

Membre de l'université Paris Lumières  
École doctorale 396 : Économie, organisation, société  
EconomiX UMR 7235

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## Essays on Law and Economics: The role of Tax Accountants and The Supplier Induced Demand

Thèse présentée et soutenue publiquement le 06/12/2022

en vue de l'obtention du doctorat de Sciences économiques de l'Université Paris Nanterre  
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## Résumé

Cette thèse est une contribution à la littérature en économie du droit. Le thème principal de cette recherche est le phénomène de l'induction de la demande que les professionnels des impôts stimulent chez les contribuables. La thèse est divisée en quatre chapitres, chacun analysant un aspect différent de la relation agent/client dans le domaine fiscal. Le chapitre introductif propose une vue d'ensemble du contexte de travail en analysant le contexte de l'enquête. Le premier chapitre est une contribution théorique qui se concentre sur l'établissement d'une relation et d'un lien entre le domaine médical et le secteur fiscal. L'organisation du chapitre conduit à l'hypothèse et à l'identification du phénomène de la demande induite par le professionnel dans le domaine fiscal. Ce concept est la base de ce projet de recherche et constitue le noyau central de ce chapitre. Il suggère également une hypothèse d'investigation dans la relation délicate entre agent et client, caractérisée par une forte asymétrie d'information. Le second chapitre explore par le biais d'une analyse empirique l'hypothèse du phénomène dans le domaine fiscal. Il le fait en étudiant la question de recherche visant à identifier la demande induite par le professionnel dans le contexte des tribunaux fiscaux. Tout ceci propose une approche innovante au problème de l'augmentation des appels dans le domaine du contentieux fiscal. L'inclusion d'effets fixes et l'utilisation d'un panel de données, combiné à une variable instrumentale, nous permettent d'estimer la relation causale entre le nombre de comptables et le nombre de recours fiscaux. Enfin, le troisième chapitre étudie la relation entre qualité institutionnelle et consultants fiscaux à travers une analyse empirique. La qualité institutionnelle, identifiée par l'utilisation d'un "IQI" (Institution quality index) rassemble cinq variables susceptibles d'en capturer les différents aspects. Ce chapitre explique pourquoi les professionnels de la fiscalité sont attirés davantage

par les environnements institutionnels de faible qualité. Le principe de base, dans ces types de scénarios, repose sur le fait que les professionnels de la fiscalité sont encore plus puissants et influents qu'ailleurs. Cela est dû à la hausse du déséquilibre informationnel et au dysfonctionnement général du système institutionnel.

Mots clés : Induction De La Demande, Asymétrie D'information, Contentieux Fiscal, Contribuables Professionnels Des Impôts, Qualité Institutionnelle

## **Abstract**

This thesis is a contribution to the literature of Law and Economics. The principal theme of the investigation is the inductive phenomenon that a tax professional has on the actions of a taxpayer. The thesis is divided into four chapters, each analyzing a different aspect of the agent-client relationship in the tax field. The introductory chapter offers a general overview of the working context by analyzing the investigation background. The first chapter is a theoretical contribution and focuses on building a relationship and connection between the medical field and the tax sector. The organization of the chapter leads to the hypothesis and identification of the phenomenon of Supplier Induced Demand (SID) in the tax field. This concept is the basis of this thesis and is the central nucleus of this chapter. It also suggests an investigative hypothesis in the delicate relationship between agent and client, characterized by a strong information asymmetry. The second chapter explores through an empirical analysis the hypothesis of the induction phenomenon in the tax field. It does it by investigating the research question aimed at identifying the Supplier induced demand in the context of the Tax Courts. All this offers an innovative approach to the problem of increasing appeals in the field of tax litigation. The inclusion of fixed effects and the use of a panel data, combined with an instrumental variable, allows us to estimate the causal relationship between the number of accountants and the number of tax appeals. Finally, chapter three investigates the relationship between institutional quality and tax professionals through an empirical analysis. Institutional quality is identified through the use of an "IQI" (Institution quality index) which collects five variables that can capture the different aspects of institutional quality. This chapter explains why tax professionals are more attracted by low-quality institutional environments. The basic

idea is that in this aforementioned situation there is a greater power and influence on the part of tax professionals. This is caused by an increase in the information imbalance and a generic malfunction of the institutional system.

Keywords: Supplier Induced Demand, Aymmetric Information, Tax Litigation Taxpayers, Tax professionals, Institution Quality,



## Remerciements

La réalisation de cette thèse n'aurait pas été possible sans le soutien, l'aide et les encouragements de mes directeurs de Thèse . Je leur adresse mes sincères remerciements. Je tiens tout d'abord à remercier les Professeurs Eric Langlais, Giovanni Battista Ramello et Alessandro Melcarne pour leur patience et leurs mots d'encouragement, pour avoir cru en mes idées, m'avoir conseillé et orienté mon projet dans les directions les plus profitables dès le début de mon parcours de doctorant. Je leur en suis sincèrement reconnaissant.

Je remercie aussi l'*École doctorale Économie, organisation, société de l'Université Paris Nanterre* et l'école doctorale de l'Université de Turin pour m'avoir soutenu pendant mes recherches et m'avoir offert des opportunités de progresser significatives.

Cette thèse est dédiée à ma famille, qui m'a appris à croire en moi-même, à ne jamais renoncer à mes rêves et à mes projets, et à les poursuivre à tout prix, même dans les pires des situations. Une dédicace et un remerciement spéciaux à ma partenaire, Marzia, pour son immense et sincère soutien dans les moments les plus critiques de ce voyage.

Merci également à mes amis et collègues, de vrais copains, qui durant cette période de ma vie, ont fourni leur appui constant pour faire face au tourbillon du quotidien.

## Acknowledgements

The realization of this thesis would not have been possible without the support, help and encouragement of my supervisors. My sincere thanks go to them. First of all I would like to thank Prof. Eric Langlais, Prof. Giovanni Battista Ramello and Prof. Alessandro Melcarne for their patience and encouragement. It is also right to thank them for believing in my ideas and for having advised, suggested and directed my project in the most profitable directions from the very beginning of my PhD Student path. I really owe them a lot.

I would also thank the *Ecole doctorale Economie, organisation, société de l'Université Paris Nanterre* and the doctoral school of the University of Turin for having supported me during my research and for offering me growth opportunities.

This thesis is dedicated to my family, who taught me to believe, to never give up and to pursue dreams and projects even in the worst situations. A great dedication and thanks to my partner, Marzia, for her deep and sincere help in the most critical moments of this journey.

Thanks also to my friends and colleagues, mates in this part of my life, constant help in the ups and downs of which our daily life is characterized.



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# **Introduction General**

## **Contexte**

### **0.1 Conseiller fiscal : analyse de la figure professionnelle**

L'un des principaux problèmes d'un système fiscal est la difficulté pour les contribuables de déclarer le montant correct des revenus et de calculer les impôts correspondants. Les contribuables, en réalité, trouvent le système fiscal difficile et complexe (Hartanti et Nuryatno, 2019). Les difficultés, combinées avec un manque de connaissance à propos du fonctionnement du système fiscal ou des compétences adéquates, conduisent les contribuables, les particuliers comme les entreprises, à demander/profiter des services des consultants fiscaux. Dans de nombreux pays, le conseiller fiscal a acquis beaucoup d'importance, car les problèmes liés à la fiscalité ne sont pas toujours résolus de façon univoque.

La relation professionnelle le rapport qui se crée entre comptable et conseiller fiscal est fragile et souvent, elle peut être complexe. En particulier, notons que les contribuables ont une perception déformée de la réalité, c'est-à-dire qu'ils sont incapables de quantifier la probabilité réelle d'être soumis à un contrôle ou d'évaluer pleinement leur situation d'un point de vue fiscale. Toutefois, le marché des consultants/préparateurs fiscaux est caractérisé par un facteur appelé « concurrence imparfaite ». Ce terme indique la discordance entre les conseils des fiscalistes et les opinions d'un contribuable bien renseigné. Effectivement, un contribuable qui surestime la probabilité d'être contrôlé pourrait également déclarer une somme plus élevée que celle recommandée/suggérée

par son consultant ; par conséquent, il existe une distorsion fondée sur le fait que les intérêts des parties concernées sont fréquemment déséquilibrés et divergents.

En considérant cette relation controversée, dans plusieurs pays, l'accent est mis sur le problème de la croissante conformité fiscale. Le but est de réduire les phénomènes d'évasion par le biais des mesures mises en place pour faciliter la soustraction de la matière imposable. En particulier, nombreux pays et organisations internationales ont mis en œuvre des procédures visant à contrer les phénomènes d'évasion fiscale et de planification fiscale agressive. Plus précisément, des mesures ont été prises dans l'intention de réglementer, ou bien de gérer cette relation délicate, en créant des situations qui peuvent inciter les comptables eux-mêmes à favoriser des plans d'action de conformité. L'objectif est de comprendre quel rôle jouent effectivement les conseillers/consultants dans ce complexe écosystème fiscal composé de l'ensemble des contribuables, de l'administration fiscale et du gouvernement, ainsi que de règles de médiation appliquées par ces professionnels.

### **0.1.1. Initiatives et politiques nationales différentes**

La Commission européenne a récemment concentré son attention sur la figure de l'expert-comptable avec l'introduction de quelques nouvelles règles, afin de réglementer son activité : un exemple est représenté par l'introduction de l'obligation de détecter les mécanismes d'évasion ou bien de contournement (directive 2011/16/UE). Le gouvernement britannique, depuis 2016, a mis en place des sanctions pour lutter contre toutes les opérations favorisant l'évasion ; dans certains cas, on arrive à sanctionner jusqu'à 100 % du montant éludé et soustrait à l'impôt. En Italie également, en 2016, le Bureau d'imposition a publié des lignes guides afin de lutter contre l'évasion fiscale.

Cette initiative prévoit des mesures spécifiques visant à bloquer les comportements déloyaux des professionnelles qui suggèrent des pratiques évasives, ou bien des plans visant à réduire la charge fiscale des contribuables (circulaire n° 16 / E Rome, 28/04/2016).

Les études menées jusqu'à présent dans le contexte de la relation entre l'administration fiscale et les contribuables partent du principe selon lequel les professionnels de la fiscalité agissent de manière indépendante afin de maximiser leur utilité. Ils le font en balançant coûts et bénéfices qu'ils obtiendraient s'ils décidaient de ne pas respecter la législation fiscale. En réalité, selon les preuves recueillies, les contribuables entreprennent leur action par le biais de la médiation de spécialistes spécialisés (Battaglini, Guiso, Lacava et Patacchini 2019). Aux États-Unis, le recours aux professionnels de l'impôt est estimé à 65 % des contribuables (Bloomquist et al. 2007 ; Book, 2008), avec une augmentation de 63 à 80 millions du nombre de déclarations préparées par des spécialistes, sur une période qui va de 1996 à 2005. On observe la même situation dans la plupart des pays développés : en Australie, par exemple, 75 % des contribuables font appel à un préparateur d'impôts. Situation que l'on retrouve également en Italie, où il y a un conseiller fiscal pour 515 citoyens (enquête réalisée par la Fondation nationale des comptables).

### **0.1.2 Les raisons derrière cette situation**

La raison pour laquelle on étudie la relation entre le gouvernement et le contribuable, et le recours accru à des professionnels, est liée à un système fiscal toujours plus complexe ainsi que des relations plus difficiles avec l'administration publique. Ces situations

nécessitent la création et l'utilisation de figures spécialisées capables de soutenir le contribuable face au fisc et, plus généralement, aux institutions publiques. Ceux-ci sont chargés d'entrer en relation avec l'État, créer nouvelles opportunités, fournir des conseils afin de réduire la charge fiscale stimulée par le biais du processus de mondialisation, qui génère de même plus de complexité que meilleures opportunités.

L'étude de la relation entre le gouvernement et le contribuable, et le recours accru à des professionnels, est liée à une complexité croissante du système fiscal ainsi que des rapports difficiles avec l'administration publique. Ces situations nécessitent la création et l'utilisation de figures spécialisées capables de soutenir le contribuable face au fisc et, en général, aux institutions. Ils sont chargés d'entrer en rapport avec le gouvernement, créer de nouvelles opportunités et fournir des conseils afin de réduire la charge fiscale stimulée même par la mondialisation. Tout cela en générant soit complexité que majeures opportunités.

Dans ce contexte, on doit étudier la figure professionnelle du conseiller fiscal dans le but de comprendre son rôle et sa position dans une relation client – professionnel. Les consultants fiscaux sont au centre des politiques mis en place pour évaluer leur rôle dans le processus de conformité. On s'interroge aussi sur leur capacité à rendre les contrôles plus efficaces. Ainsi, la question qui se pose est la suivante :

- Quel rôle jouent les professionnels en plus de fournir des éclaircissements et d'appliquer les lois ?

Le comptable devient une figure de plus en plus spécialisée. Cette évolution génère une forte asymétrie d'information, et une conséquente augmentation du pouvoir dans les mains des professionnels. Ce déséquilibre incite les conseillers à orienter ses

suggestions à leur avantage. En outre, les comptables jouent également un rôle dans l'évaluation de la probabilité d'être contrôlé par les organismes gouvernementaux (Braithwaite, 2005) ainsi que dans l'interprétation des normes et concevoir plans d'application (Smith et Kinsey, 1987 ; Raskolnikov, 2007). Ces prémices mettent en évidence l'impossibilité d'ignorer le rôle que ces professionnels jouent dans un écosystème plus vaste constitué par l'ensemble des impôts de même que des rapports entretenus avec l'administration publique.

### **0.1.3 Bases de référence : études et théories sur la figure du fiscaliste**

Ce travail s'inscrit dans un contexte plus large d'études menées autour de la figure du professionnel de la fiscalité. Depuis le tout début, les recherches conduites sur la figure du fiscaliste se sont principalement concentrées sur sa mission de fournir consultations spécialisées et techniques. Peu d'importance est donnée à son influence sur les agissements futurs de ses clients, ou sur la possibilité de diriger ses actions à son avantage ou modifier son rapport habituel avec les autorités fiscales (Andreoni et al. 1998). Jusqu'à présent, les études réalisées se sont concentrées sur les domaines suivants : les raisons qui conduisent à l'engagement d'un expert en fiscalité (Erard, 1993), les effets sur la conformité provoqués par l'intervention d'un professionnel (Klepper et al. 1991), l'utilité générée par le consultant fiscal, la réduction d'incertitude enchaînée par le rapport entre les évaluateurs/contrôleurs (Slemrod, 1989) et l'impact sur les coûts de conformité (Beck et Jung 1989). D'autres études se sont focalisées sur ce dernier aspect, en étudiant également l'impact des stratégies que les conseillers fiscaux suggèrent afin de réduire sa responsabilité (Reinganum et Wilde 1991). Le rôle

singulier des comptables du point de vue de l'information a ainsi été souligné dans la littérature : ils sont généralement devenus des collecteurs et des distributeurs d'informations (Raskolnikov, 2007) en raison de l'augmentation des opportunités offertes grâce à la mondialisation (Braithwaite, 2005). En outre, on a prêté attention au pouvoir des professionnels à influencer les comportements des contribuables et leurs agissements en termes de conformité. L'analyse a été conduite considérant les nombreuses opportunités proposées par les comptables en termes d'actions déclaratives ou non déclaratives (Smith et Kinsey, 1987).

L'augmentation indéniable de la complexité oblige le contribuable à recourir de plus en plus à un fiscaliste afin non seulement d'interpréter la grande quantité de règles, mais encore d'obtenir des avantages pour réduire la charge fiscale. Dans ce contexte, le comptable peut donc être un facilitateur d'opérations frauduleuses, ou au contraire tenter d'accroître le respect du système fiscal. L'importance qu'il revêt dans le contexte fiscal est indéniable. C'est précisément celle perspective qui a suscité la nécessité d'examiner les intérêts divergents du client (contribuable) et du professionnel (conseiller fiscal). Le professionnel se trouve à la croisée des chemins étant dans les conditions de pouvoir créer une demande induite pour ses propres services. Cette situation change ainsi le contexte normal d'investigation sur le rapport entre l'autorité fiscale et le contribuable, relation qui était fréquemment étudiée dans la littérature (Allingman et Sandmo, 1972 ; Graetz et al. 1986). À vrai dire, les modèles traditionnels manquent d'une figure d'intermédiaire fiscal qui, dans la réalité d'aujourd'hui, est toujours présente, comme le montrent les données citées précédemment. L'intermédiation d'un conseiller fiscal change la nature de la relation, car les informations qui parviennent aux contribuables sont filtrées et interprétées par le même spécialiste. (Battaglini, et al. 2019). Le



contribuable reconnaît la supériorité de l'information liée soit à l'expérience professionnelle qu'aux études de l'expert-comptable. En effet, la technicité du sujet nécessite des études approfondies que seul un professionnel de ce secteur peut avoir. L'élément innovateur que l'on explore dans cette thèse est la divergence d'intérêt qui vient se créer dans des situations pareilles. D'un côté, on a le client qui veut réduire la charge fiscale et de l'autre le professionnel qui veut augmenter son propre travail. En outre, en raison de l'asymétrie d'information qui distingue cette relation, le conseiller fiscal est ultérieurement motivé de prêter ses services vu l'impossibilité du client à effectuer une évaluation de sa performance.

## **0.2. Analyse détaillée de la figure**

Les professionnels des impôts concernés dans le rapport entre contribuables et départements fiscaux sont nombreux. Il y a plusieurs façons pour définir leur travail, mais on pourrait résumer en disant que ces professionnels offrent aux contribuables une large gamme de services dans le domaine de la fiscalité (Arzoo, 1987). Ils sont souvent identifiés sous le terme de fiscalistes ou de consultants fiscal (Devos, 2012). Les professionnels de la fiscalité proposent une variété de services. Il s'agit de la préparation des déclarations, suggestions pour comme réduire la charge fiscale, la médiation dans les litiges et même le soutien dans les audits menés par les agents fiscaux (Frecknall-Hughes et Kirchler, 2015). Généralement, comme prévu précédemment, le rôle joué par un professionnel est controversé. En effet, il doit décider si soutenir son client ou encourager une mise en conformité, il peut donc représenter autant le gouvernement que le client (Brody et Masselli, 1996 ; Duncan et al. 1989 ; Yetmar et Eastman, 2000).

L'attention portée à cette profession s'est accrue depuis les années 1990 en raison de l'augmentation de la demande pour les services fournis (Klepper et Nagin, 1989) ; les études se concentrent actuellement sur son rôle dans les choix de conformité de ses clients. L'accent est également mis sur la différence d'appétit pour le risque qui caractérise ces deux sujets (Christensen et Hite 1997, Frecknall-Hughes et Kirchler 2015). Au contraire, peu d'importance est accordée à la nature des interrelations établies entre le client et le professionnel, au déséquilibre informationnel, aux hypothèses de sélection adverse et d'aléa moral. Là encore, peu d'attention est accordée au contexte institutionnel, qui est souvent le principal facteur générant le besoin de recourir aux services de ce type de professionnels.

### **0.2.1. Pourquoi faire appel aux services du comptable ?**

Les motifs qui conduisent à mener cette étude peuvent être recherchés dans le besoin d'évaluer jusqu'à quel point le contribuable arrive à comprendre le fonctionnement de ce système extrêmement complexe, en évolution continue et riche en détail. L'engagement d'un comptable comme figure professionnelle cache la peur de se tromper, le besoin d'économiser et le manque de temps pour comprendre ce système très complexe (Jankélévitch et al. 1984). D'autres raisons pourraient être le besoin de s'assurer que les déclarations fiscales soient correctement préparées. En effet, l'une des principales raisons d'engager un professionnel est : « Puisque je ne veux pas me tromper, je préfère m'adresser à un professionnel du fisc pour faire ma déclaration fiscale » (Niemirowski et Wearing, 2003) ; payer le moins d'impôts possible ; éviter le risque d'être condamné à payer une amende par les autorités fiscales ; éliminer la possibilité d'être contrôlé ; réduire la complexité du système grâce à la consultation de

personnes hautement spécialisées ; comprendre la nature du revenu gagné et, par conséquent, réduire l'incertitude en matière de légalité du revenu produit (Scotcher 2016 ; Klepper et al. 1991).

### **0.2.2. La confusion du contribuable**

La propension à recourir aux services fiscaux est strictement liée à la complexité du Code des impôts, à la basse qualité du système institutionnel et à la confusion des contribuables par rapport à leur situation fiscale. Les éléments susmentionnés, exposés dans la section précédente de ce chapitre, attirent l'attention sur le rôle du conseiller fiscal et confirment sa supériorité indéniable dans la relation agent/client. Selon l'hypothèse de la recherche, l'asymétrie d'information concerne des situations dans lesquelles le conseiller fiscal peut profiter de son avantage, en générant lui-même une demande pour ses services. En effet, la confusion entraîne un besoin toujours plus grand d'obtenir des services et souvent des conseils à propos des actions à entreprendre ou concernant les services proposés par le conseiller même. La confusion et la complexité ont pour conséquence directe de générer incertitude dans le contribuable, qui est inévitablement obligé à demander l'aide d'un professionnel de la fiscalité (Scotcher, S 1989). L'incertitude, la probabilité d'être contrôlé, la confusion liée aux sanctions, la complexité du code, la difficulté à se rapporter à la couche institutionnelle, donc la qualité des services est faible. Celles-ci sont les principaux problèmes reconnus par le contribuable et médiatisées par le professionnel de l'impôt (Beck et al. 1991). Le contribuable reçoit les informations susmentionnées par l'intermédiaire du professionnel, qui a souvent une approche différente du risque : si d'un côté, on a un

contribuable réfractaire au risque, de l'autre, on trouve souvent un conseiller fiscal qui ne craint pas de prendre des risques.

### **0.2.3. Le travail des fiscalistes : quelles sont leurs tâches ?**

En se concentrant sur le travail et les fonctions d'un professionnel de l'impôt, il est possible d'identifier différentes tâches qu'il accomplit à faveur du contribuable. Son travail ne se limite pas à fournir de conseils, mais englobe également une large gamme de services qui rende nécessaire, surtout aujourd'hui, le rapport entre la figure omniprésente de l'autorité fiscale et celle du contribuable. La littérature a résumé le rôle des services offerts par les conseillers fiscaux en six points essentiels (Thuronyi et Vanistendael, 1996).

Le premier rôle concerne la planification fiscale étudiée dans le domaine de l'interdisciplinarité du monde des services fiscaux et chargée d'analyser la réglementation du gouvernement afin de mieux gérer la charge fiscale ; ce rôle est lié à la réduction de la charge fiscale en essayant de mieux gérer les revenus des contribuables à travers des dispositifs juridiques prévus par la loi (Frecknall-Hughes et Kirchler 2015) ; le deuxième rôle de conseil est lié à l'activité de conseiller que le professionnel doit souvent exercer en relation aux différentes situations spécifiques auxquelles le contribuable doit faire face ; le troisième rôle concerne le contrôle comptable et la gestion de la comptabilité, cette tâche prévoit d'avoir souvent des contacts avec entités commerciales afin de mieux gérer la relation avec l'autorité fiscale ; le quatrième comprend la préparation de la documentation concernant la déclaration d'impôt et la successive soumission à l'autorité fiscale ; le cinquième rôle

voit l'avocat fiscal agir en qualité de représentant qui remplace le contribuable dans ses relations avec les institutions ; le sixième rôle est celui-ci du défenseur du contribuable soumis à contrôle fiscal, procédure qui fait partie du complexe mécanisme du processus fiscal (Thuronyi et Vanistendael 1996).

