence in the tax system strongly determines tax compliance behaviors (Torgler, 2007: 101). In this context, a transparent management approach not only increases individuals' loyalty to the state but also contributes to the sustainability of the tax system by strengthening the legitimacy of the state. For example, the perception that public expenditures are not effectively controlled or that taxes are used for wrong purposes weakens individuals'

loyalty to the tax system (Bird & Zolt, 2005: 1691). This situation negatively affects voluntary compliance rates and the social perception of the state's fiscal authority.

Institutional approaches also focus on the forms of communication between tax administrations and taxpayers. The fact that tax administrations present simple and understandable regulations instead of complex and difficult-to-understand legislation positively affects individuals' voluntary compliance behaviors. James and Alley state that the complexity of the tax system increases individuals' compliance costs and that this triggers tax evasion tendencies (James & Alley, 2002: 36). Therefore, a simple and understandable tax system can increase compliance rates by allowing individuals to fulfill their obligations to the state more easily.

As a result, tax administrations' efficiency, transparency, and fairness play a central role in individuals' perceptions of the tax system and, accordingly, in their compliance behaviors. A transparent and accountable management approach increases tax collection efficiency and strengthens individuals' trust in the state and their sense of social commitment. In this context, structuring institutional reforms to encourage individuals' voluntary compliance behaviors is considered an indispensable element for a sustainable tax system.

## **4. Strategies and Policies to Increase Tax Compliance**

Strategies and policies developed to increase tax compliance are generally shaped by individuals' attitudes toward economic incentives, penal mechanisms, and voluntary compliance processes. In order to increase the effectiveness of these strategies, the literature focuses on elements such as inspection, information, transparency, and justice, as well as approaches that encourage voluntary compliance. The different dimensions of these strategies are discussed below.

### **4.1. Tax Audit and Penalties**

Tax inspection and penal mechanisms are considered to be one of the most effective methods used historically to ensure tax compliance. While these methods aim to deter individuals' tax evasion behaviors and increase tax compliance, they generally focus on external pressures and coercive policies. The classical economic model developed by Allingham and Sandmo suggests that individuals shape their tax compliance decisions in light of economic variables such as the probability of inspection, severity of penalties, and tax rates (Allingham & Sandmo, 1972: 324). According to this model, the deterrent effect of penalties and the perceived certainty of inspections play an important role in individuals' calculation of tax evasion risk. However, this approach is insufficient to explain voluntary compliance behaviors since it bases individuals' behaviors solely on economic rationality. Yitzhaki stated that individuals' tax evasion behaviors are affected not only by economic but also by ethical and social factors (Yitzhaki, 1974: 202). In this context, it is stated that increasing penalties can create fear-based compliance in individuals, but this situation can weaken voluntary compliance by damaging trust in the state in the long term (Alm & Torgler, 2011: 641).

Increasing the frequency of tax audits can create deterrence in the short term; however, such policies can make a psychological burden on individuals in addition to economic and administrative costs. Slemrod emphasizes that excessive audit-oriented approaches strengthen the perception of an "oppressive state" in individuals and the long-term negative effects of this perception on tax compliance (Slemrod, 2007: 31). In addition, such policies can weaken individuals' sense of ethical responsibility and loyalty to the state. The perceived certainty of audits may cause individuals to exhibit compulsory compliance behavior instead of voluntary compliance (Kirchler et al., 2008: 211).

In cases where punitive approaches are ineffective, policies that ensure that individuals perceive paying taxes as a civic duty are more effective. Frey and Torgler state that individuals' trust in the state and ethical values provide a stronger incentive for compliance than punitive methods (Frey & Torgler, 2007: 142). The direct association of taxes with public services is an important element that positively affects individuals' perceptions of the tax system and increases voluntary compliance. In this context, the fair and transparent operation of the tax system supports individuals' voluntary compliance tendencies (Bird et al., 2008: 92).

