European Commission

Syllabus

Behavioural Insights for tax compliance

April 2024

This classroom course has been designed by the Competence Centre on Behavioural Insights (CCBI). It consists of four modules over the course of one day. This course aims at providing hands-on introduction on how behavioural insights can be used in the context of tax compliance. Trainers will use a combination of lectures, group and individual exercises, and case studies to deliver the course.

The course is based on - and has been adapted to the topic of tax compliance from - European Commission internal trainings that have been provided since September 2017 in progressively improved formats, contributing to the training of more than 350 colleagues.

Learning Goals

By the end of this course, participants will

1. Understand what behavioural insights are, and how a behavioural approach to policy differs from the traditional approach
2. Recognize the role of bounded rationality, biases and heuristics in how people make decisions
3. Review a range of practical applications of behavioural insights to tax compliance
4. Learn how to use behavioural insights to tackle problems in their work context
5. Explore an overview of the most common methods in behavioural research
6. Experience applications of this knowledge in their work context

Course Outline

Before the start of the course, participants are invited to respond to a preparatory survey available HERE.

At the end of the course, participants will be invited to give feedback on the course.

Session	Time	Module
Morning	**09.00 - 10.30**	**Module A:** **An introduction to behavioural insights**
	10.30 - 11.00	Coffee break
	11.00 - 12.30	**Module B:** **Ways and means of tackling taxation with BI**
	12.30 - 14.00	Lunch break
Afternoon	**14.00 - 15.30**	**Module C:** **Methods for investigating behavioural drivers**
	15.30 - 16.00	Coffee/Tea break
	16.00 - 17.00	**Module D:** **Developing behavioural solutions**

Morning: Defining behavioral concepts and their relevance

Module A – An introduction to behavioural insights

- A brief introduction to the JRC and the CCBI
- Specific terminology and main concepts
- A bit of theory (just the essential)
- Biases and their implications

Resources:

★ About the Competence Centre on Behavioural Insights – Our web page
★ Behavioural Insights for EU Policymaking (R. van Bavel, 2020) – Open access book chapter
★ Daniel Kahneman, Nobel Prize Lecture (listen (37 minutes) or read (40 pages))
★ Gerd Gigerenzer, Ted Talk, Simple heuristics that make us smart (19 minutes)
★ OECD Behavioural Insights and Public Policy

Module B – Ways and means of tackling taxation with BI

- From tax journey to intervention logic
- Deep dive: Social norms and their use in 'nudging' individuals
- Examples of concrete interventions and trials

Resources:

★ Verian Handbook
★ OECD BASIC toolkit
★ World Bank Behavioural Insights for Tax Compliance
★ OECD Behavioural Insights for Better Tax Administration

Afternoon: Research methods and using behavioural concepts

Module C – Methods for investigating behavioural drivers & a look at social norms

- The DO IT approach – **Defining** and **Observing** the behavioural element
- Group work: define a policy issue and its behavioural drivers
- The main methods of behavioural research

Resources:

★ The DO IT approach (available in the course material)
★ Baggio et al. (2021) The evolution of behaviourally informed policy-making in the EU
★ Decoding Human Behaviour: An Exploration of Behavioural Science Methodologies

Module D – Developing behavioural solutions

- The DO IT approach – **Identifying** and **Testing**
- Group work: Identify solutions and how to test them
- Limitations and critiques to the behavioural public policy approach
- Wrap-up with Q&A and outlook for advanced module

Resources:

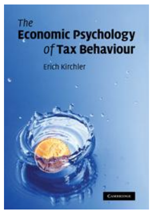
★ Mascagni (2017) From the lab to the field: A review of tax experiment
★ What the nudge theory got wrong Tim Harford – Financial Times, 6 May 2022
★ Hallsworth (2023) A manifesto for applying behavioural science

Further material and readings[1]

Books

The Economic Psychology of Tax Behaviour, by Erich Kirchler (2007)