#### **0.2.4. Conséquences particulières des actes du professionnel : évasion fiscale, évitement et planification fiscale**

Pour comprendre l'importance du rôle fonctionnel joué par le professionnel, il est très important de se concentrer sur le lien avec les opérations de planification fiscale et celle de conformité (Frecknall-Hughes que Kirchler, 2015). Ces activités servent à souligner la dépendance du contribuable à l'égard du professionnel, et à identifier les situations de conflit d'intérêts entre les parties impliquées. En analysant les opérations de planification fiscale, en effet, il est possible d'identifier des situations dans lesquelles le comptable dirige et influence les actions du contribuable. Ces opérations pourraient générer des situations de planification fiscale, d'évitement ou d'évasion fiscale. Ces phénomènes étaient souvent analysés conjointement, car ils concernent le moment déclaratif et la structure des revenus. Ils sont généralement caractérisés par des technicités que de normaux contribuables ne connaissent même pas. Pour cette raison, le professionnel intervient au moment de la déclaration en tant qu'intermédiaire. Son rôle est fondamental puisqu'un modèle fiscal standard implique que le contribuable, qu'il s'agisse d'un particulier ou d'une entreprise, déclare et paie volontairement le montant de l'impôt dû. Cependant, la réalité révèle un écart fiscal substantiel entre ce qui est dû et ce qui est perçu. Les particuliers trouvent fréquemment plusieurs moyens pour réduire

les paiements dus, comme la sous-estimation des revenus, la surestimation des déductions et exonérations, ou le simple fait de ne pas compiler la déclaration d'impôt. Les phénomènes susmentionnés provoquent différentes conséquences selon que ces opérations ont été mises en œuvre par des actions légales ou illégales. Par exemple, l'évasion fiscale est une action illégale qui est souvent analysée ensemble à l'évitement. Le phénomène d'évitement est à son tour généralement associé à la planification fiscale : la capacité du contribuable à organiser ses activités financières afin de payer la dépense fiscale minimale (Hoffmann, 1961). La ligne de démarcation entre ces deux opérations est beaucoup plus subtile que celle entre l'évasion et l'évitement, puisque ce dernier implique une pratique légale de planification et de programmation visant à minimiser la charge fiscale. Il s'agit d'opérations qui, si l'on considère l'intention, se rapprochent du concept d'évitement. Le dénominateur commun de conduite est la mise en œuvre des actions qui ne constituent pas de violations de la législation fiscale. Le comportement du contribuable est ainsi parfaitement conforme aux dispositions de la loi, puisque les gouvernements lui reconnaissent la possibilité de gérer ses affaires de telle sorte qu'ils paient moins d'impôts (Vanistendael, 1997). Contrairement à la planification, l'évitement provoque des distorsions, car les opérations mises en place entraînent des répercussions négatives en termes d'équité, de concurrence et d'effet sur le budget de l'État. À vrai dire, il est parfaitement légitime d'appliquer des mesures de planification fiscale, qui permettent d'obtenir des allègements fiscaux, ou même de demander des incitations fiscales plus favorables aux transactions, de décider de ne pas acheter des produits ou des services soumis à une fiscalité plus élevée. Au contraire, profiter de situations législatives peu claires ou d'arguties réglementaires pour atteindre des allègements fiscaux reviendrait à mettre en œuvre des actions de droit abusif. Il en

résulte des pertes pour l'ensemble de la société, tant en termes économiques que d'équité.

Les contribuables qui entreprennent des opérations d'évasion, d'insaisissabilité ou de planification fiscale sont généralement conseillés par des professionnelles considérées comme capables d'évaluer les situations réelles et les conditions contextuelles. Effectivement, toutes ces opérations exigent, dans la plupart de cas, un niveau de préparation élevé ainsi qu'une connaissance approfondie de tous les détails. Les contribuables n'ont souvent pas les compétences et l'expérience nécessaires pour évaluer les meilleures actions concernant leur propre situation, d'où la nécessité d'acheter les services de comptables. En outre, le conseiller fiscal coïncide généralement avec la personne désignée par le contribuable à gérer sa comptabilité. Par conséquent, le professionnel semble être le plus informé sur sa situation. Ce fait qualifie le comptable comme la meilleure personne, presque par nature, pour prendre des décisions concernant la stratégie à entreprendre au nom du contribuable. De plus, ces situations obligent le contribuable à entrer en relation avec l'administration fiscale à propos des contrôles que pour signaler des situations douteuses. Ces situations entraînent un pouvoir et un déséquilibre croissants du professionnel vis-à-vis de son client. Il faut également citer le contexte de conformité ; en effet, en plus de fournir des suggestions, le conseiller fiscal doit déclarer les revenus par son client, qui doivent correspondre autant que possible au Code des impôts. En particulier, sa tâche fait partie de la résolution de ce que l'on appelle la zone grise du système, où la loi est incertaine et ambiguë dans son application.

Ces prémices rendent le contribuable dépendant du travail effectué par le fiscaliste, qui se retrouve à exercer des fonctions d'importance vitale soit pour les particuliers que les

entreprises. Le professionnel, comme conseiller, a la chance de suggérer des plans d'action et des activités que lui-même fournit. Cela lui donne la possibilité d'autostimuler la demande pour ses services. Le problème analysé dans cette thèse, peu discutée dans la littérature, adresse donc la question si la décision prise par comptable est véritablement menée dans l'intérêt de son client. Puisque les actions humaines sont fondées sur la rationalité, on conclut qu'il vise à poursuivre un avantage personnel. D'ailleurs, le client n'est pas en mesure d'évaluer correctement l'action du professionnel et, lorsque cela est possible, ce ne serait que rétrospectivement ; le contribuable est alors contraint à contacter un professionnel, comme il est incapable de comprendre si celui-ci agit dans son intérêt. Ces-ci sont les raisons qui souvent suscitent la nécessité d'adopter une réglementation spécifique pour chaque type de tâche assignée au fiscaliste.

Ce qui a été exposé jusqu'à présent est fondamental pour l'analyse réalisée dans cette thèse, car elle se concentre sur le rôle du professionnel dans cette fragile dans le domaine de la déclaration fiscale. En effet, le début de ce rapport peut être retracé à partir des suggestions qu'il propose. De ces conseils dérivent les actions menées par le contribuable et toutes les conséquentes situations critiques. Cela nous conduit à se concentrer sur le rôle du conseil donné et sur sa nature.

#### **0.2.5. Le rôle des conseils dans le monde des impôts**

L'aspect sur lequel se concentre l'attention est le rôle joué par le professionnel dans la fourniture de conseils qui constituent souvent la base de ses missions futures. Le rôle de la consultation dans le domaine fiscal est fondamental, car il est lié à de multiples effets. Les analyses réalisées par Beck et al. (1996) classifient les principales implications des conseils et suggestions données par les experts fiscaux en deux catégories, selon l'effet



qu'ils provoquent. Le premier effet est une réduction de l'incertitude, tandis que le second est lié aux politiques de contrôle menées par l'autorité fiscale. En particulier, la demande de conseils peut modifier les décisions de contrôle et par conséquent influencer les contribuables, produisant une sorte d'effet réciproque et simultané, difficile à comprendre. La principale preuve qui se rattache à l'hypothèse à la base de cette thèse montre que l'augmentation de la demande de conseils est liée à l'augmentation de l'ampleur de l'incertitude fiscale. Dans l'étude susmentionnée (Beck et al. 1996), le nombre et la quantité de conseils sont également liés au montant à risque. On a été constaté que dans les situations à haut risque, les sujets demandant des conseils déclaraient un montant inférieur par rapport aux sujets agissant de manière autonome. Situation qui s'est avérée diamétralement opposée dans des conditions de faible risque. On peut donc dire qu'il existe des preuves d'une propension au risque différente. Contrairement à l'hypothèse susmentionnée, quand les contrôles ont été effectués a posteriori, les sujets ayant consulté un expert se sont retrouvés à payer une somme majeure.

Il en résulte, comme cette thèse démontrera, que le professionnel vise à profiter de sa position de supériorité en suggérant des actions souvent contraires au bien-être de son client. D'ailleurs, on suppose que le fiscaliste, conscient qu'il peut mieux profiter des situations d'incertitude, choisira de préférence des réalités géographiques où la qualité administrative est faible pour installer son entreprise. Ce phénomène enchaîne ainsi une augmentation conséquente de la complexité des relations institutionnelles. Le professionnel se retrouve alors à jouer un rôle autant dans une phase de pré-déclaration que de post-déclaration, en étant indispensable dans chaque phase du processus fiscal.

### **0.2.6. Le rôle intermédiaire du fiscaliste**

Les fonctions susmentionnées et l'analyse des recommandations précédemment mentionnée mettent explicitement en évidence le rôle d'intermédiaire, réitéré à plusieurs reprises à travers cette thèse. Un exemple de traité théorique où l'on peut trouver une définition du rôle d'intermédiaire est celui réalisé par Frecknall-Hughes et Kirchler (2015) : le concept principal exposé montre que la principale tâche d'un professionnel est la négociation. Cette idée se développe autour de la définition de Martin et al (1999) : le phénomène est vu comme une relation entre deux participants, chacun ayant des besoins différents ; dans cette situation, le professionnel/conseiller fiscal cherche un point de rencontre. Les professionnels de la fiscalité sont, d'un point de vue académique, le point de médiation entre les inspecteurs de l'administration fiscale et les contribuables, car ils sont chargés d'agir à la place de ces derniers. En outre, les gouvernements les considèrent comme les principaux interprètes des textes juridiques, jouant un rôle clé dans l'application des règles fiscales. La littérature considère donc qu'ils représentent soit le gouvernement que le contribuable (Brody et Massell, 1996). Comme prévu, ce rôle est également reconnu au niveau international, même par la littérature scientifique (OCDE, 2008). À vrai dire, l'OCDE a souligné son importance trilatérale entre l'autorité fiscale, les contribuables et d'autres entités dans la promotion de la conformité. Ces dernières ont été définies comme des « courtiers de connaissance » qui relient les agences fiscales aux contribuables (Vaseline et al. 2011). En outre, si d'un côté, ils jouent un rôle dans l'application du texte réglementaire fiscal, de l'autre, ils ont une fonction défensive, car ils empêchent les activités injustes menées par les autorités fiscales contre les contribuables. Ils le font, sauvegardant soit la

correcte application du texte réglementaire à nom des contribuables, soit la bonne exécution des contrôles (Russell et Rock, 2016).

Dans cette thèse, on examine un aspect qui n'a pas été exploré par la littérature. C'est-à-dire la pratique des conseillers fiscaux / praticiens de profiter de leur position en fournissant des suggestions qui ne visent pas à accroître le bien-être des clients. Cette pratique repose sur leur suprématie informationnelle et expérientielle dans des contextes très complexes, où la qualité institutionnelle est médiocre. De là la tendance des conseillers à s'installer dans des réalités géographiques où les institutions sont inefficaces.

### **0.3. La stratégie et l'approche de la thèse**

La relation délicate entre le contribuable et le professionnel de l'impôt révèle un fort déséquilibre entre les parties concernées. Cette situation nous permet donc de formuler des hypothèses sur une possible divergence d'intérêt et sur la possibilité que l'agent induise les actions du client à son propre avantage. L'accent sera mis sur la figure du fiscaliste, soit comme compilateur de la déclaration des revenus, soit comme avocat fiscaliste.

Dans cette thèse, on prend en examen deux questions de recherche principales : serait-il possible de détecter des hypothèses de demande induite ? Le consultant/conseiller fiscal favorise vraiment l'installation de son entreprise dans des situations territoriales où la qualité des institutions est faible ? Les premiers éléments surgissent d'une asymétrie d'information, des hypothèses de sélection adverse et d'aléa moral, de la particularité des biens concernés (appelés ainsi biens d'expérience et de créance) et enfin, de la

complexité et de la spécificité des questions fiscales. En outre, la seconde hypothèse identifie pour le professionnel la possibilité de choisir des environnements institutionnels dont la faible qualité permet l'augmentation du pouvoir et déséquilibre entre les parties impliquées.

L'idée de cette thèse se développe à partir du sujet délicat de la fiscalité, un processus très structuré impliquant les contribuables, l'administration fiscale, le gouvernement et le consultant / praticien fiscal (Pickhardt et Prinz, 2014). La fiscalité prévoit par nature un processus compliqué puisqu'elle vise à équilibrer deux objectifs importants : l'équité et la redistribution des ressources. La fiscalité est le moyen le plus utilisé dans les pays développés afin de poursuivre les objectifs susmentionnés. Le problème de l'équilibre entre les intérêts en jeu n'a pas une solution facile, comme en témoignent les nombreuses modifications de la réglementation. Effectivement, la fiscalité doit définir un système fiscal capable de garantir une structure optimale avec le moindre sacrifice en termes de perte d'efficacité. Cependant, le résultat de cet effort est représenté par un ensemble de règles excessivement détaillées et compliquées qui se traduisent par un système peu lisible, souvent variable et d'interprétation douteuse. Par conséquent, les contribuables se retrouvent dans l'obligation de recourir à l'aide de sujets professionnels. Raison pour laquelle les contribuables sont inévitablement influencés par ceux qui leur proposent des suggestions et des indications (Brock et Russell, 2015).

### **0.3.1. De l'hypothèse d'influence au concept de l'induction.**

L'hypothèse de la demande induite se retrouve facilement dans des contextes caractérisés par la complexité des systèmes fiscaux, dans lesquels nombreux contribuables doivent travailler dans un système incertain et très complexe. C'est le cas des pays plus développés dont le système fiscal est très compliqué, où comprendre les lois et les appliquer correctement requiert nombreuses années (Lewis 1982). Cette relation n'a été que très peu abordée dans la littérature, qui a négligé l'aspect de la rentabilité pour les professionnels et s'est concentrée sur l'impact qu'elle a sur la conformité (Kang 2018). La complexité fiscale a pour conséquence d'obliger les contribuables à s'en remettre aux professionnels (McKerchar 2005) dans une sorte de dépendance, avec des implications négatives également sur le travail du professionnel qui pourrait commettre des erreurs et qui est quand même difficile d'évaluer. Leur relation est aux multifacettes, et, comme le suggère cette analyse, la mission confiée au conseiller n'est pas toujours réalisée en priorisant l'intérêt du client. Les études menées jusqu'à présent avancent l'hypothèse d'une influence de la part des contribuables vis-à-vis d'autres contribuables. En particulier, les recherches se sont concentrées sur les suggestions dans le domaine des politiques fiscales agressives et sur les réactions des contribuables. C'est-à-dire sur la possibilité que les clients ne se conforment pas aux suggestions des conseillers en préférant décider en autonomie (Kaplan et al. 1988). Par conséquent, les problèmes liés à la propension au risque de la part des clients pourraient influencer les suggestions des conseillers fiscaux (Larue et Reckers, 1989). Les recherches ont apporté des résultats opposés au regard de la propension/aversion au risque. D'autres études ont montré que les suggestions des fiscalistes peuvent également être influencées par des raisons morales (Doyle et al. 2013). En outre, l'attention a été

portée sur l'interdépendance de la relation entre le professionnel et son client, en soulignant comment les attentes des sujets impliqués peuvent influencer les suggestions et les décisions des parties elles-mêmes (Tan et al. 2016).

L'hypothèse de dépendance et d'influence mutuelle, que l'on retrouve dans le domaine médical, donne l'idée de la demande induite que présente. L'anneau de conjonction entre le contexte médical et le monde fiscal réside dans le recours à un professionnel capable ou, quand même, réputé posséder les compétences nécessaires afin d'obtenir une évaluation de sa situation. La stratégie d'analyse du problème vise à focaliser l'attention sur la situation italienne à travers une collecte de données au niveau provincial pour acquérir information sous le profil économique et social ainsi que celles relatives aux professionnels de la fiscalité. L'étude s'adresse en particulier à des questions concertantes, les contrôles des activités menées par l'administration fiscale. Les données ont été regroupées au niveau provincial en combinant plusieurs sources, afin de saisir divers aspects et influences qui peuvent se révéler décisifs dans l'établissement de la relation.

L'étude focalise son attention, comme on le verra en détail tout au long de cette thèse, sur une phase très particulière de la relation contribuable-conseiller fiscal : la phase post-contrôle. Pour sauvegarder l'intérêt du client, il conviendrait plutôt de se concentrer sur les décisions prises par les départements fiscaux avant que les autorités procèdent aux vérifications, car la phase post-contrôle est caractérisée par un niveau élevé de complexité. Cela entraîne une majeure propension du client à être influencé, ce qui se traduit souvent par une hausse de la demande de services fournis par le professionnel.

### **0.3.2. Comment est-il possible de démontrer la demande induite ?**

Le phénomène de l'induction de la demande examinée dans la discussion est mis en évidence au moment du contrôle par l'agence fiscale. La situation est particulièrement délicate puisque le contribuable doit décider s'il veut accepter le résultat du contrôle ou préfère entamer une action en justice. Il n'est pas en mesure d'évaluer sa condition réelle à cause des raisons susmentionnées (complexité, incertitude et spécificité du secteur fiscal), et en outre, il n'est pas conscient, ni des probabilités concernées ni du fonctionnement du processus fiscal. Il est donc contraint de payer les services d'un professionnel de la fiscalité, que très souvent la même personne a connaissance de son historique fiscal, qui remplit / prépare la déclaration d'impôt de la personne. Le contribuable doit inévitablement s'adresser à ce dernier pour obtenir des conseils. De plus, s'il décide de faire appel, il aura besoin, par disposition législative expresse, d'une défense technique que seul le conseiller fiscal pourra fournir. Pour les raisons présumées, on estime que cette situation révèle les principales hypothèses de conflit d'intérêt ainsi que l'hypothèse d'induction, estimé que le fiscaliste pourrait trouver profit à auto induire la demande de ses propres services, en profitant des obligations professionnelles, de l'asymétrie d'informationnelle liée au manque de connaissance et d'expérience du client.

### **0.3.3. Le contexte : l'agence fiscale, le comptable, la commission fiscale**

L'analyse commence après un contrôle fiscal, pendant lequel il y a soumise à un certain degré d'aléa puisqu'il n'existe pas de règle générale à appliquer. La phase de contrôle a lieu après la déclaration de revenus, et se fonde sur l'hypothèse que le conseiller fiscal

ait déjà été consulté. En fait, les contrôles sont décidés a posteriori par l'autorité fiscale, c'est-à-dire le Bureau d'imposition italien. Celui-ci est responsable du contrôle et de la collecte des impôts en Italie. En outre, il surveille la conformité fiscale par le biais de contrôles directs et automatiques dans le but de maximiser les recettes fiscales. Le système exerce cette activité par le biais d'un riche réseau structurel réparti entre les provinces. En fonction de la taille géographique, chaque province italienne compte de 2 à 7 bureaux. Chaque expert-comptable est membre d'un ordre différent, réparti dans les provinces du pays. Il appartient soit à l'Ordre des experts-comptables, soit aux Experts-comptables. Le même organisme est chargé de la supervision de ses membres, des conditions d'accès à la profession et de la mise à jour professionnelle obligatoire. À côté des figures de l'administration fiscale et des experts-comptables, il existe un organisme chargé de l'exécution des procès fiscaux relatifs aux contrôles, qui est également structuré sur une base provinciale. Cette même division territoriale permet de mieux comparer le modèle et de proposer une analyse locale du phénomène, en profitant pareillement de la diversité du contexte italien.

#### **0.3.4. Le choix de la phase qui suit le contrôle**

L'analyse est effectuée dans la phase qui suit le contrôle. Il s'agit d'un moment délicat, dans lequel le contribuable a déclaré ses revenus selon l'avis du professionnel de l'impôt, puisque, comme on a déjà dit, le contribuable est incapable d'évaluer sa situation. Il se confie alors au comptable, qu'il considère comme le seul à pouvoir décider si faire appel ou non contre les activités de contrôle. En outre, si le client décide de faire appel, le conseiller est l'avocat fiscaliste le plus adapté à recouvrir ce rôle



puisqu'il s'occupe de remplir la déclaration de son client. Il est supposé être le seul expert qui a une connaissance détaillée de l'histoire fiscale du client, et pour ces raisons, on estime que le client n'a aucune raison pour choisir un autre professionnel. Le comptable n'est donc pas incité à améliorer ses performances puisqu'il ne se trouve pas un normal environnement concurrentiel. Il faut noter que le client ne peut pas s'appuyer sur la réputation des conseillers, pour sélectionner un professionnel, car l'évaluation des activités « post » et « pré » présupposent un niveau cognitif qu'il ne possède pas.

### **0.3.5. Facteur institutionnel**

Dans cette thèse, on a décidé d'étudier le choix d'allocation professionnelle du conseiller fiscal. Le scénario idéal du fiscaliste est supposé être un contexte dans lequel la qualité institutionnelle est faible. À vrai dire, le professionnel trouve sa suprématie dans les conditions d'incertitude qui deviennent encore plus grandes lorsque les institutions ne fonctionnent pas correctement, créant ainsi une augmentation conséquente des coûts pour tous les sujets concernés. Les principaux frais augmentent à cause de ce que l'on appelle les coûts de transaction, c'est-à-dire toutes les dépenses nécessaires pour réaliser une opération, soit en termes de dépenses que de temps employé. Dans le contexte particulier de l'analyse, sont impliquées des institutions telles que le bureau d'imposition, les commissions fiscales, comme représentantes du gouvernement et de l'administration publique. Établir une relation avec les autorités publiques implique des coûts et également le besoin de recourir à une figure professionnelle spécialisée. Le professionnel des impôts est donc la figure la plus apte à interagir avec les institutions dont il fait déjà partie. De conséquence, quand traiter avec les institutions s'avère

difficile, en raison de la complexité, de l'incertitude et de la confusion, les recours aux services offerts par le professionnel se multiplient. Finalement, comme nous l'avons vu dans la relation trilatérale entre le contribuable, l'administration fiscale, le conseiller est celui-ci qui met en communication ces acteurs : il est chargé d'interpréter les règles, ses applications et souvent aussi de résoudre les litiges qui en découlent. On peut conclure alors, pour la raison que l'on a déjà expliquée, que le scénario de majeur attrait est celui-ci dans lequel rapports institutionnels difficiles à gérer.

