

## SOCIO-DEMOGRAPHIC AND BEHAVIORAL DETERMINANTS OF TAX FRAUD AND TAX EVASION

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**ABSTRACT:** *The issue of tax fraud and tax evasion is complex. Aspects such as measuring these phenomena, methods of combating them, determinants, effects, etc., are studied. Determinants can be classified based on the nature of the empirical study: macro or micro. At macro level, estimating these phenomena is influenced by economic, macro-cultural, or institutional factors. Our study addresses micro-level aspects. We investigate socio-demographic and behavioral factors that could affect individuals' decisions to engage in illicit tax activities. Analyzing the rationales that support possible causal relationships with fraud and evasion can form the basis for empirical studies at the micro level.*

**Keywords:** *tax fraud, tax evasion, socio-demographic determinants, behavioral determinants*

**JEL Classification:** *G28, G41*

### 1. INTRODUCTION

In the current context, given the increasing complexity of the contemporary global economy, tax fraud are illicit fiscal phenomena with significant implications for tax fairness, efficient revenue collection, and the sustainable development of economies and societies. In the endeavor to understand and control these undesirable practices, the study of socio-demographic determinants and human behavior becomes an essential component. This multifaceted approach explores social, demographic, and psychological variables that may form the foundation for individual or group decisions to resort to tax fraud or evasion. This can shape an analytical framework necessary and effective for the development of prevention and combating strategies tailored to the specificities of each society or economy.

Socio-demographic factors, in a classic sense, refer to variables such as age, education, income, marital status, etc., and can be identified as essential determinants that have effects on taxpayers' attitudes toward complying with tax obligations. If the causal relationships of these factors with fraud and evasion are well-understood and measurable, profiles of social groups

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with different predispositions to comply or not with tax legislation can be delineated. Consequently, consciously tailored, and effective policies can be adopted.

Turning to human behavior, this brings up psychological factors, such as risk perception, trust in government institutions, or social norms. These theoretical aspects, for which there are various attempts at measurement through proxy variables, provide a more detailed insight into the individual motivations that underlie decisions to engage or not in illegal fiscal practices. Through theoretical investigation of causality of this nature, a better understanding of the psychology of fiscal behavior is reached. Consequently, more coherent strategies for education and awareness can be developed to address the root causes of tax fraud and evasion.

Moreover, the study of socio-demographic and behavioral determinants in the context of tax fraud and evasion can become a valuable tool for defining effective and equitable public policies. If reasoned through such an approach, vulnerabilities in the tax system can be identified. Additionally, a clear theoretical basis can be provided for the development of legislative strategies, as well as preventive strategies, that can consider the diversity and dynamics of contemporary societies and economies.

Therefore, considering the concrete reality of continuously changing economic and social challenges, studying socio-demographic determinants and human behavior becomes indispensable to develop innovative and efficient solutions in preventing and combating illicit fiscal phenomena. Only through such a comprehensive approach can a tax system be built primarily on fairness and responsibility, while successfully orienting itself towards the sustainable development of contemporary societies.

In our study, we will address the two categories of determinants separately in distinct sections. They will not merely be listed but analyzed separately, with discussions on the logic of the effects they can have on fraud and evasion. Our approach is accompanied by arguments drawn from economic theory, citing relevant bibliographic sources.

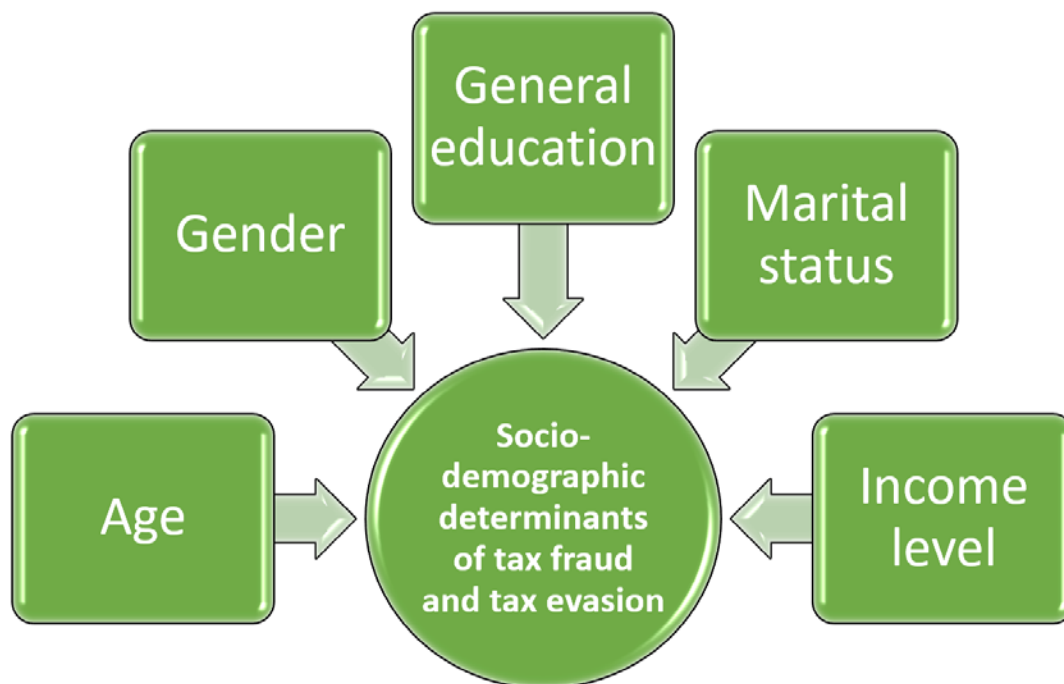
## **2. SOCIO-DEMOGRAPHIC DETERMINANTS OF TAX FRAUD**

