

Case study: Behavioral Insights- Tax Trial: Guatemala

Guatemala Trial on Tax*

Background

- Behavioral science aims to make desired actions the easiest option.
- Unlike legislation or incentives, it often costs little to apply

Project:

- Aim to increase tax revenues at low cost and without introducing new legislation.
- With tax year just over and Guatemalans preparing to send reminder letters to those still to declare their tax, decided to modify letters' wording using behavioral insights. They would then follow each individual to see what effect the changes had.
 - In all, just over 43,000 citizens yet to file their tax return divided into 6 groups.
 - First group was not sent a letter and second group got the standard letter, while other four groups received modified letters.



* <https://www.scidev.net/global/policy/feature/behavioural-science-development-policy-innovation.html>

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How payment reminder letters in Guatemala had their wording altered

- Standard letter- It had details of what was required from recipients by law and told them that they should pay but did not explain how.
- Modified letter 1-
 - It started with a short 'call to action' making clear that payment was needed now.
 - It gave a link to a tax paying website.
 - It told people they can pay in instalments.
 - It included message: "If you do not declare you may be audited and face procedure...by law".
- Modified letter 2- Same as modified letter 1 but with:
 - "According to our records, 64.5 per cent of Guatemalans declared...income tax for year 2013 on time. You are part of the minority of Guatemalans who are yet to declare for this tax".
- Modified letter 3- Same as modified letter 2, but in addition:
 - "Previously we have considered your failure to declare an oversight. However, if you don't declare now we will consider it an active choice and you may therefore be audited and could face the procedure established by law".
- Modified letter 4-
 - This excluded the call to action that was in modified letter 1 or the deterrent in letter 3. The tone was softer, including an image of the Guatemalan flag and phrase: *"You are a Guatemalan citizen and Guatemala needs you. Be a good citizen and submit the 2013 annual return of income tax ... Are you going to support your country?"*



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Results

- Results showed small changes to letters —such as making tax demands clear and simple or evoking sense of national pride — can increase number filing tax returns.
- Best performing letter made it clear what recipients had to do and evoked sense that state watching them.
- Modified letter 3, best performer in terms of increasing numbers of people who declared their tax, led to 5.5% point rise in people filing returns.
- When it came to amount of people followed through on declaration and actually paid tax, the biggest rise seen was 1.3% points for modified letter 2.
- Small differences add up: If you roll out across whole section of population who haven't declared tax, that's big money.

Letter	None sent	Standard letter	Modified letter 1	Modified letter 2	Modified letter 3	Modified letter 4
% of people who filed their tax return	11.7	15.3	16	16.5	17.2	15.5
% who went on to pay their tax	3.9	4.3	4.4	5.6	5.4	5



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Implications & Recommendations

This nudge trial is noteworthy in many ways:

- It shows cost-effective and small changes in context, in particular, through ‘Social Norms’ and ‘National Pride’ nudges can effectively speed up bill payment rates.
- Even single digit percentage improvement in bill payment speed can create significant savings if such an experiment is replicated at a national level.
- It showed behaviorally-driven slip increases the probability of people paying bills as opposed to normal slip.
- This case is an eye opener for multitude of interventions in other sectors, including **tax payment**, with great potential for massive savings and improved public service delivery at national level.



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