#### **0.4. La contribution de ce travail**

Ce travail vise à enrichir la littérature sur systèmes fiscaux d'une étude sur la fragile relation entre les clients et les comptables. Il considère l'impact de l'asymétrie d'information comme la conséquence de plusieurs facteurs : la complexité, la technicité et les coûts liés à la réglementation et à la procédure fiscale. L'attention est focalisée sur un aspect peu et presque pas étudié, en prêtant attention aux effets néfastes en termes de perte sociale que relation entraîne. En effet, on présume que le contexte de complexité et d'asymétrie d'information crée l'environnement idéal pour la montée de la demande d'induction. Cette hausse est le fruit des efforts du professionnel censé agir dans l'intérêt du client. Dans la relation entre deux parties différentes, c'est-à-dire l'agent et une institution, il peut y avoir d'innombrables influences ayant un impact sur le résultat de cette relation. Plus précisément, la structure de l'information joue un rôle central dans la détermination des échecs et des distorsions possibles, comme chaque transaction économique a une origine et une dynamique différentes concernant la distribution de l'information. On doit analyser en particulier les informations, puisqu'elles ont la caractéristique de faire pencher la balance en faveur de celui qui les possède : les

contribuables et leurs intermédiaires ou conseillers fiscaux. Parmi les conséquences directes, on registre un allongement du délai nécessaire pour l'analyse des sources et une hausse du coût de transaction. Tout cela afin de parvenir à une vision claire de la transaction. La situation est ultérieurement compliquée par l'impossibilité d'évaluer rationnellement les situations dans un contexte d'incertitude et de faible qualité institutionnelle qui rend plus coûteux les transactions, et provoque des dommages évidents pour le système économique dans son intégralité.

#### **0.4.1. Déséquilibre de l'information**

Dans cette thèse, l'attention est rivée sur les relations professionnelles caractérisées par une divergence d'intérêt et un déséquilibre informationnel entre le client et le fiscaliste. On se focalise sur les situations dans lesquelles les sujets/clients rencontrent des difficultés à prendre une décision relative à leur condition ; par conséquent ces derniers délèguent d'autres sujets, jugés plus informés, dans le but d'agir dans leur propre intérêt. Cette typologie de situation se rapproche, par rapport aux dynamiques qui se développent, au contexte typique des familles d'accueil. En effet, dans cette analyse, l'accent sera mis sur le contribuable. Il est décrit comme une personne incapable d'interagir dans des situations caractérisées par la présence des nombreuses technicités à cause du manque des connaissances, des compétences et d'expérience. De plus, la législation fiscale est souvent caractérisée par une forte volatilité qui exige une mise à jour constante. Généralement, le client trouve des barrières d'entrée liées aux innombrables années d'études nécessaires pour pouvoir interpréter correctement le contexte législatif. La situation est ultérieurement compliquée par le fait que nombreux

éléments sont conditionnés par le caractère viable des situations décisionnelles, obligeant les professionnels à baser leurs choix sur leur bagage expérimentiel. L'analyse met donc l'accent sur le délicat déséquilibre informationnel entre le professionnel et le contribuable, une situation qui fréquemment provoque une défaillance du marché. La comparaison et l'enquête ont pour point de départ cette relation principal-agent et l'asymétrie d'information qui en découle. En particulier, la recherche part de l'identification des hypothèses de l'affectation du client sur la performance du professionnel. Une situation qui a déjà été largement débattue et étudiée dans le domaine médical dans lequel le patient se fie aux conseils du médecin et lui délègue les décisions concernant son état de santé.

#### **0.4.2. La structure de ce travail**

Cette thèse est, par conséquent, divisée en trois sections, dans le but d'approfondir trois aspects différents liés à la pratique fiscale en Italie.

#### **Sections 1**

Ce chapitre se concentre sur la question des relations d'agence et du rôle des agents dans la détermination des choix des mandants, en partant de l'analyse de l'offre et la demande induite au sein du domaine médical, le premier théâtre d'étude dans lequel le médecin a une position de suprématie informationnelle vis-à-vis de son patient. Cette situation est liée à une disparité de connaissance et expérience qui permet au médecin de bénéficier d'un avantage dans la relation économique et professionnelle. En d'autres

termes, le médecin peut exploiter cette condition afin de générer un rendement économique en profitant des phénomènes définis comme l'induction de la demande. Le médecin, censé agir de manière rationnelle, pourrait manipuler à son avantage des situations pour acquérir un bénéfice économique direct. L'environnement sanitaire a constitué un premier terrain fertile pour hypnotiser l'existence d'une demande induite par le fournisseur (DIF) car les médecins sont dans les conditions de provoquer une hausse de la demande induite par rapport aux services qu'ils fournissent. Dans le contexte médical, le spécialiste joue soit le rôle du promoteur / consultant, mais également celui du soignant. Ce phénomène entraîne une stimulation de la requête des services fournis par le médecin que, agissant rationnellement, a tendance à stimuler la demande, générant ainsi une défaillance du marché. Le rôle du médecin et ses actions sont conditionnés par la position délicate qu'il revêt dans cette relation professionnelle particulière entre les parties concernées. Et, en plus, le patient, en raison de la difficulté à évaluer les services fournis par le professionnel de la santé, se trouve donc dans une situation de désavantage. C'est pourquoi les biens de ce marché particulier sont définis comme des biens de créance. À vrai dire, le patient est incapable d'évaluer la performance du service, à cause du manque de compétences techniques et de la variabilité des effets que les différents traitements peuvent avoir sur les différents sujets. L'analyse, après avoir exposé et recueilli les contributions sur le secteur médical, élargit l'investigation supposant une extension de la demande induite dans le domaine des relations professionnelles du secteur fiscal. En particulier, dans la fragile relation entre le comptable et le client, on a identifié des similitudes avec le milieu médical. Cette relation est ultérieurement compliquée par le rôle du professionnel, qui, dans la plupart des cas, est soit gestionnaire du portefeuille (ayant une connaissance complète de la

situation historique du client) soit consultant. Le parallélisme avec le domaine médical est véhiculé par les études menées dans le cadre de la relation avocat — client : elles constituent le parfait trait d'union entre le domaine de la santé et celui de la fiscalité. En effet, le comptable, comme l'avocat, possède une technicité et une expérience supérieures, ce qui amène le client, conscient de son infériorité, à se fier aux suggestions et aux conseils du conseiller fiscal. L'action du comptable, comme celle de l'avocat et du médecin, dans le cadre de l'hypothèse de rationalité, visera toujours à augmenter son propre rendement économique, malgré les possibles répercussions négatives sur son client.

## **Sections 2**

Dans la seconde partie, l'hypothèse soulevée est vérifiée empiriquement par rapport au système fiscal italien. Le travail émet une hypothèse et tente de valider la thèse de l'induction de la demande dans un contexte de litige fiscal : dans cette situation, le comptable doit conseiller à son client de décider entre faire appel contre les activités de contrôle du département fiscal ou d'accepter le résultat de l'évaluation. En ce cas-là, le médecin possède une plus détaillée connaissance de la situation par rapport à son client, il connaît l'univers des tribunaux fiscaux et peut donc influencer les décisions du contribuable. Ce chapitre démontre la présence de la demande induite par le fournisseur dans des contextes fiscaux caractérisés par une incertitude particulière et une asymétrie d'information. Les singularités de cet environnement provoquent des phénomènes d'aléa moral et de sélection adverse. La situation du litige analysé va augmenter la surveillance regardant les décisions des professionnels et génère un parallélisme avec le domaine médical. En effet, la situation particulière du contribuable, qui subit le contrôle, est caractérisée par la spécificité, l'incertitude et l'asymétrie. Spécificité, car chaque cas

individuel est caractérisé par des particularités qui rendent nécessaire la réalisation d'évaluations opportunes et appropriées au cas spécifique. L'incertitude est liée aux diverses et innombrables variables caractérisant le processus fiscal, la procédure d'évaluation/contrôle et le résultat final de l'ensemble du litige. Enfin, on doit noter que l'asymétrie d'information entre le client et le professionnel délégué est caractérisée par une supériorité d'information concernant la procédure fiscale, d'un point de vue technique et opérationnel. Le comptable dispose d'ailleurs d'un bagage expérimental supérieur au celui-ci du client. Cette expérience est également combinée à une connaissance globale de la situation du client. Cela lui permet de faire des évaluations précises sur la situation réelle du sujet et sur les nombreuses probabilités d'analyser au moment décisionnel. L'analyse empirique combine donc des données territoriales locales et des commandes professionnelles avec des variables économiques, montrant tout d'abord une corrélation positive entre le nombre de comptables et les appels ; dans une phase ultérieure, les éventuelles variables omises, les effets temporels et individuels sont éliminés grâce à l'utilisation de données de panel sur une période de cinq ans. Ceci a été réalisé afin d'affiner la corrélation entre les deux variables étudiées. L'analyse culmine avec le déploiement d'une approche composée par variables instrumentales. En particulier, on a utilisé une variable exogène antidatée dans le but de mettre en évidence la causalité entre l'augmentation du nombre des comptables et les recours contre les départements fiscaux.

### **Sections 3**

Dans la troisième partie, l'attention est portée sur le contexte dans lequel le comptable opère. Ici, on cherche à comprendre s'il peut influencer ou pas le pouvoir du professionnel. En effet, l'hypothèse suggère qu'un environnement institutionnel qualitativement pauvre augmente les frais de transaction auxquels sont soumis les opérateurs économiques, avec un avantage évident pour le comptable. L'accent mis sur les coûts de transaction conduit à une analyse des difficultés à opérer dans un environnement qualitativement pauvre, en analysant aussi bien les rapports avec l'administration que ceux avec les institutions étatiques et privées locales. En réalité, les coûts de transaction rassemblent tous les dépenses encourues pour réaliser et réussir une opération. En particulier, on registre que les coûts nécessaires à s'adapter et à se relier à un environnement caractérisé par une incertitude générale quant à son fonctionnement, ont la tendance à augmenter la demande de services fournis par les sujets qui s'occupent des relations avec les institutions. Tout cela constitue un avantage pour le comptable, seul acteur capable d'établir et de simplifier la relation avec un territoire fragile à niveau institutionnel. En particulier, dans les relations avec l'administration publique, souvent le conseiller fiscal est le seul capable de s'interfacer avec les autorités. Cette habilité le place dans une position de suprématie cognitive et expérientielle pendant de situations extrêmement complexes. Selon l'hypothèse de l'étude, le contribuable se trouve donc désavantagé dans les réalités territoriales où les institutions sont défailantes. Un environnement qualitativement pauvre nuit à l'attractivité du territoire, puisqu'il déclenche une réduction conséquente des investissements. Dans ce cas spécifique également, l'analyse est menée à travers l'utilisation d'un panel de données sur une période de cinq ans (2011-2015) avec une combinaison de variables liées au contexte institutionnel, économique et à l'ordre des comptables. En particulier, une variable



composite a été utilisée comme mesure qualité pour capturer les différents aspects de la réalité institutionnelle. L'étude utilise une approche qui s'appuie sur la méthode des variables instrumentales afin d'isoler la relation entre la qualité institutionnelle et le nombre de comptables. Le résultat obtenu, grâce à une variation exogène antidatée qui exprime le capital social, mis en évidence un fort attrait pour les réalités à faible qualité de la part des comptables. Cet élément suscite une augmentation du nombre de ceux-ci dans les réalités locales caractérisées par une faible qualité institutionnelle. Comme décrit dans l'hypothèse de recherche, ces contextes particuliers rendent le recours aux professionnels encore plus inévitable, autant pour les relations avec l'administration publique, qu'avec les institutions en général.

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Dans la seconde partie, l'hypothèse soulevée est vérifiée empiriquement par rapport au système fiscal italien. Le travail hypothèse et tente de valider la thèse de l'induction de la demande dans un contexte de litige fiscal : dans cette situation, le comptable doit conseiller à son client de décider entre faire appel au contrôle du département fiscal ou d'accepter le résultat de l'évaluation. En ce cas-là, le médecin possède une plus détaillée connaissance de la situation par rapport à son client, il connaît l'univers des tribunaux fiscaux et peut donc influencer les décisions du contribuable. Ce chapitre démontre la hausse de la demande induite par le fournisseur dans des contextes fiscaux caractérisés par un certain niveau d'incertitude et d'asymétrie informationnelle. Les singularités de cet environnement provoquent des phénomènes d'aléa moral et de sélection adverse. La

situation du litige analysé enchaîne des phénomènes de prise en charge de la part de professionnels qui génèrent un parallélisme avec le domaine médical.

La situation particulière du contribuable, qui subit le contrôle, est caractérisée par un certain degré de spécificité, incertitude et asymétrie. Spécificité qui dépend de la diversité et individualité de chaque cas, qui nécessite des évaluations opportunes et appropriées au cas spécifique. Incertitude qui est liée à diverses et innombrables variables caractérisent le processus fiscal, la procédure d'évaluation/contrôle et le résultat final de l'ensemble du litige. Enfin, asymétrie d'information entre le client et le professionnel délégué, qui se traduit par une supériorité d'information concernant la procédure fiscale, d'un point de vue technique et opérationnel à faveur du conseiller. Le comptable dispose d'ailleurs d'un bagage expérimental supérieur au celui-ci du client. Cette expérience est également combinée à une connaissance globale de la situation du client. Cela lui permet de faire des évaluations précises sur la situation réelle du sujet et sur les nombreuses probabilités d'analyser au moment décisionnel. L'analyse empirique combine donc des données territoriales locales et des commandes professionnelles avec des variables économiques, montrant tout d'abord une corrélation positive entre le nombre de comptables et les appels ; dans une phase ultérieure, les éventuelles variables omises, les effets temporels et individuels sont éliminés grâce à l'utilisation de données de panel sur une période de cinq ans. Ceci a été réalisé afin d'affiner la corrélation entre les deux variables étudiées. L'analyse culmine avec le déploiement d'une approche composée par variables instrumentales. En particulier, on a utilisé une variable exogène antidatée dans le but de mettre en évidence la causalité entre l'augmentation du nombre des comptables et les recours contre les départements fiscaux.

### Sections 3

Dans la troisième partie, l'attention est portée sur le contexte dans lequel les comptables opèrent. On cherche à comprendre s'il peut influencer ou non le pouvoir d'un professionnel. En effet, l'hypothèse suggère qu'un environnement institutionnel qualitativement pauvre augmente les frais de transaction auxquels sont soumis les opérateurs économiques, avec un avantage évident pour le comptable. L'accent mis sur les coûts de transaction conduit à une analyse des difficultés à opérer dans un environnement qualitativement pauvre, en analysant aussi bien les rapports avec l'administration que ceux avec les institutions étatiques et privées locales. En réalité, les coûts de transaction rassemblent tous les dépenses encourues pour réaliser et réussir une opération. En particulier, les coûts nécessaires à s'adapter et à se relater à un environnement caractérisé par une incertitude générale, ont la tendance à augmenter la demande de services fournis par les sujets qui s'occupent des relations avec les institutions. Tout cela constitue un avantage pour le comptable, seul acteur capable d'établir et de simplifier le rapport territorial caractérisé par une qualité institutionnelle médiocre. En particulier, dans les relations avec l'administration publique, souvent le conseiller fiscal est le seul capable de s'interfacer avec les autorités. Cette habilité le place dans une position de suprématie cognitive et expérientielle au milieu de situations extrêmement complexes. Selon l'hypothèse de l'enquête, le contribuable se trouve donc désavantagé dans les réalités territoriales où les institutions fonctionnent mal. En plus, on estime qu'un environnement qualitativement pauvre nuit à l'attractivité du territoire, puisqu'il déclenche une réduction conséquente des investissements. Dans ce cas spécifique également, l'analyse est menée à travers l'utilisation d'un panel de données sur une période de cinq ans (2011-2015) à l'aide d'une combinaison de variables liées au

contexte institutionnel, économique et celui-ci de l'ordre des comptables. En particulier, une variable composite a été utilisée comme mesure qualité pour capturer les différents aspects de la réalité institutionnelle. L'enquête utilise une méthode de variables instrumentales afin d'isoler la relation entre la qualité institutionnelle et le nombre de comptables. Les chercheurs ont achevé la tâche grâce à une variation exogène antidatée qui exprime le capital social. Le résultat mit en évidence un fort attrait pour les réalités à faible qualité de la part des comptables. Cet élément suscite une augmentation du nombre de fiscalistes dans les réalités locales caractérisées par une faible qualité institutionnelle. Comme décrit dans l'hypothèse de recherche, ces contextes particuliers rendent le recours aux professionnels encore plus inévitable, autant pour les relations avec l'administration publique, que pour les institutions en général.

#### **0.4.3. Contribution**

L'hypothèse que l'on démontre tout au long de la thèse repose sur l'idée qu'une relation déséquilibrée entre un client et un travailleur professionnel entraîne des défaillances du marché, ainsi qu'une perte de la part du sujet plus faible. Dans le cas présent, le client est soumis à des décisions qu'il croit être pris dans son intérêt, mais qui ne conduisent pas à une augmentation effective de son propre bien-être. Les données collectées et la théorie construite autour d'elles, identifient la nécessité de mettre en œuvre des actions visant à réguler la relation délicate entre le contribuable et un professionnel de l'impôt. Cependant, la situation n'a pas été aggravée seulement par la singularité du thème traité, qui nécessite une étude spécifique et un professionnalisme adéquat, mais également par le contexte institutionnel dans lequel les transactions ont lieu. La complexité, combinée à une mauvaise qualité des institutions, entraîne une augmentation du déséquilibre de

l'information et un renforcement conséquent de la position contractuelle du professionnel, tant pour la nécessité de contacter le professionnel pour faire face à l'environnement institutionnel, que pour résoudre la complexité du système fiscal/administratif. Les conditions de la relation imposent donc la nécessité de simplifier le système législatif, pour qu'il soit le plus accessible et déchiffrable possible. De plus, on suggère d'intervenir sur le système institutionnel, mettant en œuvre des opérations pour simplifier et assurer les services. Tout cela aurait pour conséquence directe l'amélioration en termes de distribution de l'information et l'attractivité locale du territoire, avec une augmentation conséquente des investissements et du niveau de conformité. L'étude offre donc des pistes pour l'analyse des idées politiques qui étudient la mise en œuvre de stratégies visant à une amélioration générale de la relation entre les contribuables et les comptables du point de vue de l'information, capable de rendre les premiers plus conscients de leur situation et les seconds plus responsables de ses actions.

# **General introduction**

## **Background**

### **0.1. Tax consultant: analyzing this figure**

One of the main problems of a tax system is the difficulty for taxpayers to report the correct amount of income and calculate the related taxes. Taxpayers, in fact, find the taxation system difficult and intricate (Hartanti and Nuryatno, 2019). Difficulties, combined with a knowledge lack on the tax system's functioning or on suitable skills, lead taxpayers, single persons or companies, to request/use the services provided by tax consultants. The importance of the role played by a tax service provider is very relevant in many countries and the connected problem is not carried out in a unique way.

The emerging professional relationship is delicate and very often this relationship between accountant and tax consultant may be complex. Specifically, taxpayers have a distorted perception of reality, that is, they are unable, for example, to quantify the real probability of undergoing a control or to fully assess their condition from a fiscal point of view. However, the market of tax consultants/preparers is characterized by a factor called "imperfect competition": the professional's suggestions are not always aligned with those of a perfectly informed and prepared taxpayer. In fact, a taxpayer who overestimates the probability of being ascertained could also declare more than what is recommended/suggested by his/her consultant; consequently, there is a distortion if a person considers that the interests of the involved parties are often unbalanced and divergent.

The focus on this controversial relationship is placed by several countries with particular regard to the problem of increasing tax compliance with the aim of reducing evasive phenomena and/or all actions aimed at the subtraction of the taxable matter. In particular, many countries and international organizations have been implementing actions in order to counter the tax evasion phenomena and aggressive tax planning actions. Specifically, actions were taken with the intention of regulating and/or managing this delicate relationship, trying to create situations that can incentivize accountants themselves to favor compliance actions. The goal is to understand what effective role tax advisors/consultants play within the complex tax ecosystem made by taxpayers, the revenue agency and the Government, and the mediation rules existing within these professionals.

#### **0.1.1. Different initiatives and policies in different countries**

The European Commission has recently focused its attention on the figure of the accountant with the introduction of some new rules, so as to try to regulate his/her activity: an example is the introduction of the obligation to detect evasive mechanisms and/or circumvention (Directive 2011/16/EU). The U.K. government, since 2016, has been introducing sanctioning rules aimed at fighting all those operations encouraging evasion; in some cases, even 100% of the amount evaded and subtracted from taxation was sanctioned. Also in Italy, in 2016 the Revenue Agency issued some guidelines to fight tax evasion by providing for a specific initiative aimed at fighting those professional figures suggesting evasive practices and/or evasive schemes aimed at reducing the taxpayers' tax burden (circular no. 16 / E, Rome, 28/04/2016).

The studies conducted up so far in the context of the relationship between tax authority and taxpayers have assumed that tax professionals act independently in order to maximize their utility function. They do it by balancing the trade-off between the costs and the benefits that would be obtained if they decide not to respect tax legislation. In the reality and evidence of the facts, the subjects undertake their action through the mediation of specialized professional subjects (Battaglini, Guiso, Lacava and Patacchini 2019). In the United States, the use of tax professionals is estimated to be 65% of the taxpayers's population (Bloomquist et al 2007; Book 2008), with an increase from 63 to 80 million in the number of returns prepared by tax professionals from 1996 to 2005. Same situation can be found in most of other developed States: for example, it has been shown that about 75% of Australian taxpayers use a tax preparer. Situation that can be also found in Italy, where there is one tax consultant for every 515 citizens (survey carried out by the National Foundation of Accountants).

#### **0.1.2. Reasons behind this situation**

The reason behind the study of the relationship between the Government and the taxpayer and the increase in the use of professionals, is linked to an increase in the tax system complexity and also the relations with public administration. These aforementioned situations require the creation and use of specialized figures supporting the taxpayer in his/her relationship with the revenue agency and, more in general, with public institutions. These professionals are charged both for a relationship with public administration and for creating opportunities and obtaining suggestions to reduce the tax burden, which is also stimulated by the globalization process creating both complexity and greater opportunities.



The context makes it necessary to investigate the professional figure of the tax consultant so as to understand his/her role and position inside a client-professional relationship. Tax consultants are at the center of policies to assess whether they can actually play a key role in a compliance process and make controls more efficient. In fact, the arising question is:

what role do professionals play in addition to providing clarification and enforcing laws?

The accountant becomes an increasingly specialized figure and this situation creates a strong information asymmetry, with a consequent increase in the power of professionals. The imbalance causes them to direct suggestions to their own advantage. Furthermore, accountants also play a role in interpreting the probability of being audited by government agencies (Braithwaite, 2005) as well as in interpreting the standard and providing application schemes (Smith and Kinsey, 1987; Raskolnikov, 2007). These premises highlight how it is impossible to overlook the importance that the role of these professionals assumes in a bigger ecosystem made up of taxes and the relationship with public administration.

### **0.1.3. Background bases: studies and theories on the figure of the tax professional**

This work is part of a broader context of studies carried out around the figure of the tax professional. Since the very beginning the conducted research on the figure of the tax professional has been mainly focused on his/her role as a provider of specialized and technical advice, and little on the possibility that he/she can influence his/her clients' future actions, direct the client to his/her own advantage and also change its traditional

relationship with tax authorities (Andreoni et al. 1998). Up so far the carried out studies can be divided into the following areas: the reasons for hiring a tax professional (Erard, 1993), the effects on compliance deriving from having delegated a professional (Klepper et al 1991), the utility that a tax consultant generates and the effect he/she produces on the reduction of uncertainty in relations with assessors/controllers (Slemrod, 1989) and the impact on compliance costs (Beck and Jung 1989). Further studies have focused on the latter aspect, also investigating the strategies impact that tax consultants suggest in order to reduce liability (Reinganum and Wilde 1991). The particular role of accountants from an information point of view was also highlighted in literature: they usually became collectors and information distributors (Raskolnikov 2007) as a consequence of an increase in the opportunities of globalization (Braithwaite, 2005). Furthermore, the focus on the role that professionals have in influencing taxpayers' behaviors and their actions in terms of compliance has been analyzed under the aspect of the different opportunities that accountants suggest in terms of declarative or non-declaratory actions (Smith and Kinsey 1987).

