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## **FORMAL AND INFORMAL ASPECTS OF THE INTERACTION BETWEEN FISCAL AUTHORITIES AND TAXPAYERS**

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**Abstract:** The purpose of this paper is to present and analyse the behavioural relationship between tax authorities, which impose rules and constraints of a fiscal nature, and the rational taxpayer, taxpayer and beneficiary (consumer) of public goods and services. This interaction is analysed from the perspective of the formal and informal aspects existing and manifested between the two parties. From a methodological point of view, the multidisciplinary analysis was used, which facilitated the good knowledge, enrichment and development of the interaction, beyond the purely economic aspects, through sociological and even philosophical elements. The result resulted in the delimitation of formal and informal aspects, in the presentation of some characteristics of the relationship between the tax authority and taxpayers and allowed to draw conclusions that can be potential alternatives for reflection and deepening for tax authorities in adjusting tax administration strategies.

**Key words:** taxpayers, tax authorities, tax behaviour, tax culture

**JEL Classification:** A13, H30, Z1.

### **1. Introduction**

Some of the revenues generated by the taxpayers are taken over through the tax system, by the tax authority, in the form of taxes, without the existence of a direct or immediate consideration from it, which favors, at the level of the taxpayer, the possibility of accumulating feelings of frustration, rejection. of the action of the tax authority, for the fact that a certain part of the value of their work is taken over, thus diminishing its income or benefits obtained. This pecuniary constraint, emanated from the tax authority on the taxpayer is the space where the fiscal behavior and the interaction between the two parties are created and manifested.

In this context, the “action” of the work is manifested, the formal side referring, in our opinion, to the regulated issues, respectively to the right and obligation of the tax authority to collect taxes and provide public goods and services, as well as to the obligations and rights of taxpayers. to pay the taxes related to the obtained income and to be beneficiaries of the public goods and services. The informal side refers to the interaction between the tax authority and taxpayers, which results in taxpayers' perceptions and attitudes related to taxation, through which they assess the tax authorities and manifest certain behaviors.

The perpetuation of the fact that the main objective of the fiscal system is to maximize the revenues of the state budget is not stimulating for the taxpayers. Usually, taxation is a form of integration of the taxpayer in an economic circuit in which he, on the one hand, contributes to the supply of the system, and on the other hand is the beneficiary of public policies through the redistribution mechanism. Taxation, even if it emanates from the state, is recommended, in order to achieve its objectives, to take the form of a partnership, the perception being that it gives rise to obligations exclusively for taxpayers, but in fact creates important obligations for the state. tax administrator.

The public authority is not in itself a public service, but is a provider of public goods and services insofar as it proves its effectiveness, in the sense of satisfying the minimum need for public goods and services for all its citizens. In this favorable case, in addition to public goods and services, the state also provides a number of non-quantifiable elements, such as the credibility of the institutions involved in the fiscal-budgetary process, the degree of trust that taxpayers have in them, are "informal goods" that favor a partnership between the state and the taxpayer. In order to strengthen a partnership, with incentives, taxation must generate obligations and rights on both sides and be seen as a form of integrating the taxpayer into a contractual mechanism, but not as a form of subjection and isolation of the taxpayer, by which to deviate its behavior towards non-compliance trends.

The historical relationship between taxation, emanating from the state, and the taxpayer, as a taxpayer and consumer of public goods and services, offers opportunities for a multidisciplinary approach, respectively from an economic, legal, sociological and even cultural perspective. This approach to which we try to adhere in the paper, allows the delimitation of formal and informal aspects in the relationship between the tax authority and the taxpayer.

## **2. Formal aspects**

The formal side of the interaction between the tax authority and taxpayers, in our opinion, can be developed, on the one hand, on the mechanisms by which the tax authority exercises certain functions of ensuring financial resources, macroeconomic adjustment and ensuring a certain fairness, through fiscal policy and, on the other hand, on the tax obligations of taxpayers, resulting from the pursuit of economic, professional income-generating activities, ownership of movable and immovable property or other activities subject to the tax regime, to contribute, depending on the nature and size of the revenues obtained, to the constitution of the state revenues and, implicitly, to the realization of its role and functions.

