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Tax Misperception and its Effects on Decision Making – Literature Review and Behavioral Taxpayer Response Model

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ABSTRACT Previous accounting research shows that taxes affect decision making by individuals and firms. Most studies assume that agents have an accurate perception regarding their tax burden. However, there is a growing body of literature analyzing whether taxes are indeed perceived correctly. We review 128 studies on the measurement of tax misperception and its behavioral implications. The review reveals that many taxpayers have substantial tax misperceptions that lead to biased decision making. We develop a Behavioral Taxpayer Response Model on the impact of provided tax information on tax perception. Besides individual traits, characteristics of the tax information and the decision environment determine the extent of tax misperception. We discuss opportunities for future research and methodological limitations. While there is much evidence on tax misperception at the individual level, we hardly find any research at the firm level. Little is known about the real effects of managers' tax misperception and on how tax information is strategically managed to impact stakeholders. This research gap is surprising as a large part of the accounting literature analyzes decision making and disclosure of firms. We recommend a mixed-method approach combining experiments, surveys, and archival data analyses to improve the knowledge on tax misperception and its consequences.

Keywords: Behavioral Taxation; Business Taxation; Misperception; Real Effects; Tax Perception; Tax Policy

JEL: M41; H24; H25; D91

1. Introduction

In this paper, we review and evaluate the research on tax misperception and its effects on decision making. Previous accounting research provides evidence that taxes significantly influence decision making, including decisions on investment and financing. Most of this work is based on the assumption that individual and firm decision makers can form rational expectations about the tax consequences of their choices. However, taxation is highly complex, taxes are often not

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salient, and in many cases agent behavior is influenced by framing effects. It is therefore unclear whether economic agents understand the tax consequences of their decisions. With the rise of behavioral economics in the last two decades, tax researchers have also intensified their work on tax misperception and its effect on economic decisions. This study aims to review this research from its beginnings in the late 1950s to the present.

In total, we present and discuss 128 mainly empirical studies that measure the extent of misperception regarding income, wealth, and excise taxes in different countries, or examine the effects of tax misperception on taxpayers' decision making. In the literature, different terms are used for what we refer to as misperception. Some authors use 'misconception' and others 'biased beliefs.' We consider all of these terms synonymous and in the following uniformly refer to 'misperception.'

The reviewed studies which measure individuals' tax perception by surveying taxpayers reveal substantial tax misperception. However, findings on the degree and the direction (under- versus overestimation) of misperception are inconclusive, and it remains unclear where the differences originate. Another shortcoming of these studies is that they do not analyze behavioral effects of tax misperception. In contrast to research on individuals' tax misperception in several countries, studies on firms are scarce and cross-country studies do not exist at all. Also, the role of tax-related accounting information on individual and corporate tax misperception and its impact on decision making is underexplored. This research gap is surprising as much of the literature in accounting and finance analyzes decision making of firms.

Further, we review a body of mainly experimental literature on tax perception and behavioral response. Studies in this field show that even if accurate tax information is provided, taxpayers often do not incorporate taxes into their decision making in a way predicted by rational choice theory. It is also shown that misperception of tax facts, e.g., due to tax complexity or lack of salience, results in distorted decisions. A potential weakness of these real effects studies is that they do not identify tax misperception directly. Rather, they identify tax misperception via behavioral response and infer that these responses are induced by tax misperception.

Finally, we review studies that deal with the management of others' tax perception. There are few studies, but they indicate that corporate tax information is strategically managed to impact stakeholders' perception.

To develop well-targeted tax regulations and understand the underlying biases of taxpayers, both tax misperception and its implications need to be explored carefully. In doing so, the following two questions have to be addressed: (1) Do economic agents misperceive taxes? (2) Do these misperceptions translate into distorted decisions?

In sum, our study contributes to tax-related accounting research in three ways. First, we provide the first comprehensive overview of research on tax misperception and its effects on individual and corporate decisions including the management of tax perception.¹ In the online appendices (see [supplemental data](#)), we provide one summary table each for Section 3 (Table A1: Tax Misperception), Section 4 (Table A2: Effects of Tax Misperception on Decision Making) and Section 5 (Table A3: Management of Tax Perception and its Impact on Stakeholders). These tables present the methodology, research question, and results of the reviewed articles and enable researchers to quickly assess the respective topics and approaches. Second, based on our

¹The only other related literature review we are aware of is Fochmann et al. (2010). However, the authors focus only on six specific strands of the literature: (1) perception of marginal tax rates, (2) influence of tax complexity on tax perception, (3) taxation and work incentives, (4) tax salience, (5) tax morale and fairness and (6) money illusion. Strands (5) and (6) are not included in our study. As far as there is an overlap in (1) to (4), we expand and update the study considerably. Moreover, we explicitly exclude behavioral research on tax compliance (see for a review, e.g., Kirchler, 2007 and Alm, 2019).

review of prior research, we develop a *Behavioral Taxpayer Response Model* that illustrates the impact of the type and character of provided tax information on tax perception, whether and how the non-tax environment and individual traits moderate this relationship, and how the resulting tax perception translates into decisions. The model helps researchers to develop and define their own research questions and to derive behavioral predictions. Third, we discuss methodological challenges of the research stream and identify research gaps and avenues for future research.

Identifying and scrutinizing misperception and behavioral responses to tax information by individuals including entrepreneurs and corporate managers not only contributes to tax research, it also provides novel insights for related fields in accounting research, such as real effect studies with respect to all kinds of accounting information. Thus, we contribute to the sender-receiver paradigm of accounting information and how information that is processed and perceived by receivers translates into real effects. Stakeholders' exposure to biased and unbiased accounting information and their respective responses to voluntarily and mandatory disclosed information on firms and compensations is also likely to be distorted because of cognitive and behavioral aspects when processing this information or due to misperception of the regulatory environment. Real effect studies will benefit from our study by a deeper understanding of potential misperception and further behavioral frictions.

2. Selection Strategy and Overview

The survey is based on a literature search in the databases EBSCO, JSTOR, ScienceDirect, and Google Scholar. The survey consists of three parts. In Section 3, we focus on studies that identify tax misperception of both individuals and corporations by asking taxpayers directly about their tax perception. To provide overview of these studies, in our queries we use keyword combinations of perception ('assessment,' 'beliefs,' 'bias,' 'misconception,' 'misperception,' 'perception,' 'salience') and the tax type ('capital tax,' 'corporate tax,' 'estate tax,' 'excise tax,' 'income tax,' 'inheritance tax,' 'property tax,' 'sales tax,' 'value added tax,' 'VAT,' 'wealth tax'). Moreover, to search studies on perception of tax-related accounting information, we use keyword combinations of perception and 'tax disclosure,' 'tax reporting,' 'tax transparency,' 'analyst,' 'investor,' 'management,' and 'manager.' In Section 4, we review studies that infer tax misperception from observed real behavior. We use keyword combinations denoting tax misperception ('assessment,' 'beliefs,' 'bias,' 'misconception,' 'misperception,' 'perception,' 'salience') and behavioral decisions ('avoidance,' 'consumption,' 'financing,' 'investment,' 'real effort,' 'planning,' 'saving'). Furthermore, we survey studies on corporates' tax perception management in Section 5. We use keyword combinations of 'tax' and 'disclosure,' 'discretion,' 'media,' 'political costs,' 'transparency,' and 'reporting.' This search strategy results in a total set of about 430 papers.

After selecting studies with a clear focus on identification of tax misperception and its effect on decision making or tax perception management, we obtain a final set of 128 mainly empirical studies (Section 3: 55 studies, Section 4: 65 studies and Section 5: 14 studies). Table 1 lists all surveyed studies grouped by methodology over time.

Interestingly, although research on tax misperception began more than sixty years ago, the majority of studies date from after 2000. As in other economic areas, this is due to the increasing importance of behavioral economics in tax research in the last two decades. Moreover, Table 1 reveals that most studies that identify tax misperception use a survey design, real effect studies use an experimental approach, and studies on tax perception management analyze archival data.

Table 1. Studies grouped by methodology over time

	before 1990	1990–1999	2000–2009	2010 or later	Total
Tax misperception					
Survey	12	3	6	11	32
Archival data analysis	2	1	5	10	18
Non-incentivized survey experiment	0	0	0	3	3
Incentivized survey experiment	0	0	0	2	2
Field experiment	0	0	1	0	1
Lab experiment	0	1	0	1	2
Theoretical analysis	0	0	0	1	1
Total	14	5	12	28	59
Effects of tax misperception on decision making					
Survey	2	2	3	3	10
Archival data analysis	0	0	2	8	10
Non-incentivized survey experiment	0	0	3	5	8
Incentivized survey experiment	0	0	0	2	2
Field experiment	0	0	2	3	5
Lab experiment	0	2	4	28	34
Theoretical analysis	0	0	0	3	3
Total	2	4	14	52	72
Management of tax perception and its impact on stakeholders					
Survey	0	0	0	0	0
Archival data analysis	3	1	0	10	14
Non-incentivized Survey experiment	0	0	0	0	0
Incentivized survey experiment	0	0	0	0	0
Field experiment	0	0	0	0	0
Lab experiment	0	0	0	1	1
Theoretical analysis	1	0	0	0	1
Total	4	1	0	11	16

Notes: This table gives an overview of all 128 surveyed studies. Since some studies use more than one methodology, the number of total studies does not add up to 128.

3. Tax Misperception

In this section, we review studies which measure individual and corporate tax misperception. Table A1 (see online appendices, see [supplemental data](#)) provides information on the underlying research question, the research design and the results of each of the reviewed articles. This overview also offers information on the underlying tax type, country, subject pool, sample size and year.

3.1. Individual Tax Misperception

Many studies measure individuals' misperception by asking respondents to estimate income tax burdens and benchmarking reported against actual numbers. Measuring tax burden misperception encompasses three aspects.

First, researchers have to decide on the *kind of tax burden* of interest. If one studies people's attitudes towards the fairness aspects of taxation, the *average tax burden* or *average tax rate (ATR)* is relevant. If the tax burden on additional income is of interest, which is particularly relevant for decision making, the *marginal tax burden* or *marginal tax rate (MTR)* matters.