The undeniable increase in complexity is increasingly binding the taxpayer to the use of a tax professional in order not only to interpret the great amount of rules, but also to obtain benefits so as to reduce the tax burden. In this context, therefore, the accountant can be a facilitator of fraudulent operations or tend to increase compliance with the tax system. The importance he/she assumes in the tax context is undeniable and in this perspective the need to investigate any divergent interests for the customer (taxpayer) and the professional (tax consultant) emerges. The professional finds himself/herself in a situation of hubs and in the conditions of being able to create an induced demand for his/her own services. This situation thus changes the normal investigation context on the

relationship between tax authority and taxpayer, relationship that has normally been investigated in literature (Allingman and Sandmo 1972; Graetz et al. 1986). In fact, traditional models lack of a figure of fiscal intermediary which in today's reality, instead, is always evident, as shown by the previously cited data. The intermediation of a tax consultant changes the nature of the relationship, as the information reaching taxpayers is filtered and interpreted by the same professional (Battaglini, et al. 2019). The taxpayer recognizes the information superiority that is linked to both the professional experience and the studies of the accountant. In fact, the subject's technicality requires in-depth studies that only a professional in this sector can have. The innovative hypothesis to be investigated in this thesis is the divergence of interests that can be found in this situation: on one hand the customer wanting to reduce tax burden and on the other the professional wishing to increase his/her own work. In addition, the tax consultant has an additional incentive linked to the impossibility of carrying out a performance assessment by the client, due to the information asymmetry that this type of relationship possesses.

## **0.2. Analyzing the figure into details**

The tax professional that can be found in a relationship between a taxpayer and tax agencies has many different definitions and can be summarized in those professionals offering taxpayers a wide range of services in the taxation field (Arzoo, 1987); they are often identified under the term of tax practitioner or tax consultant (Devos 2012). Tax professionals offer a variety of services such as returns preparation, suggestions for reducing tax burden, mediation in disputes and even support in audits conducted by tax

agents (Frecknall-Hughes and Kirchler 2015). Often, as anticipated before, the role played by a professional is controversial as he/she has to decide whether to support his/her client or encourage a compliance, so it can represent both the Government and the client (Brody and Masselli 1996; Duncan et al. 1989; Yetmar and Eastman 2000).

Attention to this profession has grown since the 1990's as a result of the increased demand for the provided services (Klepper and Nagin 1989); studies are currently focusing on its role in the compliance choices of its clients. The focus is also on the difference in risk appetite that characterizes these two subjects (Chrsitensen and Hite 1997, Frecknall-Hughes and Kirchler 2015). On the contrary, little importance is placed on the nature of interrelationships established between the client and the professional, the information imbalance, the hypotheses of adverse selection and moral hazard. Again, little attention is paid to the institutional context, which is often the main factor generating the need to use the services of this type of professionals.

#### **0.2.1. Why should we use the services of an accountant?**

The reasons for this study can be found in the need to assess the taxpayer's confusion within a system that is complex, changeable and rich in details. The reasons behind hiring the professional figure of an accountant can be found in the fear of making mistakes, saving money and lack of time to understand this highly complex system (Yankelovich et al 1984). Other reasons could be: ensuring that tax returns are properly prepared, as one of the main reasons for hiring a professional is "*Because I do not want to make any mistake, I use a tax professional to prepare my tax return*" (Niemirowski and Wearing 2003); pay as little tax as possible; avoid the risk of being fined by tax authorities; avoid the possibility of being controlled; reduce the system's complexity

through the use of highly specialized people; understand the nature of the income earned and, therefore, reduce the uncertainty about the legality of the income produced (Scotchmer 2016; Klepper et al. 1991).

### **0.2.2. The confusion of the taxpayer**

The propensity to use tax services is generated by the complexity of the Tax Code, the institution system low quality and the confusion that taxpayers have about their own situation. The aforementioned elements set out in the previous section of this chapter, focus attention on the role of the tax consultant and its undeniable superiority in a agent-client relationship. According to the research's hypothesis, the information asymmetry involves situations in which the tax consultant can benefit from his/her advantage, self generating demand for his/her own services. In fact, the confusion entails an ever greater need to request services and often advice on the actions to be taken or towards services that the same tax consultant proposes. Confusion and complexity have, as a direct consequence, the uncertainty of the taxpayer, inevitably forced to request the help of a tax professional (Scotchmer, S 1989). Uncertainty, probability of being controlled, confusion about sanctions, code complexity, difficulty of relating to the institutional layer where there is of low quality, these are the main conditions recognized by the taxpayer and therefore mediated by the tax professional (Beck et al. 1991 ). The taxpayer receives the aforementioned information through the professional, who often has a different approach to risk: if on the one hand there is a risk-adverse taxpayer, on the other there is often a risk-taking tax consultant.

### **0.2.3. The work of tax professionals: which are their tasks?**

Focusing on the work and functions of a tax professional, it is possible to identify different tasks that he/she can perform for the taxpayer. The work he/she does for the taxpayer is not limited to providing advice, but it also embraces a wide range of services making necessary, especially today, the relationship between the pervasive figure of the tax authority and the one of the taxpayer. The literature has summarized the role of the services offered by tax consultants in six key points (Thuronyi and Vanistendael 1996).

Specifically: the first role concerns tax planning which is studied in the field of interdisciplinarity of the tax services world and is responsible for analyzing the Government's regulation in order to better manage tax burden; this role is connected to tax burden reduction by trying to better manage taxpayers' income through the use of lawful schemes provided for by laws (Frecknall-Hughes and Kirchler 2015); the second is an advisory role connected with the counseling activity that the professional often has to carry out in connection with the different and specific situations in which the taxpayer has to deal with; the third is the role of accounting control and management of the same, which is often carried out in connection with business entities in order to better manage the relationship with tax authority; the fourth is the role of preparing tax return documentation and its subsequent submission to the tax authority; the fifth role sees the fiscal/tax lawyer acting as a representative and replacing the taxpayer in his/her relations with institutions; the sixth role is that of being a defender, following a control by the tax authority that is part of the complex mechanism of the tax process (Thuronyi and Vanistendael 1996).

#### **0.2.4. Particular consequences of professional's actions: tax evasion, avoidance and planning**

In understanding the importance of the functional role played by the professional it is very important to focus on the connection with both tax planning and compliance operations (Frecknall-Hughes and Kirchler 2015). These activities are the most important to underline the dependence of the taxpayer on the professional, and to identify situations of interest conflict between the involved parties. By analyzing the tax planning operations, in fact, it is possible to identify situations in which the accountant directs and influences the actions of the taxpayer. The type of actions undertaken could generate situations of tax planning, avoidance or tax evasion. The phenomena are often analyzed together, they concern the declarative moment and the income structure. Furthermore they are often characterized by technicalities that normal taxpayers do not even possess. The professional enters the declarative moment and is a fundamental intermediary; in fact, a normal taxation model imply that the taxpayer, being it an individual or a company, voluntarily declares and pays the amount of tax due. However, reality reveals a large fiscal gap between what is due and what is collected. Individuals usually find different ways to reduce due payments, such as underestimating incomes, overestimating deductions and exemptions, or not filing tax returns. The aforementioned phenomena have different consequences if carried out through legal or illegal actions. For example, tax evasion is an illegal action that is often analyzed together with avoidance. Furthermore, the avoidance phenomenon is often associated with the term tax planning. The latter can be defined as: the payer's capacity to arrange his/her financial activities in such a manner as to suffer a minimum taxes expenditure (Hoffman, 1961). The boundary between these two actions is much more subtle than the difference between evasion and avoidance, since the latter implies a legal practice of

planning and programming aimed at minimizing the tax burden. Situations that, for intent reasons, approach the concept of avoidance. The common conduct denominator is the implementation of actions that do not constitute violations of tax legislation. In such contexts the taxpayer's behavior is perfectly in line with law provisions, since governments recognize the possibility of managing their business in such a way as to pay less taxes (Vanistendael, 1997). Unlike planning, avoidance causes distortions, because actions are implemented and these actions have negative repercussions in equity terms, competition and effects on the State's budget. In fact, it is perfectly legitimate to implement actions as tax planning, which lead to the choice of tax reliefs, to request tax incentives that are more favorable to transactions. But also to decide not to buy products or services subject to higher taxation. On the contrary, however, taking advantage of unclear legislative situations or regulatory quibbles to obtain tax relief would mean putting in them abusive law actions. This results in losses for the whole society, both in economic and equity terms.

Taxpayers undertake evasive, elusive or tax planning actions in most cases through professional figures considered to be able to assess real situations and context conditions. In fact, all these actions require a high preparation level in most cases and a thorough knowledge of all the details. Taxpayers often do not have the skills and experience necessary to evaluate the best actions for their own situation, thus resulting in the need to purchase services from accountants. Furthermore, the tax consultant often coincides with the same person who is appointed by the taxpayer to manage the accounting, which makes the professional the most informed in this situation. This situation qualifies the accountant as the best person, almost by nature, to decide what actions to take on the behalf of the taxpayer. Furthermore, these implemented situation



makes the taxpayer in need to relate to the tax administration both for a control and to represent dubious situations. These situations then result in an increasing power and imbalance of the professional towards his/her client. In addition, also the compliance context has to be quoted; in fact, besides providing suggestions, the tax consultant also has the task of reporting income through returns, so as to coincide as much as possible with the Tax Code. In particular, its task is a part of the resolution of the so-called gray area of the system where the law is uncertain and ambiguous in its application.

These premises make the taxpayer dependent on the work done by the professional, who finds himself/herself carrying out vital importance functions for an individual or a corporate business. The professional as counselor finds himself/herself being able to suggest taking actions and activities that he himself/she herself provides with the consequence that he/she can self-induce demand for his/her services. The problem that will be analyzed, which is little discussed in literature, is whether this action is carried out in the interest of one's client and/or, since human action is characterized by rationality, is aimed at pursuing a personal advantage. Furthermore, the client is not able to correctly evaluate the professional's action and, when possible, it would only be retrospectively; the taxpayer is, therefore, not only forced to contact a professional, but also unable to understand if he/she is acting for his/her interests. Reasons that often lead to the need for specific regulation for each type of assignment.

What has been outlined up so far, is fundamental for the analysis that will be carried out in this thesis, as it focuses on the role the professional has in the delicate relationship in the tax return field. In fact, the beginning of this relationship can be traced back to the suggestions that he/she proposes, from which the actions of the taxpayer and all the

consequent critical situations derive. This leads to focus on the role of the advice given and its nature.

#### **0.2.5. The role of suggestions in the world of taxes**

The aspect on which attention is focused, is the role played by the professional in providing advice that is often the basis for his/her future assignments as well. The consultancy role in the taxation field is critical and linked to multiple effects. The analyzes carried out by Beck et al. (1996) summarize the main implications of advice and suggestions given by tax experts in two different effects. The first effect is a reduction of uncertainty, while the second is connected with the control policies that tax authority carries out. In particular, the request for advice can alter control decisions and consequently influence taxpayers, producing a sort of reciprocal and simultaneous effect, difficult to be understood. The main evidence that connects to the hypothesis that is at the base of this thesis is that the increase in the request for advice is connected with the increase in the size of fiscal uncertainty. In the aforementioned study (Beck et al. 1996) the amount and quantity of advice is also related to the amount-at-risk. It was found that in high-risk situations, subjects seeking advice reported less than subjects acting autonomously. Situation that was found diametrically contrary in low risk conditions. Therefore it can said that there is evidence of a different risk propensity. Contrary to the aforementioned hypothesis, in post-control situations the subjects who bought a consultancy found themselves paying more.

Therefore, in this thesis it will be demonstrated that the professional aims at taking advantage of his/her superiority position through the suggestion of actions often contrary to the well-being of his/her client. In addition, aware that uncertainty situations

benefit his/her work, it is hypothesized that he/she privileges locating his/her business in geographic realities where the administrative quality is low, thus creating a consequent increase in the complexity of institutional relations. The professional, therefore, finds himself/herself occupying a role both in a pre-declaration and post-declaration phase, being indispensable in every single phase of the tax process.

#### **0.2.6. The intermediate role of the tax professional**

The aforementioned functions and the analysis of the above recommendations clearly highlight the role of intermediary repeatedly reiterated through this thesis. An example of theory where it is possible to find the role of intermediary is the one carried out by Frecknall-Hughes J and Kirchler (2015): their idea is that the main role of a professional is negotiation. Their concept develops around the definition of Martin et al (1999): the phenomenon is seen as a relationship between two participants, each one with different needs; in this situation, the tax professional/advisor tries to find a meeting point. Tax professionals are, from a scholastic point of view, the mediation point between tax authority inspectors and taxpayers, as they are responsible for acting in place of the latter. Furthermore governments consider them as the main interpreters of legal texts, playing a key role in enforcing tax rules. Literature has, therefore, seen their role as representative of both the government and the taxpayer (Brody and Massell 1996). This, as anticipated, is also recognized internationally and not only in scientific literature (OECD 2008). In fact, OECD has highlighted its trilateral importance between the tax authority, taxpayers and other entities in promoting compliance. They have been defined as “knowledge brokers” between tax agencies and taxpayers (Hasseldine et al. 2011). In addition, if on the one hand they have a role in applying the tax regulatory

text, on the other hand they have a defensive function because they prevent unfair activities carried out by tax authorities against taxpayers. They do it by safeguarding not only the application of the regulatory text by taxpayers, but also the correct performance of controls (Russell and Brock, 2016).

In this thesis we investigate an aspect that has not been explored by the literature and is connected with the possibility that tax advisors / practitioners benefit from their position. Their goal is to take advantage of their position by providing suggestions that are not aimed at increasing the customer's well-being. In addition, it can be that informational and experiential supremacy is high in contexts in which complexity is high and the institutional quality is poor; reason that pushes them to settle in geographic realities where institutions are more inefficient.

### **0.3. The strategy and approach of this work**

The delicate relationship between the taxpayer and the tax professional reveals a strong imbalance between the involved parties. This situation, thus allow us to formulate hypotheses on an interests' divergence and on the possibility that the agent can induce the customer's actions to his/her own advantage. The focus will be on the figure of the tax professional both as a preparer of the declaration and as a tax lawyer.

In this thesis, two main research questions are investigated: whether it is possible to detect hypotheses of induced demand and whether the tax consultant/advisor tends to favor the installation of his/her business in territorial situations where the quality of the institutions is low. The first elements emerge from an information asymmetry, from the hypotheses of adverse selection and moral hazard, from the particularity of the assets involved (so-called experiential goods and credence good) and, last but not the least,

from the complexity and specificity of tax matters. Furthermore, the second hypothesis, in addition to the aforementioned reasons, identifies for the professional the possibility of choosing institutional environments whose low quality allows the increase of power and imbalance between the involved parties involved.

The idea of this thesis develops from the delicate topic of taxation, a highly structured process involving taxpayers, tax administration, government and tax consultant / practitioner (Pickhardt and Prinz 2014). Taxation is by its nature a complicated process since it aims to balance two important objectives: equity and the redistribution of resources. Taxation is the most used mean in developed countries in order to pursue the aforementioned purposes. The problem of balancing the interests involved is not an easy solution as represented by numerous variations in the field of regulations. In fact, the taxation system must aim at the definition of a tax system capable of guaranteeing an optimal structure with the least sacrifice in terms of efficiency loss. The result is an excessively detailed and complicated set of rules resulting in a system that is not easy to read and, often, changeable and of dubious interpretation. Consequently, taxpayers find themselves needing to take advantage of the help of professional subjects. Reason why taxpayers are inevitably influenced by those offering them suggestions and indications (Brock and Russell 2015).

### **0.3.1. From the hypothesis of influence to the idea of induction**

The hypothesis of induced demand can be easily found in contexts characterized by complexity, such as, for example, tax systems. Many taxpayers have to work in a very complex and uncertain system, and this is the example of more developed countries

where the tax system is highly complicated and takes many years to be understood and laws correctly applied (Lewis 1982). This relationship has only been minimally discussed in literature, neglecting the profitability aspect for professionals and focusing attention on the impact it has on compliance (Kang 2018). Tax complexity has the consequence of forcing taxpayers to rely on professionals (McKerchar 2005) in a sort of dependence, with negative implications also on the professional's work. The professional himself can make mistakes and the evaluation of his/her work is very difficult. The relationship between the two parties is full of facets and according to this analysis, it then suggests that the assignment conferred is not always carried out according to the customer's interest. The studies conducted up so far create the hypothesis of influence on the taxpayer's taxpayer. In particular, research has been focused on the latter aspect regarding suggestions in the field of aggressive tax policies and whether taxpayers comply with them or instead decide independently (Kaplan et al 1988). Therefore, the problems concerning the possibility that the risk preferences of customers could influence tax advisors's suggestions (LaRue and Reckers 1989) were analyzed, bringing opposite results both in the case of risk propensity and risk aversion. Further studies have shown that tax professionals' suggestions can also be influenced by moral reasons (Doyle et al. 2013). In addition, attention was focused on the interdependence of the relationship between the professional and his/her client, highlighting how the expectations of the subjects involved can influence suggestions and decisions of the parties themselves (Tan et al. 2016).

The hypothesis of dependence and mutual influence that can be found in the medical field, gives the idea of induced demand that might be found. In fact, the bridge between the medical context and the tax world lies in the recourse to a professional capable or,

specifically, deemed to possess the appropriate skills in order to obtain an assessment of one's situation. The problem analysis strategy aims at focusing attention on the Italian situation through a data collection at a provincial level, both on the economic and social fabric and on tax professionals. In particular, data were collected on provincial commissions dealing with issues concerning controls from tax authority activities. Data were grouped for each province and combined different sources, in order to catch various aspects and influences that can be decisive in building up the relationship.

The survey focuses attention, as it will be seen into details through this thesis, on a very particular phase of the taxpayer-tax consultant relationship: the post-control phase. In addition, it is appropriate to focus on the decisions carried out by tax agencies when they do a control. In fact, these situations are characterized by particular complexity, resulting in a greater propensity to be influenced, which often translates into induction by the professional.

### **0.3.2. How is it possible to demonstrate induction?**

The induction sought in the discussion is highlighted in the moment of control by the tax agency. The situation is particularly delicate since the taxpayer has to decide whether to accept the result of the check or starting a legal action. The same is not able to evaluate his/her real condition for the aforementioned reasons (complexity, uncertainty and specificity of the tax sector), and in addition he/she is not aware of the probabilities involved and the functioning of the tax process. He/she is, therefore, forced to pay the services of a tax professional, very often the same person fully knowing the customer's tax history and the one filling up / preparing the person's tax return. The

taxpayer must inevitably turn to the latter for advice and, moreover, if he/she decides to appeal, he/she would need, by express legislative provision, a technical defense that only the tax consultant can provide. For the presupposed reasons it is believed that this situation reveals the major hypotheses of conflict of interest as well as an hypothesis of induction. In fact, the tax professional will have an interest in self-inducing demand for his/her own services, thanks to the work constraint and the information asymmetry related to the customer's lack of knowledge and experience.

### **0.3.3. The context: the tax agency, the accountant, the tax commission**

The analysis starts after a fiscal check, a moment that is subject to a sort of randomness as there is no generic rule. The control phase takes place after the income declaration, an assumption that the professional figure of the accountant has already been included. In fact, controls are decided ex-post by the tax authority and in the Italian context they are specifically carried out by the Italian Revenue Agency. The aforementioned agency is responsible for both the control and the collection of taxes in Italy and, moreover, it monitors tax compliance through direct and/or automatic controls with the aim of maximizing tax revenue. The system performs this activity through a rich structural network distributed throughout the provinces. Based on the geographical size, each Italian province has between 2 and 7 offices. Each single accountant is member of a different order, distributed by province: in fact it belongs either to the Order of the Chartered Accountants or to the Accounting Experts. The same body is in charge of the supervision of its members, the access requirements for the profession and mandatory professional updating. Alongside the figures of tax authorities and accountants, there is a body responsible for the implementation of tax lawsuits relating to controls, which is also structured on a provincial basis. The same territorial division makes it possible to



better compare the model and offer a local analysis of the phenomenon, also taking advantage of the diversity of the Italian context.

#### **0.3.4. The choice of the phase following the check**

The analysis is carried out in the phase following the control since it is a delicate moment in which the taxpayer has declared the income on the basis of the tax professional's advice. In fact, as anticipated, the taxpayer is unable to assess his/her situation and having entrusted himself/herself to the accountant, he/she then considers the latter the only one able to decide whether to appeal against the control activity or not. In addition, if he decides to appeal, the most suitable tax lawyer is surely the accountant, the same person that filled out the return and is assumed to be the only precise expert of the customer's tax history. For these reasons, it is believed that there is no incentive for the client to opt for another professional, thus the accountant will not suffer incentives for better performance as it would happen in a normal competitive environment. In addition, the client will not be able to benefit from even a reputational factor in the professional's choice as the evaluation of both the "post" and the "pre" activities presupposes a cognitive level of the subject which, as widely anticipated, he/she does not have.

#### **0.3.5. Institutional factor**

In this thesis it was decided to investigate the professional allocation choice of the tax advisor. The ideal scenario of the tax professional is assumed to be a context where the institutional quality is low. In fact, the professional finds his/her supremacy in the

uncertain conditions that become even bigger where the institutions do not function properly, thus creating a consequent increase in costs for the all the subjects involved. The main costs are found in the increase in the so-called transaction costs, that is, in all those expenses that an individual has in carrying out an operation both in direct economic terms and in terms of waste of time. In the particular context of analysis, institutions such as the tax agency, tax commissions, government and public administration are involved. The relationship with them implies a cost and the use of a specialized professional figure. The taxpayer, in fact, is the most suitable figure to interact with institutions in which he already is part of, with the consequence that the more difficult it is to deal with the latter due to complexity, uncertainty and confusion, the greater is the use of the services offered by the professional. In fact, as discussed in the trilateral relationship between taxpayers, tax administration and tax consultant, the conjunction role is played by the latter: he/she is responsible for interpreting the rules, its applications and often also resolving the disputes arising from it. This reason assumes that situations are preferred in which the possibilities of complicated relationships with institutions are greater with consequent attractiveness for the professional.

#### **0.4. The contribution of this work**

This work aims at giving to literature on tax systems, a study on the delicate relationship between customers and accountants, without forgetting the impact that information asymmetry deriving from complexity, technicality and cost of tax regulation and procedure may have in this relationship. The attention is focused on an

aspect that is little and almost not investigated at all, focusing attention on the harmful consequences in terms of social loss that this relationship leads to. In fact, the context of complexity and information asymmetry is hypothesized to create the ideal environment for the rise of induction by the professional in charge of carrying out an action in the client's interest. In the relationship between two different parties, that is to say the agent and an institution, there can be countless influences having an impact on the outcome of this relationship. Specifically, the information structure plays a central role in determining possible failures and distortions. Each economic transaction has a different origin and dynamics in what concerns the information's distribution. In particular, the information has the particularity of being able to shift the weights within a relationship made up of taxpayers, tax system and their intermediaries, the tax consultants. Among the direct consequences there is, therefore, both an increase in the time taken to analyze the sources and an increase in the transaction cost in order to reach, where possible, a clear transaction vision. Everything is further complicated by the ability to rationally evaluate situations in a context of uncertainty and poor institutional quality. This makes the implementation of a transaction something difficult and expensive, with obvious damage to the economic system in general.