In this context, audit and punishment mechanisms can provide particular effectiveness in increasing tax compliance; however, these methods need to be supported by mechanisms that strengthen individuals' perceptions of ethical and social responsibility. Approaches that encourage voluntary compliance can provide more sustainable results than methods based on punishment. Therefore, tax policies should be designed to create a sense of belonging and trust in individuals rather than being built solely on audits and penal sanctions.

#### **4.2. Information Campaigns and Education**

Information campaigns and education programs are the most important strategies for encouraging voluntary compliance and increasing individuals' awareness about the tax system. Torgler and Schneider state that citizens' better understanding of the tax system and the direct association of taxes with public services have positive effects on individuals' tax payment behaviors (Torgler & Schneider, 2009: 30). Such programs not only eliminate information deficiencies but also ensure that individuals perceive paying taxes as a social responsibility. In particular, the perception of a transparent system where tax revenues are transformed into public benefit strengthens individuals' voluntary compliance tendencies.

Information campaigns are significant for low-income groups and individuals with low levels of education. Considering that tax non-compliance rates are generally higher in these groups, increasing compliance with information-based strategies seems possible. Alm and Martinez-Vazquez emphasize that individuals with low-income levels tend to be non-compliant due to the complexity of the tax system and lack of information and that a simplified tax narrative can be effective for such individuals (Alm & Martinez-Vazquez, 2007: 122). Increasing individuals' trust in the tax system through such programs by tax administrations is considered a long-term strategy that encourages voluntary compliance.

The literature also frequently emphasizes that educational programs have a permanent effect, especially on young individuals. Torgler states that financial education given at an early age strengthens individuals' perception of ethical responsibility, and this situation is reflected in voluntary compliance behaviors at later ages (Torgler, 2007: 103). In this context, including financial responsibility and tax awareness issues in curricula is considered a tool that increases tax compliance in the long term.

Associating taxes with public services concretely allows individuals to see that their taxes are transformed into social benefits. Alm and Torgler emphasize that citizens being able to see how their taxes are reflected in public services creates a positive perception of the tax system and encourages compliance (Alm & Torgler, 2011: 642). Such an approach enables individuals to develop a positive attitude towards taxes and increases trust in the tax system. Communication campaigns that emphasize the concrete effects of taxes, especially in financing public projects, are considered an effective method of strengthening tax awareness (Frey & Torgler, 2007: 143).

In this context, information campaigns and education programs are important tools that increase individuals' perceptions and knowledge about the tax system and encourage voluntary compliance. Increasing tax awareness in individuals with these strategies by tax

administrations will contribute to increasing tax compliance at the individual and societal levels. In this context, it is clear that information-based policies can produce more sustainable results compared to punitive methods.

### **4.3. Tax System Transparency and Fairness**

A transparent and fair structure in the tax system stands out as one of the most critical elements that encourages voluntary compliance by increasing individuals' trust in the state. Transparency eliminates the uncertainties that individuals may encounter in fulfilling their tax obligations, while justice ensures that these obligations are distributed equally and fairly to all segments of society. In this context, Slemrod states that the complexity of the tax system creates disharmony in individuals and that a simple and understandable system supports voluntary compliance (Slemrod, 2007: 38). A complex tax legislation can increase individuals' tendency to disharmony by making the process of filling out tax returns more complicated, and this can negatively affect individuals' perceptions of the tax system. Therefore, it is important to simplify the legislation, make it accessible, and make arrangements more straightforward for individuals to fulfill their obligations using understandable language.

The practical and fair use of public resources is another important factor that increases individuals' trust in the tax system. The transparency of public expenditures and the clear demonstration that these expenditures are transformed into social benefits create a sense of confidence in individuals that taxes contribute to public services. Bird and Zolt state that voluntary compliance rates are higher in societies with low corruption rates because individuals see that their taxes are used correctly and effectively (Bird & Zolt, 2005: 1693). On the other hand, it has been observed that in societies where corruption is widespread, individuals' trust in the tax system weakens, and this situation negatively affects voluntary compliance behaviors. In countries where the perception of corruption is high, individuals may need more motivation to fulfill their tax obligations, believing that taxes are being misused or not spent for the public good.