Second, the *scope of tax burden* has to be determined. Is it respondents' own tax burden or that of other taxpayers? In the latter case benchmarking is easy, since the actual tax burden can be precisely determined based on income figures provided to respondents. By contrast, benchmarking respondents' own tax burden is more challenging. Using respondents' tax return data is

regarded as the ‘gold standard’ (Gideon, 2014, p. 1). However, as this data is often not available the actual tax burden has to be calculated based on income reported by respondents. Moreover, even if tax return data were available, it would only contain backward-looking information, while forward-looking information is necessary for decision making.

Third, the *distribution of misperceptions* has to be analyzed. What is the share of respondents who over- or underestimate tax burdens and how many respondents are not able to give estimates at all?

3.1.1. Perception of average income tax rates (ATRs)

‘ATR studies’ aim, in particular, to identify the effect of misperception on taxpayers’ attitudes towards the fairness and distributional implications of the tax system. The majority of these studies is interested in respondents’ own tax burden. Schmolders (1960) pioneered this field.² Using benchmarks that rely on reported incomes, he finds that about one third of respondents report accurate tax burdens. For the others, overestimates considerably outnumber underestimates. The percentage of overestimates is particularly high among farmers, freelancers and sole proprietors (> 50%) compared to civil servants (35%) and employees (40%). Enrick (1963, 1964) uses benchmarks based on tax return information and finds that only about 5% of respondents rate their tax burden accurately. The others tend to underestimate rather than overestimate their tax bill. Van Wagstaff (1965) uses employer payroll records for benchmarking and reports a substantial dispersion of respondents’ estimates, whereby under- and overestimates are almost balanced. 13% of respondents accurately assess their tax burden. Auld (1979) uses reported income for benchmarking and finds that low-income respondents overestimate, higher-income respondents underestimate and middle-income respondents almost accurately estimate their tax burden. Gideon (2014, 2017) uses reported income for benchmarking and shows, on average, an overestimation of ATRs across the income distribution. Ballard and Gupta (2018) also benchmarked based on reported income and found that over 20% of respondents do not know their ATR. The vast majority of the remaining respondents overstate their ATR; the variety of misperceptions is extremely pronounced. Stantcheva (2020) finds that taxpayers’ estimates of the share of income paid in taxes by median households is higher than the actual value.

Three papers focus on misperception of ATRs for different income levels. Williamson (1976) shows that respondents, on average, significantly overestimate ATRs for each given income category. Overestimates and underestimates for low and high incomes differ according to respondents’ income. Blaufus et al. (2015) provide evidence that nearly 50% of respondents report accurate ATRs. The remainder misperceive ATRs significantly, with ATRs for high (low) income underestimated (overestimated). Rees-Jones and Taubinsky (2019) show that respondents overestimate ATRs on average and perceive the tax schedule to be more linear than it actually is. However, there are also many respondents who underestimate ATRs.

In sum, the discussed papers show that a significant number of taxpayers are not able to accurately estimate either their own ATR or the ATR of other income levels. Moreover, most studies indicate a tendency to overstate the ATR, on average, although the direction of misperception seems to depend on the income level.

3.1.2. Perception of marginal income tax rates (MTRs)

Not surprisingly, beliefs about MTRs have been examined more often, reflecting that the main focus of tax research is on the tax effects on decision making. Gensemer et al. (1965) pioneered

²The original study by Schmolders is only available in German. However, some parts of his work on fiscal psychology have been translated into English (Schmolders, 2006).

this field. They focus on MTRs of high-income earners and establish benchmark MTRs based on reported income. They provide evidence that more than a quarter of respondents are not aware of their MTRs but do not provide further information on the extent or direction of MTR misperception. Brown (1969) derives benchmark MTRs from employers' payroll records and finds that only one fifth of the surveyed workers and nearly one third of the surveyed managers report accurate or roughly accurate MTRs. He observes far more overestimates than underestimates in both groups of respondents. Fujii and Hawley (1988) use reported income to derive benchmark MTRs and find that about one third of respondents are not able to guess their MTR. The others underrate their MTR, on average, only slightly. Further information such as the share of respondents over- or underestimating their MTR is not provided. Rupert and Fischer (1995) use tax return information for benchmarking and ask respondents for absolute numbers rather than percentages. Over 90% of respondents report misperceived MTRs, with overestimation twice as common as underestimation. Gemmill et al. (2003, 2004) do not ask respondents to give precise MTR estimates but to select one out of five given 'additional tax burden classes' and benchmark the responses based on reported income. Due to this rather rough measure, it is not surprising that the authors report a rather high level of accurate estimates at over 30%. The remaining respondents exhibit a bias towards an overestimate although many respondents report underestimates, too. Hundsdoerfer and Sichtmann (2009) explore a subject pool of practicing physicians. They compare the mean of MTRs reported to the corresponding average MTR calculated on the data of the official German income tax statistics and find both numbers are equivalent. However, an in-depth analysis shows that about one quarter of participants report MTRs that do not exist. Gideon (2014, 2017) benchmarks against MTRs computed on reported income and finds fairly accurate reported MTRs, at the mean, but estimates exhibit substantial heterogeneity. Individuals at lower income levels overestimate their MTR, whereas higher-income individuals underestimate MTR. Blaufus et al. (2015) use reported income for benchmarking and demonstrate that respondents misperceive their MTR more than their ATR. Moreover, taxpayers tend to underestimate (overestimate) the MTR for higher (lower) income levels. One in six respondents mistakes ATRs for MTRs. The widespread use of ATRs instead of MTRs is also confirmed by Bartolome (1995) in an experimental setting. Similar, Rees-Jones and Taubinsky (2019) find that taxpayers use their ATR rather than their MTR.³

Lewis (1978) is, to the best of our knowledge, the only study on the perception of other individuals' MTR, finding a uniform underestimate by about 10% for each income bracket and less misperception for MTRs that are close to respondents' income bracket. Approximately 10% of respondents fail to provide MTR estimates at all.

There is also some literature on misperception of income tax progressivity. Slemrod (2006) shows that the majority of respondents favor switching to a flat-rate income tax because they misperceive the current system being regressive.⁴ Gideon (2014, 2017) finds that only slightly more than one fifth of respondents understand tax schedule progressivity to mean that MTRs are higher than ATRs. Rees-Jones and Taubinsky (2019) show that progressivity in the US income tax code is underestimated since the perceived income tax schedule is more linear than the actual schedule. Similar evidence is provided by Stantcheva (2020).

In sum, similar to the findings regarding ATR perception, research shows that many taxpayers know neither their own MTR nor MTRs related to other income levels. Over- as well as underestimations of the MTR are observed which tend to depend on the income level. Moreover,

³Using average instead of marginal figures is not tax specific (see Shin, 1985, for electricity demand and Faulhaber and Baumol, 1988, for pricing decisions).

⁴However, beliefs on tax evasion among high-income individuals (Bakija & Slemrod, 2004, p. 69, provide evidence for the existence of these beliefs) proved to be not statistically significant.

some taxpayers mistake ATRs for MTRs which leads to an underestimation of the MTR given a progressive tax schedule.

3.1.3. Perception of other taxes

While most of the literature focuses on income tax misperception, there is also some evidence for other taxes. One example is the US estate tax. The frequently cited studies by Bartels (2005) and Slemrod (2006) refer to a survey in which half of respondents state that they believe ‘most families’ are hit by the estate tax. In fact, at best only about 2% of all deaths actually led to an estate tax liability. Similar results are found by Kuziemko et al. (2015), Sides (2016), Chirvi and Schneider (2020), and Stantcheva (2020). For Germany, Bischoff and Kusa (2019) show that 51% of respondents wrongly believe that a child who inherits €100,000 has to pay inheritance tax.

Cabral and Hoxby (2012) analyze the salience of the US property tax and show that homeowners with tax escrow perceive their property tax less accurately than those who write property tax checks to local government. However, the share of those who under- and overestimate is similar in both groups of homeowners.

Regarding excise taxes, a survey by TNS Opinion & Social (2015) demonstrates that only 65% of individuals in the EU are aware of the standard VAT rate in their country. Chetty et al. (2009) as well as Taubinsky and Rees-Jones (2018) find similar results for the US. Ferber (1954) finds a rather inaccurate perception of *changes* in excise taxes on theater tickets, cars, luggage, shoes, and refrigerators. For the UK, Gemmill et al. (2003, 2004) analyze how individuals perceive the extra burden on household expenses that results from a one percentage point increase in the VAT rate and find that respondents tend to overestimate the additional burden.

Fisher and Wassmer (2017) show that respondents overestimate the gasoline tax and hence the gasoline tax burden of an average driver in their respective state. Related to Cabral and Hoxby (2012) on different property tax payment channels, Finkelstein (2009) finds that car drivers who pay their road tolls in cash, on average, perceive toll payments significantly more accurately than electronic toll collection users.

In sum, this section shows that tax misperception is not limited to income taxes but is also substantial in regard to other taxes such as consumption and wealth taxes.

3.2. Corporate Tax Misperception

In contrast to studies on individuals, research on corporations’ tax perception is scarce.⁵ Graham et al. (2017) provide evidence that corporate managers confuse average and marginal corporate tax rates in decision making. The authors ask tax executives of US corporations on the primary tax rate they use in various business decisions and let the participants choose from ‘(1) U.S. statutory tax rate (STR), (2) GAAP effective tax rate (ETR), (3) jurisdiction-specific statutory tax rate, (4) jurisdiction-specific effective tax rate, (5) marginal tax rate, and (6) other’ (p. 3139). The most frequent answer of private firms is ‘U.S. statutory tax rate’ (34.1%), whereas public firms most frequently report ‘GAAP effective tax rate’ (27.4%). Only 12.5% (10.8%) of private (public) firms use the MTR, which is appropriate for decision-making.