#### **0.4.1. Information imbalance**

In this thesis, attention is focused on professional relationships characterized by an interests' divergence and information imbalance between client and tax professional. Attention is specifically paid to the type of information involving subjects/customers with problems in making a decision relating to their condition; as a result of this, they

delegate another subject, deemed more informed, with the aim of acting in their own interest. This last situation which, in the hypothesis of treatment assumes the appearance of a foster care, lies in the particularity of the context where it occurs. In fact, in this analysis the focus will be on the taxpayer, a person interacting in contexts characterized by technicalities making him/her unable to assess the situation as he/she lacks both the necessary knowledge, skills and experience. Furthermore, tax legislation is often characterized by a strong volatility requiring constant updating. Often the subject involves entry barriers related to the countless years of studies required in order to be able to interpret the legislative context; the same is further complicated by the fact that many elements are conditioned by the changeability of decision-making situations, forcing professionals to base choices on their experiential baggage. The analysis, therefore, places the investigation focus on the delicate information imbalance between the professional and the taxpayer, very often a situation creating market failure. The comparison and investigation bases its starting point on this principal-agent relationship and the information asymmetry that generates from it. In particular, the research starts from the identification of hypotheses of the client's assignment on the professional's performance, a situation that has already been widely debated and studied in the medical field in which the patient relies on the doctor's advice, delegating to the same the decision regarding his/her state of health.

#### **0.4.2. The structure of this work**

This thesis is, therefore, divided into three sections, with the aim of deepening three different aspects related to tax practice in Italy.

## **Chapter1**

This chapter focuses on the issue of agency relations and the role of agents in determining the principals' choices, starting from the medical and supply induced demand sectors. It is therefore defined as the first study theater in which the doctor has a position of information supremacy towards his/her patient. This situation is linked to the greater knowledge and experience leading the doctor to benefit from an advantage in the economic and relational relationship. In other words, the doctor can exploit this condition in order to generate an economic return through phenomena that are defined as demand induction; the doctor in fact is assumed to act rationally with a consequent incentive to exploit situations that can lead to a direct economic advantage. The healthcare environment has, in fact, constituted a first fertile ground for the hypothesis of supplier induced demand (SID) as doctors are able to generate demand for their own services. The medical context sees the specialist playing the role of both prompter / consultant and treatment provider . The consequence is that, acting rationally, the doctor tends to stimulate demand for his/her own services, thus generating a market failure. The role of the doctor and his/her action are conditioned by the delicate position within the particular professional relationship between the involved parties. In addition, the patient is in a disadvantage condition, due to the difficulty in evaluating the services provided by the doctor. This is why the goods of this particular market are defined as credence goods. The patient is unable to evaluate the service performance, due both to the lack of technical skills and to the variability of the effects that different treatments might have on the different subjects. The analysis, after having exposed and collected the contributions on the medical sector, expands the investigation by assuming an extension of the demand induced in the field of professional relationships in the tax

sector. In particular, in the delicate relationship between accountant and client, similarities with the medical environment are identified, further complicated by the professional's role, because in most cases, he/she is both the custodian of the accounts (therefore having a complete knowledge of the client's historical situation) and consultant of the same. The parallelism with the medical field is conveyed through the studies conducted in the context of the lawyer-client relationship: they are a perfect bridge between the field of healthcare and the one of taxes. In fact, an accountant as well as a lawyer, possesses superior technicality and experiential background leading the client, aware of his/her inferiority, to rely on the suggestions and advice given by the tax consultant. The accountant's action, as well as that of the lawyer and the doctor, under the rationality hypothesis, will always be aimed at increasing one's own economic return with possible negative repercussions on his/her client.

## **Chapter 2**

In the second part, the hypothesis raised is empirically verified with respect to the Italian tax system. The work hypothesizes and tries to validate the induction thesis in a context of tax litigation: in this situation the accountant has to advise his/her client whether to appeal against the tax agency's control or whether to accept the assessment's outcome. In this case the accountant has a better knowledge of the situation than his/her client, he/she knows the world of tax courts and can therefore, influence the taxpayer's decisions. This part demonstrates the presence of supplier induced demand in tax contexts, characterized by particular uncertainty and information asymmetry with the consequent creation of moral hazard and adverse selection phenomena. The situation of

the analyzed litigation generates custody phenomena on the professional's decisions, creating a great parallelism with the medical field. In fact, the particular situation of the taxpayer, who undergoes a control, is characterized by specificity, uncertainty and asymmetry. Specificity as each individual case is characterized by particularities making it necessary to carry out timely and appropriate assessments to the specific case. Uncertainty linked to the various and innumerable variables characterizing tax process, assessment/control procedure and the final result of the entire litigation. Finally, the information asymmetry between client and delegated professional characterized by an information superiority concerning the tax procedure, both from a technical and operational point of view. Furthermore, the accountant also has a superior experiential baggage which, combined with a global knowledge of the client's situation, makes him/her able to make accurate assessments on the real subject's situation and on the many different probabilities involved in the decision. The empirical analysis, therefore, combines local territorial data and professional orders with economic variables, first of all showing a positive correlation between the number of accountants and appeals; in a subsequent phase, possible omitted variables, temporal and individual effects are eliminated through the use of a panel data over a five-year-period. This was carried out in order to refine the correlation between the two variables under study. The analysis culminates in the use of the approach of instrumental variables, using a backdated exogenous variable, in order to highlight the causality between the increase in the number of accountants and the appeal against tax agencies' decisions.

### **Chapter 3**

In the third part, attention is focused on the context in which accountants operate and an attempt is made to understand whether it can influence or not a professional's power. In

fact, the hypothesis is that a qualitatively poor institutional environment increases the transaction costs to which economic operators are subject, with an obvious advantage for the accountant. The focus on transaction costs leads to an analysis of the difficulties in operating in a qualitatively poor environment, analyzing both the relationship with the public administration and those with public and private institutions in the area. In fact, transaction costs collect all the costs incurred in achieving and carrying out an operation. In particular, the cost of adapting to or relating to an environment characterized by general uncertainty about its functioning, tends to increase the demand for the services provided by those subjects dealing with relations with institutions. All of this has an advantage over the role of the accountant, the only person able to establish and simplify the territorial relationship with poor institutional quality. Especially in relations with public administration, the only one able to interface with the latter is often the tax consultant, who finds his/her cognitive and experiential supremacy in complexity. According to the survey hypothesis, the taxpayer therefore finds himself/herself placed at a disadvantage in the territorial realities in which institutions work poorly. A qualitatively poor environment damages the territory's attractiveness, with a consequent reduction in investments. Also in this specific case, the analysis is conducted through the use of a five-year-panel data (2011-2015) with the combination of variables related to the institutional, economic and order of accountants context. In particular, a composite variable is used as a quality measure trying to capture different aspects of the institutional reality. The survey uses an approach with an instrumental variable in order to isolate the relationship between institutional quality and the number of accountants; in fact, through a backdated exogenous variable, expressing the share capital, the quality variation has been isolated from the number of accountants; the



highlighted result is a strong appeal for low-quality realities towards accountants with a consequent increase in the number of the same in local realities characterized by low quality. In fact, as described in the research hypothesis, these particular contexts make the use of professionals more inevitable not only for relations with public administration, but also with institutions in general.

### **0.4.3. Contribution**

The hypothesis that is tried to be carried out throughout the thesis is based on the idea that an unbalanced relationship between a client and a professional worker leads to market failures, and very often the weaker party in the transaction suffers a loss. In the present case, the customer is subject to decisions that he/she believes are made in his/her interest, but do not lead to an effective increase in his/her own the well-being. The collected data and the theory that was built around them, identify the need to implement actions aimed at regulating the delicate relationship involving both the tax payer and a tax professional. The situation is not only aggravated by the particularity of this subject, which requires specific study and adequate professionalism, but also by the institutional context in which the transactions take place. The complexity combined with a poor quality of the institutions, leads to an increase in the information imbalance and a consequent strengthening of the professional's contractual position, both for the need to contact the professional to deal with the institutional environment and to resolve the complexity of the tax / administrative system .The relationship's conditions therefore impose the need to reduce complexity by simplifying the legislative system and making it as accessible and decipherable as possible, increasing the quality of the institutional system through operations of simplification and certainty. All this would

have the direct consequence of improving information distribution and the area's local attractiveness, with an consequent increase in investments and compliance. The study, therefore, offers insights for analysis of policy ideas that see the implementation of strategies aimed at a general improvement of the relationship between taxpayers and accountants from an information point of view, making the former more aware of their situation and the second most responsible for the suggested actions.

***Chapter 1***  
***Information Asymmetry, Agency Relationship and Demand Induction***

**Abstract:** The problem of information asymmetry in the context of agent-principal relationships configures a market failure. An important consequence of this particular situation is the phenomenon of demand induction. This work aims at focusing attention on the information imbalance, which is characteristic of a professional relationship and at identifying hypotheses of induced demand in a litigation context. In fact, professionals and clients are often involved in situations characterized by particular complexity. This complexity involves relying on the advice and suggestions of the person who is considered more informed and able to assess the situation correctly. One of the main problems that may arise concerns the demand induction, identified for the first time in the medical field. The healthcare sector is a very good example for the realization of Supplier Induced Demand, it is the ideal background for an examination of the problem to identify the underlying reasons and possible repercussions in economic relations. The objective of this chapter, therefore, is to highlight how it is possible to establish a parallelism with other market sectors, specifically the tax sector. Starting from a general analysis of the information asymmetry and focusing on the agent-principal relationship, it is possible to clarify how often this particular situation is to the advantage of one of the two parties taking part into the transaction.

## **1.1. Introduction**

Although information circulation systems are innumerable, the cost of being perfectly informed not only about alternatives but also about the quality of services/goods remains high (Beales, Mazis, Salop and Staelin 1981; Russo 1978; Shugan 1980). The explanation lies in the number of opportunities available, on the difficulty of evaluating them appropriately and in the institutional complexity of many market contexts. (Thorelli and Thorelli 1977). Information asymmetry remains, therefore, a highly debated and controversial topic in many market situations. This also applies to professional services sectors characterized by high technicality and uncertainty, made even less decipherable by an inefficient public apparatus and complex legislative system.

The work aims at examining the contexts of information asymmetry applied to the agent-principal relationship in which market failure hypotheses occur. In particular, attention is focused on a particular consequence of the phenomenon: the creation of induced demand. The focus on the healthcare market offers the opportunity to analyze contexts in which there is information asymmetry, and in which the agent / professional derives an undoubted benefit from this situation. One of the main characteristics of the doctor-patient relationship, on which the Supplier Induced Demand hypothesis is based, is the training and the demand development. Patients delegate the doctor to have an independent evaluation; they trust him/her hoping that the latter will act to increase their well-being. The underlying reason is related to the patient's recognition that, in most cases, the physician is relatively better informed and able to take appropriate decisions (Folland, Goodman and Stano 2016). Doctors act and benefit from a superior

contractual position compared to the patient and, moreover, their services are unclear and difficult to define by those who use them. The hypothesis that is put forward is that there may be a parallelism in the fiscal field; in fact, it is possible to find hypotheses of taxpayer custody. The taxpayer, in fact, as the patient, delegates the professional in order to have an interpretation and evaluation of his/her situation; also in this case the prerequisite for the appointment of the professional is the hypothesis that the latter implements actions and evaluations in the client's interest. It is therefore concluded that the tax market, under the hypothesis of asymmetry and uncertainty, allows the creation of favourable environments for the creation of induced demand phenomena. Due to the foregoing, the information asymmetry combined with the uncertainty and complexity of the transaction are elements that can be found in various markets including that of taxes.

The chapter will be divided as follows: in the first part, attention is paid to the information asymmetry and the agent-principal theory; the second part examines the medical context with the relative contributions of the decades of research in the relative sector; finally, in the last part it is highlighted how professional figures have characteristics allowing the hypothesis of induction phenomena by the professional towards the relative client.

## **1.2. The problem of Information Asymmetry**

Information within economic transactions plays a key role in the context of market efficiency and stability (Stiglitz 2000). The difference in access to information between the subjects involved generates relational complications due to the cost, understanding

and retrieval of the same. The role of information was initially studied in the context of price formation and in the labour market (Stigler 1961, 1962). The resulting problems are of two different types: uncertainty and asymmetry. The uncertainty is connected with an information sharing between the parties involved, but the transaction's evaluation is uncertain. On the contrary, a situation of information asymmetry arises when one of the parties has more information on the transaction than the other party involved. The information that the protagonists of the transactions possess have an influence on their behaviour and their choices. In the market context, those who buy and sell could have the same information on the prices applied to similar goods and, therefore, on the basis of these, choose whether to buy an asset or not. However, it may happen that the buyer does not have complete information on the goods' quality he/she is about to purchase. Examples are the so-called experience goods, which can only be evaluated by customers after purchase (Nelson 1970). The inability of the buyer (customer) to accurately evaluate the quality is often exploited for his/her own gain by the seller, which may confuse the customer, given his/her lack of skills necessary to evaluate the real market conditions (asymmetric information) and the quality of the services provided (moral hazard) (Holmstrom 1979). In addition, the possession of more information leads to forms of adverse selection which make the purchaser of the service/good unable to correctly evaluate the transaction with the consequence of not opting for the most optimal choice. The supplier of the good/service may, therefore, not always operate in the interest of its customer (Mills 1990) by exploiting its advantageous position in order to derive a direct benefit; examples of this are innumerable in the healthcare sector (Swedlow et al. 1992), in the franchising sector

(Brickley and Dark 1987) and in the financial services sector (Dejong, Forsythe, and Lundholm 1985).

### **1.2.1. Literature**

The concept of information asymmetry was developed by Akerlof in 1970 in the famous paper "The Market for Lemons": Quality Uncertainty and the Market Mechanism" where, using the used machine market as an example, the author identified the particular context in which the parties to the transaction are in a situation of information imbalance. In the case examined, the seller exploits his/her advantageous position by offering low quality goods at a high price, thanks to the bigger quantity of information he/she possesses on the asset. The same concept was also analyzed in the context of the labour market by Michael Spence in "Job Market Signalling": in this work the company is uncertain about the qualities of the worker it is going to hire. In response to this lack of information, the company implements its choice, like it were in a lottery, on the basis of a characteristic that it believes can signal ("Signalling") the worker's productivity. Spence's contribution to the theory of information asymmetry is linked to the concept of "signalling" as a means used by economic agents to convince the counterparty of the transaction on the quality of the sold product. Finally, a supplement to the asymmetry theory is provided by Rothschild and Stiglitz in "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information" (1978): here attention is paid to the insurance market in which a "not informed" seller sells to a fully informed "customer. The authors bring a significant advance in the theory of information asymmetry by introducing through their work the concept of screening, or the ability of the seller to detect the unknown characteristics of the counterpart through

known parameters. In their examination of the impact of imperfect information, the authors identify that the balance, which is sometimes impossible to achieve, depends on the phenomenon's very structure.

### **1.2.2. Principal-agent relationship**

Closely connected with the information asymmetry is the principal-agent relationship (Agency-theory). In particular, the idea arises from the context of companies in which the idea is underlined and hypothesized that in the relationship between owner and manager it is probable that the latter, having no ownership interests, will not act in the customer's interest, with consequent creation of a conflict of interest. (Berle and Means 1932). The problem emerges from the dawn of the birth of large companies (Berle and Means, G. 1932) in which the owners assign management to managers, trusting that they will act in the company's interest. In fact, it has been shown that managers act in order to maximize their interest and this paradigm is connected with the rationality of human behaviour (Sen, 1987; Williamson, 1985). The pursuit of one's own interest by the agent, in this case the manager, is connected with the rational human process of maximizing one's profit. All this generates a different perspective of interests and also of risk appetite of the parties involved in the relationship (Arrow, 1971; Wilson, 1968). In fact, in business situations the principal/owner of the company (or the investor) takes the risk (risk taking) of acquiring benefits from the market; on the contrary, the agent acts in order to obtain his/her own advantage and is risk-adverse; the main consequence is that the subjects have different preferences. The idea was later developed by extending it even beyond the confines of the context of private companies, identifying a



general problem in society (Ross 1973) and, therefore, in the context of institutions' functioning. Here the agency relationship is designated to the understanding of the social system's (Mitnick 1975). The idea developed within the company extends to the broader general context of economic transactions, in which the parties involved enjoy not only different information but also divergent interests. The situation is further complicated when, in addition to having a divergent interest, the agent has the opportunity to influence the present and future choice of his/her client, who relies on the good faith of the person in charge. This situation arises when the customer is unable to assess his/her position, the asset being discussed and the performance of his/her delegate.

### **1.2.3. The causes of an agency relationship**

At the origin of an agency relationship there is a contract in which one party or more (principal) persons engage another (agent) in order for the latter to act in his/her place or make a decision on his/her behalf (Jensen and Meckling 1976). As a result of the wide debate it has been generating, its importance in the context of economic relations is widely recognized (Panda, Brahmadev, and N. M. Leepsa 2017), especially due to the market failures that this situation can generate. The causes underlying the birth of the agency relationship are useful to frame in order to be able to extend them to other contexts and exploit the hypotheses of investigation in sectors with characteristics similar to those of the industrial context. In fact, the causes at the origin of the particular relationship between agent and principal can be enucleated in the separation between ownership and control, in the difference in risk attitude, in the limited duration of the

employer's hiring period, in the limited earnings for the agents in the asymmetry. This disclosure results then in adverse selection and moral hazard, imbalance between the company's shareholders and different earnings distribution (Chowdhury 2004). The various causes listed, if analyzed, allow us to define the industrial context in general.

In particular, the main points to focus on for the purpose of this work are: power separation between owners and managers; difference in approach to risk; limited duration; information asymmetry. Power separation between owners and managers refers to the situation in which one person entrusts the management of his/her property to another person (Jensen and Meckling 1976; Ang, Cole, & Lin, 2000). In the industrial context it is the business, but the same phenomenology can be extended to other scenarios such as that of the lawyer-client relationship in which the legal representation is delegated to another subject. In all cases, the action assumes that the subject acts in the interest of the assignee but, in reality, he/she will act in order to maximize his/her own profit, especially in contexts of information asymmetry.

The principal agent relationship, such as market failure, also emerges in situations where individuals have a different approach to risk. The situation can emerge in the industrial field, but it can also be associated with other fields such as the medical, fiscal and legislative one: here customers and agents have not only a different perception of the problem, but also a different way of dealing with it.

Furthermore, the limited duration of the relationship plays a decisive role. In industrial contexts often the limited roles of managers do not lead them to engage in long-term strategies to the owners' direct detriment. Similarly, in professional contexts, the

assignment often refers to a single case and an attempt is therefore made to take full advantage of that opportunity to maximize profit.

The information asymmetry relates to the difference in information of the parties involved. In fact, managers and owners, for example, have different information on management, quality, results, prospects and many other aspects of the company. This problem can lead to adverse selection and moral hazard hypotheses linked to incorrect and complete information's perception. This also emerges in numerous other situations characterized by the difficulty of understanding the context by the client, especially in the medical, legal or other fields characterized by technicality or specialization. In addition, the problems are often related to the inability to evaluate the performance of the subjects hired or to be able to evaluate the results only after using the service.

### **1.3. From agency relationship to the hypotheses of SID in the medical field: the case of health sector**

The problem examined so far can be extended to the medical context. In fact, the physician, who is often hired for health advice, finds himself/herself managing superior information power in the context of the transaction and having an ability to influence and, in many cases, induce demand. In fact, the doctor's interest, which should be the patient's well-being, often for rational reasons is aimed at maximizing his/her own income. The particular position of the doctor allows him/her to put the patient in conditions not to correctly evaluate the performance. The phenomenon has been defined as induction, that is, the ability of supply to self-induce demand. In this part we

investigate the particular case of the hypothesis of induced demand. Furthermore, similarities close to the tax market and the role of the accountant will be highlighted.

### **1.3.1. SID overview**

The concept of *induced demand* was found by Evans (1974) and the first precise definition is attributed to McGuire (2000). The latter provides the following definition for SID: “*a physician influences a patient's demand for care against the physician's interpretation of the patient's best interests*”. Practically, the doctor suggests more treatments than those strictly necessary for the patient's well-being in order to move the question in the direction of his/her own personal interest. The doctor does it both to maximize profit and to reduce the risk of liability. The first hypothesis refers to the demand induction for services aimed at the doctor's earning terms in increasing demand for his/her services. The second hypothesis concerns the practice of suggesting treatments to the patient for the protection of the doctor's responsibility (defensive medicine). The focus is on the first line of research as it lends itself to the identification and assimilation of the inductive phenomenon in other markets; in this specific case it refers more to the relationship between professional and client in general. The second hypothesis, not less important, is however neglected by present investigation, since it identifies a typical case of the medical context in which the responsibility for wrong treatments plays an important role. This last hypothesis identifies the induction demand in response to "private liability risk". Kessler and McClellan (1996, 2002) show that tort reform reduces expenses in the medical field without affecting the patient's health,

showing that the doctor often induces treatment for the protection of personal responsibility rather than for the patient's direct benefit.

The origin of this influence in both the first and second case, is identified in the information asymmetry that characterizes the relationship between doctor and patient. Asymmetry which, as emerged in the first part, leads to a market failure with evident damage for the party that is in an inferior position in the dealings. This type of situation identifies a first element common to other professional contexts that involve lawyers and accountants.

In theoretical models referring to information asymmetry, the action taken by the doctor is unnoticed and is only marginally limited by intrinsic costs. In fact, induction typically has an intrinsic cost for the doctor who generates a negative reputational impact (Dranove 1988) only to a limited extent perceived and identified by the client; as we will see, it will also be a particularity of highly technical environment contexts: in these contexts, people using the service are not allowed to evaluate its quality. Negative flows are therefore generated on the patient (Pauly 1980; Rochaix 1989), caused by two further aspects: the first concerns the fact that the induction carried out from the doctor does not include the patient's best interest; the second concerns the recommended treatments which may vary depending on the patient.

The consequences of the first are significant since it is the physician's task to move the patient's question towards his/her best interest; those of the second concern the fact that the benefits and risks of the treatments vary in relation to the patient's condition and this is precisely in contrast with the object of the doctor's work. The doctor's aim, in fact, should be the finding of the treatment that best suits the patient's individual conditions.

Finally, a further complication in deciphering SID lies in the differences in medical practice, environment and experience which entail different manifestations of costs and benefits depending on the doctor.

