
Coates' Canons Blog: Can A Gentle Nudge Increase Tax Collections?

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What do fly stickers in men's room urinals have in common with handwritten notes on the outside of delinquent tax notices? Both are examples of the effective use of behavioral economics, the study of how psychological and emotional factors play into our everyday decision making.

Over the past decade, best-selling books and popular podcasts dedicated to behavioral economics have demonstrated how seemingly minor changes to our problem-solving approaches can produce big results. Great Britain was so excited about this field of study it created a new government agency dedicated entirely to behavioral nudges.

The goals of these nudges might be vital and life-saving (obtaining more organ donors by making the donation commitment "opt-out" rather than "opt-in" when you obtain your driver's license) or kind of gross (improving "aim" and minimizing rest room messes by placing the above-mentioned fly stickers in urinals). Regardless, behavioral economics proves that by applying what psychologists and economists have learned about humans' decision making we can produce better societal results and make government more effective.

The Guilford County tax office recently put behavioral economics to the test by teaming up with a graduate student at Duke University's Sanford School of Public Policy to see if some low-cost changes to the county's collection procedures could improve taxpayer compliance.

As is true for most county property tax departments in North Carolina, Guilford's collection rate is good. Very good. 99.7%, to be exact, just a bit over the state average. There's not a heck of a lot of room to improve. But Guilford County wanted to see if it could increase the number of taxpayers who pay before taxes become delinquent and the county is forced to spend time and money on enforced collection remedies such as attachment and garnishment.

Working with graduate student Tyler Gamble, the county ran an experiment with the reminder letters it sends to taxpayers who were delinquent the prior year and have not yet paid in the current year.

The roughly 14,000 recipients of reminder letters were randomly split into three groups. The control group received the county's regular reminder notice. "Intervention Group One" received an amended notice with a banner that stated "PAY NOW: 7 out of 10 Guilford County Taxpayers Have Already Paid" instead of the standard banner that stated: "This is a Friendly Reminder." "Intervention Group Two" received the amended notice but also had personalized, handwritten notes on the outside of the envelope that read, "[Name], you *really* need to open this."

These tweaks were modeled on ones used successfully in past behavioral economic experiments with taxpayers and other audiences.

The "7 out of 10" taxpayer language is aimed at resetting taxpayers' perceived social norms. When you think that most people do something (or do not do something), you are more likely to act similarly.

Consider binge drinking on college campuses. If you think that everybody engages in binge drinking, you are more likely to drink to excess. But if you are presented with facts that demonstrate most of your fellow students drink minimally or not at all, your alcohol consumption drops.

The same has been proven true with tax and utility payments; when property owners learn that most of their neighbors are paying on time, they tend to pay their taxes and utilities more quickly. (See this report for details about how a variety of

local governments have used norm-setting nudges to improve their effectiveness.)

The handwritten note on the outside of the envelopes for Intervention Group 2 was intended to remind taxpayers that it's not just a faceless bureaucracy demanding payment—there is an actual person invested in the process. As past studies have shown, this type of personalized touch makes us far more likely to open letters even when we know those letters are asking us for money.

So we know these approaches have worked before. How did they do in Guilford County?

Very well, thank you. On-time payments were higher in both Intervention Group 1 (recipients of the revised reminder letter) and Intervention Group 2 (recipients of the revised reminder letter *plus* the handwritten note) as compared to the control group that received the county's standard reminder letter.

The increase in on-time payments was particularly impressive for Intervention Group 2, those that received handwritten notes. For taxpayers in this group who owned single properties, payments in full before delinquency increased by nearly 20%. For taxpayers in this group who owned multiple properties, payments in full before delinquency increased by more than 25%. You can read a complete description of the Guilford County experiment and results [here](#).

Not surprisingly, Guilford County Tax Director Ben Chavis was pleased with the results of the tweaked letters and plans to incorporate some of these approaches permanently. The most effective nudge—handwritten notes on the envelopes—likely would be impractical for a large county like Guilford to add to all tax bills. But the time and costs involved aren't overwhelming if the notes are added to just a subset of bills. Tyler Gamble, the Duke graduate student that initiated the Guilford County experiment, reported that it took twenty volunteers under two hours to add notes to 4,000 envelopes.

In his report, Gamble also suggested additional low-cost tweaks to the collection process that might be worth pursuing. Personalizing the greeting on the reminder letter, providing detailed costs of enforced collection methods that will be necessary if the taxpayer fails to pay on time, and emphasizing the relatively low property tax burden in North Carolina as compared to other states are all approaches that have increased tax compliance in past studies. (And yes, North Carolina's tax burden is low compared to other states; according to this website North Carolina's effective tax rate is the 20th lowest in the nation at .85% of assessed value, well below the national average of 1.2%).

What other nudges might work in the world of property tax collections?

How about providing block-level peer pressure personalization for delinquency reminders? ("Mr. McLaughlin, did you know that you are the only property owner on Hermitage Court who has yet to pay his taxes?" or "Mr. McLaughlin, your neighbors the Smiths and the Browns have already paid their taxes—why haven't you?")

Or perhaps identifying the taxpayer's employer and reminding him that wage garnishments will begin if the taxes are not paid by January 6? ("Mr. McLaughlin, do you really want your colleagues at UNC to know that you are a tax deadbeat?" Okay, maybe that is a bit harsh, but gently letting the taxpayer know that you know where he/she works might be effective.)

I'd love to hear your suggestions about low-cost methods you've used to increase tax compliance. Share your nudges in the comment section below . . .

Links

- en.wikipedia.org/wiki/Behavioral_economics
- www.amazon.com/dp/014311526X?_encoding=UTF8&isInframe=0&n=283155&ref_=dp_proddesc_0&s=books&howDetailProductDesc=1#product-description_feature_div
- freakonomics.com/
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 - sanford.duke.edu/articles/student-research-reveals-way-increase-time-tax-payments
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