Several studies examine whether corporate managers, investors, and financial analysts perceive tax-related accounting information accurately. Financial reporting is aimed at improving

⁵Some earlier studies written in German are at least loosely linked to tax perception. These studies find that the majority of surveyed German corporations do not properly incorporate taxes in their investment decisions (Hüsing, 1999; Kling, 1992; Schwenk, 2003; Wittmann, 1986). A closely related study by Dietrich et al. (2008) analyzes how Swedish firms perceive the tax burden associated with foreign direct investments (FDI) in Austria relative to Germany.

the information environment and reducing misperception. However, tax accounting rules are complex and require an understanding of both tax law and financial accounting. Thus, processing tax-related information is costly and it is therefore reasonable that misperception of tax-related accounting information might occur.

Bratten et al. (2017) study misperception of tax-related accounting information and find that the accuracy of managers' ETR forecasts decreases when GAAP ETRs include discrete items (e.g., transitory gains and losses or settlements with tax authorities) or when tax rate complexity (capturing absolute changes in ETR, the absolute difference between the statutory tax rate and the ETR, and ETR volatility) is high. Moreover, Gleason et al. (2018) demonstrate that managers' estimates of additional tax liabilities due to tax audits are, on average, inaccurate. Eberhartinger, Speitmann, Sureth-Sloane, and Wu (2020) find in a laboratory experiment evidence that both trust in government and interpersonal trust affect the bargaining behavior of taxpayers and auditors and thus the outcome of tax audits.

Research regarding tax misperception of financial analysts has identified significant errors in forecasts in face of changes in tax law or tax accounting standards. Plumlee (2003) finds that the magnitude of errors in ETR forecasts increases with the complexity of tax law changes. Chen et al. (2003) report that a one-time deferred tax adjustment (due to an increase in the corporate tax rate) is incorrectly interpreted as a recurring item. Hoopes (2018) find increasing earnings forecasts errors when a temporary R&D tax credit regulation expires. Brushwood et al. (2019) show that the early adoption of a new rule on tax accounting of stock-based compensation reduces the accuracy of analysts' ETR forecasts. In addition, research indicates that analysts make more errors in forecasting earnings of firms with tax loss carryforwards (Amir & Sougiannis, 1999) or with high book-tax differences (Weber, 2009). Also, they less accurately forecast tax expenses, pre-tax earnings and ETRs when the reported ETR includes discrete items or when tax rate complexity is high (Bratten et al., 2017). Finally, analysts' ETR forecasts are more accurate for firms that present ETR reconciliation information in percentage format rather than in dollar format (Chychyla et al., 2017). Overall, this research demonstrates significant tax misperception by financial analysts. On average, forecasting tax-related information seems to be more difficult for analysts than forecasting other accounting information, as shown by Kim et al. (2020). However, Bratten et al. (2017) show that analysts' ETR forecasts are more accurate than managers' forecasts if tax rate complexity is high.

Although financial analysts also suffer from tax misperception, there is evidence that their forecasts may still help investors to better incorporate tax-related information. Investors seem to misperceive value-relevant information reflected in tax expense items and therefore underreact to information on tax expense surprises (Thomas & Zhang, 2011). However, this mispricing of income tax expense is reduced if tax expense forecasts of analysts are available (Baik et al., 2016).

While many countries have recently adopted policies to increase corporate tax transparency, it is unclear whether this has improved the accuracy of tax perception. For example, Gleason et al. (2018) find that the introduction of FIN 48, a US GAAP regulation that requires businesses to disclose income tax risks, does not improve managers' forecasts regarding necessary tax reserves, it at least improves the comparability of tax-related accounting information. However, Robinson et al. (2016) show that firms are over-reserved for uncertain tax positions after the introduction of FIN 48, and that FIN 48 reduces the relevance of tax-related accounting information. Research on IFRIC 23, an IFRS regulation that serves a similar purpose as FIN 48 and is mandatory since 2019, is to the best of our knowledge not yet available.

Another example of recent policies to increase corporate tax transparency is (public) country-by-country reporting (CbCR). Several studies investigate both public and non-public CbCR and

its real effects (Brown, 2018; De Simone & Olbert, 2019; Dutt et al., 2019; Eberhartinger, Speitmann, and Sureth-Sloane, 2020; Joshi et al., 2020; Overesch & Wolff, 2017). While it is known that the information disclosed through CbCR is potentially misleading (Lagarden et al., 2020) none of these studies scrutinizes the extent to which misperception impedes transparency and generates undesired implications.

Finally, research on misperception of tax-related accounting information reveals a link to research on tax uncertainty (e.g., Dyreng et al., 2019; Hanlon et al., 2017; Jacob et al., 2019; Jacob & Schütt, 2020). Making accurate estimates of uncertain tax items is a challenge yet crucial for decision making. In archival studies, tax uncertainty is often measured by ETR volatility (for an overview of such tax risk measures, see, e.g., Blouin, 2014). Increasing ETR volatility is positively associated with forecast errors of tax-related accounting information (Bratten et al., 2017). Thus, tax uncertainty may be another source of tax misperception. In addition, tax misperception caused, for example, by tax complexity may be another reason for more perceived tax uncertainty by investors. In line with this reasoning, Bratten et al. (2017) find that complexity increases the dispersion of analysts' ETR forecasts, and forecast dispersion is commonly interpreted as reflecting uncertainty. Hoppe et al. (2020) provide a measure of perceived tax complexity in the tax code and framework as faced by multinational corporations. Their survey-based multi-dimensional Tax Complexity Index captures tax uncertainty as one dimension of perceived tax complexity.

In sum, the discussed papers show that corporate tax misperception seems a prevalent phenomenon. However, research on corporations' genuine tax misperception is scarce. In addition to the provisions of tax law, tax-related accounting disclosures may also induce tax misperception, especially if tax uncertainty and complexity are high.

4. Effects of Tax Misperception on Decision Making

The previous section has shown that many taxpayers misperceive their own tax burden. This section surveys the growing body of research on *Behavioral Taxation* that deals explicitly with the behavioral effects of tax misperception. An overview of the studies discussed in this section with detailed information on the main features of each study is provided in Table A2 (see online appendices, see [supplemental data](#)).

4.1. Effects of Individual Tax Misperception on Decision Making

4.1.1. Tax misperception, investment decisions, and risk-taking

To examine effects of tax misperception on investment and risk-taking, most researchers rely on lab experiments. Unless otherwise stated below, the presented studies do too.

First, studies show that tax misperception and its effects on *investment* depend on *tax salience* and *tax complexity*. Bartolome (1995) is one of the first to study the effect of tax misperception on investment decisions. He finds many individuals using the ATR 'as if' it were the MTR and thus make wrong investment decisions. Rupert and Wright (1998) add that with increasing salience of the MTR subjects make significantly better investment decisions and learn more rapidly. Rupert et al. (2003) find that subjects do not adjust their estimates of the MTR to account for the effects of floors and phase-outs. Thus, tax base complexity increases the probability of erroneous investment decisions. Boylan and Frischmann (2006) demonstrate that tax-related decision errors increase in tax complexity and diminish over time but do not entirely disappear in competitive markets. Boylan (2013) examines the effects of heterogeneous tax information among market participants. He finds that in lab markets in which only a subset of individuals knows the

applicable tax rate, the economic benefits generated by the investment of these individuals spill over to their uninformed counterparts.

Second, *tax aversion* (taxes are disliked more than equivalent costs) may result in tax misperception and thus affect *investment* behavior, yet the evidence is mixed.⁶ In line with the expected tax aversion, Sussman and Olivola (2011) provide survey evidence that participants prefer tax-exempt bonds over equally profitable bonds that are subject to tax, while Blaufus and Möhlmann (2014) find in lab markets that the word ‘taxes’ induces a higher equilibrium return on traded debt securities. However, over the course of the experiment the premium disappears, suggesting that tax aversion is not a stable preference but is instead based on a decision heuristic that individuals re-evaluate in repetitive choices. By contrast, using a survey-based conjoint analysis, Hundsdorfer and Sichtmann (2009) show that German physicians overweigh tax considerations in investment decisions but that this tax misperception is not associated with tax aversion. Fochmann and Kleinstück (2014) also study the effect of tax aversion on investment decisions in an individual choice setting, but do not find any evidence of tax aversion.

Third, prior literature investigates the impact of tax misperception on *risky investments*. Ackermann et al. (2013) as well as Fochmann and Hemmerich (2018) find that the willingness to engage in risky investments decreases when an income tax has to be paid, although net income is identical in all their treatments. Although the reasons for this have not yet been fully clarified, the findings indicate that taxes induce additional *complexity* and thus increase subjects’ perception of investment risk. Reducing the decision complexity by reducing the number of future states reduces the perception bias. This corresponds to the results of Abeler and Jäger (2015) who find that background complexity affects tax misperception in a real-effort setting. However, opposite results are observed with respect to tax loss-offsets. Subjects that decide between net-equivalent risky lotteries seem to overestimate the risk reduction effect of tax loss-offsets, so that taxes could also increase risk appetite in cases involving a higher probability of loss (Fochmann et al., 2012a, 2012b; Fochmann et al., 2016).