### **1.3.2. Peculiarities of the health sector**

The medical market and the goods involved have characteristics which by their very nature lend themselves to *induced demand* hypotheses. In particular, these elements distinguish it from many other markets (Arrow 1963, Klarman 1965; Mushkin 1958, Rice 1998) and this explains why it lends itself to induction hypotheses and separates itself from normal competitive contexts. The main ones are: the characteristics of the assets involved and the factors influencing the demand; the information gaps encouraging and incentivizing patients to follow doctors' advice and delegate decisions about their health; the potential weaknesses in agency relationships between doctors and patients; the impact of clinical uncertainty on doctors' decision-making processes; the market power of doctors. SID effect is also conditioned by the institutional and regulatory characteristics. Factors that also play a role in professional sectors, such as taxation, in which the role of institutions is important as they are the subjects appointed to interact with them on behalf of clients.

The peculiar characteristic of the health sector is that patients are the least able to judge the impact on their well-being of the consumption of the different levels of care. In fact, if on the one hand patients are the first to want the best care, longevity and health, on the other hand they find themselves asking for goods that cannot be directly bought and

valued. Patients can buy medical treatments intended as diagnosis elements, information and treatments to increase and improve their health condition; however, medical care by its very nature is different and untreatable, which means that it is a non-standardized product and, moreover, medical assistance (health insurance) in many countries, where welfare is very high, covers a wide range of services ranging from purely private to social services (Reinhardt 1989). Finally, the different medical treatments are not perfect substitutes and consequently not interchangeable, so the choice and differentiation requires careful selection. A similar context is also found in the field of professionals in which clients, unable to assess their position and the real conditions and probabilities involved, delegate the action on their behalf to the professional who will offer a non-standardized and objectively assessable service.

Furthermore, within the healthcare market in the construction of demand, patients face a problem, since: they must be able to possess information on both their current state of health and have medical knowledge capable of evaluating the best treatments for them; medical assistance is produced and consumed at the same time. Lacking, therefore, a detailed and precise knowledge of the subject, it is difficult for patients to evaluate the products before their consumption; the demand of individuals for different forms of medical care is unpredictable and erratic.

Following what has been said, one of the first and singular differences of this market with respect to normal economic contexts emerges. In fact, if on one hand in almost all markets it is normal for producers to have more information about consumers, both regarding production methods and the goods' characteristics, on the other hand, consumers are usually able to understand how the consumption of that good may affect their well-being. The medical market differs from the normal market model due to the

aforementioned characteristics and the in-depth analyzes that will be later on developed in this chapter. In fact, compared to doctors, patients are often poorly informed about their health condition, treatment options, possible outcomes and costs. Doctors, on the other hand, have much more information on the current state of patients' health, on treatment options and on long-term results, to which is added the necessary knowledge in order to interpret information and judge treatments. This context is known to both patients and doctors and is intrinsic to their relationship.

In addition, doctors' knowledge is accompanied by the experience gained in the sector both on the treatments' techniques and on the patients' health conditions. This element is also fundamental given that the information can also be provided by the doctor but the interpretation and understanding of the same is a different element; consequently having the information is not enough (McGuire, Henderson and Mooney (1988).

The asymmetry and uncertainty as assumed have a strong relevance in the agent-customer relationship. In particular, in the medical context there is a strong weight that they play in determining an imbalance of strength and power of the parties involved.

### **1.3.3. Asymmetry and uncertainty in the medical context**

*Information asymmetry* and the knowledge of doctors increase with the increasing complexity of health conditions. The protagonists, doctor and patient, therefore have a different position creating an environment suitable for the hypothesis of induced demand. Doctors are able to manipulate prices or services to their patients.



The sources of this power are innumerable and concern: the regulation establishing the necessary qualifications and training by limiting entry into the category; the control of doctors over health education, technical responsibilities, specializations and internal discipline; not considering doctors to be substitutable on the market or rather not perfect substitutes. In fact, the medical service is often personal as confirmed by some interviews (McGuire 2000). The most evident result is the evaluation of doctors by patients according to experiential and, therefore, subjective factors; the *information asymmetry*, in fact, qualifies doctors as the most competent on the market, i.e. able to assess the patient's condition, find treatments, provide alternatives and choose the best ones.

To deepen the relationship in economic terms, it should be noted that in literature, situations in which there is an information asymmetry between patients and doctors are called "*intermediaries*". In these conditions the patient, who plays the role of employer, is influenced in his/her actions by his/her intermediary, that is to say, the doctor. The specialist enjoys an informative superiority mainly due to the inability of his/her client to assess whether the advice is sufficiently appropriate or not. Under these conditions it can be assumed that doctors can influence patients on their wishes and condition them towards medical services, often offered by them, which have a medical value lower than their cost. This inefficiency generates the so-called *induced question* (Keyvanara M., Karimi S, Khorasani E, Jafarian Jazi M. 2014; Johnson EM 2014) Induction, in the case of the present thesis, does not refer only to the patient's action, who autonomously decides the treatment recommended by the doctor, but highlights how the professional's suggestion is aimed at determining both quantity and type of treatment.

Another feature of this particular relationship is clinical uncertainty, that is, the difficulty of assessing real health conditions combined with the uncertainty of treatment results. In particular, uncertainty involves both doctors and patients, especially with regard to more complicated situations.

Three important factors playing a decisive role in the creation of this uncertainty (Wennberg 1985; Kim b 2010; Richardson JR, Peacock SJ 2007) can be identified : there are difficulties in the classification of patients and their conditions, due to which it is not possible specifically ascertain the results of the treatments; there are no concrete and verifiable hypotheses on the probabilities of the outcomes of the treatments; the doctor may not make decisions with the same disposition as the patient.

Uncertainty exists in any market, but in the medical market the patient is a consumer in more difficulty than in other situations. In fact, the patient has limitations in being able to compare options, evaluate choices and learn about the services' quality. To which is added the uncertainty of whether the treatment in the short and long term is optimal.

#### **1.3.4. SID repercussions in the institutional context**

*Supplier Induced Demand* can lead to two sets of problems. The first is an increase in healthcare spending or pressure on the government budget. The second is a reduction in efficiency due to health expenditure on services that do not produce the necessary benefits or are, in some cases, even superfluous. The problems and complications that induced demand brings are: waste of public resources when the government pays for

unnecessary services; use of unnecessary drugs; increase in false demand for services (Bickderdyke I, Delamore R, Monday I, Preston R 2002; Mahbubi M, Ojaghi S, Ghiyasi M, Afkar A. 2010).

The increase in financial commitments and the search for a new growth plan in the healthcare sector, combined with the need to bring out practical solutions to reduce unnecessary costs, are increasingly highlighting the need to solve the problem of Supplier Induced Demand. To do this, it is necessary to focus on the factors influencing SID, that can help tracing the phenomenon and developing optimal strategies for the management of the country's resources, to implement appropriate decisions and to improve the efficiency of health management, to reduce the imbalance between doctors and patients, control rising costs and improve service quality. An obvious example of the SID problem can be found in numerous literature writings from Iran.

In fact, the Iranian healthcare system is facing several problems related to Supplier Induced Demand that lead to an increase in public spending and patient payments as a direct consequence (Samouei R, Fathian N, Jafari M, Heidari Z 2015). The law enforcement policies are substantiated in a health insurance system that scientifically evaluates the services purchased, in a modification of the service taxation method, in standards' development, regulations and frameworks in order to control the supply of unnecessary services and allocate resources efficiently (Grytten J, Sorensen R. 1999; Yip WC 1998; Meyer S. 2016; Longden T, Hall J, van Good K. 2018; Sekimoto M. 2015).

Policy-makers and health policy professionals have the problem of not having the data and at the same time not having enough time to collect it. To the conceptual problem on

the induction phenomenon, therefore, is added the difficult finding of data on the health system which are often not available. An alternative to the problem is represented by patient interviews regarding satisfaction with the health system. These can be a useful parameter for providing useful information to policy makers (Pascoe 1983, Ware and Davies 1983; Cleary and McNeil 1988; Hall and Dornan 1988).

In fact, the satisfaction that can be perceived through the interviews can be a fundamental element for evaluating the performance and possible outcomes of the health system; in addition, through their statements, it is possible to perceive different dimensions of the health service that only patients can observe and evaluate. The observable elements are different: the time to reach a clinic, the waiting time before an appointment, the medical environment and the medical staff's relational skills. To this we can add that the satisfaction interviews also offer ideas for evaluating the behaviour of the patients themselves. Numerous studies, in fact, show that satisfied patients are much more prone to recommendations and to make an appointment than unsatisfied ones (Kincey et 1975; Berkanovic and Marcus 1976; Linn et al 1982; Marquis et al. 1983; Stewart 1995). The data problem makes it difficult to obtain an optimal analysis capable of evaluating and integrating all the fundamental elements of the SID.

An important role is played by the Government, which is the main subject capable of influencing the operational context. In fact, poor supervision on doctors' performance by the latter, can lead to an ideal environment for the creation of the *Supplier Induced Demand*. The Government's attention should be placed on medical indications in order to carry out effective investigation and supervision. Doctors, on the other hand, in the health system act both as supervisors and as decision-makers, and this condition leads their interests to have a natural higher role (Keyvanara M., Karimi S, Khorasani E,

Jafarian Jazi M. 2014). In addition to the lack of control over doctors' decisions, a further important factor in favouring the occurrence of SID is the complexity of the medicine which is characterized by both an intrinsic difficulty and an uncertainty about the actual result of the treatment.

Therefore, poor regulation and improper execution of the health system can lead to the emergence of induced demand. An element on which to pay attention, in addition to those already indicated, is the lack of common treatments among doctors which consequently complicates supervision. In some countries the presence of medical protocols (often defined by the same category orders) which would suggest a sort of common line of action, at the same time leaves the doctor free to act, resulting in a consequent lack of an evaluation parameter.

The most current problem of SID is the influence that an increase on unnecessary services has on the public budget. An allocation of resources that leads to allocating them to people who probably do not need those treatments, harming those who genuinely need them (Fabbri, Monfardini 2001). An additional element that contributes to worsening the result is the increase in the number of specialists. This increase has an endogenous effect on the demand (Lien et al 2004). Most studies have found that physician density has a positive impact on the decisions of patients who have government health coverage to access treatment. Basically, a patient is influenced by the doctor to request a visit and subsequent treatments. On the contrary, where there is private healthcare, the density of doctors does not affect the propensity to be treated for the first time but affects subsequent treatments (Jurges H., 2007).

#### **1.4. The hypothesis of SID in other principal-agent relationships: professional contexts**

The situations previously examined can be extended to professional contexts in general. This case includes the scope of the litigation, in which the subject entrusts the decision and the defence mandate to the professional. The client delegates a professional, convinced that the same will act in his/her own interest. The situation is complicated by the specific nature of the legislative framework which is complex, obscure and changing, making the subjects involved highly unbalanced from an information point of view. Indeed, clients are often unable to assess their position, institutional conditions and the performance of their agent. In addition, in the context of litigation the subjects are strongly disadvantaged by a lack of knowledge of the system, by the lack of experience on the functioning of the tax courts and on the real chances of success. These characteristics are present in particular in the tax field, where there is the aggravating circumstance that the accountant often finds himself/herself in several roles at the same time and therefore to be a tax service provider, consultant and tax return preparer. The particular context generates in the agency relationship a form of induction towards demand. In fact professionals find themselves able to self-induce demand and therefore further increase their economic advantage.

In the context of professional services, such as legislative and tax services, the subjects involved are in a position of particular information asymmetry. The agents in charge of representing the (main) clients are in a superior position, linked both to the technicality of the subject involved and to the professional's experience. Furthermore, the specificity of the context often generates fostering phenomena and consequently leads to a sort of

induction in the choices of one's client. The context of professional services has not been scanned by literature, but it is necessary to pay attention to these particular markets as their functioning is closely linked with the country's institutional context.

The analysis of the context of professional services can be studied by exploiting the parallelism with the medical environment which detects many similar characteristics and offers a wide range of detailed literature. In particular, the healthcare sector links the information asymmetry to demand induction phenomena that are also hypothesized in the tax context in this thesis. The analysis hypothesis envisages identifying how the characteristics of the assets involved in the tax context are similar to health services and the role of the professional has characteristics similar to the role played by the doctor in the patient-doctor relationship.

#### **1.4.1. Lawyers**

Lawyers are recognized as experts possessing particular skills and knowledge that derive from specific learning and experience (Freidson 1986). The customers / consumers of their services, on the other hand, do not have such specific techniques and are less informed. An important contribution to the theory of induction in the field of lawyers comes from the theory of Gwyn Bevan, who identifies in the relationship of principal / agent an imbalance identified in the information asymmetry; from the latter, problems of moral hazard and adverse selection emerge. The first is connected with the customer's lack of knowledge allowing him/her to evaluate which type of service best suits his/her situation, the second occurs, however, due to the customer's inability to be able to evaluate the quality of the service provided by the professional.

The main problem is that the client can observe the professional's action, but is unable to assess whether it is appropriate or not. In fact, the lawyer is considered the depository of the client's trust; the latter seeks the professional for advice on what action he/she should take and, because of this, it is not possible to establish a normal contract between the two for a particular service. Therefore, the lawyer acts rationally in order to maximize his/her interest with the consequence that he/she could opportunistically not suggest the best choices for his/her client and, therefore, could incentivize him/her to use more services than those necessary by generating forms of demand induction. In addition, given the client's inability to assess the situation and performance, the professional could overload the case in order to request a higher price, thus offering him/her a greater service when in reality he/she would need a simpler service. We can, therefore, highlight a double function for the lawyer who emphasizes even more the hypothesis of moral hazard. A first function that sees the professional evaluates the client's situation and suggests the strategy; a second related to the provision of the suggested service (Quinn 1982).

The main problem emerging from this type of relationship is how it is possible to ensure that the professional acts in the interest of his/her client. In addition, a further problem is substantiated directly connected with the hypothesis of the "lemons" sale by Akerlof (1970). The adverse selection resulting from the information asymmetry causes a market failure in the service offer. Indeed, lower quality professionals will offer a lower price and higher quality ones will offer a higher price, but the customer's inability to evaluate performance will make customers unwilling to pay a higher price for quality that I am unable to perceive.



In essence, the two phenomena of adverse selection and moral hazard occur due to an information asymmetry connected respectively to an ex ante and ex post lack on the part of the customer. The goods supplied by the professional can, therefore, be defined as experience goods that cannot be evaluated by the client, both before and after having used them (Darby and Karni, 1973). In fact, the legal process foresees only one winner and clients lack the necessary experience also to assess whether the professional has acted well or badly. Hence, they are unable to judge whether the win or loss in a trial is due to the pro's skill or not. The result of the professional's performance being, therefore, an experiential good leads to hypotheses of market inefficiencies (Dulleck et al. 2010)

The legal services market can, therefore, be perfectly characterized by demand induction phenomena aimed at exploiting the market failures resulting from the asymmetry by the professional. In particular, in systems where the professional's payments do not depend on the success or otherwise of the suggestions, he/she will always have an incentive to promote the use of his/her services regardless of the subject's actual conditions, guaranteeing for him/her ever greater demand. Furthermore, the judicial systems characterized by innumerable complications increase the gap of knowledge, experience and ability to evaluate the situation between the two parties of this agency relationship. Policy intervention is therefore considered necessary in order to identify incentive mechanisms to pursue the customer's interest (Chaserant and Harnay 2013). In fact, the poor services provided can result in: negligence on the part of the professional towards the client's case, "skimping" that is a non-commitment of the professional in order to save time and money to be allocated to other activities, supplier induced demand, i.e. hypotheses in which the practitioner suggests actions to the client

without a real need for the sole purpose of self-inducing demand for his services (Matthews 1991).

The hypothesis, therefore, of demand induction in legal services can be supported by what has been specified so far (Garoupa 2008). A greater number of lawyers lead to an increase in the offer of legal services due to the increase in competition. Due to the increase in the number of lawyers, the latter will use the experiential property of the products they provide in order to encourage access to legal services. The empirical demonstration of what was claimed has given evidence in the Italian (Carmignani and Giacomelli 2010; Buonanno. Galizzi 2014), Spanish (Mora-Sanguinetti and Garoupa 2015), American (Hanssen 1999), Japanese (Ginsburg and Hoetker 2006) and European contexts (Bielen and Marneffe).

The empirical evidence supports the hypothesis that a greater number of lawyers induce clients to favour litigation as a direct consequence of an induction phenomenon; the causes of this are to be found in the phenomenon of information asymmetry that easily incurs in this type of market. The high number of lawyers in a context of prices often imposed by the regulatory system leads professionals to increase the demand for their services from clients. The position of information supremacy leads to increased competition and encourages the hypothesis of a legal appeal with direct negative consequences on the judicial system as a whole. In fact, the aggravation of the number of cases entails a burdening of the work for the courts, with the consequent occurrence of hypotheses of inefficiencies and slowdowns with evident damage to the economic fabric which sees the certainty of resolving disputes in a reasonable time being lost. The uncertainty and the slowdown have repercussions in the economic environment as a whole, with damage to the performance of the courts and the institutional context. The

incentive to increase litigation even for unnecessary cases causes a blockage in the work of justice with evident repercussions on performance. The decrease in the performance of the courts leads to a decrease in confidence in the economic context (Haig and Stone 1993; Johnson 1997; Buscaglia and Dakolias 1999) since recourse to the courts represents the claim by a person to have a right violated through legal means recognized, rather than resorting to conflict (Yates, Davis, and Glick 2001).

Finally, the weight of the payment system, already examined in the medical field, influences the induction hypotheses in the context of legal services, which also has a positive impact in the fiscal field. The lawyer, as well as the accountant, in many systems is paid regardless of the result of his/her work with an obvious disincentive to pursue the best actions.

In addition, the work of lawyers, as well as that of accountants, is in many systems directly proportional to the number of acts and time employed; professionals are often tied to minimal rates that often link competition to an increase in services and not to a lowering of the price. All this, therefore, encourages the lawyer to increase the number of cases and the duration of the same in order to have his/her own advantage.

#### **1.4.2. Tax Accountant**

The direct extension of this situation is possible in the context of taxes which sees the taxpayer turn to the professional to receive a tax consultancy service in the belief that the latter will act in his/her interest. The hypotheses of framing the problem see the subjects looming in a market failure due to the presence of information asymmetry in the contractual relationship of the parties.

Even closer to both the medical and industrial contexts is the figure of the accountant, who is instructed by the customer (owner) to: manage (manager) the accounting; represent him (lawyer) vis-à-vis the state in case of disputes; advise him (doctor) in order to have a better relationship with the institutions.

The figure of the accountant can summarize characteristics that are very similar to all contexts of information asymmetry, adverse selection and moral hazard. Moreover, it lends itself perfectly to the hypothesis of induction of demand both because it enjoys a superior knowledge and experiential baggage and because it often finds, like the doctor, to be the supplier and the prompter of the service at the same time. Furthermore, the particular context in which it operates is complex and changeable from a legislative and institutional point of view and makes its performance not correctly assessable by its client. In addition, in institutional contexts characterized by low institutional quality, its position becomes even stronger, making its services increasingly indispensable for taxpayers. The operating context, the information asymmetry and the hypothesis of induction of demand make the tax environment an environment characterized by uncertainty in which the customer is in a market failure that sees the accountant have a dominant position. Therefore, the characteristics of the agency relationship can be recognized. In fact, the customer (taxpayer) instructs the accountant to act in his place, trusting that the same acts in his interest. The assignment to the accountant is the first hypothesis of asymmetry as the subject relies on the professional since he does not know the tax sector and, therefore, is unable to assess his position and also what obligations he must implement. The characteristics assimilate this hypothesis to the relationship between manager and owners because the accountant deals with the tax management of the subject and the relationship of obligations with the state. In addition,

the position is similar to that of the lawyer since in the event of a control it suggests to the client the strategy to be implemented or is still comparable to that of the doctor since the particularity of the tax context makes each taxpayer different with the consequence that the result of the control it is uncertain as well as the probability that the same happens with consequent difficulty in evaluating the performance. The figure of the accountant is therefore well suited to summarize all the characteristics of the previous cases.

#### **1.4.3. The causes of information asymmetry: uncertainty and fiscal complexity**

The taxation system is based on a self-declaration of the income (Self-assessment system SAS) by taxpayers with the consequence that in order to comply with the legislative device, the taxpayer is required to know the tax system's functioning. As a result of this situation, the taxpayer should have specific knowledge, skills and updates in order not to make mistakes (Saad 2014). Basically, the taxpayer has the responsibility to follow the law and respond in case of control by the tax authorities.

Taxpayers find themselves in need of an accountant for various reasons: from the preparation to the appeal to the bureaucratic formalities (Reinganum and L. Wilde 1991). For this reason, one is often also bound to the accountant by the tax return and by the fact that he/she knows the entire economic life of his/her client. This latter situation creates a form of dependence in which the belief that the accountant is acting to his/her advantage is greater. For example, in the event of a control, the assessment of the possibility of resorting to or adhering to the disputes is left to the assessment of the tax

expert managing the subject's accounting. The almost automatic use of the accountant is often associated with the complexity of the system that requires you to contact someone to unravel the legal system tangle. Studies show that a less complicated system would incentivize compliance by making it easier to adhere to and comply with the law (Cox & Eger, 2006; Richardson, 2006) and, therefore, increased sophistication would lead to a complex system (Richardson & Sawyer, 2001 ). Furthermore, the complexity not only leads to errors, but also leads to rely on a professional, who has particular skills, in order to interpret and understand the law. The necessary skills are connected to specific studies and to an experiential background capable of evaluating the different hypotheses and interpretations. Tax knowledge is therefore a basic element for compliance (Kasippilai, 2000) and many studies have shown that this is very low among taxpayers in general (McKerchar 1995). The uncertainty of control, interpretation (Logue 2005) and the entrustment to a third party to draw up the declaration entail additional elements of uncertainty resulting in different risk appetites and different prospects for action; in fact, the professional's role can be associated with that of the financial consultant suggesting investment actions for maximization purpose (Klepper and Nagin 1989) and can, therefore, suggest suboptimal choices for his/her client with the aim of encouraging control or carrying out actions that lead to an increase in demand for his/her own work.

Furthermore, accountants are responsible for the assessments of the taxpayers, since they are deputed to filter the law's information (Kadous and Magro 2001) therefore, the inferiority condition is further aggravated by this situation, also making the choices that taxpayers make subordinate to the vision and the accountant's risk appetite. Often the accountant makes aggressive or different choices from those that a properly informed taxpayer would adopt; in fact, interest in the accountant's role, as defender of taxpayers,

has increased since the latter in many cases finds himself/herself interpreting the law. He/she has often been accused of having lost sight of his/her role as an intermediary with the state and ended up suggesting unsavoury solutions to his/her clients. Sometimes, in fact, accountants exploit the willingness of clients to pay less tax in accordance with the maximization of their utility function (Collins, Milliron, and Toy 1990), which underlies their preferences as described by the function on taxpayers by Allingham and Sandmo (1972). Some policy solutions have been adopted in order to empower the professional's role in taking too risky actions (Cuccia, Andrew 1994) with the aim of creating a mechanism that also incentives the accountant to pursue compliance. The suggested decisions, interpretation and recommendations to the client are particularly influenced by the institutional and psychological environment in which a tax preparator operates (Roberts 1998).

