

## Investigating the Behavior of Individual Business Taxpayers: Behavioral Economics Approach

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**Abstract :** In Direct Tax Act, penalties and incentives are two strategies for realization of the expected tax revenues. In this study, the interaction between individual businesses' taxpayers' behaviors and National Tax Administration is investigated by using prospect theory which is based on behavioral economics approach. For this purpose, the structure of the tax compliance of the mentioned taxpayers is evaluated via the changes in penalty and incentive rates. In this way, a special questionnaire regarding the items of individual businesses sector of Direct Tax Act was designed for tax compliance evaluation, and the results were obtained using Bayesian Hierarchical method. The results indicate that the investigated individual business taxpayers, at all income levels, were more sensitive toward incentive rates so that this result can be useful for tax policymakers.

**Keywords :** behavioral economics, prospect theory, tax compliance, penalties, incentives

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