Fraud and tax evasion not only represent localized issues but can significantly impact a national territory. These illicit phenomena yield undesirable economic consequences, limit the capabilities of public authorities to provide services of broad community interest, and undermine the trust that the population places in the tax system. However, despite being a national problem, it is not uniformly prevalent among individual taxpayers. Efforts have been documented in the literature that seek to theoretically explain and statistically highlight the influence of factors such as age, gender, education, marital status, residency environment, income level, and socio-professional category on taxpayers' behavior concerning compliance with tax rules (see also Figure 1).

*Age* has been discussed in various studies as a determinant of tax fraud and evasion (Achim & McGee, 2023). Generally, estimation results have shown that younger individuals have a higher predisposition to engage in fraudulent tax practices than older individuals. There are also several theoretical arguments supporting these results. Younger individuals are generally less willing or able to understand the complex phenomena of taxation, so they may perceive fulfilling tax obligations as a burdensome task (Hofmann et al., 2017). Youthfulness can also manifest through a lack of tax experience, leading to errors or non-compliance in reporting income and expenses. Another type of behavioral argument is that older individuals exhibit an increased predisposition regarding the importance of their contribution to financing public services, such as pensions or healthcare services. Older individuals are more likely to be law-abiding, mainly due to the values and social norms accumulated throughout their longer lives. Therefore, there are logical rationales that can explain the results of empirical studies

identifying age as a statistically significant socio-demographic determinant of tax fraud and evasion at the national level.

**Figure 1. Socio-demographic determinants of tax fraud and evasion**



Source: own construction based on literature study

*Gender* has also been empirically identified as an influencing factor in fraudulent tax behavior (Achim & McGee, 2023). Different applications based on national databases have highlighted behavioral differentiations in fraud and evasion between men and women. Results generally show that men have higher probabilities than women to engage in evasive behaviors. Moderating factors have also been identified that can nuance the observed gender differences. One such moderating factor is income disparity, which is prevalent between genders in most economies. The fact that, in most cases, incomes, especially salary-related incomes, are lower for women than for men, compels them to feel increased pressure, constituting an incentive to reduce their tax contributions (Alarcón-García, Quiñones & Sánchez-Meca, 2015). Conversely, an opposing argument suggests that men generally have a higher level of confidence in their abilities, encouraging them to attempt to circumvent the tax system and avoid detection by authorities for their frauds or evasions. Other enhancing factors of the gender differences' effect on the probability of illicit fiscal actions are of a cultural and social nature. Without clearly specifying the direction in which they act, certain social norms favoring gender-specific tax behaviors can be identified. For example, in societies or economies where a strong emphasis is placed on gender equality, differences in illicit fiscal behaviors between women and men are less pronounced.

The level of *general education* is often considered a factor with a concrete impact on fraud and evasion (Achim & McGee, 2023). First and foremost, the most widely circulated argument is that individuals with a higher level of education are predisposed to be more aware of the implications of taxation and have a better overall understanding of the tax system (Holkova, 2023). Consequently, more educated individuals should exhibit a lower predisposition to engage in actions associated with tax fraud and evasion. Education can also act through perceptions of detection risks in the commission of illicit acts. Taxpayers with higher education levels generally have a higher awareness of the possible legal consequences

of evasive actions and also have an increased perception of the probability of being discovered. These characteristics discourage them from engaging in illicit fiscal behaviors. Education can also influence through the creation of ethical values and personal behavioral characteristics. Individuals with higher education can more accurately understand the role of tax elements in financing public services and may be more motivated to contribute to the general interest of society. As a result of all these arguments, education is capable of significantly influencing the fiscal behavior of individuals.