A transparent management approach increases individuals' trust in the tax system and strengthens the state's fiscal authority and social legitimacy. Strengthening the state's accountability mechanisms contributes to individuals developing positive attitudes toward the state, and this plays a vital role in encouraging voluntary compliance. In particular, precise management of the public budget, effective monitoring of expenditures, and a clear indication of the areas in which the public uses taxes are among the elements that reinforce individuals' trust in the state. Alm and Martinez-Vazquez state that the perception that public resources are being misused seriously weakens voluntary compliance behavior in individuals and that such a perception harms the state's long-term tax collection capacity (Alm & Martinez-Vazquez, 2007: 122). Therefore, the transparency and justice of the tax system play a fundamental role in encouraging individuals' voluntary compliance behavior. Increasing trust in the state and demonstrating that the taxes paid by individuals are spent for the public good strengthens commitment to the tax system and ensures the sustainability of long-term compliance policies.

### **4.4. Approaches to Encourage Voluntary Compliance**

Approaches that encourage voluntary compliance in increasing tax compliance can create longer-term and more sustainable effects than methods of punishment and auditing. Voluntary compliance is based on individuals perceiving tax payment not only as a legal obligation but also as a social responsibility and ethical behavior. Such approaches strengthen individuals' loyalty to the state and provide individual and social benefits by making compliance behavior a norm. Frey and Feld emphasize that the trust individuals feel towards

the state is one of the most important elements that encourage voluntary compliance behavior (Frey & Feld, 2002).

Frequently repeated practices such as tax amnesty are among the elements that weaken voluntary compliance. Frey states that tax amnesty programs can negatively affect tax payment behavior by creating an expectation in individuals that "a new amnesty will come out anyway" (Frey, 1997: 84). In contrast, rewarding and encouraging honest taxpayers is suggested as a more effective strategy to increase voluntary compliance. Torgler states that incentive programs for honest taxpayers positively affect individuals' tax payment behaviors and strengthen tax compliance at the societal level (Torgler, 2007: 105). For example, incentives such as tax deductions for taxpayers who pay taxes regularly or awards that the public respects can reinforce individuals' voluntary compliance behaviors.

To increase voluntary compliance, transparent use of public resources and sharing the effectiveness of expenditures with society are also critical. Alm and Martinez-Vazquez state that voluntary compliance rates increase significantly in societies where individuals can see how their taxes are reflected in public services (Alm & Martinez-Vazquez, 2007: 122). Information campaigns emphasizing that public services, especially health, education, and infrastructure, are financed by taxes can increase individuals' trust in the tax system. Such trust contributes to individuals' perception of tax payment behaviors as an ethical responsibility (Luttmer & Singhal, 2014: 153).

The role of social norms and ethical values in encouraging voluntary compliance is frequently emphasized in the literature. Wenzel states that when individuals see themselves as part of a social group, their tendency to comply with the norms of this group increases, and tax compliance is strengthened in this context (Wenzel, 2004: 215). Economic interests, social ties, and ethical responsibilities shape individuals' trust in the state. In this context, policies that aim to increase voluntary compliance should be designed to strengthen individuals' sense of social belonging and ethical responsibility awareness.

Approaches encouraging voluntary compliance offer a long-term strategy that increases individuals' trust in the state, strengthens their ethical values, and makes tax compliance a social norm. Tax administrations adopting a management approach based on transparency and justice principles is essential to supporting individuals' voluntary compliance tendencies. In this context, establishing incentive mechanisms that reward individuals' tax payment behaviors is of great importance for the sustainability of tax compliance.