Further studies on the impact of tax misperception on *risky investments* include Blaufus and Möhlmann (2016) who examine the effect of *tax rate misperception* on risk taking. They compare the effect of a wealth tax and a net equivalent income tax on risk-taking and find greater risk taking in the presence of a wealth tax, which they explain with misperceived ‘low’ wealth tax rate. Möhlmann (2013) demonstrates that subjects invest in riskier portfolios in case of a *foreign* tax rather than a *domestic* tax on foreign dividend income. This shows that sentiment towards different tax collectors affects decision making. Using *prospect theory* (Kahnemann & Tversky, 1979), researchers have derived and/or tested tax effects on risk taking that deviate from rational choice predictions. Hlouskova and Tsigaris (2012) theoretically analyze the effect of a proportional capital income tax on portfolio decisions and show that tax-induced reactions depend on the reference point. Falsetta et al. (2013) experimentally show that taxpayers invest more (less) in a riskier asset when a tax decrease (increase) is implemented gradually rather than in one go. In a similar vein, Falsetta and Tuttle (2011) examine how expecting a tax refund or an additional tax payment affects investment decisions that themselves do not have any tax consequences. They find in an experiment that subjects entitled to claim a tax refund take significantly less risk than those who have to pay an additional tax. The influence of tax rate changes on the timing of risky investments as well as entry and exit flexibility is studied by Fahr et al. (2014). An exit option seems irrelevant for investment timing in the case of an experienced tax rate decrease, but not in the case of a tax rate increase. Building on the utility-based investment model in Fochmann

⁶The effect of using tax versus neutral frames is also investigated in tax compliance settings. Some studies find that subjects are more compliant in a tax compared to a neutral context (Baldry, 1986; Trivedi & Chung, 2006; Wartick et al., 1999), other studies find no difference between both frames (Alm et al., 1992).

and Jacob (2015), Mehrmann and Sureth-Sloane (2017) derive prospect theoretical tax effects on risk-taking. They determine tax effects biased by risk and loss aversion for different loss offset restrictions. Fochmann et al. (2016) and Fochmann et al. (2017) experimentally examine the effect of *emotions* on risk-taking. Fochmann et al. (2016) show that the more pleasant and less exciting a tax treatment is perceived to be, the greater the risky investment. Fochmann et al. (2017) provide evidence that investors do not change their risk-taking behavior as a direct consequence of changing tax rules, yet do in response to the affective perception of these different tax rules.

4.1.2. Tax misperception and financing decisions

To the best of our knowledge, the only study on the effect of tax misperception on financing decisions is Blaufus and Möhlmann (2014). They find in a lab experiment that the cost of debt includes a tax aversion premium, i.e., the cost of debt is higher than the ‘rational’ value and higher as in a treatment where the term ‘transaction cost’ is used instead of ‘tax.’ However, this tax aversion bias disappears in the course of the experiment due to learning effects.

4.1.3. Tax misperception and real effort

Using household survey data, studies estimate a tax perception parameter from regressions that explain reported work effort using pre-tax and after-tax wage income as determinants. The results are heterogeneous. Rosen (1976a, 1976b) and Brännäs and Karlsson (1996) find that the marginal tax rate is accurately perceived by taxpayers. By contrast, König et al. (1995) find an underestimation while Arrazola et al. (2000) show an overestimation of the MTR.

Another strand of literature is based on lab experiments. Hayashi et al. (2013) find that subjects in net-equivalent treatments are less willing to work both when their wages are partitioned with positive (bonus) and with negative surcharge (tax) components. They explain this result with subjects’ complexity aversion. By contrast, Fochmann et al. (2013) demonstrate that subjects work more if their wage is subject to income tax than when they receive a net-equivalent tax-free wage. A similar finding regarding work intensity is shown by Djanali and Sheehan-Connor (2012). The positive effect of taxes on real effort remains significant for high tax rates such as 50%, however the effect size decreases (Fochmann et al., 2013).⁷

The effects of *complexity*-induced tax misperception on work effort are studied in Sielaff and Wolf (2016), who find that the combination of multiple interdependent taxes reduces working time and work performance. Abeler and Jäger (2015) find that subjects in a complex decision environment take their previous real-effort decision as a reference point and do not adjust their decisions as much in response to new taxes as subjects in a simple decision environment. Their results point away from a rational inattention explanation because subjects are as likely to ignore large tax rate changes as they are to ignore small changes in a complex environment. Rather, the results suggest that individuals can only pay attention to a certain amount of information.

Further experiments show that tax *salience* has a significant effect on real effort. Blumkin et al. (2012) demonstrate that the lower salience of a consumption tax leads to greater real

⁷The reason for this positive effect is not well understood. One explanation is tax misperception because subjects take the gross wage as an anchor and integrate tax burdens incompletely or even not at all (anchor heuristics, Tversky & Kahneman, 1974). An alternative explanation provided by Djanali and Sheehan-Connor (2012) is the pro-social behavior of individuals. Moreover, under the gift-exchange theory (Akerlof, 1982) workers are assumed to respond to high wage levels by increasing their effort due to positive reciprocity. Thus, even if subjects perceive the wage taxes correctly, they could positively reciprocate employers’ higher gross wages by increasing their effort.

effort than an economically equivalent income tax. Fochmann and Weimann (2013) graphically illustrate a progressive income tax schedule to show that an increase in tax salience reduces real effort of experimental subjects. Moreover, Weber and Schram (2017) provide evidence that real effort is lower when an income tax is levied on the employer side instead of the employee side.

Finally, Kessler and Norton (2016) highlight another channel through which deviations from ‘rational’ tax perception affect real effort. They provide evidence that subjects are significantly more likely to work less when a decrease in net wage is due to a tax rather than due to a wage cut. The authors explain this with *tax aversion*.

4.1.4. Tax misperception and tax planning

There are relatively few studies that explicitly study the effect of tax misperception on tax planning.⁸ Blaufus et al. (2013) provide lab experimental evidence that subjects deciding on different tax options overweight the nominal tax rate and underweight tax base extensions. Other studies show that surprisingly many people do not take advantage of obvious tax planning opportunities (Alstadsæter & Jacob, 2017; Goupille-Lebret & Infante, 2018; Kopczuk, 2007; Stephens & Ward-Batts, 2004). Although it is not fully clear what ultimately triggers forgoing tax planning opportunities, from a behavioral perspective, this might be explained by the lack of visibility of tax planning options for many economic agents. Eberhartinger, Speitmann, Sureth-Sloane, and Wu (2020) study the impact of both interpersonal trust and trust in the government on tax bargaining between tax auditor and taxpayer. They find in a laboratory experiment that a high level of interpersonal trust between taxpayer and tax auditor leads to more concessionary behavior by the tax auditor while taxpayers show more concessionary behavior when her trust in the government is high. These findings contribute to understanding tax planning in anticipation of tax audits and under what conditions an atmosphere of trust might lead to higher compliance.

4.1.5. Tax misperception, consumption, and retirement savings

The effect of tax misperception on consumption decisions is shown in several (survey) experiments. The effect of *tax aversion* on consumption has been studied by Sussman and Olivola (2011) who show that people are willing to drive or stand in line longer for a tax-related versus a tax-unrelated discount. However, a recent replication study only partly confirms these results (Olsen et al., 2019). With respect to *tax salience*, Chetty et al. (2009), Goldin and Homonoff (2013), Taubinsky and Rees-Jones (2018), and Feldman et al. (2018) find that posting tax-inclusive prices reduces consumption. Whether this effect is clearly due to tax salience and/or a confirmation bias (consumers neglect information that does not align with their consumption intentions) is, however, not fully clear (Feldman et al., 2018; Feldman & Ruffle, 2015). With respect to the *framing* of tax reductions, Epley et al. (2006) provide lab experimental evidence that subjects spend more if a tax reduction is framed as a bonus instead of a tax rebate. Similarly, Lozza et al. (2010) find in a survey experiment that tax reductions framed as an increase in monthly income lead to more spending than if they are framed as a reduction in the monthly tax burden. The behavioral effect of the *timing of taxation* on consumption is mixed. In line with the assumption that individuals use mental accounting (Thaler, 1990), Chambers and Spencer

⁸Tax misperception may also affect tax evasion since the tax rate is a standard determinant in tax evasion models (Allingham & Sandmo, 1972). Thus, less-salient taxes should reduce non-compliance (Watrif & Ullmann, 2008). Moreover, tax misperceptions also affect perceived tax fairness, another determinant of tax compliance (Kirchler, 2007). While there are tax compliance studies on the effect of misperceived tax audit probabilities, we are not aware of studies that directly address the effect of tax rate misperception on tax evasion (for a recent review of tax compliance research see Alm, 2019).

(2008) find in a survey experiment that tax refunds delivered in monthly amounts stimulate current spending more than if the same yearly total tax reduction were delivered in one lump-sum payment. However, using US survey data, Sahm et al. (2012) find a reduction in monthly withholding tax to increase spending less than a one-time payment.

Most countries use special tax regimes to promote *retirement savings* via a deferred taxation of pensions which makes savings tax deductible, interest on savings tax exempt, and pensions fully taxable. However, Chetty et al. (2014) study tax return data and find that 85% of individuals are ‘passive savers’ who are unresponsive to subsidies. Using administrative firm data, Beshears et al. (2017) find that retirement savings are almost insensitive to the introduction of differently taxed retirement plans. Their supplemental survey results suggest that many employees are unaware of the tax treatment being applied to their savings. Thus, due to tax ignorance, subjects have lower effective savings under deferred than under immediate taxation. The lab experiments of Blaufus and Milde (2020) show that providing informational tax nudges reduces tax misperception and closes the savings gap between immediate and deferred taxed pension plans. Moreover, replacing the tax deductibility of retirement savings with government-matching contributions raises after-tax pensions above the level under immediate taxation without the need to provide informational tax nudges. Cuccia et al. (2017) find that individuals generally prefer immediate over deferred taxation and Stinson et al. (2020) report that subjects anchor on pre-tax values and thus invest in lower-risk and lower-return assets when they have specific retirement goals under deferred taxation. The effect of tax complexity on employees’ decisions on company pension plans is studied in Blaufus and Ortlieb (2009). Using a survey-based conjoint analysis, the authors find that with increasing tax complexity, the proportion of subjects who base their decision on their after-tax return decreases significantly.

Summing up, Section 4.1 reveals that even if subjects have access to objective tax information, this information is often misperceived, leading to behavior that systematically deviates from rational choice predictions. This misperception is particularly pronounced when tax complexity is high and tax salience is low. Further, loss and tax aversion seem to explain these behavioral deviations. Moreover, tax framing and timing, too, affect misperception and thus individual decision-making.

4.2. *Effects of Corporate Tax Misperception on Decision Making*

Studies that particularly address the effect of tax misperception on corporate decision making are rare. Graham et al. (2017) combine survey data with balance sheet and capital market data to study the effect of corporate managers’ tax misperception on investment and capital structure decisions. They find that many tax managers, in particular those working in public firms, use the GAAP ETR instead of the correct MTR for decision making. Moreover, the results suggest that as the difference between a firm’s MTR and GAAP ETR increases, firms that use the GAAP ETR become less responsive to growth opportunities and adopt a suboptimal debt policy. This study is the first to provide evidence of an association between tax rate misperception and investment as well as financing inefficiency on a corporate level. It complements the experimental findings for individuals discussed in Section 4.1 by demonstrating that even in competitive markets and with professional decision makers, tax misperception may occur and thus inefficient investment and financing decisions are made.