#### **1.4.4. Induction of demand for their services: induction to evade and induction to litigation**

The above leads to the presumption that the accountant is well suited to induction hypotheses. The operating context, the information asymmetry, the rule complexity and the result's uncertainty lead to the creation of an ideal situation and place the accountant in a role of supremacy over the customer in the tax service sale. The above also connects the figure of the tax professional to the figure of the doctor under various aspects; often the accountant is the preparer of the client's accounting situation, consequently he/she is considered the custodian of the real situation and able to reconstruct the client's position. In addition, in the event of control, the legislative

system is also delegated to assume the role of technical defender with a direct incentive for a subject to be subjected to control and for a tax assessment to result from this.

A corollary of the accountant's figure is the peculiar characteristic of the assets subject to transactions which can be considered experiential assets and which can therefore be evaluated only after use. In addition, it should be noted that even in the subsequent use phase, customers are unable to express an opinion due to the lack of suitable skills with consequent market failure.

The role of influence is substantiated both in the hypothesis of induction to evade and on any type of taxpayer action; this situation of profound dependence of the client on his accountant derives from the growing complexity of the system that leads more and more to the need for an accountant (Battaglini, Marco, et al. 2019). Studies (Braithwaite 2005, Smith and Kinsey, 1987; Raskolnikov, 2007) have highlighted the importance of the role of the professional in the interpretation of the law and in the distribution of information on the functioning of the tax system with a consequent increase in the dependence of the taxpayer on the role played by the accountant in the tax context.

The acclaimed influence of taxpayers and the evidence of the particularity of the assets in the context of complexity, uncertainty and sophistication of the legislative system generate phenomena of induction to carry out actions in the interest of the agent / professional in order to maximize the economic result of the last.

## **1.5. Conclusion**



This work aims at giving a contribution to studies in the induction field, considering the figure of the accountant at the centre of any future policy programs. In fact, the policy lines must protect the weak party of the transaction which, in the case of my analysis, is the customer suffering the effects of the advice of the agent in charge. The hypothesis is to analyze, through research, what role tax consultancy plays in a situation of information asymmetry.

This chapter duly named the characteristics of the assets involved and the possibility of the emergence of situations of moral hazard and adverse selection with direct damage to the customer's situation. The superiority that is highlighted is linked to the knowledge, skills, competence and experience of which the customer lacks by nature. The entrustment operation to the advice of the professional originates from the foregoing with a consequent aggravation of the bond between the client and his/her agent.

The perspective is the development of policy ideas leading to the development of appropriate payment systems and accountability for the actions of professionals in order to counter, or at least mitigate, this market failure. Furthermore, a further evident problem is the complexity and changeability of the legislative system, which increasingly subordinates the position of the client towards the professional appointed to interpret the law.

*Chapter 2*  
*Who benefits from tax complexity?*  
*The impact of accountants on litigation*

**Abstract:** this work aims at demonstrating how, in a particular phase of tax process, the accountant often acts only according to his/her own interest and suggests actions that are very far away from the customer's interest. The reason is maybe due to the existence of an induced demand (SID) causing an increase in the litigation rate. The accountants' interest is to increase the propensity of taxpayers to take legal action in order to increase their economic return. This is guaranteed both by a fee, which is independent of the result achieved in the proceedings, and by the mandatory nature of the technical defence.

## **2.1. Introduction**

The relationship between accountant and taxpayer is complicated and characterized by a high level of information asymmetry. The former, in fact, benefits from greater information on legislation, on the processes' progress and on the actual action mode of the tax authority. The latter, on the contrary, is in a situation of inferiority and therefore represents the weak party in a contractual relationship; this condition leads the taxpayer to rely on the suggestions of the account, which can be motivated above all by the maximization of its usefulness.

There are numerous aspects contributing to the creation of information asymmetry: first of all, legislation complexity, its changeability and, finally, the experiential baggage from which the accountant can benefit.

This work aims to demonstrate how, in a particular phase of tax process, the accountant often acts only according to his/her own interest and suggests actions that are very far away from the customer's interest. The reason might be due to the existence of an induced demand (SID) causing an increase in the litigation rate.

This work will be structured into three different parts: the first part is focused on the importance of a less complex and more efficient tax system; the second part develops the idea of SID, its origin and its connection in the medical field. Finally, in the third part, after a digression on the presence of SID in professional services offered in the legal field, an analysis of the tax market through data collection will be carried out and then the problem itself will be analysed.

The main achieved result is the impossibility of excluding an induction to litigation and indeed, following the empirical investigation, it should be stated that accountants have an influence on their customers' choices.

All of this is summarized in an increase in the litigation rate as accountants' rate increases.

The empirical survey collects data on different Italian provinces and provincial tax commissions, tax courts and, through the use of control and instrumental variables, conducts an analysis aimed at isolating the causal effect of the change in tax accountants rate on litigation rate. The control variables introduced (number of companies and level of education) aim at estimating the variation while maintaining other variables that have an impact on the hypothesized model. Subsequently, to solve the reverse causality problem, an instrumental variable is introduced and used. This variable is assumed to be highly correlated with the number of accountants and not influencing the litigation. Furthermore, the problem of fixed temporal and local effects is solved using a panel containing data from 2011 to 2015. The accountants' interest is to increase the propensity of taxpayers to take legal action in order to increase their economic return. This is guaranteed both by a fee, which is independent of the result achieved in the proceedings, and by the mandatory nature of the technical defence.

The work identifies some policy implications for solving or mitigating the problem. The first envisages the hypothesis of remuneration to the accountants linked to the result achieved in the process. This tactic is intended to lead them to suggest taking action only if the winning odds are high. The second instead provides for the establishment of a limited enrolment number at universities. This action therefore guarantees access to

the accountant qualification and at the same time limits the overabundance of students enrolled in this faculty.

## **2.2. The importance of an efficient fiscal system**

A complex and inefficient tax system increases the compliance cost which, in agreement with James and Alley (2002), identifies the propensity of individuals to act in accordance with the spirit, and the dictates of the tax law and administration without the application of an enforcement activity. Even earlier, the study by Roth et al (1989), defined compliance as the submission of all required tax returns at the right time and, more specifically, the accurate income reporting in accordance with the tax liability in effect at presentation date. For this reason, compliance is clearly linked to the clarity and simplicity of a tax system.

There are countless criticisms against complex tax systems, aimed mainly at both the administrative and legislative systems. In fact, the complexity of the tax system is responsible for huge compliance costs and, consequently, for a large tax gap. Huge resources are constantly dedicated to solving this problem with the sole consequence of creating a changing tax system that is continually subject to reforms. The failure of the main tax reforms is due to the need to create a tax system balancing the trade-off between equity and efficiency.

All this results in a complex and not easily decipherable system. The cause lies in the innumerable variations and exceptions envisaged, in order to take into account the specific and different situations of the taxpayer. The latter, therefore, is in a state of uncertainty which results in an increase in the possibility of making mistakes.

The overall cost of this malfunction weighs on the administrative system which, in order to create a system as detailed as possible, increases control and enforcement costs. Furthermore, the uncertainty of the taxpayer regarding taxable income has a direct impact on what he decides to report in the return. The focus on this aspect identifies the complexity and ambiguity of the legislative system as the two main factors involved in generating uncertainty.

The complexity of the system concerns both application methods and tax decisions, and has a direct impact on payers and slightly on tax experts too. The latter, in fact, can benefit from an advantageous position due to their technical knowledge in the tax field and the experience gained through their years of work.

On the other hand, ambiguity emerges from the obscurity inherent the law which, at times, challenges even the preparation of the best tax consultants. Ambiguity emerges both in control probability and in decision uncertainty on the tax process.

Both factors contribute to the creation of an inefficient tax environment in which the accountant can emerge in an advantageous position. In particular, following an audit by the revenue agency, law complexity forces the taxpayer wishing to appeal to the revenue agency, to necessarily contact the accountant; this obligation also arises from the particular situation of the accountant who often, in addition to being able to play the role of defender in the tax process, finds himself/herself the holder of the subject's accounts. Therefore he/she is the only one person able to know exactly the situation of the latter. At this point the accountant has to decide whether to act in his/her interest or in that of his/her client.

### **2.2.1. Understanding how to have an efficient fiscal system**

The main problem is to define an efficient tax system. This can be identified with a system capable of having a levy mechanism collecting the highest amount of taxes. And not only that: this must happen in the fastest possible time and with the lowest possible costs. Literature shows that in general an efficient tax system exhibits the following characteristics (Shahroodi, 2010): rates are appropriate and rational; tax collection organization is efficient; tax burden for unprivileged people is low; fight against corruption and evasion are intense. On the contrary, an inefficient system has the following peculiarities: high collection costs; waste of time both for taxpayers and tax personnel; complex system and a high social cost with consequent sub-optimal resources allocation.

Complexity is the main point on which attention is paid in terms of compliance cost; Slemrod et al (1996) wrote that compliance costs are in the order of \$ 75 billion in the U.S.A. Furthermore, taxes need an enforcement system as the income tax gap is very high, ranging \$ 110-127 billion. These data highlight the importance that tax system assumes both for the need for intervention and for the resulting revenue loss. The problem of the system complexity and its application requires concrete actions and raises questions about the underlying problems. Specifically, can the amount of these costs justify a rethinking of the fundamental issues of the tax system? Should the concepts of efficiency, equity and enforcement be revised? Finally, is there anyone benefitting from such a system?

The complexity analysis is also a key point for well understanding the roles of the two main players in the tax system: taxpayers and tax advisors. First, in a complex and

constantly evolving system, the effectiveness of the self-assessment system method is questioned. In fact, this type of system instructs the taxpayers themselves to proceed autonomously with the income carry-over and the consequent taxes calculation, raising enormous problems due to a compliance lack. The shift of tax calculations from officials to taxpayers is one of the major revealed problem. This is because, in order to correctly carry out the carry-over, it is assumed that taxpayers are fully aware of the tax system and its functions: how it develops, how it evolves and how it is applied (Saad 2014). The latter aspects are of particular importance given that the taxpayers themselves are liable in the event of control by tax authorities and their self-declarations are considered an independent assessment notice and an assessment of the compliance level. In other words, in the event of non-compliance with both the terms of presentation and the rules, the appropriate sanctions are applied.

A solution to this problem could be the increase in the taxpayers' knowledge concerning tax legislation (Loo 2006, Loo et al 2009). Another solution, however, could be trying to reduce complexity, as much as possible. This would certainly favour a better level of compliance (Cox et al 2006; Richardson 2006).

In light of this, the main question is how important is knowledge of tax law in voluntary compliance. Certainly this is a fundamental element and, therefore, it is necessary to underline how tax knowledge is an essential element in tax voluntary system (Kasipillai et al 2003), especially when determining an exact fiscal responsibility (Palil 2005; Saas et 2003). Literature suggests that tax knowledge is the most important influencing factor for determining tax compliance under a tax self-declaration system (Loo 2006). This has been empirically demonstrated by studies that have documented how having a tax knowledge leads to better and higher tax compliance (Kasipillai et al 2003; Kirchler et



al 2006). Similarly, the absence of tax knowledge can lead to a non-compliance behaviour whether intentional or not. This is evidenced by a study carried out by McKerchar in 1995. In this study, McKerchar examined the behaviour of small and medium sized business taxpayers in Australia and suggested that many of them were not even aware of their tax information lack. This situation, according to the paper's writer could therefore lead to involuntary non-compliance behaviours.

A similar attitude was also analyzed among Malaysian individual taxpayers who had inadvertently made mistakes in their tax return templates (Loo et al 2009) (the latter experiments were conducted using a mixed method while simultaneously conducting surveys by mail, experiments and cases of study between November 2004 and July 2005). Summarizing, the studies cited above show a positive relationship between tax knowledge and compliance behaviour. Therefore, tax market in its complexity constitutes an excellent ground for accountants enjoying greater knowledge of systemic dynamics to the detriment of taxpayers having little knowledge and familiarity with legislation and practice.

### **2.2.2. Where does complexity come from?**

The word complexity, here, refers to the difficulty of complying with the tax code. The compliance costs of the tax system are very high and are connected with a code that is not easy to read and implement. In fact, under the term of compliance costs we can include: administrative cost, compliance cost in the strict sense of the word, and taxes

(Laffer et al. 2011). The measure of complexity is not easily framed (Hoppe et al. 2021) and can follow different approaches.

The first approach can be identified in the number of words found in the tax code and in the number of regulations affecting incomes (Moody et al. 2005). This method was implemented by the Tax Foundation after having analyzed the US Federal Code. A second approach measures the complexity on the number of lines of the income tax form and the number of pages of the compilation guide (Slemrod 2005). Another approach, instead, uses the number of tax expenditure, such as credits, deductions, exemptions to identify a parameter of complexity. (Weinstein 2014). In general, we can say that complexity emerges from an increase in the tax law sophistication (Richardson and Sawyer 2001), which may depend on various factors and countless variables. It is identified under different aspects: computational complexity, forms complexity (American Institute), compliance complexity, rules complexity (Carnes and Cuccia 1996), procedural complexity (Cox and Eger 2006) and low level of understanding (Pau et al 2007; Richardson et al 1997; Saw and Sawyer 2010). A tax complexity review carried out in seven countries (Japan, UK, France, Italy, US, Sweden and the Netherlands), revealed a highly challenging tax system and that only Sweden and the Netherlands have a moderately complex tax system. Reforms have been carried out and applied in many countries in order to simplify fiscal readability, especially in New Zealand (Tan et al 1992), but often with poor results.

As already highlighted in the text's course and reiterated in a study conducted by Richardson (2006), who carried out a research in 45 states, complexity represents a fundamental element in tax compliance together with: education, income source, equity and tax morality.

Evidence of this can also be found in studies conducted on Road Funds in the US state of Kentucky; in fact it has been shown that the procedural complexity of tax system increases as the level of non-compliance increases (Cox and Eger 2006).

In Italy, as emerging from the data used in this research, the phenomenon of tax complexity is widely recognized and pointed out by a very large tax gap. In fact, Italy has a fiscal gap of 100 billion per year according to the estimates provided by the M.E.F. (Ministry of Economy and Finance). It is universally recognized that behind the phenomenon of tax evasion there are innumerable factors, among which complexity and uncertainty play a key role.

The tax gap, especially since 2008, has had a great impact leading to numerous studies on the variables that the policy can implement in order to reduce and contrast this phenomenon. In particular, literature has represented evasion as a decision taken in an environment of uncertainty (Allingham and Sandmo 1972) and, therefore, strongly conditioned by the representation and frame work of the choice. An interesting aspect on which focusing attention in this work is on the accountant because he/she plays a fundamental and crucial role. In particular, it is analyzed how in a delicate context such as that of fiscal control, the taxpayer's choice is influenced by the accountant. And it is the accountant who then forms the link with the financial administration. The main problem faced is how and in what direction the accountant's influence moves. The analysis starts from the reconstruction of SID's origin, its first identification in the medical field and its subsequent identification in legal environment.

### **2.2.3. Tax complexity and information asymmetry: the role of tax advisors**

Information asymmetry, as usually known, creates advantageous positions for informed parties. In this specific case, most of the time taxpayers have to rely blindly on tax advisors. The latter, in fact, possess most of the information both in terms of knowledge and in terms of experience. Often, therefore, customers are not able to evaluate the correctness and truthfulness of the choices recommended by accountants. The main and underlying reasons are the inability of the same to correctly estimate the various probabilities involved. Furthermore, the accountant is able to know exactly the client's tax position both in terms of historicity and topicality. Therefore, accountants find themselves making choices and therefore may in some cases choose to maximize their functions rather than those of the client. This aspect, for example, may concern tax litigation decisions with authorities, according to the logic of induced demand (SID). In other words, under certain conditions, as found in medical or legal fields, accountants could have a propensity to litigation higher than that optimal for their customers and society as a whole.

The situation exposed configures a situation of information asymmetry in an agency relationship. In fact, the client (principal) is in a position to delegate the accountant (agent) to act in his/her place and in his/her interest. The agency relationship is considered one of the oldest and main problems in the corporate context (Daily, Dalton, & Rajagopalan, 2003; Wasserman, 2006) in which there is a separation between owners and managers who have different risk appetites and interests. Among the causes (Chowdhury 2004) of the controversial relationship is the information asymmetry that generates moral hazard and adverse selection. Both problems, connected with

information asymmetries, arise in a different phase of the contract: the first (moral hazard) following the signing of the contract and the second (adverse selection) prior to the latter. In particular, in this case, the problem of moral hazard arises when the accountant takes a decision that the customer will not be able to evaluate due to his/her lack of knowledge and information; the problem of adverse selection is always subject to the aforementioned asymmetries but relates to the customer's inability to assess his/her situation a-priori relying, therefore, on the professional's interpretation.

In particular, the assessment moment configures a situation of high uncertainty for the taxpayer facing a tax agency. Following a control with an adverse outcome, the taxpayer finds himself in the situation of having to decide whether to take legal action or accept a control decision. The litigation phase is placed in this particular situation. The situation is configured as follows: at the time of control by the Revenue Agency, the taxpayer is in the situation of having to decide whether to accept the outcome or appeal. For this reason, the taxpayer, lacking the necessary skills, delegates / hires the accountant in order to interpret the information he/she recognizes that he/she cannot evaluate correctly. Furthermore, in most cases, the tax professional is at the same time keeping the accounting of the subject and, therefore, also considered the only one able to offer a realistic assessment of the situation. The customer, therefore, hires the professional with the belief that the latter acts in his/her interest, a situation that the taxpayer will not be able to assess, generating a market failure. The accountant, therefore, will act rationally trying to maximize his/her own earnings and will incentivize actions to his/her own advantage.

For the taxpayer, it should be emphasized, it is not just a question of paying a penalty, but of protecting a right or avoiding injustice. If wanting to solve the problem in

question, we should also understand the factors and dynamics characterizing this action. It has been demonstrated that SID can be found in fiscal field, medical (surgery (Fuchs 1978), dentist (Birch 1988), in laboratory tests (Grytten et al 1995), drug prescription (Hellerstein 1998)), in the repair market (Peters et al 2012), as fully described in the next part of this chapter.

Therefore, the tax system and the relationship between accountant and taxpayer lends itself well to an investigation of this type both for the presence of information asymmetry and for the parallelism with the areas already explored by literature.

### **2.3. Supplier Induced Demand: An Overview**

The up to now represented scenario is compatible with all those contexts in which the induced demand has been studied. In particular, the idea originates in the medical field where this problem has extensively been debated by literature. In fact, medical environment fully represents situations in which the figure of the agent (doctor) finds himself in a more advantageous position than the patient. This is due to an information asymmetry and the doctor exploits this situation to his advantage with respect to the demand. The doctor has a higher information set than the patient; this situation induces the latter to rely on the advice and, therefore, it generates a choice induction. Suggestions and indications given to patients are usually the main factor determining the will and the treatment's choice (Bickerdyke et al 2002). Thanks to the information asymmetry described above, the doctor is able to manipulate the decision of his patients, often creating additional demand for services and treatments that he himself will

provide. The peculiarity of the medical context is that, in most cases, the advice/treatment agent is also the provider of the ex-post service.

The situations in which the agent determines the principal's demand falls within the scope of Supplier Induced Demand (SID) which, applied to medicine, determines situations in which the doctor manipulates and induces patients to request treatment or services they do not even need.

Although the topic in health sector has been extensively studied, there are numerous problems emerging while analyzing this phenomenon, which is very difficult to isolate. There is, however, a clear conclusion: the action is not always aimed at the patient's well-being but is often carried out only according to the doctor's interest.

Furthermore, SID in the medical field has economic repercussions because it affects public spending and consequently creates allocating resources in a non-optimal manner without, however, increasing and improving the patients' health outcomes. The multiple interests involved in the context of SID in the medical field explain why in the last 30 years this phenomenon has been studied a lot.

From the point of view of health policies, SID operates into two distinct levels. The first concerns an increase in health care costs and leads to an increase in the state budget; the second, instead, concerns efficiency problem by allocating public resources without a real need.

Reinhardt (1989), in fact, questions the problem extent of induced demand and asks whether it is appropriate to act on the demand or supply side to obtain the resources' best allocation.<sup>1</sup>

In addition, a particular category of studies (Bradford and Martin 1995; Labelle, Stoddart and Rice 1994) questioned the implications for patient health. The results showed controversial results, indicating that in some cases policies are needed to discourage this type of action and in others this form of induction can instead generate benefits for the patient audience. In fact, induction can lead either to "bad" or "good" results on the patient's health, depending on the service's quality and effectiveness. "Good" results may emerge if the induction leads the patient to undergo more treatments than those that an informed patient would have opted for. On the contrary, "bad" results emerge when the patient is induced to undergo more treatments (of questionable clinical value) than those for which he/she would have opted for.

Although the controversial outcomes of SID literature in the medical field, the main attention is, however, placed on the doctor's discretion which affects his patients' decisions. The doctor has a real power capable of inducing activities and modifying market demand that a well-informed consumer would not implement.

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<sup>1</sup>Particularly Reinahrd (1989, p.XXX) observes that "The issue of physician-induced demand goes straight to the heart of probably the major controversy in contemporary health policy, namely, the question of whether adequate control over resource allocation to and within health care is best achieved through the demand side by letting consumers (patients) discipline providers who compete against one another on the basis of quality and price, or through regulatory controls on the supply side."



Normally SID manifests itself in an increase in induced services or in a mix of services provided to customers. The views on the existence of SID are controversial and the dichotomy representation is often identified between Paterson and Richardson. The first represents the neoclassical view by arguing that the doctrine of SID is erroneous, while Richardson's (1995) view is exactly the opposite. In fact, he points out that the patient's level of information is always inferior to the doctor's one, furthermore doctors act as their agents. It also highlights that the patient's demand is a function of the agent/doctor's advice and SID is always at least potentially identifiable.

The circumstances in which the emergence of induced demand is likely are mainly two. The first one concerns the presence of information asymmetry: the context for configuring a SID situation is connected with an imperfect agency relationship in which the doctor deliberately generates additional service demand of questionable value for his patients (adverse selection). Such a choice is justified by countless factors, for example: maintaining a level of income in response to increased competition or to implement defensive practices aimed at reducing the risk of complaints for medical negligence. The second one instead, concerns the inability from the patient to evaluate his/her own situation, the available information and the treatment's results. This situation leads to a complete entrustment to the doctor which then results in a choice of treatments different from those that a consciously and fully informed patient would have undertaken.

The specific characteristics of the medical sector making SID probable are identified in six key points. The first one regards goods; in fact health market goods differ from normal economic goods. The goods belonging to the health care market can be evaluated only after a try and, many times, the evaluation might be wrong. Basically they are configured as experience and credence goods at the same time. The second

concerns people using goods. These people can be also called consumers, and in the medical field do not behave homogeneously as disease effects can be different from a patient to another. Furthermore, the disease may enable patients to make decisions. The third key point is about information and skills; information and knowledge asymmetry in medical field is very strong. Point number four is focused on the delicate relationship between a doctor and his/her patient; the agent-client relationship in a medical context is based on a conscious delegation of the patient to the doctor. This is done with the aim of obtaining an independent evaluation and with the idea that the doctor acts for the patient's well-being. The patient is therefore aware of the situation of information inferiority. Last we have got insecurity and instruction level. In the medical field, both players (patient and doctor) find themselves in a situation of uncertainty. In fact, they both face the problem of quantifying the exact level of care; the figure of the doctor is characterized by a high education level, which inevitably leads to restricting competition in this field.