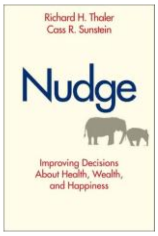
Tax evasion is a complex phenomenon which is influenced not just by economic motives but by psychological factors as well. Economic-psychological research focuses on individual and social representations of taxation as well as decision-making. In this 2007 book, Erich Kirchler assembles research on tax compliance, with a focus on tax evasion, and integrates the findings into a model based on the interaction climate between tax authorities and taxpayers. The interaction climate is defined by citizens' trust in authorities and the power of authorities to control taxpayers effectively; depending on trust and power, either voluntary compliance, enforced compliance or no compliance are likely outcomes. Featuring chapters on the social representations of taxation, decision-making and self-employed income tax behaviour, this book will appeal to researchers in economic psychology, behavioural economics and public administration.



Nudge: Improving Decisions About Health, Wealth, and Happiness, by Richard Thaler and Cass Sunstein (2008)

This important book brought the concept of behavioural economics to popular awareness. The book illustrates a number of key principles of behavioural economics, and then delves into a range of social issues that could benefit from nudges. Areas covered include our finances, the environment, health and marriage.

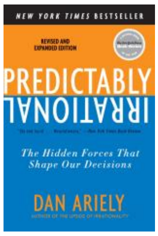
It is accessible and undoubtedly a must read for all those interested in public policy and/or wanting to promote human welfare. A number of key concepts and principles of behavioural economics are described in a clear manner and with the help of relevant examples.



These concepts include choice architecture, the path of least resistance, heuristics, anchoring, availability, representativeness, optimism and overconfidence, loss aversion, framing, status-quo bias, the emotion of decision-making, mindless choosing, mental accounting, herd behaviour, priming, feedback, relative evaluation.

Predictably Irrational, by Dan Ariely (2010)

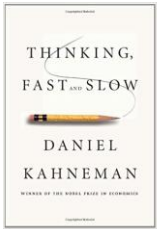
When it comes to making decisions in our lives, we think we are in control. We think we make smart, rational choices. But are we? In a series of illuminating, often surprising experiments, MIT behavioural economist Dan Ariely refutes the common assumption that we behave in fundamentally rational ways.



Blending everyday experience with ground-breaking research, Ariely explains how expectations, emotions, social norms, and other invisible, seemingly illogical forces skew our reasoning abilities. Not only do we make astonishingly simple mistakes every day, but we make the same types of mistakes, Ariely discovers. We consistently overpay, underestimate, and procrastinate. We fail to understand the profound effects of our emotions on what we want, and we overvalue what we already own. Yet these misguided behaviours are neither random nor senseless. They're systematic and predictable-making us predictably irrational.

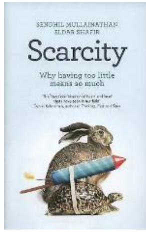
[1] description of books and reports are from the publishers' notes or abstracts

Thinking Fast and Slow, by Daniel Kahneman (2011)



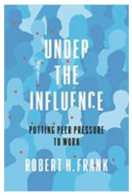
This book shows us how two systems in our brains are constantly fighting over control of our behaviour and actions and teaches us the many ways in which this leads to errors in memory, judgment and decisions, and what we can do about it. Kahneman names the two parts of the brain as System I and System II, where System I, is the intuitive hemisphere, which operates automatically most of the times; while System II denotes effortful mental activity, involving logics. It is because of the System I that humans suffer from cognitive biases or the unconscious errors that leads one to jump onto wrong conclusions.