Amberger et al. (2016) use lab experiments to study whether subjects make tax-optimal corporate intra-group financing decisions. In line with Blaufus et al. (2013), they find that subjects under time-pressure overweight tax rate information and underweight tax base information. This holds for both students and highly experienced tax professionals.

Analyzing the usage of tax planning opportunities by corporations, Zwick (2020) reveals that only 37% of corporations that could benefit from loss carryback make use of this possibility. This indicates a substantial misperception of tax planning opportunities. Moreover, firms differ significantly regarding the speed of tax code learning, with more profitable firms learning faster (Bach, 2015).

5. Management of Tax Perception and its Impact on Stakeholders

Some studies show that corporations strategically avoid disclosing unpleasant tax information to manage stakeholder perception (Akamah et al., 2018; Dyreng et al., 2016). Other studies indicate that firms seem to report some tax information voluntarily to mitigate negative capital market reactions to missing tax information (Balakrishnan et al., 2019; Chen et al., 2019; Flagmeier & Müller, 2019). Demeré et al. (2019) provide empirical evidence that firms smooth their GAAP ETRs. Consistently, Flagmeier et al. (2020) find that firms strategically disclose information on their GAAP ETR more visibly if their ETR is favorable from an investor's perspective (low or close to the average ratio for firms of the same industry or size group). Overall, these findings indicate that firms actively manage investors' perception in their tax disclosure strategy.

Further studies examine management of tax perception with respect to the political cost theory. This theory suggests that larger firms are exposed to greater public pressure than smaller firms and thus have higher (reported) ETRs (see e.g., Watts & Zimmerman, 1978; Zimmerman, 1983). Higher (reported) ETRs can be both a result of political costs and a tool to bias the political process. The latter is relevant in terms of firms striving to induce politicians' or voters' misperception on firms' tax burdens. According to Wong (1988), the choice of accounting method is linked to the political costs of a firm. He demonstrates that larger corporations receiving substantial export tax credits are more likely to apply the accounting method that raises their reported ETRs. Northcut and Vines (1998) examine ETR reporting prior to the US Tax Reform Act of 1986. They find that firms with low ETRs boosted their reported tax burdens in the year prior to the reform to reduce the probability of higher taxes. Similarly, Baloria and Klassen (2017) find that corporate tax reform-supporting firms raised their ETRs prior to the 2012 US election to promote candidates who advocated for tax cuts. Moreover, consistent with the political cost argument, Chychyla et al. (2017) find that firms with low (high) ETRs tend to highlight the dollar (percentage) amount of their tax expense. Management of tax perception also plays a role in maintaining public contracts. Mills et al. (2013) provide evidence that politically sensitive contractors exhibit higher federal ETRs. While Wong (1988) and Northcut and Vines (1998) were able to provide clear evidence that higher ETRs result merely from tax perception management, Baloria and Klassen (2017) and Mills et al. (2013) cannot disentangle to what degree higher ETRs result from tax perception management or from higher tax payments.

Table A3 (see online appendices, see [supplemental data](#)) provides detailed information on all studies discussed in this section.

6. Determinants of Tax Misperceptions: Behavioral Taxpayer Response Model

In this section, we summarize the results of tax perception research by developing a *Behavioral Taxpayer Response Model* that illustrates the impact of the character of provided tax information on tax perception, whether and how the non-tax environment and individual traits moderate this relationship and finally, how the emerging tax perception translates into decisions. The model should help researchers to develop and define their own research questions and derive behavioral predictions. Figure 1 displays the model.

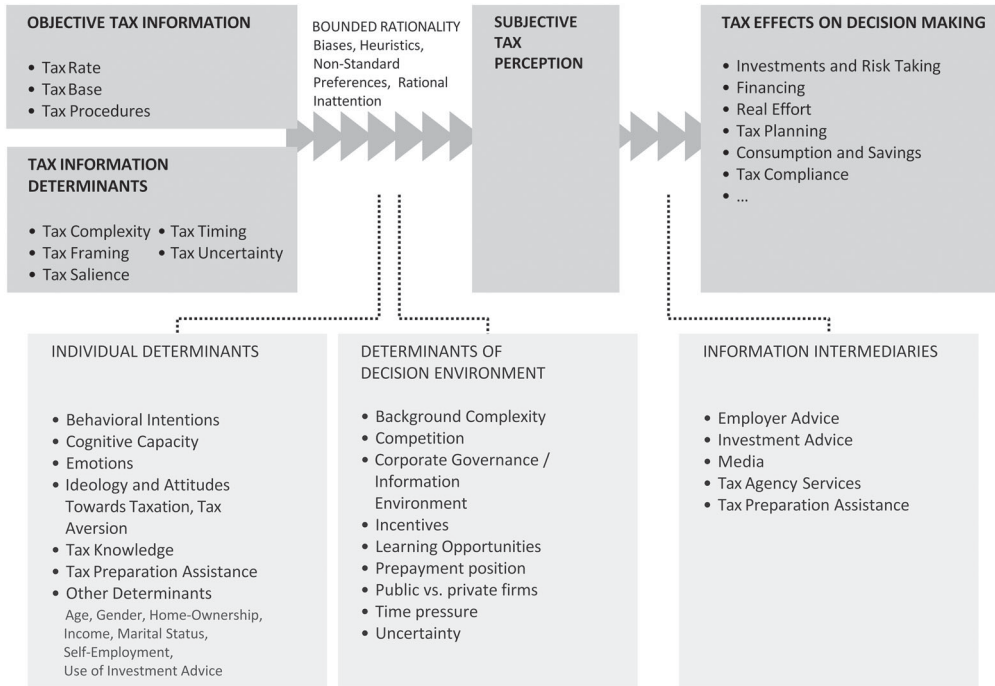


Figure 1. Behavioral taxpayer response model

The prior sections have shown that *objective* tax information (about tax rates, tax base elements, and tax procedures) is not always perceived correctly by information recipients. Tax misperception exists because many subjects behave in a rationally bounded manner. They consider that purely rational choices are costly to operate in both time and cognitive strain (Simon, 1959). However, there is no single theory that explains bounded rational tax responses. Rather, several approaches coexist in behavioral economics and are employed by tax researchers. These approaches encompass the assumption that individuals use simplifying decision heuristics, are systematically subject to certain perception and decision biases, have no standard-preferences, or are rationally inattentive.

Important heuristics that drive tax misperception are the following. First, using the ironing heuristic, taxpayers linearize the tax schedule for all levels of income using their own ATR. Thus, ironers rely on a proportional tax rate schedule where their ATR determines both the overall ATR and MTR. The ironing hypothesis is supported by Bartolome (1995), Liebman and Zeckhauser (2004), Feldman and Katuščák (2006), and Rees-Jones and Taubinsky (2019). Second, using the spotlighting heuristic, individuals assume the slope of the tax schedule is equal to their own MTR over the entire income range. Liebman and Zeckhauser (2004) and Feldman and Katuščák (2006) provide evidence in support of the spotlighting heuristic. Third, the use of the anchor heuristic can explain biased tax effects on real effort as decision making may depend primarily on pre-tax wages (e.g., Fochmann et al., 2013). Fourth, the use of a lexicographic heuristic can explain the observation that tax rate information is overweighted in comparison to tax base information (Blaufus et al., 2013). Fifth, subjects use rounding heuristics in estimating the tax burden (Taubinsky & Rees-Jones, 2018). Sixth, subjects use mental accounts to simplify their decision making. Thus, tax refunds administered as one lump-sum affect behavior differently

from tax refunds in the same amount that are refunded monthly through reduced income tax withholding (Chambers & Spencer, 2008).

Besides the use of heuristics, research from economic psychology highlights the existence of behavioral biases that affect tax misperception. For example, subjects disregard information on sales tax because the additional tax burden contradicts their consumption intention (confirmation bias, Feldman & Ruffle, 2015), or information on income tax rates is overweighted compared to tax base information because tax rate information is generally more easily available (availability bias, Blaufus et al., 2013). Some subjects have a larger disutility from paying taxes than they do if paying the same amount in other costs (tax aversion bias, Blaufus & Möhlmann, 2014; Kessler & Norton, 2016; Sussman & Olivola, 2011). By contrast, other subjects have non-standard utility functions and perceive an additional positive utility from paying taxes to contribute to public goods (tax affinity, Djanali & Sheehan-Connor, 2012). Non-standard utility functions may also include fairness considerations. If utility functions include fairness preferences, not only the perception of one's own tax burden but also that of others is relevant for decision making. Non-standard utility functions further encompass reference-point dependency, for example, the different valuation of gains and losses according to prospect theory (Kahnemann & Tversky, 1979). Therefore, framing tax reductions as a bonus or rebate affects decision making (Epley et al., 2006).

Finally, there is some evidence that inattention to taxes decreases with the amount of the tax. This points towards a rational inattention explanation of tax misperception (Amberger et al., 2016; Taubinsky & Rees-Jones, 2018) because information is more likely to be incorporated in decision-making if ignoring it is more costly (Abeler & Jäger, 2015). However, the evidence regarding this issue is inconclusive (Abeler & Jäger, 2015; Feldman et al., 2018).

Because the use of heuristics and the existence of behavioral biases depend on individual traits, the properties of tax information, and the characteristics of the general decision environment, we distinguish (i) tax information determinants, (ii) individual determinants, and (iii) determinants of the decision environment. In Table 2, we present detailed information about these determinants, the operationalizations used in prior research, and the direction of the determinants' effect on tax misperception.

First, regarding *tax information determinants* (Panel A of Table 2), previous research has found that misperception of objective tax facts increases with decreasing salience (Blumkin et al., 2012; Cabral & Hoxby, 2012; Chetty et al., 2009; Finkelstein, 2009; Goldin, 2012; Sausgruber & Tyran, 2005; Taubinsky & Rees-Jones, 2018; Weber & Schram, 2017). The salience of taxes may depend on who is obliged to pay the tax, on whom the tax is levied (direct taxes, indirect taxes, withholding taxes), the payment mechanism (individual transfer, electronic collection), and whether taxes are displayed (prices with/without sales tax).