Opinions and debates on economic doctrines, with an impact on the direction of fiscal policies, have intensified, in particular, in the wake of economic events (shocks) such as crises. Until the beginning of the twentieth century and then until the great economic crisis of the 1930s, the only accepted purpose of the tax system was financial, its primary function being to finance the traditional activities of the state, the goal being to seek the means the most effective way to cover the expenses incurred.

The doctrine of the neutrality of the fiscal system, supported by the classical liberals<sup>1</sup>, was based on at least two essential considerations, namely:

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<sup>1</sup> Representatives of liberal doctrine: A. Smith, D. Ricardo, J.B. Say, Fr. Bastiat.

- ✓ the need to cancel the fiscal privileges enjoyed by certain social categories, which meant the application, in practice, of the principle of universality of taxation;
- ✓ minimizing the tax levies that are considered to have negative effects on the economic environment, due to the fact that, taking part of the savings, it discourages investments and reduces the level of private capital formation.

From this liberal point of view, the short-term fiscal policy was considered harmful, and the tax redistribution policy was considered arbitrary.

After the crisis of the 1930s and after the Second World War, under the influence of Keynesian ideas, the state's intervention in the economy increased and, at the same time, the role of the state expanded. The state was no longer to be kept out of the economic system, but it was to become an active subject in the economy. Fiscal policy could be used, along with other macroeconomic policies, to correct economic imbalances, regulate economic fluctuations in the economy, but also to achieve social objectives, such as changing the allocation of resources and income distribution in society.

Since the 1970s, excessive state interventionism has become the target of attacks and a central element of debates that confront the principles of liberalism and interventionism, with some economists and politicians<sup>2</sup> believing that the state would play a far too important role in the economy. Thus, they pointed out that too high a level of public spending deprives the resources of productive activities in the private system, that companies face a far too heavy tax burden, appreciating that “abolishing the complex system of state regulations, interventions and subsidies would liberalize initiative and energy private”.

The financial and economic crisis, which began in 2008, and the health crisis generated by the SARS CoV-2 virus, which began in 2020, have highlighted the fact that one of the main problems for the state is facing global problems that cannot be solved by traditional institutional mechanisms, but requires a better understanding of global / national cultures and ideas, a certain adaptability and flexibility that can ultimately lead to a progressive redefinition of its role and capacity.

Globalization, despite its increasingly perceived disadvantages, will continue and remain inevitable due to stronger interconnections and interrelationships. In this context, the role of the state must be progressively redefined (Zaman, Cristea, 2020), in order to increase administrative and financial capacity, responsibility in preventing and managing economic, social and/or health shocks (recent experiences in combating the effects of the economic and financial crisis and health, generated by SARS CoV-2 virus), as well as providing levers and mechanisms for intervention and support for the economic and social environment.

In line with the need to redefine the role of the state, it is necessary to continuously improve the actions at the level of its institutional structures, with the possibility of capitalizing on "lessons learned" and adapting them to current realities and challenges of immediate and optimal capacity. functioning of social mechanisms of active social inclusion and promotion of technological progress in the lives of citizens, with a view to the quality of life of individuals and local communities. Thus, redefining the role of the state involves increasing the resilience of its own system, by (re) activating the role of promoter of

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<sup>2</sup> Milton Friedman, Ronald Reagan, Margaret Thatcher, etc.

change for social progress, in line with the dynamics of responsible and sustainable development of the economic environment.

The prevention and intervention functions of the state can be fundamentally reconfigured, on all components of insurance, management, evaluation and control, in order to address and effectively solve the problems of society, by promoting partnership and transparency in the relationship with taxpayers.