*Marital status* has also been identified as a factor influencing the individual probability of resorting to tax fraud or evasion. In general, both married individuals and those in longer-term relationships with a partner have a lower predisposition to engage in fraudulent tax actions compared to individuals without a stable partner or who are divorced (Vythelingum, Soondram & Jugurnath, 2017). The reasons behind marital status can be diverse. For example, married or long-term committed individuals are generally more interested in maintaining a socially favorable image, thus attempting to avoid legal issues. Consequently, this way of reasoning may lead them to higher fiscal responsibility. Another argument is of a legislative nature; in many jurisdictions, married individuals enjoy certain tax advantages, including (but not limited to) deductions for children or tax benefits for jointly owned properties. The effect of these provisions can be behavioral, meaning citizens more seriously involved in relationships may have a higher level of motivation to comply with tax rules to maximize tax savings.

*Income level* is arguably the most widely discussed individual socio-demographic determinant regarding its effects on the decision to commit tax fraud or evasion (Achim & Borlea, 2020). The most common result found in empirical literature shows that individuals with generally higher incomes tend to have lower predispositions for illicit fiscal behavior compared to individuals with less stable income sources or lower wage earnings (Agyeiwaa et al., 2019). The differentiations observed in applied studies can be explained by several logical arguments. A primary argument is that individuals with substantial earnings can afford to engage tax specialists who can advise them to maximize their tax issues legally. Additionally, generous incomes enable them to diversify investment options and tax planning, implicitly facilitating a reduction in the impact of taxes and levies on their gross income. Another argument is that individuals with lower, volatile, or uncertain incomes feel a higher exposure to financial pressures and often seek legal opportunities to reduce the tax burden to cope with current expenses. Relative poverty can thus incite them to engage in fraudulent or evasive behaviors, including underreporting income or overreporting expenses.

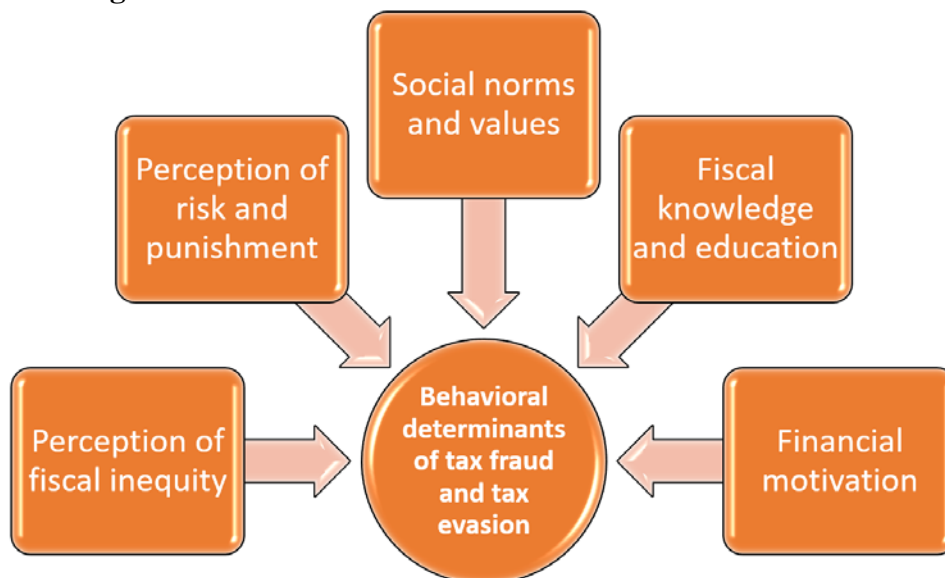
Consequently, fraud and evasion are complex issues, even just considering socio-demographic determinants such as age, gender, education, residency environment, marital status, income level, or socio-professional category. Understanding the mechanisms through which such factors act, their place, and timing of action can be of particular importance in developing effective tax policies and promoting tax compliance. If factors are well identified, and their effects are well quantified through quantitative methods, public authorities facilitate the task of developing superior strategies to combat fraud and evasion and to achieve the goal of ensuring a more equitable distribution of the tax burden within the economy.