In addition, tax complexity has been shown to increase tax misperception. It reduces real effort (Sielaff & Wolf, 2016) and increases the probability of erroneous investment decisions (Boylan & Frischmann, 2006; Rupert et al., 2003; Rupert & Wright, 1998). In complex tax systems, many subjects base their decisions on pre-tax variables (Blaufus & Ortlieb, 2009). Tax complexity also affects corporate tax misperception. Graham et al. (2017) report that firms with a large proportion of assets in foreign locations (making it very complex to calculate the correct MTR) are less likely to use the MTR for decision making. Furthermore, Bratten et al. (2017) find that the accuracy of managers' and analysts' ETR forecasts decreases when tax rate complexity is high.

Tax framing is another tax information determinant that affects decision making. Empirical results suggest that the label 'tax' itself may be negatively perceived by tax averse individuals and that changing the label of a tax affects its perceived burden (e.g., Hundsdoerfer et al., 2013; Kessler & Norton, 2016; Löfgren & Nordblom, 2009). Also, the framing of a tax reduction

Table 2. Determinants of tax misperceptions**Panel A: tax information determinants****Tax complexity**

AICPA's tax complexity index	Plumlee (2003) finds that the magnitude of errors in ETR forecasts increases with the complexity of tax law changes.
Combination of multiple interdependent taxes	Increases tax misperception, reduces working time and performance (Sielaff & Wolf, 2016).
Proportion of assets in foreign locations	Firms with a large proportion of their assets in foreign locations are less likely to use the MTR for decision-making (Graham et al., 2017).
Tax Complexity Index (TCI)	Hoppe et al. (2020) find that tax framework complexity is negatively associated with countries' governance, suggesting that strongly governed countries show lower levels of tax misperception. By contrast, tax code complexity is found to be positively associated with the statutory tax rate, indicating that high-tax countries' tax code could fuel tax misperception.
Tax rate complexity factor	Bratten et al. (2017) find that the accuracy of managers' and analysts' ETR forecasts decreases when tax rate complexity (capturing absolute changes in ETR, the absolute difference between STR and ETR, and ETR volatility) is high.
Tax rate information, floors and phase-outs	Increasing tax complexity increases the probability of erroneous investment decisions (Boylan & Frischmann, 2006; Rupert et al., 2003; Rupert & Wright, 1998).
Time needed for understanding the tax rules	With increasing tax complexity, the proportion of subjects that make tax-optimal decision decreases significantly (Blaufus & Ortlieb, 2009).

Tax framing

Prospect theory	The framing of a tax reduction as a bonus instead of a tax rebate or as increase in monthly income instead of a reduction of the monthly tax burden affects spending behavior (e.g., Epley et al., 2006). Fahr et al. (2014) find that the presence of an exit option seems to be irrelevant for (affects) investment timing in the case of an experienced tax rate decrease (increase). Mehrmann and Sureth-Sloane (2017) analytically show that tax loss offset restrictions significantly bias investor perception even more heavily than the tax rate.
Tax labels	Different labels for taxes can affect the perceived tax burden (Hundsdoerfer et al., 2013; Löfgren & Nordblom, 2009). The label 'tax' itself can affect the perceived burden of tax averse subjects (Blaufus & Möhlmann, 2014; Kessler & Norton, 2016; Sussman & Olivola, 2011).
Format of tax information	Tax burdens assessed in dollars rather than rates are significantly less progressive (Hite & Roberts, 1991; McCaffery & Baron, 2003) and subjects presented with ETR information in a percentage format make more accurate tax expense forecasts than do subjects presented with the information in a dollar format (Chychyla et al., 2017).

(Continued).

Table 2. Continued.

Tax salience	
Direct vs. indirect taxes	Higher tax misperception for indirect taxes (Blumkin et al., 2012; Sausgruber & Tyran, 2005).
Graphical illustration of progressive tax schedule	Reduces tax misperception (Fochmann & Weimann, 2013).
Payment method	Less salient payment methods increase property tax misperception (Cabral & Hoxby, 2012) and toll payment misperception (Finkelstein, 2009). Income tax perception depends on whether the tax is levied on the employer side or the employee side (Weber & Schram, 2017). The point of tax collection also affects the economic incidence of tax (Morone et al., 2018).
Tax inclusive vs. exclusive prices	Tax inclusive prices reduce demand (Chetty et al., 2009; Goldin, 2012; Taubinsky & Rees-Jones, 2018).
Tax timing	Tax refunds administered in one lump sum are less likely to be spent than monthly tax refunds of the same amount through reduced income tax withholding (Chambers & Spencer, 2008). However, this finding is not confirmed by Sahm et al. (2012). Falsetta et al. (2013) show that taxpayers invest more (less) in a riskier asset when there is a tax decrease (increase) that is implemented gradually rather than all at once.
Tax uncertainty	Increases tax misperception (e.g., Bratten et al., 2017).
Panel B: individual determinants	
Behavioral intentions	Due to a confirmation bias, consumers neglect tax information that does not align with their consumption intentions (Feldman et al., 2018; Feldman & Ruffle, 2015).
Cognitive capacity	
Education	A positive association between education and accuracy of tax perception is demonstrated by Gensemer et al. (1965), Williamson (1976), Slemrod (2006), Blaufus et al. (2015), and Amberger et al. (2016), while other studies find no statistically significant effect of education (Ballard & Gupta, 2018; Fujii & Hawley, 1988; Gideon, 2014).
Management ability	The speed at which tax planning opportunities are identified correlates with the ability of corporate management to generate higher returns (Bach, 2015).
Numerical intelligence	Decreases ATR misperception, but has no effect on MTR misperception (Gideon, 2014).
Social class	Lewis (1978) finds social class and the accuracy of MTR estimates being positively associated.
Emotions	Fochmann et al. (2016) show that the more pleasant and less exciting a tax treatment is perceived, the higher the amount that is riskily invested. Fochmann et al. (2017) provide evidence that investors do not change their risk taking behavior as a direct consequence of changing tax rules but due to the affective perception of these different tax rules.

(Continued).

Table 2. Continued.

Ideology and attitudes towards taxation, tax aversion	Lewis (1978) and Slemrod (2006) report no association between political party affiliation and tax misperception. Ballard and Gupta (2018) find the same for ideology while Williamson (1976) finds weak explanatory power for ideology. Ballard and Gupta (2018) report more pronounced tax rate overestimates by respondents who either regard people like themselves being taxed too high or who assume that taxes are spent ineffectively. Republican respondents perceive that taxes are higher and more progressive than Democrats do (Stantcheva, 2020). Sussman and Olivola (2011), Blaufus and Möhlmann (2014), Kessler and Norton (2016) show that some individuals dislike tax payments more than equivalent costs. Fochmann and Kleinstück (2014) do not find tax averse behavior.
Tax knowledge	
Accounting education	Graham et al. (2017) finds a negative effect for accounting-related education of corporate tax managers on tax rate misperception.
Factual tax questions	Slemrod (2006) finds no association between tax knowledge and misperception of tax schedule progressivity.
Firm size, high-R&D-intensity firms	Graham et al. (2017) assume that larger firms and high R&D-intensity firms are likely to have greater tax compliance activities and/or greater tax planning opportunities, which leads them to employ well-trained tax personnel. They find that the likelihood of using the MTR for decision-making (instead of the ETR) increases with firm size and high R&D-intensity.
Investment activity Occupation in banking, insurance, stock brokerage, and accountancy Self-rated familiarity with the federal income tax rate structure College degree in economics/law, having parents who run a business	Decreases misperception of MTRs (Gensemer et al., 1965). Decreases misperception of MTRs (Gensemer et al., 1965). In contrast to other studies, Rupert and Fischer (1995) find increasing tax misperception of the MTR when subjects state that they have extensive tax knowledge. Alstadsæter and Jacob (2017) show that having a college degree in economics or law and having parents who run a business is positively associated with the use of tax planning options.
Years of experience as analysts	Decreases misperception of tax-related information (Weber, 2009).
Tax preparation assistance	Using tax preparation assistance is positively correlated with tax rate misperception (Ballard & Gupta, 2018; Gideon, 2014; Rupert & Fischer, 1995).
Other variables	
Age	According to Gideon (2014), Ballard and Gupta (2018) and Feldman et al. (2016), age is negatively associated with tax misperception, while Lewis (1978) finds more accurate estimates only for middle-aged individuals. By contrast, Blaufus et al. (2015) report more pronounced misperception among elderly people of their MTR and Slemrod (2006) of tax rate schedule progressivity.
Gender	Gender does not play a role in tax misperception, according to Gideon (2014), Ballard and Gupta (2018), and Fujii and Hawley (1988). Blaufus et al. (2015) find a gender effect only for overestimates, which are more pronounced for men. Slemrod (2006) reports that men underestimate tax schedule progressivity far more than women.

(Continued).

Table 2. Continued.

