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Traditionally, tax authorities used so-called *deterrence strategies* to address tax compliance risks. These strategies are based upon the assumption that the threat of detection and punishment enforces compliance. Such strategies have several disadvantages. Deterrence activities are for instance costly and difficult (Smith & Stalans, 1991). The ósocial costsô can be even higher if taxpayers respond by increasing efforts to avoid detection and punishment. Deterrence models are generally based upon the assumption that all non-compliance is intentional, as a result of conscious decisions by taxpayers. Non-compliant behaviour, however, can also be unintentional. Such unintentional non-compliance is unlikely to be (significantly) affected by deterrence activities (Smith & Kinsey, 1987). Also, deterrence models only focus on individuals and their cost-benefit analysis, while taxpayers also might be concerned about their social reputation, justice and fairness (Wenzel, 2002). And finally, deterrence activities can encourage resistance amongst taxpayers due to heavy-handed treatment and perceived breaches of procedural justice (Job, Stout & Smith, 2007).

Deterrence strategies alone are unable to efficiently attain or maintain desired compliance levels (especially given a finite level of resources). Therefore, tax authorities also use so-called *advise and persuade* strategies in a sound *compliance risk management* (CRM) strategy.[3] Advise and persuade strategies seek to prevent harm rather than punish it. They focus on cooperation between regulator, enforcement authority and addressee rather than seeking confrontation, and make use of conciliation rather than coercion (Gunningham, 2010).

One type of advise and persuade strategy is called *co-operative compliance*. In the last decade many tax authorities have implemented co-operative compliance approaches, generally aimed at large businesses (OECD, 2013). Co-operative compliance can be seen as a preventive instrument to influence corporate tax behaviour and thus address specific tax compliance risks of (large) businesses. Although co-operative compliance currently seems to be very common in managing compliance risks of large businesses, there is still hardly any research about the underlying assumptions of these strategies and only very little evidence of their added value (OECD, 2013).

The exploration of co-operative compliance strategies is relevant for many reasons. Given the political and public attention of corporate tax non-compliance, (potential) effects of new strategies such as co-operative compliance strategies will be monitored closely. Society will require tax authorities to demonstrate how co-operative compliance strategies add value to the effectiveness of the tax system (OECD, 2013). Besides, corporate tax non-compliance ð in contrast to individual tax non-compliance ð and regulatory strategies combatting corporate non-compliance, have received scarce scholarly attention in the field of tax compliance.[4] This is surprising given the economic importance of corporate taxes: in most countries the revenue of corporate taxes, such as corporate income tax, payroll taxes and value added tax, exceeds revenues from personal income tax.

concluded that increasing probabilities of detection and the level of penalties can deter taxpayers from being non-compliant. However, the effects of deterrence factors are generally shown to be relatively small (e.g. DeBacker, Heim, & Tran, 2015). For corporations, *book-tax conformity* is an important aspect of the detection probability. Book-tax conformity refers to the degree to which accounting and tax regulations are aligned. A legal framework with high book-tax conformity reduces the extent to which firms can reduce taxable income while raising book income, because reporting book-tax differences in such a setting signals non-compliance. Therefore, a high degree of book-tax conformity increases corporate tax compliance (Mills, 1996, 1998; Hung Chan, Lin, & Mo, 2010; Lee & Swenson, 2012; Tang, 2014).

Whether a taxpayer is sufficiently tolerant of the risks involved is not only determined by the perceived risks, but also by the ó*risk appetite*ô (or the level of risk one is prepared to accept). Taxpayers can have different risk appetites (Skinner & Slemrod, 1985). The risk appetite of taxpayers often is an important factor in theoretical approaches to tax compliance. Small changes in risk appetite can have profound effects on the predicted level of compliance. No empirical studies regarding the effect of risk appetite on corporate tax compliance are known to us. Intuitively, one might expect risk appetite plays an important role in corporate tax compliance. Many (larger) corporations have a formal corporate strategy, including a formalised risk appetite; risk appetite is an important part of all enterprise risk management models (e.g. COSO, 2011).

An assumption underlying economic compliance models (such as Allingham & Sandmo, 1972) is that humans make rational decisions. A large section of scholarly literature on tax compliance questions this rationality in regard to tax decisions. The rationality of taxpayers is, for example, affected by the level of *uncertainty*. Uncertainty affects tax compliance due to the fact that, in practice, taxpayers are unlikely to have precise information regarding audit probabilities, audit effectiveness (detection uncertainty), the level of penalties and the correct interpretation of tax law (or, in total, their actual tax liability). Humans generally avoid ambiguity; therefore it is likely that this uncertainty will affect tax compliance behaviour (Casey & Scholz, 1991; Taylor & Richardson, 2013). Uncertainty has various effects on tax compliance. For example, uncertainty regarding the correct tax position can lead to unconscious non-compliance but also to a situation in which a taxpayer is taking the most favourable tax position and awaits a cha psychological and sociological ð considerations, such as norms, trust and fairness play an important role (Kirchler, 2007).

