

Mental-budgeting effects on tax compliance of Dutch self-employed people

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Tax compliance among recently self-employed people frequently fails, thus resulting in the Dutch Tax Administration sending reminders for tax payments, demand notices, distress warrants and warnings for attachments. To the extent that tax compliance follows from poor financial management, mental budgeting may help increase tax compliance. In a preliminary study qualitative interviews were conducted among 31 self-employed people in order to assess their mental budgeting strategies and to discover different aspects of mental budgeting. In a quantitative survey of 655 self-employed people the aspects of making reservations, compensating for making expenses within a budget, fungibility, and budgeting were measured, in addition to two measures of tax compliance. A second-order factor analysis yielded one second-order factor for mental budgeting. Using instrumental-variable regression techniques, it was found that mental budgeting was instrumented by long-term time orientation and number of saving goals. Instrumented mental budgeting was significantly related to tax compliance. From the analysis it was concluded that the application of mental budgeting techniques may help increase tax compliance.