Scarcity, Why Having Too Little Means So Much, by Sendhil Mullainathan, and Eldar Shafir (2013)



Drawing on cutting-edge research from behavioural science and economics, Mullainathan and Shafir show that scarcity creates a similar mindset for everyone struggling to manage with less than they need. Busy people fail to manage their time efficiently for the same reasons the poor and those maxed out on credit cards fail to manage their money.
The dynamics of scarcity reveal why dieters find it hard to resist temptation, why students and busy executives mismanage their time, and why sugarcane farmers are smarter after harvest than before. Once we start thinking in terms of scarcity and the strategies it imposes, the problems of modern life come into sharper focus. Sendhil Mullainathan and Eldar Shafir show that these are all are examples of a mind-set produced by scarcity.

Under the Influence, by Robert H. Frank (2020)



Psychologists have long understood that social environments profoundly shape our behaviour, sometimes for the better, often for the worse. But social influence is a two-way street—our environments are themselves products of our behaviour. Under the Influence explains how to unlock the latent power of social context. It reveals how our environments encourage smoking, bullying, tax cheating, sexual predation, problem drinking, and wasteful energy use.

Many textbooks exist for those interested in more details about research methods, including some that specifically focus on methodologies used in the behavioural sciences. Examples include:

Research Methods for the Behavioral Sciences, by Gregory J. Privitera (2019)

Research Methods for the Behavioral Sciences, Third Edition employs a problem-focused approach to present a clear and comprehensive introduction to research methods. Award-winning teacher, author, and advisor Gregory J. Privitera fully integrates the research methods decision tree into the text to help students choose the most appropriate methodology for the research question they are seeking to answer. Speaking to readers directly, Privitera empowers students to view research methods as something they can understand and apply in their daily lives.

Research Methods for the Behavioural Sciences by Frederick Gravetter, Lori-Ann Forzano &Tim Rakow (2021)

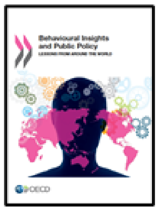
Research Methods for the Behavioural Sciences guides students through the research process from beginning to end, using an accessible step-by-step approach. With an emphasis on the decisions researchers must make along the way, it provides tips and strategies for all elements of the research process to ensure relevance and validity.
In this first adaptation of the textbook for Europe, South Africa and the Middle East, all the core elements which have contributed to its success are complemented by recent and relevant developments in the field pertinent to these regions, helping students to fully relate to the content.

Policy Reports

The case for qualitative methods in behavioural studies for EU policymaking, European Commission (2018).

The behavioural turn in policymaking has largely relied on quantitative methodology to gather evidence. Among these, randomised controlled trials (RCTs) and experiments have been especially prevalent. By contrast, qualitative methods have been less popular. The authors of this policy brief believe this relative neglect is misguided and argue for a more prominent role of qualitative methods in behavioural studies for EU policymaking.

Behavioural Insights and Public Policy, OECD (2017)



This report discusses the use and reach of behavioural insights, drawing on a comprehensive collection of over 100 applications across the world and policy sectors, including consumer protection, education, energy, environment, finance, health and safety, labour market policies, public service delivery, taxes and telecommunications.
It suggests ways to ensure that this experimental approach can be successfully and sustainably used as a public policy tool.

Behavioural Insights Applied to Policy, European Commission (2016)

This report provides an overview of a wealth of policy initiatives across 32 European countries, either implicitly or explicitly informed by behavioural insights (BIs). It categorises behavioural initiatives in 3 classes – tested, informed, aligned – according to the way a specific policy intervention has been designed. It also shows how it is often possible to create shared value from available data. Finally, it reviews institutional developments around the application for behavioural insights for policy and puts forward a comparative framework (PRECIS) describing behavioural insights teams with six key features.

Mind, Society and Behaviour, the World Bank (2015)

The 2015 World Development Report focussed on behaviour and on its implications for economic development. The report is articulated in 3 parts. The first one presents a conceptual framework for expanding the understanding of human behaviour (e.g., covering issues of social norms and corruption), the second one tackles the implications of sociological and psychological perspectives on policy, and the third one touches upon the need to improve the work of development professionals. Interestingly, chapter 10 includes several trials carried out with development professionals, convincingly proving that policymakers are also subject to the biases, mental shortcuts, and social and cultural influences described elsewhere in the Report.