2.2

Personal norms, or a managerôs own moral standards, are assumed to be an important determinant of corporate tax attitude (e.g. Law & Mills, 2014). Personal norms seem to affect tax compliance in multiple ways. They can, for example, add an extra deterrence effect of internal sanctions such as guilt or shame (Braithwaite, Murphy, & Reinhart, 2007). Personal norms also could make deterrence superfluous since taxpayers driven by these norms are motivated to comply irrespective of formal sanctions (Wenzel, 2007). If these taxpayers are audited, this could crowd out the intrinsic motivation of tax compliance (Gangl et al., 2013). Therefore, the experience of an audit (or a *prior audit*) might affect the willingness to comply. Recently there has been increasing scholarly attention for this predicted correlation between top management characteristics and corporate behaviour (e.g. Chyz, 2013; Olsen & Stekelberg, 2014; Chyz et al., 2014; Gaertner, 2014; Koester et al., 2014; Law & Mills, 2014). These studies consistently find that personal norms (i.e. top-management characteristics) have a significant influence on corporate tax behaviour.

Personal norms can be acquired through the internalization of *social norms* (Wenzel, 2004). Social norms can be seen as moral standards attributed to a reference group, for example, at the level of family and friends, occupation, ethnicity or country. Social norms affect tax compliance in a complex way and its influence can be relatively large (e.g. Bobek, Hageman, & Kelliher, 2013).

the procedures involved in decision-making and the perceived treatment one receives from the decision-maker (Murphy, Tyler, & Curtis, 2009). Regarding corporate tax compliance, empirical research including equity considerations is extremely scarce.

Besides the above-discussed considerations, tax compliance research shows that in a corporate setting also specific corporate aspects, such as corporate governance, and other corporate characteristics could affect tax compliance.

2.3

ó*Corporate governance*ô is a broad concept referring to the way corporations are directed and controlled (Jamali, Safieddine & Rabbath, 2008). Corporate governance characteristics can limit opportunities for managers to be non-compliant and increase the ability of a corporation to be compliant. For example, a greater proportion of non-executive directors on the board can lead to better monitoring of management, which increases corporate tax compliance (Lanis & Richardson, 2011; Taylor & Richardson, 2013; Richardson, Taylor & Lanis, 2013b).

The quality of internal control or *tax risk management* is also relevant in this context. Not all tax decisions, especially in complex organisations, are made by those who are (ultimately) responsible. Especially for VAT and payroll taxes, tax compliance can be dependent on internal procedures and collaboration between employees. In regard to these taxes, the strength of the so-called ótax control frameworkô (which forms the basis of tax risk management) can affect corporate tax compliance, for example, in setting standard procedures and designing internal audits. However, empirical evidence of this role of tax control frameworks does not exist.

The use of *tax advisors* and *external auditors* can also be seen as corporate governance mechanisms. Tax advisors can have two opposing effects on tax compliance. They can help taxpayers exploit ambiguous features of the law, which contributes to greater non-compliance (Klepper & N0 0 30.99 TmE3(co)9(r)to( )9.4.07 A N0 0 30.99

audit, for example, resulting in taxpayers disclosing no more information than strictly required according to the law. Tax audits are also time-consuming and not always effective, because they generally do not address the ócausesô of non-compliance and therefore do not ósolve the problemô.

The limitations of a regulatory strategy solely based on deterrence slowly became obvious amongst tax authorities (OECD, 2002). The insights from tax compliance literature led to the notion of *compliance risk management strategies*, as advocated by the OECD (OECD, 2004) and EU (EC, 2010), in which tax authorities combine various elements of regulatory strategies to manage tax compliance risks. In the words of former US president Theodore Roosevelt, tax authorities started to speak softly besides carrying a big stick. For example, tax authorities started experimenting with regulatory activities aimed at taxpayersô *willingness* to comply. These kind of regulatory activities were known as *advise and persuade* strategies. They were strategies that tried to improve voluntary compliance and were based upon cooperation.[6] Regulatory activities were to be based upon an understanding of compliance behaviour. Thus, rather than focusing on treating the symptoms of non-compliance, underlying determinants of non-compliance were addressed (OECD, 2004).

Simultaneously, important changes in the business environment occurred; rapid globalisation, internationalisation of businesses and a changing relationship between government and society (Van der Hel-Van Dijk & Van der Enden, 2011).

The OECD is a strong sup7 7

Two pillars are perceived as particularly important: impartiality and proportionality (OECD, 2007; 2008a; 2009b; 2013). Impartiality requires tax authorities to compliance with their statutory reporting obligations and voluntarily report any information necessary for the tax authority to undertake a fully informed risk assessment (OECD, 2008a). This includes the disclosure of all issues that relate to tax positions that give rise to a possible material risk (OECD, 2007). It should also include any information necessary for tax authorities to make fully informed decisions regarding the tax position of taxpayers (OECD, 2008a). Transparency is the ongoing

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