We made this brief foray to emphasize the role and functions of the state in the economic and social life of citizens and to capture the need to adjust, through fiscal policy, to the process of globalization, integration, the emergence of "black swans", increasingly common at the beginning of the 21st century, and to justify the sovereignty and formality of its actions.

Fiscal policy, as the main anchor of macroeconomic adjustment, is implemented through the fiscal-budgetary system, which has as its main element the tax, and as an interface of interaction, the taxpayer, as a holder of capital regularly subject to taxation, depending on the nature and its generation.

The fiscal system includes a series of organized structural elements in order to monitor, control and analyze the application of tax legislation. The tax is the determining element but, along with it, the tax system includes other elements, such as: tax legislation which has the role of creating legal and regulatory conditions for taxation including both the rights and obligations of tax authorities and taxpayers.

The fiscal relations, established between the fiscal subjects and the state, represented by the fiscal authorities, create a complex network of connections between the fiscal partners, the collaboration between them contributing to the achievement of the fiscal objectives. Within this fiscal partnership, the two categories of subjects have certain rights and obligations, on the observance of which depends the good relationship between them.

### **3. Informal aspects**

The informal side, in our opinion, can capture sociological and cultural aspects, resulting from taxpayers' perceptions of their formal interaction with the tax authority, namely the way taxation is mirrored in the minds of taxpayers, these being important elements that guide their behavior and accumulate in the process of formation and development of fiscal culture.

The sociological approach (G. Schmolders, in 1973)<sup>3</sup> assesses how taxation is reflected in the minds of taxpayers and, as a consequence, performs some analysis on the fiscal discipline exercised by taxpayers in their tax behavior.

Taxpayers want to understand and evaluate fiscal policy, tax rates and the use of taxes in the supply of public goods, as well as the interaction between them and the tax authorities. Finally, there is a motivation to comply or not to comply with tax obligations and this motivation outlines the subsequent fiscal behavior.

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<sup>3</sup> Initiated by G. Schmolders, in 1973, through the work *Psychology of Finance and Taxes*.

Depending on the results of their subjective analyzes and the way in which they evaluate the social value of their financial contribution, the motivation of the taxpayers is also realized.

It is generally assumed that a better knowledge of taxation is correlated with compliance with tax obligations. Thus, education as a tool of knowledge becomes a relevant factor in the behavior of taxpayers. Another important element of taxpayer behavior is transparency. In a system of educated taxpayers who are confident in their knowledge and aware of the use of public finances, transparency is not only a matter of fairness and respect for taxpayers, but also a precondition for their cooperation with tax authorities. Also, the way of interaction is important for the taxpayers, respectively if the authorities treat them starting from the presumption of guilt, they can behave opposably, and if the treatment starts from the basic legal principle of the presumption of innocence, they will prove a moral character, a sense of civic duty or duty and will reveal this side of their character.

The cultural approach refers to the accumulation of taxpayers resulting from structural changes in tax systems, frequent changes, interaction with tax authorities, the assessment of the relationship between contributions and benefits, and the connections of the tax system with its external elements.

Initial approaches (Schumpeter, 1929) to fiscal culture were limited to the interaction between the tax authority and taxpayers, without incorporating important evolutionary elements of the national culture, while further developments aim at condensing elements from traditional taxation, from interaction with cultural values related to honesty, equity and civic debt that contribute to the fiscal culture specific to the country in which it manifests itself. These elements of the fiscal culture contribute to the creation of the fiscal mentality, which leads to morality and fiscal discipline and which aim at creating a partnership between the taxpayer and the fiscal authority.

Cultural standards and the historical evolution of tax institutions contribute to the determination of the tax code, which in turn determines the environment and tax constraints (legislation, regulations on the application and collection of taxes) and, finally, the interaction between participants.