### 3. BEHAVIORAL DETERMINANTS OF TAX FRAUD

In some academic sources, cultural and behavioral factors are treated together (Achim et al, 2019; Achim& Borlea, 2020) In our argumentation, we have chosen a separate approach primarily for pragmatic reasons. Both categories of factors characterize the individual. Cultural factors can prove to have homogeneous values from one individual to another within a society. This allows, through aggregation or the application of an average, to obtain indicators at the

national level that still have a high level of representativeness. On the other hand, behavioral factors (such as perception of tax inequality or tax education) can vary immensely from one individual to another, so aggregating them through an average would be statistically unrepresentative. Therefore, cultural factors can be empirically used as explanatory variables in cross-sectional studies at the international level, while behavioral factors can be almost exclusively used in micro-level studies, with the individual as the statistical unit. In our analysis, we investigate several factors likely to influence tax fraud and evasion, and we also discuss the logical connections through which they can be addressed within tax and compliance policies (see also Figure 2 for a schematic presentation of the factors).

**Figure 2. Behavioral determinants of tax fraud and evasion**



Source: own construction based on literature study

The *perception of fiscal inequity* is a behavioral factor, felt by individuals, and is mentioned in theoretical and empirical tax studies as the main behavioral determinant explaining the level of tax fraud and evasion (Achim et al, 2018). When individuals in a society perceive the tax system as unfair or unjust, there is an increased propensity for them to engage in actions associated with tax fraud and evasion (Alleyne & Harris, 2017). Injustice is not a concept that is so simple and can manifest in several forms. For example, tax obligations may be perceived as too high compared to the social benefits returned by public authorities. Taxes and levies may also be perceived as having too much arbitrariness or selectivity. In circumstances where a taxpayer perceives that their contributions are not used adequately to fund certain societal needs or that discriminatory criteria disadvantage them in the application of tax systems, they become less inclined to fully comply with tax legislation. However, whatever the manifestation of the perception of tax injustice, such an individual is more likely to resort to a certain form of tax system evasion (Alleyne & Harris, 2017). This issue is counteracted by public authorities, especially through actions aimed at improving the transparency of public activities related to the use of tax revenues. Possible measures may also include actions for a fairer application of tax laws. As image issues are also possible dialogues with taxpayers, as well as consulting their opinions when defining and implementing tax policies.

*Perception of risk and punishment* can also act through different actions on the fiscal behavior of individuals or economic entities. In circumstances where the taxpayer perceives a

low risk of being identified and exposed in the case of non-compliant fiscal behavior, and where sanctions are lenient, they will have a higher probability of resorting to practices associated with tax fraud or evasion (Stankevicius & Leonas, 2015). Conversely, when there are high values of the perception of the risk of detection, harsh sanctions, or both simultaneously, non-compliant fiscal behavior will be discouraged. Identifiable solutions are also available to regulatory public authorities. A straightforward way in theory is the very rigorous application of tax legislation and intensifying efforts to achieve compliance. Effective measures also include those focusing on the development of efficient systems for detecting evasive and fraudulent practices or legislating for firmer penalties and sanctions in cases of violations of tax rules. Thus, the perception that taxpayers have of risk and punishment is directly targeted.

*Norms and social values* are also considered by researchers to explain individual inclination toward tax fraud and evasion. In any society, there are, of course, norms and values, but their reinforcement and adherence in the community differ. When there are social norms supporting compliance with tax laws and fiscal ethics, taxpayers are less inclined to engage in illegal fiscal behaviors (Pickhardt & Prinz, 2014; Borlea et al, 2019). However, there are also societies, especially in less developed states, where illegal fiscal activities are not entirely disapproved by norms or are not socially undesirable, in which case taxpayers resort more frequently to tax fraud and evasion. If a decrease in illegal fiscal phenomena is desired, attention must be given to norms and social values; they must be promoted, respected, and set as examples of best practices in the community. Civil society can successfully support public authorities in such an endeavor, for example, through non-governmental organizations (NGOs) with concrete actions to educate the population about the importance of paying tax obligations and the importance of ethics in taxation. Such actions or even regularly conducted awareness campaigns can contribute to positive changes in social norms regarding human behavior in taxation.

*Knowledge and fiscal education* are also determinants of overall fiscal behavior or certain components. Individuals who, through various means of information, have reached a higher level of understanding of the role, organization, and functioning of the tax system and their tax obligations usually have an additional motivation to comply with tax laws. Conversely, minimal tax knowledge can lead to errors in reporting income and expenses, as well as incorrect understandings of the legal consequences of illegal tax activities (Oz Yalama & Gumus, 2013). Fortunately, the issue is solvable; public authorities have numerous opportunities to invest time and material and human resources to increase tax education levels. There is also the option of using specific assistance programs, tax guides, or on-demand tax consultancy to increase tax compliance levels.