Applying Behavioural Sciences to EU Policy-making, European Commission (2013)

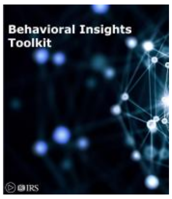
This is the first JRC Policy Report investigating the way in which behavioural insights could be applied to policymaking, at the European level. The authors depart from the available evidence showing that we do not always act rationally and explore the implications for policymaking. This is a very useful reference report, touching upon practical issues to consider when commissioning behavioural studies, as well as describing the pros and cons of different types of evidence collection methods.

Seven Points to Remember when Conducting Behavioural Studies in Support to EU Policy- making, European Commission (2015)

This constitutes an even more practical guide for collecting behavioural evidence – and/or testing a behavioural intervention – through an ad-hoc behavioural studies. Each of the 7 points – i.e. identify the behavioural element at tightly as possible, participate in the choice of methodology, plan carefully to minimise changes along the way, representativeness, the choice of experimental conditions, the possibility of getting a null result, the ecological validity - is sufficiently spelt out in a non-technical jargon and with the help of appropriate examples.

Reports on BI and tax compliance

Behavioral Insights Toolkit, Internal Revenue Service (2016)



This Behavioural Insights Toolkit was created as a practical resource for use by IRS employees and researchers seeking to incorporate Behavioural Insights into their work. This Toolkit describes the field of Behavioural Insights, its potential benefits, and how Behavioural Insights can be practically applied to serve taxpayers and help the IRS achieve its mission. It highlights examples of opportunity areas where Behavioural Insights has been applied both internally at the IRS and across the globe.

Applying Behavioural Science in Tax Administration – A Summary of Lessons Learned, Irish Tax and Customs (2017)

This paper summarises lessons from 20 Randomised Control Trials (RCTs) conducted by Revenue over 6 years. Revenue was the first Government Department or Office in Ireland to implement RCTs to test the application of behavioural research. These trials have helped to build up a comprehensive picture of taxpayer behaviour in Ireland. While audit and other risk management interventions are effective compliance tools, they can be expensive and time consuming for both Revenue and taxpayers. Targeted treatments using behavioural science can be a complementary and cost-effective tool to improve compliance.

Behavioural Insights for Better Tax Administration: A Brief Guide, OECD (2021)

This brief guide highlights how the rigorous methods employed by behavioural scientists are responsive to the growing push for data-driven decision making. Behavioural insights can be beneficially applied to inform a suite of options for achieving strategic goals, such as improving compliance behaviours in a range of situations. This leaves senior decision makers better positioned for selecting the most viable course of action, whether it is a distinct intervention or a complementary set of approaches. Several concrete examples from tax administrations around the world help to illustrate these points.

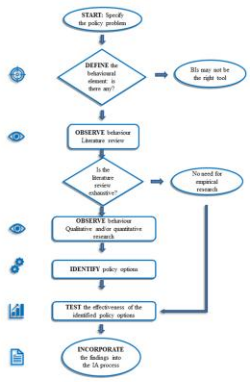
This report not only provides an entry point for tax administrations considering behavioural insights, but also illustrates ways for organisations with existing programmes to scale their initiatives to greater maturity. Behavioural insights provides opportunities to improve effectiveness across all functions, while also identifying paths for upstream, proactive changes. Developing new strategies and considering existing ones through a behaviourally informed lens will leave tax administrations better equipped to handle the ever-changing landscape of modern tax administration.

Behavioural Insights for Tax Compliance, World Bank (2021)

Behaviourally informed policy emphasizes the importance of context for decision making and behaviour. It examines the social, psychological, and economic factors that affect what people think and do. It addresses details in bureaucracies, technologies, and service delivery that are often overlooked in standard policy design, but that can dramatically influence the effectiveness of development programs and projects, especially in low-income contexts. Behaviourally informed policy can provide creative solutions to difficult challenges, often at low cost.

