Examining Three Psychosocial Factors of Tax Compliance in Self-Employed Individuals using the Mindspace Framework - Evidence from Australia and Pakistan

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Abstract : Amid the pandemic, the contemporary landscape has experienced accelerated growth in small business activities and an expanding digital marketplace, further exacerbating the issue of non-compliance among self-employed individuals through aggressive tax planning and evasion. This research seeks to address these challenges by developing strategic tax policies that promote voluntary compliance and improve taxpayer facilitation. The study employs the innovative MINDSPACE framework to examine three psychosocial factors—tax communication, tax literacy, and shaming—to optimize policy responses, address administrative shortcomings, and ensure adequate revenue collection for public goods and services. Preliminary findings suggest that incomprehensible communication from tax authorities drives individuals to seek alternative, potentially biased sources of tax information, thereby exacerbating non-compliance. Furthermore, the study reveals low tax literacy among Australian and Pakistani respondents, with many struggling to navigate complex tax processes and comprehend tax laws. Consequently, policy recommendations include simplifying tax return filing and enhancing pre-populated tax returns. In terms of shaming, the research indicates that Australians, being an individualistic society, may not respond well to shaming techniques due to privacy concerns. In contrast, Pakistanis, as a collectivistic society, may be more receptive to naming and shaming approaches. The study employs a mixed-method approach, utilizing interviews and surveys to analyze the issue in both jurisdictions. The use of mixed methods allows for a more comprehensive understanding of tax compliance behavior, combining the depth of qualitative insights with the generalizability of quantitative data, ultimately leading to more robust and well-informed policy recommendations. By examining evidence from opposite jurisdictions, namely a developed country (Australia) and a developing country (Pakistan), the study's applicability is enhanced, providing perspectives from two disparate contexts that offer insights from opposite ends of the economic, cultural, and social spectra. The non-comparative case study methodology offers valuable insights into human behavior, which can be applied to other jurisdictions as well. The application of the MINDSPACE framework in this research is particularly significant, as it introduces a novel approach to tax compliance behavior analysis. By integrating insights from behavioral economics, the framework enables a comprehensive understanding of the psychological and social factors influencing taxpayer decision-making, facilitating the development of targeted and effective policy interventions. This research carries substantial importance as it addresses critical challenges in tax compliance and administration, with far-reaching implications for revenue collection and the provision of public goods and services. By investigating the psychosocial factors that influence taxpayer behavior and utilizing the MINDSPACE framework, the study contributes invaluable insights to the field of tax policy. These insights can inform policymakers and tax administrators in developing more effective tax policies that enhance taxpayer facilitation, address administrative obstacles, promote a more equitable and efficient tax system, and foster voluntary compliance, ultimately strengthening the financial foundation of governments and communities.