The evolution of fiscal culture accumulations can be unfavorable in countries where the magnitude of changes in the tax system are frequent and profound. In such situations, there are cultural delays in adapting to the new democratic system and some positive developments can be made on the fiscal, behavioral, democratization and transformation side only in the long run, as long as taxpayers comply with tax legislation. The favorable situation for the accumulation of tax culture is that most tax reforms consist of only minor changes to the tax system, for example, the widening of a tax base, the change of tax rates by one percentage point. In these situations, the fiscal culture obviously does not change.

#### **4. About the interaction of tax authorities - taxpayers**

The interaction between tax authorities and taxpayers, in our opinion, takes place within these limits conferred by the formal and informal framework. According to practical experiences and economic theory on behavior, in this relationship, to prevent and control the predisposition of taxpayers to manifest evasive behavior, control measures are applied, coercion, as educational measures for voluntary compliance.

The higher the voluntary respect, the smoother the interaction, the more it is not felt, but the lower the voluntary respect, the more obvious the interaction will become, even with antagonistic tendencies. In the latter situation, the authorities generally use a traditional method, namely to intensify controls (increase their frequency) and to increase fines / penalties.

The general trends of the tax authorities have been and still are towards increasing the use of punishment in response to the identification of tax evasion, but we appreciate that this mode of interaction must be applied in a balanced way, taking into account the circumstances under which punishment has positive effects and circumstances, which its effects are harmful. An important contribution in this direction may come from the review of the limited ability of the legal system to determine the size and nature of penalties so that rehabilitation can be achieved and recidivism prevented.

These traditional strategies for improving compliance with tax obligations applied by tax authorities are focused exclusively on the result (towards the financial element), without taking into account the human and social factor, focusing only on improving tax collection, without analyzing the relationship between taxpayers, tax inspectors and related equity issues. In contrast, alternatives to these traditional strategies, such as counseling, counseling for taxpayers under control, have developed timidly but progressively, demonstrating that most taxpayers are naturally fair, honest and well-paid taxpayers. When this majority finds it difficult to understand more and more complex tax legislation and seeks the help of tax authorities, it does so with the aim of better understanding and making accurate tax returns, not to look for tax reduction strategies.

If the tax authorities trust the taxpayers' desire to comply with their obligations, in accordance with the legal provisions and accept the complexity of the legislation and that this can lead to errors in tax returns, both to the advantage and disadvantage of taxpayers, tax inspectors can develop the role of advisers with the main purpose of assisting in the correct elaboration of the fiscal declarations and in the supervision of the taxpayers. Among taxpayers, this approach can attract perceptions of empathy and fair treatment, which can be reciprocated through fair behavior and respect.

Undoubtedly, with the exception of a majority of taxpayers who are willing to pay their taxes correctly and cooperate to improve their understanding and thus their tax behavior, there are non-cooperating taxpayers who must be aware that the tax authorities will act to comply, the law in case it is violated.

From an exchange perspective, the style of interaction determines the contractual relationship between the parties involved, respectively, if the tax authorities treat taxpayers as partners, instead of participants in a relationship in which the tax authorities have legal power, mutual respect and honesty can be enhanced. Taxpayer-oriented interaction, recognition and respect for taxpayers' rights, are often the only possible measures to create an understanding capable of increasing trust, fiscal morality and voluntary compliance.

Experimental works (Alm, Cherry, Jones, McKee, 2010) confirm that compliance with taxation tends to increase when taxpayers are aware of the direct link between the payment of their taxes and the provision of public services and goods. In contrast, constant monitoring and punishment for non-compliant taxpayers can affect fiscal morale, increase disrespect, and distrust.

A certain degree of natural tax evasion is not necessarily the worst problem, we consider the legal forms of tax avoidance that tend to increase with the development of the global economy, e-commerce<sup>4</sup>, etc, to be special problems. Also, the administration of tax systems has become an increasingly difficult task and has political implications that can affect national economies through decisions made by taxpayers, under the constraint of tax systems.