This policy note provides evidence from World Bank field experiments that consider the social, psychological, and economic factors influencing taxpayer decision-making. Complementary studies from Costa Rica, Guatemala, Poland, Latvia, and Kosovo demonstrate how context-specific, behaviourally informed messaging can offer an immediate, low-cost solution to bureaucratic and technological barriers.

Frameworks and Toolkits



The DO IT framework, CCBI, European Commission (2021)

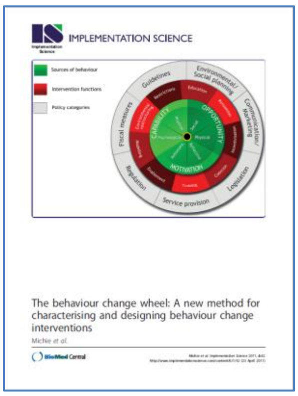
This is TOOL #69 of the 'Better regulation' toolbox – November 2021 edition, available at https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox_en

This tool underlines the practical steps in applying behavioural insights for policy. We first need to **D**efine the behavioural elements of a policy problem, then **O**bserve the behaviour and try to understand it, then **I**dentify policy options to address this behaviour, and finally **T**est the effectiveness of these options.

MINDSPACE, UK Cabinet Office (2010)

This report sets out nine of the most robust (non-coercive) influences on our behaviour, captured in a simple mnemonic – MINDSPACE – which can be used as a quick checklist when making policy.

Messenger	we are heavily influenced by who communicates information
Incentives	our responses to incentives are shaped by predictable mental shortcuts such as strongly avoiding losses
Norms	we are strongly influenced by what others do
Defaults	we 'go with the flow' of pre-set options
Salience	our attention is drawn to what is novel and seems relevant to us
Priming	our acts are often influenced by sub-conscious cues
Affect	our emotional associations can powerfully shape our actions
Commitments	we seek to be consistent with our public promises, and reciprocate acts
Ego	we act in ways that make us feel better about ourselves



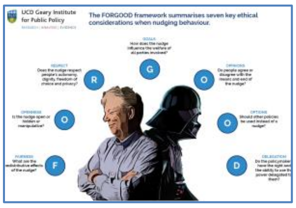
The BEHAVIOUR CHANGE WHEEL incl. COM-B model, Michie, S. et al. (2011 & 2014)

Improving the design and implementation of evidence-based practice depends on successful behaviour change interventions. This requires an appropriate method for characterising interventions and linking them to an analysis of the targeted behaviour. There exists a plethora of frameworks of behaviour change interventions, but it is not clear how well they serve this purpose. This paper evaluates these frameworks and develops and evaluates a new framework aimed at overcoming their limitations.

The COM-B model for behaviour change cites capability (C), opportunity (O), and motivation (M) as three key factors capable of changing behaviour (B). Capability refers to an individual's psychological and physical ability to participate in an activity. Opportunity refers to external factors that make a behaviour possible. Lastly, motivation refers to the conscious and unconscious cognitive processes that direct and inspire behaviour.

EAST Four simple ways to apply behavioural insights, The Behavioural Insights Team (2014)

This paper sets out four simple principles for influencing behaviour — make it Easy, Simple, Attractive and Timely (EAST). The EAST framework has been developed by the Behavioural Insights Team from its experience of applying behavioural insights over the past three years. EAST therefore complements the existing MINDSPACE report by focusing more on how to apply behavioural insights in practice.