Home ownership	While Fujii and Hawley (1988) find a negative association with tax misperception, Ballard and Gupta (2018) find no significant association.
Income	A positive association between income and accuracy of estimates is confirmed by Rupert and Fischer (1995), Ballard and Gupta (2018), Williamson (1976) and Feldman et al. (2016), whereas Blaufus et al. (2015) show income and underestimates of own MTRs to be associated.
Marital status	Slemrod (2006) and Gideon (2014) find no correlation, whereas Ballard and Gupta (2018) indicate more overestimates among married respondents.
Self-employment	Feldman et al. (2016) show that self-employment reduces tax misperception, while Schmolders (1960) reports the opposite. Blaufus et al. (2015) find no significant association.
Use of investment advice	Negative correlation with tax misperception (Rupert & Fischer, 1995).
Panel C: determinants of the decision environment	
Background complexity	The initial tax complexity of a decision environment increases misperception of subsequently introduced new, simple taxes (Abeler & Jäger, 2015).
Competition	Firms operating in environments with greater product market competition are more likely to use the MTR (instead of the ETR) for decision making (Graham et al., 2017). Boylan and Frischmann (2006) and Blaufus and Möhlmann (2014) show that tax-related decision errors persist in competitive market settings but diminish over time.
Corporate governance / information environment	
Implementation of XBRL	Reduces analysts' misperception of tax-based earnings information (Kim et al., 2020).
Institutional ownership	Firms with high institutional ownership are more likely to use the MTR (instead of the ETR) for decision-making (Graham et al., 2017). Tax related forecasts errors decrease with increasing institutional ownership (Kim et al., 2020).
No. of analysts following the firm	Reduces tax related forecasts errors (Kim et al., 2020; Weber, 2009).
Panel C: Determinants of the Decision Environment	
Incentives	Increasing incentives reduce tax misperception. Firms are less likely to use the STR for decision making when the difference between the MTR and STR is larger (Graham et al., 2017). Goldin and Homonoff (2013) find that only low-income consumers respond to changes in cigarette taxes, Amberger et al. (2016) observe that the share of tax-minimizing decisions increases the larger the tax burden difference between two options. Taubinsky and Rees-Jones (2018) show that increasing sales tax rates reduce misperception. By contrast, Abeler and Jäger (2015) and Feldman et al. (2018) do not find that tax misperception decreases with increasing tax rates.

(Continued).

Table 2. Continued.

Learning opportunities	Feedback from other market participants and learning by doing reduce tax-related decision errors/biases (Blaufus et al., 2013; Blaufus & Milde, 2020; Blaufus & Möhlmann, 2014; Boylan & Frischmann, 2006; Rupert & Wright, 1998).
Prepayment position	Taxpayers who owe taxes make greater errors in estimating their MTR than those who are entitled to a refund (Rupert & Fischer, 1995).
Public vs. private firms	According to Graham et al. (2017), public (private) firms are more likely to use the ETR (STR) instead of the MTR for decision-making. A stronger capital market focus (measured by the number of analysts following the firm) increases the likelihood of the ETR (instead of the correct MTR) being used for decision making (Graham et al., 2017).
Time pressure	Time pressure increases tax misperception (Amberger et al., 2016).
Uncertainty	Uncertainty related to the decision environment affects tax misperception, for example via loss-offset misperception (e.g., Fochmann et al., 2012a, 2012b).

Notes: This table gives an overview of findings on individual and tax information determinants and determinants of the decision environment.

as a bonus instead of a rebate seems to influence spending behavior (e.g., Epley et al., 2006). Furthermore, the format of tax information affects perception. Normative assessments of tax progressivity differ when expressed in tax rates or in dollar amounts. Tax burdens assigned in dollars rather than in tax rates are significantly lower (Hite & Roberts, 1991; McCaffery & Baron, 2003); subjects presented with ETR information in percentage format make more accurate tax expense forecasts than subjects who are presented with a dollar format (Chychyla et al., 2017).

In addition, tax timing influences tax perception (Chambers & Spencer, 2008; Falsetta et al., 2013) when subjects use mental accounts (Thaler, 1990) or have prospect theoretical utility functions (Kahnemann & Tversky, 1979). Finally, tax uncertainty may increase tax misperceptions (e.g., Bratten et al., 2017).

Second, to what extent objective tax information is perceived accurately depends on a number of *individual determinants* that moderate the effect of tax information on the subjective tax burden and thus on tax-related decision making (Panel B of Table 2). Because the use of heuristics and the existence of behavioral biases are usually negatively associated with knowledge and cognitive capacity, it is not surprising that most studies find that tax misperception decreases with better tax knowledge and higher cognitive capacity. This negative effect on tax misperception has been found for individual taxpayers (Blaufus et al., 2015; Gensemer et al., 1965; Gideon, 2014; Slemrod, 2006; Williamson, 1976), in a corporate context (Alstadsæter & Jacob, 2017; Amberger et al., 2016; Bach, 2015; Graham et al., 2017) and for financial analysts (Weber, 2009).

In addition to tax knowledge and cognitive capacity, a variety of other individual moderators determine the perception of tax information. If tax information is in conflict with their own behavioral intentions, individuals may ignore or underweight this information due to a confirmation bias (Feldman et al., 2018; Feldman & Ruffle, 2015). Emotions, too, can affect tax perception, particularly in risky investment decisions (Fochmann et al., 2016, 2017).

Other individual traits that have been examined as potential determinants of tax misperception include age, gender, ideology, and attitudes towards taxation, income, home-ownership, marital

status, and self-employment. Most studies find that tax misperception decreases in income due to higher rewards from tax planning, which makes it more attractive to learn more about tax laws. Concerning the other mentioned variables, the evidence is, however, inconclusive (see Table 2, Panel B for detailed references).

Third, besides characteristics of the tax information and traits of the decision maker, the general *decision environment* also shapes the extent of tax misperception (see Panel C of Table 2). If the decision environment is already very complex, the probability of additional tax information being misperceived increases (Abeler & Jäger, 2015). Moreover, learning opportunities and competition are important debiasing tools. Firms operating in environments with greater product market competition are more likely to use the correct MTR for decision-making (Graham et al., 2017). Boylan and Frischmann (2006) and Blaufus and Möhlmann (2014) show that tax-related decision errors persist, but diminish over time in competitive market settings. In repetitive decisions, subjects often have the opportunity to learn and reduce tax misperception, which is not possible with one-off or irregularly occurring decisions (Blaufus et al., 2013; Blaufus & Milde, 2020; Blaufus & Möhlmann, 2014; Rupert & Wright, 1998). Social networks, peers, media attention, and the relationship with the tax authorities also shape the environment that constitute individual beliefs (and managers' beliefs, McGuire et al., 2012) and ultimately coin (corporate) taxpayers' attitude towards taxes and tax planning (Hasan et al., 2017).

According to rational inattention models, increasing incentives should reduce tax misperception. Supporting evidence stems from Goldin and Homonoff (2013), Amberger et al. (2016), Graham et al. (2017), and Taubinsky and Rees-Jones (2018). Graham et al. (2017) find that firms are less likely to use the statutory tax rate (STR) instead of the correct MTR for decision-making when the difference between the MTR and STR increases. Goldin and Homonoff (2013) show that only low-income consumers respond to changes in less salient cigarette taxes. Amberger et al. (2016) observe that the share of tax-minimizing decisions increases in the tax burden difference between two options, and Taubinsky and Rees-Jones (2018) show that increasing sales tax rates reduce tax misperception. By contrast, Abeler and Jäger (2015) and Feldman et al. (2018) do not find that tax misperception decreases with increasing tax rates.

There is some evidence that time pressure increases tax misperception (Amberger et al., 2016) and that the prepayment position matters for tax perception. Taxpayers who owe taxes seem to make greater errors in estimating their MTR than those who are entitled to a refund (Rupert & Fischer, 1995). Lastly, an uncertain decision environment affects tax misperception, too (e.g., Fochmann et al., 2012a, 2012b).

In a corporate context, two further moderators are relevant to tax misperception. First, there seems to be a difference between private and public firms due to differences in the salience of tax information. In line with the assumption that the GAAP ETR (STR) is particularly salient for managers of public (private) firms, Graham et al. (2017) show that public (private) firms are more likely to use the GAAP ETR (STR) instead of the correct MTR for decision making. Thus, a capital market focus may favor tax misperception due to the concentration on accounting-related tax information (GAAP ETR) instead of the decision-relevant MTR. Second, the level of corporate governance and the quality of the firm's information environment reduce tax misperception. Firms with strong institutional ownership are more likely to use the MTR for decision making (Graham et al., 2017). Tax related forecasts errors decrease with increasing institutional ownership (Kim et al., 2020) and increasing numbers of analysts following a firm (Kim et al., 2020; Weber, 2009).

If taxpayers' *subjective* tax burden deviates from the *objective* burden and they make their decisions without the help of information intermediaries, tax responses deviate from rational choice predictions. However, if subjects follow unbiased advice from their employer, investment advisory firms, the media, the tax agency, or professional tax advisors, their own tax

misperception does not translate into decision errors.⁹ Thus, we consider the use of information intermediaries as a moderator of the relationship between tax information and behavioral tax responses in the *Behavioral Taxpayer Response Model*. In line with this, Zwick (2020) shows that sophisticated tax preparers reduce non-optimizing tax decisions of corporations.

In sum, the presented model shows that tax misperception is a function of specific individual traits, tax information characteristics, and properties of the decision environment. Moreover, whether tax misperception translates into tax-related decision errors depends on the availability and use of unbiased tax advice.

7. Open Research Questions

Each section of our review has revealed several open research issues. Regarding individual and corporate tax misperception (Section 3), we observe that researchers use different approaches to measure tax misperception but there is no research that compares these approaches with respect to the extent of measured tax misperception. Moreover, we are not aware of studies that conduct cross-country comparisons, compare misperceptions across different kind of taxes, or directly measure corporate managers' misperception of tax rates or tax burdens.

With respect to the effects of tax misperception on decision making (Section 4), we identify open research issues concerning non-business, business, and corporate decision making. While much behavioral tax research focuses on non-business decisions, surprisingly we find almost no research on the effect of tax misperception on typical household finance decisions such as housing, the realization of capital gains, or private portfolio decisions. Regarding business decisions, the reviewed research has mainly studied the effect of tax misperception on investment and risk-taking decisions. By contrast, there is a dearth of research on the effect of tax misperception on other business decisions such as the choice of organizational form, employment, financing, location choice, production, supply chain, and tax planning. Regarding decision-making of corporate managers, our knowledge is particularly limited. In addition to the already mentioned business decisions which should also be examined on a corporate level, future research should also address how corporate tax misperception affects accounting choices, the type and implementation of tax risk management systems, usage of tax uncertainty shields, and participation in voluntary co-operative tax compliance programs.