*Financial motivation* is also addressed in the literature, more theoretically than empirically, to explain the level of fraud and evasion reached. If individuals and economic entities contributing to the tax system perceive it as possible or even very likely to obtain financial benefits through illegal tax actions, there will be an increased individual or collective predisposition to engage in these types of fraudulent behaviors (Ritsatos, 2014). It becomes possible for fraud or evasion to contribute to rapid financial benefits for a particular taxpayer, and defrauding the tax system can lead to the achievement of financial advantages through illegal or immoral means. To address this delicate issue, public authorities have the opportunity to direct efforts toward reducing the kind of financial motivation that is highly likely to lead to fraud and evasion. It may require very substantial efforts, including restructuring government tax structures, to increase fairness and reduce opportunities for fraud and tax evasion. There are even other possibilities, simpler to organize, such as providing material and moral incentives from authorities to taxpayers who have complied with tax regulations and encouraging taxpayers to report observed tax fraud to other individuals or economic entities.

Looking at the individual level, we enter a very complex behavioral world, with a multitude of possible influencing factors on financial behaviors. For these factors, theoretical and logical explanations and reasoning are easier to articulate than to use in applications. First of all, macro-level factors are currently excluded due to the difficulty of aggregating such indicators at the population or community level. Instead, micro-level empirical studies are possible through surveys and samples. However, there are difficulties in obtaining relevant data, statistical representativeness, accuracy of responses from interviewees, etc. Nevertheless, even without large-scale empirical studies, which are currently lacking in the literature, we already know that the efficient approach to illegal tax phenomena requires a combination of interventions by authorities, such as improving tax transparency, rigorous enforcement of tax laws, promoting social norms that support compliance with tax laws, tax education of citizens, and reducing financial motivation for illegal fiscal behaviors. Even though it largely relies on theoretical assumptions, by addressing these factors, public authorities can develop more coherent, ethical, and effective tax policies and ensure a fairer distribution of the tax burden among taxpayers.

#### 4. CONCLUSIONS

While fraud and evasion are viewed as national issues, among taxpayers, there are huge differentiations in their usage. These differences can be explained, among other things, by certain socio-demographic factors with a significant impact on individuals' fiscal behavior. Age, for example, plays a role here; younger individuals tend to have a higher predisposition to engage in fraudulent fiscal behaviors due to a lack of tax experience and the perceived difficulty of the tax task. Gender can also be quite decisive; generally, males have a higher probability of engaging in evasive behaviors than females. Conversely, income differences between genders can exacerbate this tendency, as the usually lower incomes of women may encourage them to reduce tax contributions. Individuals with higher general education levels may have, though not exclusively, a better understanding of the tax system and the risks associated with illegal tax activities. The same category is more aware of the legal consequences of evasive behavior, leading to lower probabilities of involvement in such illicit activities. Married or involved individuals in more serious relationships tend to have a lower predisposition to engage in activities associated with tax fraud, as they are more motivated to avoid legal problems and, conversely, to benefit from the tax advantages offered to married couples. Individuals with higher incomes tend to have a lower predisposition for tax fraud, possibly because they can afford to consult tax specialists and invest in legal tax planning. Socio-demographic factors are relatively easy to quantify and observe, but they are only usable in micro-level approaches, with data available from surveys and samples.

The behavioral determinants of tax fraud and evasion identified in the literature cannot be aggregated to create national-level indicators, especially due to the enormous variability from one individual to another. Therefore, they are only usable in empirical micro-level analyses. The perception of tax unfairness is generally considered the most powerful individual behavioral determinant. Tax unfairness can be seen in various ways, either through taxes perceived as too high in relation to the social benefits offered or the perception that taxes are applied discriminatorily. The perception of risk and punishment manifests itself in that when taxpayers perceive a low risk of being discovered or receiving mild sanctions for not complying with tax laws, there is a higher probability that they will resort to fraud and evasion. Social norms and values are also significant; communities that promote compliance with tax laws and fiscal ethics have higher proportions of taxpayers less predisposed to tax non-compliance. The level of knowledge and tax education are also determinants of compliance; well-informed and tax-educated citizens have a higher motivation to comply with tax laws. Through financial

motivation, if taxpayers believe they can obtain significant financial benefits through tax fraud or evasion, they are more likely to engage in such illegal behaviors.

In conclusion, the investigation of so many different factors reveals that the issue is complex. This fact opens continuous research opportunities, as the topic is far from being exhausted. For example, some determinants have only been theoretically investigated, with no empirical studies confirming or refuting their effects on tax fraud and evasion. Moreover, there is always room for the use of innovative statistical and econometric methods, which can either yield different results than those obtained so far or nuance the results from previous studies.

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