Nudge FORGOOD, Lades, L.K. and Delaney, L. (2020)

Insights from the behavioural sciences are increasingly used by governments and other organizations worldwide to 'nudge' people to make better decisions. Furthermore, a large philosophical literature has emerged on the ethical considerations on nudging human behaviour that has presented key challenges for the area but is regularly omitted from discussion of policy design and administration. We present and discuss FORGOOD, an ethics framework that synthesizes the debate on the ethics of nudging in a memorable mnemonic. It suggests that nudgers should consider seven core ethical dimensions: Fairness, Openness, Respect, Goals, Opinions, Options and Delegation. The framework is designed to capture the key considerations in the philosophical debate about nudging human behaviour, while also being accessible for use in a range of public policy settings, as well as training.

The BASIC toolkit, OECD (2019)

What are the ingredients of good behavioural public policies? When and how should BI be applied to policymaking? Can we use our knowledge of how people think and make decisions to create more effective interventions? The BASIC Guidebook addresses these fundamental questions and provides a starting point to learn about the process of incorporating BI into policymaking.

Websites and blogs

- **https://ec.europa.eu/knowledge4policy/behavioural-insights_en,** the K4P website of our Competence Centre on Behavioural Insights, with a newsletter and regular updates on our activities.
- https://behavioralscientist.org/ , "a non-profit digital magazine that offers readers original, thought-provoking reports from the front lines of behavioral science", with a print edition and a newsletter.
- https://advanced-hindsight.com/, "Making people happier, healthier, and wealthier with behavioral science, at home and abroad", with a blog, podcast and newsletter.
- https://www.bi.team/ , the website of the Behavioural Insights Team, also known as The Nudge Unit, which started as a unit in the UK government and is now a global social purpose company.
- https://www.behavioraleconomics.com/blog/, "a blog that publishes the latest behavioral insights from academia, business, and public policy", by Alain Samson and team.

Podcasts

Behavioural Grooves,
« The podcast that explores why we do what we do », by Kurt Nelson and Tim Houlihan.
https://behavioralgrooves.com/

The Psychology Podcast,
« Stimulating your brain since 2014 », by Scott Barry Kaufman.
https://scottbarrykaufman.com/podcast/

Freakonomics Radio
Certainly not all of if it can be classified as "behavioural insights" but it is highly entertaining and intriguing, in particular where studies using non-standard data sets are reported.
https://freakonomics.com/podcasts/

B.E. GOOD! by BVA Nudge Unit
Interviews with leading authors of behavioural economics books.
https://www.bvanudgeconsulting.com/podcast-b-e-good-podcast-2/

Videos

- Eldar Shafir on how being (time-)poor makes you take bad decisions: https://youtu.be/gV1ESN8NGh8 (13'38")
- Esther Duflo on social experiments to fight poverty: https://youtu.be/0zvrGiPkVcs (17'17")
- An inspiring hand-drawing animation on BIs: https://youtu.be/pDub6gG1yxw (3'21")
- Capuchin monkeys' reaction to unfair pay-off: https://youtu.be/meiU6TxysCg (2'34")
- Solomon Asch's experiment on how social pressure can make people *conform to majority opinion* https://youtu.be/TYIh4MkcfJA (4'10")
- Taxes: The psychology of compliance (Erich Kirchler)
  - Short animated introduction https://youtu.be/BMevq_vHswU?feature=shared (1'59'')
  - Tax Chat seminar https://youtu.be/DR01e0vWRmY?feature=shared

Online courses

- A variety of online courses in psychology, behavioural economics and the application of behavioural insights in different domains, are available on the Internet. Please contact your instructors for advice if you have specific needs in this respect.
- We recommend in particular:
  - Behavioural Insights for Public Policy by BETA – the Behavioural Economics Team of the Australian Government, https://behaviouraleconomics.pmc.gov.au/learn-hub/be-skilled
  - Psychology and Economics, Instructor: Frank Schilbach (Department of Economics, MIT), MIT Open Course Ware (OCW), https://ocw.mit.edu/courses/14-13-psychology-and-economics-spring-2020/

Glossary

A glossary of terms used in this course is available at https://behavioralgrooves.com/behavioral-science-glossary-of-terms/

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