## **Conclusion**

As a critical concept in ensuring the sustainability of modern public finances, tax compliance is an economic necessity and a social contract. In this context, individuals' fulfillment of their tax obligations is shaped by ethical responsibilities, social norms, and trust in the state, going beyond economic incentives. The economic, social, and psychological dimensions of tax compliance reveal a multidimensional structure that interacts with each other and shapes the behaviors of individuals. The literature review demonstrates that these complex structures should be addressed from different disciplinary perspectives. In the study, the factors affecting tax compliance were addressed from a multidimensional perspective, and it was revealed that evaluating these factors together provides a more holistic view of understanding individuals' tax payment behaviors. Although the importance of inspection and punishment mechanisms in increasing tax compliance is undeniable, it is seen that such policies create temporary compliance based on pressure on individuals and carry the risk of damaging trust in the state in the long term. Instead, strategies that encourage voluntary compliance behaviors of individuals offer a more effective way to establish sustainable tax

systems. How ethical values and social norms guide individuals' behavior demonstrates the decisive role of state-individual relations on compliance.

Although economic models have long been a priority in explaining tax compliance, it has been proven that individuals do not act solely in line with rational interests and that their social and psychological motivations also play a decisive role in decision-making. Although factors such as audit probability, penalty severity, and tax rates may affect individuals' behavior in the short term, they are insufficient to ensure sustainable tax compliance in the long term. Instead, it is understood that approaches that increase individuals' trust in the state and their positive perceptions of the tax payment process are more effective in encouraging voluntary compliance.

Individuals' sense of social belonging and ethical responsibility awareness should be considered in designing policies that promote tax compliance. Making tax payment behavior a norm within society significantly strengthens voluntary compliance. In particular, individuals' sense of belonging to social groups, addressed within Wenzel's social identity theory framework, demonstrates how social ties can support tax compliance. In this context, developing policies that ensure that individuals perceive paying taxes as a civic duty emerges as a fundamental requirement for the sustainability of the tax system.

Control and punishment mechanisms can temporarily increase individuals' compliance behaviors; however, these methods have a limited effect in creating a permanent ethical responsibility and voluntary compliance awareness in individuals. Moreover, punitive approaches can create a sense of pressure in individuals and trigger negative attitudes toward the state. In contrast, policies supported by the principles of transparency and justice increase individuals' trust in the state, establishing voluntary compliance on a permanent and sustainable basis. Clear and concrete information on how tax revenues are reflected in public services positively affects individuals' perceptions of the tax system, supporting the success of long-term compliance policies.

The tax system's complexity is another important factor that increases individuals' compliance costs and triggers non-compliance tendencies. While simplifying tax regulations allows individuals to understand their obligations more efficiently, streamlining administrative processes supports voluntary compliance. In addition, implementing incentive mechanisms such as rewarding honest taxpayers is a factor that positively motivates individuals' tax payment behaviors. In this context, it is understood that individuals' trust in the state and their awareness of ethical responsibility are much more effective in increasing voluntary compliance than methods based on punishment.

The literature demonstrates the decisive role of social norms and ethical values in tax compliance. Voluntary compliance levels have been significantly higher in societies where social ties are substantial, individuals are committed to social norms, and the state exhibits a transparent governance approach. Strengthening the perception that public resources are used fairly and effectively increases individuals' trust in the tax system, encouraging long-term compliance behaviors. In this context, eliminating the perception of corruption and injustice is critical for the success of tax compliance policies.

Policies aimed at increasing tax compliance should be designed with an approach that considers not only the economic motivations of individuals but also their social and ethical contexts. It is necessary to prioritize intrinsic motivations that strengthen individuals' voluntary compliance tendencies, going beyond external factors such as auditing and punishment. Tax administrations' adoption of transparency, justice, and accountability principles stands out as a fundamental element that reinforces individuals' commitment to the state. Thus, the efficiency and sustainability of the tax system can be increased, and individuals' contributions to society can continue more substantially. The evaluations

presented in the study reveal that tax compliance is a multidimensional process shaped by the interaction of economic, social, and psychological factors. These approaches provide a framework that helps understand the behavior of individuals and policymakers can use to make the tax system more effective and sustainable. Future research is expected to continue contributing to the literature by examining these dynamics more deeply in different cultural contexts and through comparative analyses.

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