

Russell Ackoff Doctoral Student Fellowship for Research on Human Decision Processes and Risk Management: 2014 Application

Influence of Income tax

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Requested Support:

\$ 3,500.00

1. Goals of the proposed research

The proposed research seeks to better understand how income tax and redistribution schedules influence people's motivation to work, attitudes, and decision making. Taxes have been shown to influence behavior and attitudes. Olivola and Sussman (2011) demonstrated that many people demonstrate strong tax aversion in several studies in which participants would spend time or money in order to avoid sales tax. Additionally, people exhibit income tax aversion, and people's compliance with income taxes and perceptions of government fairness are dependent on citizens' knowledge of tax structures (Eriksen and Fallan 1995).

Governments spend tax money on public works and often redistribute a portion to citizens in a variety of ways and these too can influence behavior and attitudes. Tax redistributions framed as bonuses are spent more readily than if they were framed as rebates (Epley and Gneezy 2007). Other framings of redistributions can change spending which was seen in the studies of Eckel et al (2004) in which participants donated less to a charity if they felt they had already done so via a tax. These findings about taxes and tax redistributions suggest that income taxes may have demotivating effect on work; however, there is insufficient psychological literature to make that claim. The proposed research aims to fill this gap in the literature.

There are several types of tax and redistribution schedules: Flat taxation occurs when a government collects a flat percentage of income from every individual. Progressive taxation is an increase of tax rate as a person's amount of earned income increases. Regressive taxation is a decrease in tax rate depending on decreases in a person's earned income. Redistribution schedules are similar to the above taxation schedules, but flow from the government to citizens and also often fund public works

The proposed research is designed to examine how these different income tax and redistribution schedules influence people's motivation, attitudes, satisfaction, and preferences and how these could influence individuals' decision making. Most people intuit that greater taxes will lead to less motivation. We propose that the effect of tax structures on work effort is influenced by the tax structure and the redistribution strategies, but perhaps less than people assume. We plan to run a series of incentive based Mechanical Turk and laboratory studies that explore taxes by paying participants for performance and taxing their earnings.

2. Description of the planned methodology

Research is needed to clarify the motivational role of taxes when working and the impact of taxation on decision making. Our studies dive deeper into answering questions about the optimal tax structure by closely examining the individual impact of tax structures and redistribution strategies on people's motivation to work, budgeting of resources, perceptions of the government, and sensitivities to tax schemes. We hypothesize that, by implementing different tax structures and redistribution strategies in laboratory settings, motivation to work will decrease (but not as much as people intuit) and people's behaviors, sentiments, and decision-making will be altered. People's uncertainty about the influence of taxes may lead them to suboptimal decision making.

Study 1 examine participants' intuitions about taxes on motivation by presenting scenarios where participants will predict how they and other people will behave. Participants from Amazon's Mechanical Turk will be asked to predict people's behavior in scenarios in which work is taxed.

In study 2, participants in the Wharton Behavioral Lab will be recruited to demonstrate the actual influence of tax and redistribution schedules on earnings. Participants will be instructed that they will have the opportunity to earn additional money contingent on their performance on several tasks and that their earnings will be subject to a tax structure and a redistribution strategy. Earnings per question in the task will be made constant between the control and the experimental condition. The results from this study could imply what tax and redistribution schedule leads to the greatest productivity.

Given the results from these two studies, we hope to be able to compare people's intuitions about taxes on behavior and the actual behavioral influence of taxation. Further research will seek to identify the optimal tax structure for productivity and perceived fairness and will examine the influence of taxes and tax complexity on budgeting and purchase decisions. This will demonstrate how people think about income taxes in their daily work and spending decisions.

3. Explanation of why funding is being sought

The Ackoff Fellowship will enable us to pursue this research and advance the income tax literature by investigating the impact of taxes on people's motivation, attitudes, and preferences. We hope to better understand the psychological mechanism underlying taxes which could impact decision making.

The financial support of \$3500 that I am seeking will be used primarily for the purpose of funding data collection. Data collection will be conducted online and in the Wharton Behavioral Lab. Given the incentive-based payment structure of study 2, this study is particularly costly to run and funding from the Ackoff Fellowship will enable us to properly manipulate earnings per task to better mimic real income taxes.

Income tax research has significant implications for the fields of marketing, psychology, and economics. Therefore, I hope to be able to share results with these academic audiences at the Association for Consumer Research (ACR) North American conference 2014 in Baltimore, MD, and the Society for Judgment and Decision Making (SJDM) conference 2014 in Long Beach, CA. While the marketing department does allocate some funding for research and travel, it is insufficient to cover all the expenses I will incur in the next year.

I am grateful for the research support that the Wharton Risk and Decision Processes Center provides to doctoral students through the Ackoff Fellowship. I sincerely appreciate your consideration of my application. If you have any questions or need further information, I encourage you to contact me. Thank you.

Anticipated Expenses

Item Description	Cost per Unit	Number of Units	Total Cost
Data collection: Payment for Subjects	\$5	500	\$2500
Association for Consumer Research Conference			
Registration	\$225	1	\$225
Travel	\$100	1	\$100
Hotel	\$150	3	\$450
Society of Judgment and Decision Making Conference			
Registration	\$175	1	\$175
Travel	\$600	1	\$600
Hotel	\$150	3	\$450
Total Costs			\$4500
Less: Wharton Marketing Department Funding			\$1000
Amount Requested from Ackoff Fellowship			\$3500

References

- Eckel, C., Grossman, P., & Johnston, R. (2009) "An experimental test of the crowding out hypothesis." *Journal of Public Economics*, 89: 1543-1560.
- Epley, N., & Gneezy, A. (2007). "The framing of financial windfalls and implications for public policy." *Journal of Socio-Economics*, 36(1), 36-47. doi:10.1016/j.socec.2005.12.012
- Eriksen, K.; & Fallan, L. (1996). "Tax Knowledge and attitudes towards taxation: A Report on a quasi-experiment." *Journal of Economic Psychology* 17: 387-402.
- Sussman, A., & Olivola, C. (2011). "Axe the Tax: Taxes Are Disliked More than Equivalent Costs." *Journal of Marketing Research (JMR)*, 48S91-S101. doi:10.1509/jmkr.48.SPL.S91