The traditional mode of interaction, as we have seen, is predominantly based on the command and control system, with almost automatic applications of penalties for evasion and non-compliance with the legal principle of the presumption of innocence. The constant or exaggerated application of penalties to ensure compliance has led to the style of control, followed by the application of penalties, being often unsuccessful, criticized by taxpayers, leading to diminished confidence in the tax institution.

Tax advisors and inspectors play a key role in ensuring the overall compliance of taxpayers. If the authorities continue to perpetuate the interaction characterized by poor communication skills, lack of technical knowledge and inconsistency in punishment, compliance with current and future tax obligations may decrease. Tax authorities in several countries<sup>5</sup> are gradually rebuilding their approaches to taxpayers by treating them like customers, by supporting their needs, trying to improve tax awareness.

It is important for citizens to feel motivated, to activate ethical motivations to support state policies, to feel a kind of personal responsibility and a certain obligation to support and approve the relevant moral values of society. Trust in the legal and political systems are also important elements that can lead to improved compliance.

A possible strategy for increasing compliance with the tax law may be the differentiated approach of taxpayers' behavioral typologies, accompanied by specific actions by the tax authority, with the role of preserving and consolidating voluntary behavior, support and advice for taxpayers who want compliance but have difficulties in understanding the legislation, and correction for taxpayers who do not want to comply with tax legislation.

Scientific approaches (Braithwaite,2003) to tax behavior confirm that most taxpayers comply with their tax obligations, either through moral convictions and acceptance of social norms, or because of a lack of opportunities to evade or fear of being discovered and fined, and the authorities can adopt strategies with relative ease on the other side of taxpayers prone to tax non-compliance.

The transition from a commanding and controlling style to a more convincing and responsible style is not easy. Rigid bureaucratic traditions have fostered an inflexible style of regulation, but the continued perception of taxpayers as opportunistic or speculative in gaining benefits must be replaced by their perception as customers. In addition, successful implementation often requires persuading tax authorities to accept the need for change to allow taxpayers to comply.

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<sup>4</sup> At the international level, the concerns are focused on the mechanism for combating the erosion of the tax base and the migration of profits (BEPS), a mechanism that pursues three areas: the adoption of new standards to ensure the coherence of direct taxation systems at international level, realignment of the tax system. taking into account the elements of substance and increasing transparency through new reporting and information exchange rules.

<sup>5</sup> Australia, France, Sweden, USA.

## 5. Conclusions

The objective of the paper was to present and analyze some formal and informal aspects in the interaction between tax authorities and taxpayers, in terms of fiscal relations between tax authorities and taxpayers. The main aspects found are:

- ✓ the state, in order to fulfill its functions and role, has created a series of formal mechanisms through which to ensure the necessary financial resources, the capacity to supply and produce public goods and services, the capacity to intervene in the economy and other spheres of to the company, exercising the function of control and coercion, in case of non-compliance with the legislation;
- ✓ one of the most important mechanisms that the state has created and uses for the aforementioned purpose is the fiscal-budgetary mechanism, which, through its functions, provides the state with instruments for procuring financial resources, instruments for intervention and adjustment of economic mechanisms, as well as social security instruments, redistribution of income within the company, etc;
- ✓ this formal framework for the implementation of fiscal-budgetary policy, which has as main elements the fiscal authorities, regulations and taxpayers, emerges informal aspects resulting from their interaction, such as the style of interaction, taxpayers' perceptions of taxation, authorities, valuation of contributions their assessments that outline the motivation and generate the subsequent fiscal behavior;
- ✓ traditionally, the authorities have been and are predominantly concerned with securing state revenues, without regard to psychological, social, equity and taxpayer factors, dignity, communication and transparency, as important issues that can improve the style traditional interaction based on control and punishment, which does not facilitate education and perpetuate recidivism among them.

Finally, we note that there is resistance to change on both sides, both among the authorities and the taxpayers, but despite these difficulties, in the medium and long term, the approach described in the paper, oriented towards a way of partnership interaction, it is much more promising for stimulating cooperation and mutual respect.

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