Optimizing Tax Compliance Strategies Through Behavioral Insights: A Solution to Revenue Leakages in Emerging Economies

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Abstract. This study investigates the persistent challenges of tax compliance in emerging economies, which are plagued by significant revenue leakages. Utilizing a mixed-methods approach that combines qualitative interviews with quantitative surveys, we explore the behavioral and psychological factors that contribute to non-compliance. Our findings reveal that tailored communication strategies and the application of behavioral nudges can effectively enhance taxpayer compliance rates. This research provides actionable insights for policymakers aiming to bolster tax revenues without imposing increased financial burdens on citizens. Ultimately, our study offers a novel framework for addressing tax compliance issues in emerging markets and contributes to economic stability.

Keywords: tax compliance, behavioral economics, emerging economies, revenue leakages, policy interventions, taxpayer psychology, nudges, economic stability

Introduction

Tax compliance is a critical issue confronting emerging economies, where the fiscal capacity to fund public goods and services is often undermined by significant revenue leakages. As governments grapple with the challenges posed by informal economies and evasion, the need for effective tax compliance strategies becomes increasingly paramount.

Recent studies reveal that behavioral insights can play a transformative role in enhancing taxpayer compliance, yet many policymakers remain unaware of the full potential of these approaches. This paper seeks to explore the intersection of behavioral economics and tax compliance, providing a comprehensive analysis of how understanding taxpayer psychology can lead to improved revenue outcomes. In recent years, as many countries recover from the economic shocks of the COVID-19 pandemic, the importance of a robust tax system has come to the forefront of policy discussions. With public revenues dwindling, the urgency for innovative solutions that minimize tax evasion and enhance compliance is greater than ever. This paper posits that behavioral interventions—such as nudges designed to encourage timely tax payments—can facilitate a more cooperative taxpayer environment. By analyzing existing literature and presenting new empirical findings, we aim to elucidate the specific behavioral factors that drive compliance decisions among taxpayers in emerging economies. This article is structured as follows: First, we provide a literature review on tax compliance and behavioral insights. Next, we outline our research methodology, detailing the mixed-methods approach employed. Following this, we present our findings and discuss their implications for policymakers. Lastly, we conclude with actionable recommendations aimed at enhancing tax compliance.

References

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