In terms of both the occurrence and magnitude of tax misperception and its impact on decision making, there is a research gap regarding the misperception of the tax burden of others. Behavioral tax compliance research suggests that there are spill-over effects on one's own economic decisions (e.g., Blaufus, Bob, et al., 2017; Lefebvre et al., 2015). Meanwhile, studies in accounting have revealed many roles of peers in explaining firm behavior (see Bird et al., 2018 for tax planning activities). However, studies on the effect of corporate misperception of peers' tax burden are missing. One could expect these spill-over effects to concern other decisions, too, such as both individual and corporate manager decisions and especially real effort, compliance, and investment decisions, yet also decisions on tax planning or location choices.

Another research gap concerns the management of tax misperception by corporations and its impact on stakeholders (Section 5). For example, we know little about how firms manage

⁹Unbiased advice could also serve as a source of information and thereby decrease taxpayers' tax misperception. However, prior evidence reveals that using tax preparation assistance is positively correlated with tax misperception (Ballard & Gupta, 2018; Gideon, 2014; Rupert & Fischer, 1995). This suggests that taxpayers who seek tax advice delegate their tax affairs to experts without building up their own expertise. In line with this, research shows that taxpayers seek tax advice even if the resulting tax savings are lower than the fees paid to preparers to reduce tax uncertainty and cope with the inherent tax complexity (Blaufus, Hechtner, et al., 2017).

Table 3. Open research issues.

1. Individual and corporate tax misperception (occurrence and magnitude)	
GENERAL	<ul style="list-style-type: none"> ● How does the measurement method affect the magnitude of tax misperception? ● Does tax misperception differ across countries? ● How does tax misperception differ (direction and magnitude) across different kinds of taxes? ● Does the misperception of the absolute and relative tax burden (tax burden distribution) vary?
CORPORATE	<ul style="list-style-type: none"> ● To what extent do corporate managers misperceive tax rates? ● Do corporate managers misperceive different tax rates (ETR vs. MTR) differently? ● Do corporate managers misperceive the tax burden of their peers?
2. Effects of tax misperception on decision making	
NON-BUSINESS	<ul style="list-style-type: none"> ● How does tax misperception affect housing decisions? ● How does tax misperception affect the realization of capital gains? ● How does tax misperception affect portfolio selection? ● What explains the different results regarding tax misperceptions on risk-taking? ● What behavioral channel explains the positive effect of taxes on real effort despite net equivalent payoffs? ● How does misperception of peers' tax burden affect non-business decisions?
BUSINESS	<ul style="list-style-type: none"> ● How does tax misperception affect the choice of organizational form? ● How does tax misperception affect employment decisions? ● How does tax misperception affect financing decisions? ● How does tax misperception affect investment decisions? ● How does tax misperception affect location decisions (within a country and cross-border)? ● How does tax misperception affect production and supply chain decisions? ● How does tax misperception affect tax planning decisions? ● How does misperception of peers' tax burden affect business decisions?
CORPORATE	<ul style="list-style-type: none"> ● How does tax misperception affect employment decisions? ● How does tax misperception affect investment decisions? ● How does tax misperception affect financing decisions? ● How does tax misperception affect location decisions (within a country and cross-border)? ● How does tax misperception affect payout decisions? ● How does tax misperception affect production and supply chain decisions? ● How does tax misperception affect tax planning decisions? ● How does tax misperception affect the type and implementation of tax risk management systems? ● How does tax misperception affect usage of tax uncertainty shields (ATR, APA)? ● How does tax misperception affect participation in voluntary cooperative compliance programs? ● How does tax misperception of non-profit taxes affect decisions at corporate level (property tax, inheritance tax, excise tax)? ● How does tax misperception affect tax accounting choices? ● How does misperception of peers' tax burden affect corporate decisions?

(Continued).

Table 3. Continued.

3. Management of tax perception and its impact on stakeholders

- Can firms exploit consumers' tax misperception by implementing 'tax-free' advertising campaigns?
- Which forms of information provision do firms use to manage their tax disclosures (texts, graphs, tables, numbers, notes)?
- Which channels of information provisions do firms use to manage their tax disclosures (annual reports, investor conferences and road shows, media, social media)?
- How do firms manage their tax disclosures to influence their stakeholders (customers, workforce, investors, tax authorities, regulatory bodies, politicians)?
- Which accounting systems do firms use to generate the numbers required by (mandatory) tax reporting (local GAAP, IFRS, managerial accounting numbers)?
- Do firms manage tax misperception via tax expenses (e.g., accruals management) or deferred taxes?

4. Determinants of tax misperceptions (Behavioral Taxpayer Response Model)
TAX INFORMATION

- How should tax information be designed and distributed to reduce misperception?
- How should tax disclosures in financial accounting be designed to improve the accuracy of tax perceptions?
- Do information interventions such as the display of the individual ATR and MTR in tax assessment notes (as is common in some countries) improve the accuracy of tax perception?
- To what extent do increased tax transparency rules (country-by-country reporting, FIN 48/IFRIC 23, DAC6) affect the tax misperception of corporate stakeholders (investors, financial analysts, revenue agents, consumers)?
- What is the relationship between tax uncertainty and tax misperception?
- What is the relationship between tax code/framework complexity and tax misperception?
- How should tax incentives to increase retirement savings be designed from a behavioral taxation perspective?
- How should tax incentives to foster investment be designed from a behavioral taxation perspective?

INDIVIDUAL

- How does individuals' or corporate managers' attitude towards the government affect tax misperceptions (trust, political attitudes, prior experiences with government bodies)?
- To what extent do tax misperception depend on firm/corporate characteristics?

ENVIRONMENT

- To what extent does corporate managers' tax misperception depend on incentive schemes?
- To what extent does corporate managers' tax misperception depend on their relative position and power in the organization?
- To what extent does corporate managers' tax misperception depend on being active in industry specific networks (lobbyism)?
- How does the implementation and kind of tax risk management system affect tax misperception?

INTERMEDIARIES

- Is tax misperception during crises any different?
 - Do tax advisors provide biased tax information and what drives the direction and magnitude of biases?
 - Does the use of tax software affect tax misperceptions?
 - Do the media provide biased tax information and what drives the direction and magnitude of biases?
 - Do employers provide accurate tax information?
 - Do investment advisors provide accurate tax information?
-

tax accounting information and its disclosure to influence stakeholders' perception of the firms' tax burden. Regarding the determinants of tax misperception (Section 6), we identify several research questions that encompass the optimal design of tax information to reduce tax misperception or to foster investment or savings decisions, the determination of firm characteristics that influence tax misperception, the effect of incentive schemes on tax misperception, and the effect of information intermediaries on tax misperception and tax-related decision errors. We provide a detailed overview of open research issues and provide a comprehensive but at the same time non-exhaustive list of open research questions. We structure these research questions along the topics of this literature review (occurrence and magnitude of individual and corporate tax misperception, effects of tax misperception on decision making, management of tax misperception and its impact on stakeholders, determinants of tax misperception) in Table 3.

8. Conclusion

The surveyed research demonstrates that many taxpayers suffer from substantial tax misperception. They have no accurate knowledge of either their average or their marginal tax rate. The estimates for the percentage of taxpayers who largely accurately perceive their income tax rate range from under 10% to 44%. Moreover, most studies report that subjects overestimate their ATR although the direction of misperception seems to depend on the income level. Regarding the MTR, over- and underestimations are observed, with some taxpayers (including corporate managers) mistaking ATRs for MTRs, which leads to an underestimation of the progressive tax schedule. In addition, even if accurate tax information is provided, taxpayers often do not incorporate taxes into their decision making in a way predicted by rational choice theory. Thus, tax misperception results from two sources: (i) lack of tax knowledge and (ii) misapplication of tax information in decision making. The reason for this tax misperception is that many subjects behave in a rationally bounded manner, i.e., they consider that purely rational choices require much time and cognitive effort to operate. To account properly for tax misperception in research, we develop the *Behavioral Taxpayer Response Model* which can be employed for both theoretical and empirical research to customize misperception (determinants and effects) for the underlying research question. Based on the assumption of taxpayers' bounded rationality, this model systematizes prior research on the determinants of tax misperception with respect to (i) tax information determinants, (ii) individual determinants, and (iii) determinants of the decision environment.

We identify numerous opportunities for future research (see Table 3). The most obvious research gap concerns limited knowledge regarding tax misperception of corporate managers and its effect on corporate decision making. While the results of individual choice experiments may be descriptive for small businesses, such as sole proprietorships or small corporations, one should be cautious when translating these results directly to the context of large corporations with professional tax management. Future research should therefore follow and extend the studies of Graham et al. (2017) and Zwick (2020). This research gap is surprising, as it is important to understand the sender-receiver paradigm of tax relevant information both as disclosed by taxpayers and as provided by regulators and monitoring bodies.

It is noticeable that previous research offers a variety of different theoretical explanations for tax misperception. However, often the concrete behavioral channel is not clearly identified. Instead, most economic studies simply assume a misperception parameter but still use a standard neoclassical decision model to explain behavior. Sometimes this raises problems in determining whether the observed effect is due to tax misperception or due to the wrong specification of the decision model. This holds true especially for the effects of tax misperception on real effort, but

could also explain the inconclusive results concerning the effects on risk taking. Future research therefore needs to further improve the identification strategy. Moreover, despite emphasizing the importance of perception heterogeneity, many experiments still determine only average treatment effects which often mask heterogeneous tax responses.

Regarding the applied empirical methodology, we observe a dominance of experimental and survey studies. Due to the high internal validity of experiments, these studies allow causal inferences. However, experiments are limited to very simplified tax rules and relatively low economic incentives. In particular, accounting researchers could build on previous economic tax experiments by adding more institutional details. By contrast, surveys allow for collecting data on representative samples but offer lower internal validity and suffer from a lack of economic incentives. To overcome limitations concerning internal or external validity, a mixed-method approach combining surveys, experiments, and archival data analyses seems very promising. Thus, we encourage future research to pursue this avenue to help substantiate ongoing international tax policy debates and better understand the impact of tax misperception on entrepreneurial and corporate decision making.

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Supplemental Data and Research Materials

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Table A1. Tax Misperception

Table A2. Effect of Tax Misperception on Decision-Making

Table A3. Management of Tax Perception and its Impact on Stakeholders

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