### **2.3.1. SID in legal environments**

SID in the context of a legal litigation represents a first hypothesis of extending the concept of induced demand outside medical field. Lawyers are in a strong contractual position within the principal-agent relationship established with the client; in fact, like doctors, lawyers benefit from an advantageous position and are able to implement a form of induction towards choices carried out just to their advantage (D'Agostino et al

2012). The hypothesis that the lawyer's interest is not perfectly aligned with that of his/her clients has been highlighted by various works (Cooter and Rubinfeld 1989). And in fact, these works have highlighted how an adverse selection can be hypothesized in this type of market (Dana and Spier 1993). In this context, the lawyer can encourage the client to make disputes even if the probability of winning is low: the lawyer in fact is acting just to increase his income. Such a situation is also favoured by the gain that the lawyer obtains regardless of the trial outcome.

A law system analysis represents a key point for understanding how SID phenomenon in the litigation sector contributes to create a non-proactive scenario for the economic growth. As widely discussed in literature, an efficient law system contributes to the economic growth of the country system (Posner 1998). It is for this reason that courts' functioning has been acquiring great importance through the years and has become the subject of empirical and theoretical studies (Ramello and Voigt 2012). The interest has increased for the increase in the litigation rate as it contributes to increasing delays (Johnson 1997) and malfunctions in the judicial systems (Haig and Stone 1993). The interest triggered by the first economic analyzes (Gould 1973) of the trial (Posner 1973) and of the litigation (Landes 1971) has led literature to focus attention on litigation and on its basic causes. The question therefore arises as to whether a triggering or promoting cause of the appeal in court can be identified. In fact, recently, there has been an appeals' proliferation in process to the detriment of recourse to alternative means to litigation. The underlying hypothesis is that the overabundance of lawyers may encourage frivolous litigation decisions or that a client sufficiently informed about the real odds of winning would not have undertaken (Bielen and Marneffe 2018). In fact, the increase in the number of lawyers has, in economic terms, two main implications:

either the decrease in the litigation costs or the persuasion towards new cases / appeals in order to increase the lawyers' network. An accurate SID analysis focuses on this last aspect, which lays its foundations in the information asymmetry that can be traced in the legal field between professionals and clients. The latter in fact rely (Ginsburg and Hoetker. 2006) on the advice of their lawyers in the idea of encouraging their well-being (Cooter and Ulen 2016). The situation therefore creates an increase in the number of trials, delays (Zhou 2008), a substantial slowdown in the country's economic growth and a legal certainty decrease. Some studies have shown how promoting competition in the field of judicial services can bring advantages (Garoupa 2008) to the market and, on the contrary, an excessive increase in legal professionals tends to induce disputes with a consequent chain reaction that has repercussions in the aggravation of the judicial machine. The role that the judicial system plays within the economy of the various countries makes the fact that the increase in professionals can generate a substantial increase in trials worrying. Several studies have already demonstrated the presence of a form of induced demand in countries such as Italy (Carmignani and Giacomelli 2010, Buonanno and Galizzi 2014) and Spain (Mora-Sanguinetti and Garoupa 2015), showing that the main result is that the presence of a SID phenomenon in the legal field can be excluded. The consequent result is the rethinking of the current dispute management system and the emergence of questions about policy initiatives aimed at trying to regulate this type of phenomenon which contributes to creating instability within the various legislative systems.

Therefore the investigation on which this chapter moves is based on the idea that the action that lawyers have on their clients can be extended to accountants suggesting their clients whether to appeal against the Revenue Agency or not, above all after an

Agency's relief. Accountants, therefore, like lawyers, are in a favourable situation and can persuade their clients. To the accountants' advantage, the asymmetry situation is favoured by the fact that in the tax field, customer information is very low if not almost zero due to the obscurity and changeability of legislation. In a previous section it was highlighted how tax complexity does not encourage non-compliance, but contributes making legislation obscure. In this context, the analysis will proceed to investigate the problem in the Italian provinces by testing the hypothesis that litigation rate is positively correlated with the increase in the number of accountants. In fact, even in this field, if on one hand the increase in the accountants' number encourages competition with an hypothetical cost lowering, on the other hand it induces them to push their customers to appeal against the decisions of the financial administration with no real chance of winning.

### **2.3.2. Empirical strategy: data and estimation**

Answering the question of whether the accountant influences his/her client is not easy. The first problem in this situation is the identification of a suitable environment and landscape to test the problem. The hypothesis of the lawyers' influence in the Italian legal context leads to investigate the tax sector as well. The latter holds even more than the former a primary position in understanding the development of a country. Understanding the dynamics underlying the certainty of tax law is primary, especially if the companies' investments depend on this framework, which in most cases prefer to

invest in a stable context from a fiscal point of view in order to be able to set long term budget policies.

Dataset is created by combining data from provincial tax courts (provincial tax commissions, CTP), from MEF (Ministry of Economy and Finance) with those of the different districts of the orders of accountants.

In detail, the dataset consists of panel data over a five-year period from 2011-2015. The same is built using three sources: the Order of Accountants; the Chamber of Commerce, Industry and Crafts; ISTAT. Data are collected at provincial level and include: time variable from 2011 to 2015; “Pop” which indicates the number of citizens for each province; “yIscritti” number of tax advisor per capita. “yperv” number of cases per capita; “yreg” number of firms per capita; “Laureterz” expresses the provincial education, indicating the percentage of subjects who have obtained a tertiary qualification

In order to verify if there is a positive impact of accountants on tax litigation a panel structure on a provincial basis will be used. The data, in fact, were collected on the Italian provinces for the years 2011,2012,2013,2014 and 2015. The panel structure allows to mitigate and solve the endogeneity problems related to unnoticed variables and to take into account the variables that do not vary over time.

In order to isolate the accountants rate causal effect on the litigation rate, the strategy of implementing instrumental variables is identified. The instrumental variable used here is taken from the literature on lawyers, in particular, the number of universities backdated over time is taken from the study conducted in Spain by Mora-Sanguinetti and Garoupa

(2015) and the distance of the provinces from the university taken from the study by Buonanno and Galizzi (2014); this tool is highly correlated with the number of accountants and not correlated with the number of appeals. In order to solve the problem of endogeneity linked to reverse causality, the strategy of instrumental variables is implemented through a two stage approach. The tool used is the number of universities which in the Italian context is expected to be highly correlated with the number of accountants.

The identification strategy assumes that the number of cases is a function of the number of accountants. The identification of the problem places the following model at its base:

$$Fiscalcomplaints_{it} = \beta_0 + \beta_1 Taxadvisor_{it} + X_{it}\beta_2 + \varepsilon_{it}$$

The first term (Fiscalcomplaint) indicates the number of pending cases in the various provincial tax commissions and is measured in the first instance for each sample and in year t. Subsequently,  $\beta_1 Taxadvisor$  indicates the number of accountants per province;  $X_{it}$  indicates the set of controls inserted in order to check other variables that may affect the propensity to litigation: in the analyzed case it was considered appropriate to enter the number of enterprises and the level of education. Finally,  $\varepsilon_{it}$  indicates the error term. Furthermore, endogeneity problems are encountered as previously stated, They complicate the estimation of the aforementioned equation and are substantiated in:

- problems with omitted variables that are treated through the use of both provincial and temporal fixed effects, thus transforming the equation:

$$Fiscalcomplaints_{it} = \alpha_i + \gamma_{t_0} + \beta_1 Taxadvisor_{it} + X_{it}\beta_2 + \varepsilon_{it}$$

the equation thus transformed allows to take into account both the fixed provincial effects  $\alpha_i$  and the fixed temporal effects  $\gamma_t$ ;

- problems related to reverse causality, the most complicated to solve. Reverse causality is the probability that accountants are attracted to the areas where the litigation is stronger. Consequently, it can be hypothesized that the cause of the litigation increase moves not only from the number of accountants but also in the opposite direction (identical problems were found both in the analysis of the impact of lawyers (Carmignani and Giacomelli 2010, Buonanno et al 2014, Mora-Sanguinetti and Garoupa 2015) and in the medical field (Birch 1988). This problem is solved using a two-step instrumental variable involving the use of a sub set of tools including the presence of universities and their distance from the provincial capital. The strategy of the analysis is defined into details here below.

The goal is to apply the function described above in order to empirically examine the relationship between tax court cases and the accountants' number. As described, literature has extensively discussed the positive relationship in the legal sphere between litigation variables and the number of professionals. The frequently underlined idea aims to identify if and under which conditions the accountants' action can exploit the existing information asymmetry in order to increase their income by self-feeding their work. In fact, considering the number of accountants in each province, it is important to note that there are opposite phenomena: on one hand this situation might be considered a competitive effect because if the professional/client ratio is higher, this could make the



market more competitive and could therefore lower the fees required by accountants. On the other hand, if this ratio is higher for the same volume of economic activities, this means that the consultancy activity's expected income is lower. Therefore the accountants might push customers to resort to court more than it is really necessary. And this will be carried out in order to increase their income, in orthodoxy to what is generally shown by SID literature.

In essence, the accountants would exploit their information and their advantageous position in order to challenge the Revenue Agency's decisions even in the event of low probability of success or little appeal relevance for the mere purpose of making cash. This situation would be possible given that legal services, as well as tax services, are credence good. This means they are a kind of good difficult to be evaluated by the consumer (Posner 2014). The information exploitation carried out by professionals seems to be the most plausible hypothesis. Furthermore, the probability that a price effect will take place, i.e. that professionals reduce the price level and, therefore, increase litigation, is highly reduced in countries such as Italy because in these countries minimum prices for tax services are imposed (Slater and Even-Shoshan 2004).

### **Descriptive statistics**

The following two images respectively summarize the distribution of the number of appeals and the accountants' number in Italy.

Italy distribution of Tax Complaints from 2011 to 2015

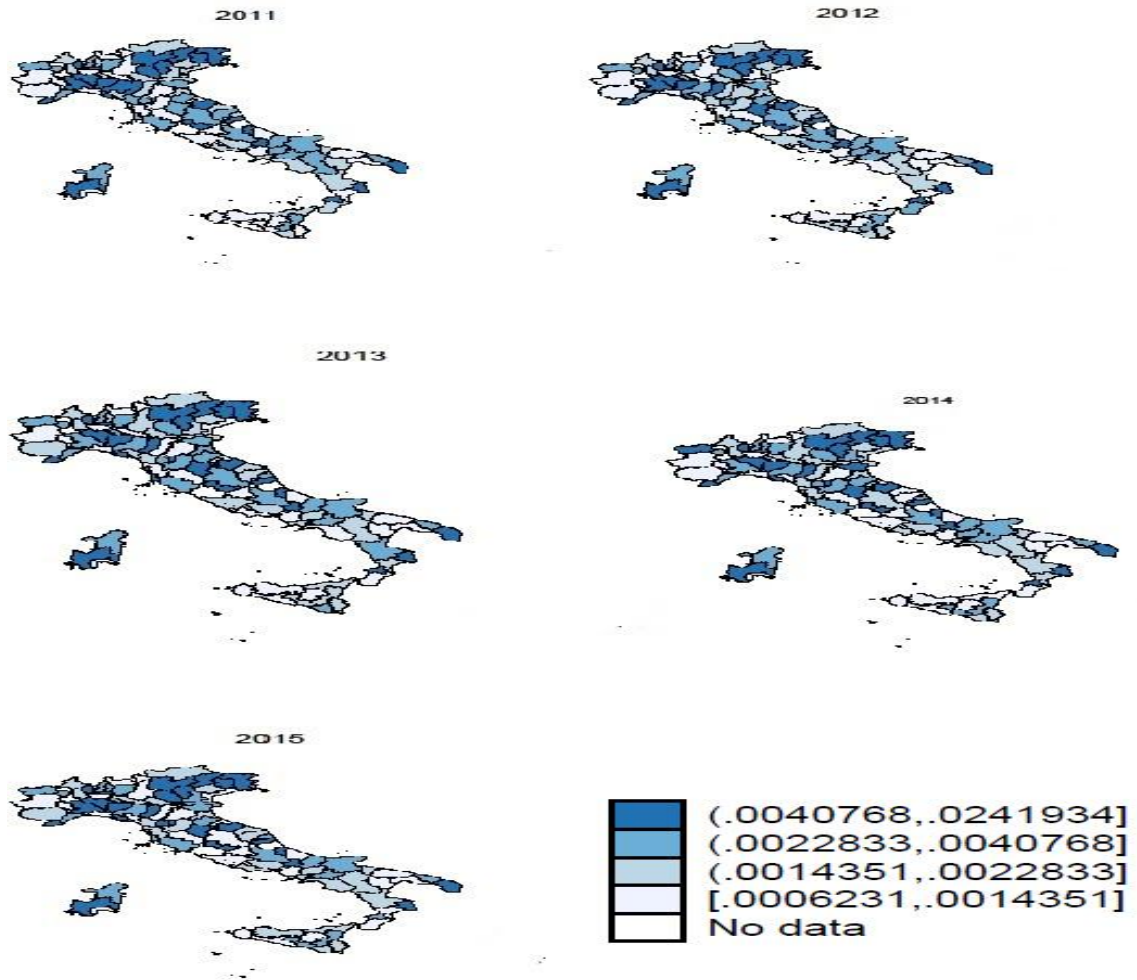
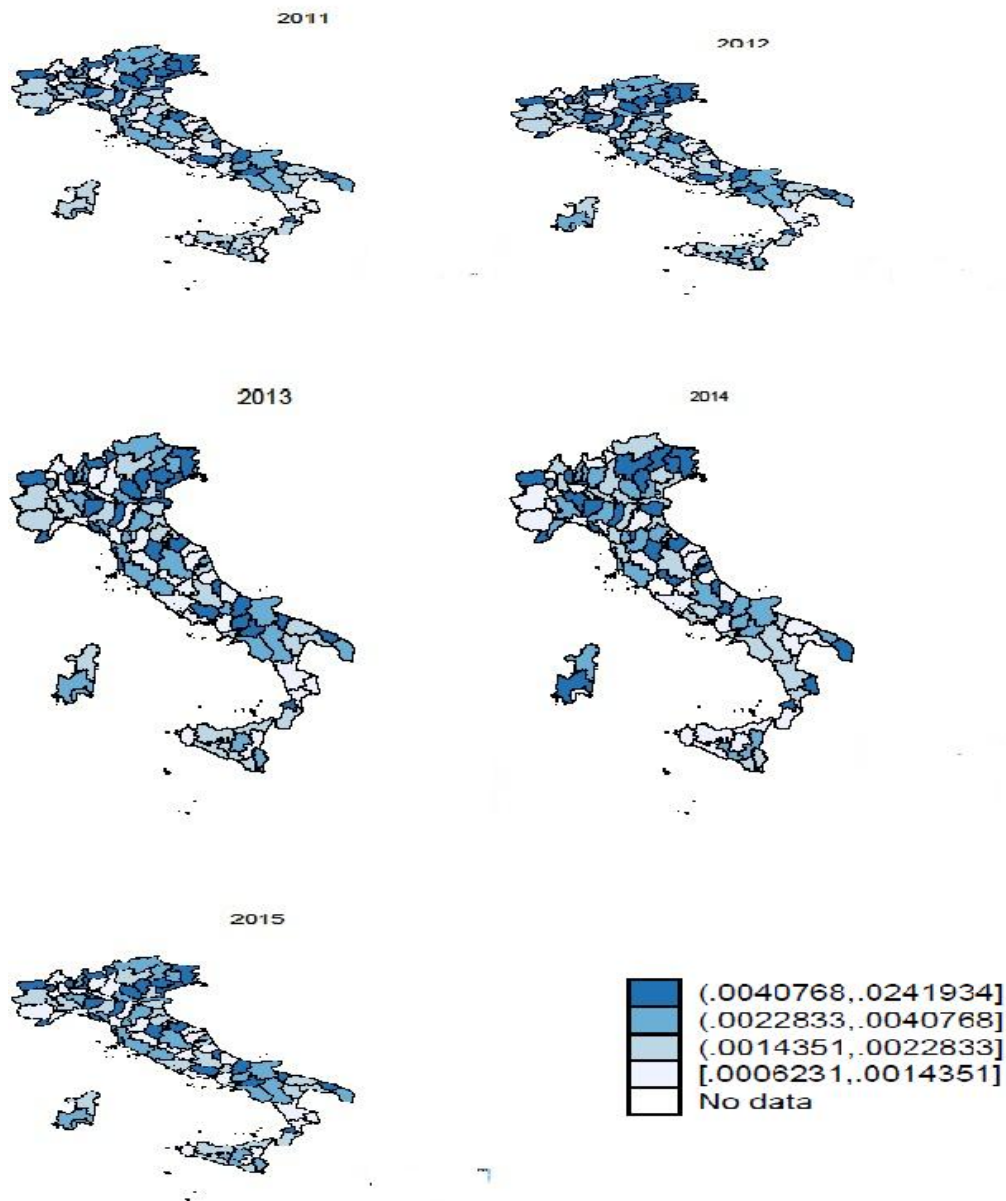


Figure 1. Images show the distribution of litigation from 2011 to 2015.

### Tax advisors across Italy 2011 to 2015



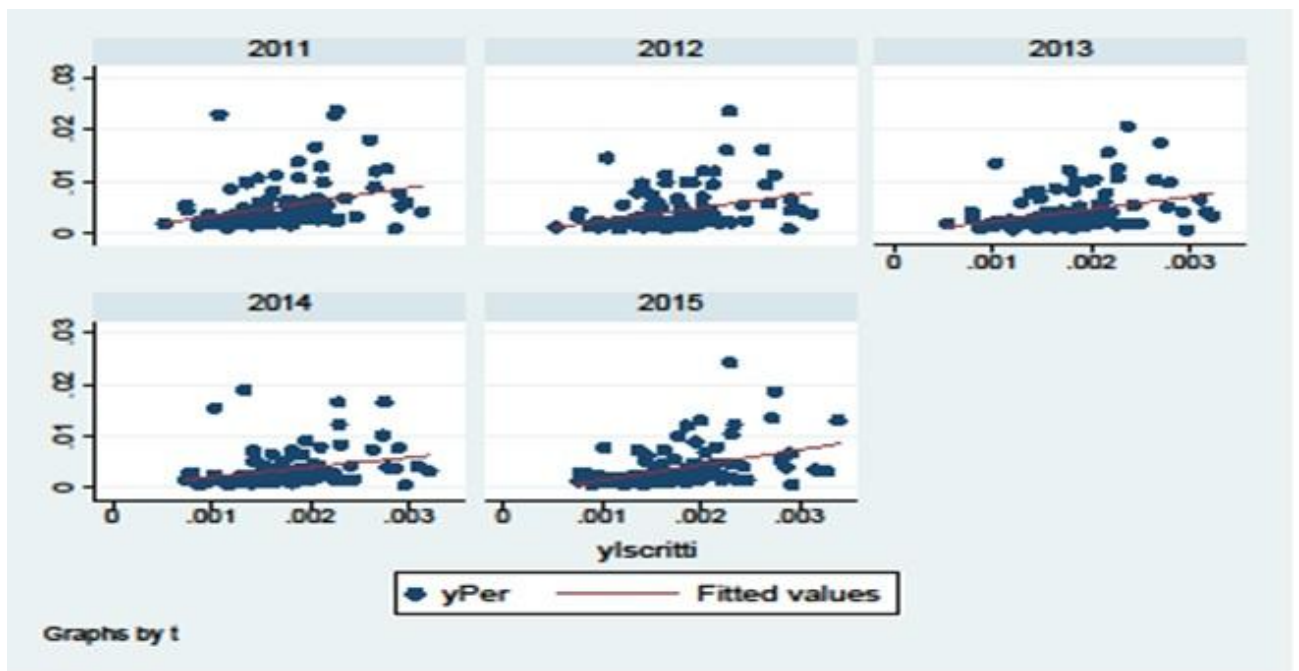
**Figure 2** Images show the accountants' distribution rate from 2011 to 2015.

In accordance with literature (D'Agostino et al 2012, Yates et al 2001), the regression dependent variable is identified in the number per capita of appeals to the capita tax commission (Emons 2000). The aforementioned parameter is used as a measure of

demand for the accountant's services. On the other hand, the explanatory variable represents the per capita number of accountants located in the various Italian provinces.

The first results, implementing a simple correlation between two variables, show a positive 0.32 correlation index. They also support the idea that there is a positive correlation between the number of cases and the number of accountants.

The analysis continues by implementing an OLS linear regression showing a positive 2.73 ratio in 2011 and 2.92 in 2015. In particular, the regression indicates that the number of cases increases from 2.73 to 2.92 when the number of accountants increases by one.



**Figure 3. Image shows the correlation from 2011 to 2015 between the accountants' number and the litigation rate**

In order to identify further variables influencing litigation rate, the model includes control variables such as: number of enterprises at provincial level (yreg). The number

of businesses at provincial level can influence both the number of accountants and number of cases. With reference to the first, there may be greater fiscal controls and, therefore, more appeals. With reference to the second, companies induce accountants to settle where there are more job opportunities; the level of education is inserted within the model in order to capture two effects on the litigation rate. An increase in the education rate can decrease the possibility of errors and, moreover, can also make customers more attentive and consequently more able to evaluate the real probabilities of winning a legal process (Benzoni and Impicciatore 2015).

Subsequently, the panel structure of the dataset was exploited in order to solve the endogenous problem linked to excluded variables and fixed local and temporal effects. The use of fixed effects is supported by Hausmann test ( $p=0.0032$ ) and autocorrelation test (0.30). The use of these two new tools (fixed effects and controls) brings the variation index to 3.44, remaining statistically valid at 5%.

Subsequently, a further problem emerges from the hypothesis that the relationship between the number of lawyers and the litigation rate may be affected by reverse causality. To solve this problem a 2SLS approach will be applied. Following literature, the approach of Mora-Sanguinetti and Guaoupa (2015) and Buonanno and Galizzi (2014) is implemented, using the number of universities existing within a single province. This tool is expected to be correlated with the number of accountants and not with the number of cases, following the hypothesis that the presence of universities can be connected with a long tradition of fiscal / tax and economic studies (hypothesis already demonstrated for the sector of lawyers by Carmignani and Giacomelli in 2010).

Furthermore, the costs for education increase when the distance from schools increases; in order to take this into account, a proximity variable/index (already implemented in literature) was created. This variable is created taking into account the three closest universities that a student can decide to attend. It is calculated as follows:

$$IV = \frac{1}{\sum d}$$

Where  $d$  indicates the average distance of the three closest universities in the province where the student lives. The variable takes on different values, specifically: value equal to one when there is a university in the province; value close to zero when it is far from the university; value close to one when it is close to the university.

Furthermore, in order to take into account the hypothesis that the number of universities is affected by the number of accountants, the University number indicated dates back to 1970. This means about 41 years earlier than the data used and studied in the panel.

The use of universities is also supported by the hypothesis that the Italian university system is characterized by a low student mobility (Buonanno and Galizzi 2014) and, moreover, the use of proximity is linked to the hypothesis that most Italian universities are public. If a university is public, it then means expenses to attend a course are low, but costs for transport and housing might be high or very high. The variable instrumental implementation reveals the existence of a positive correlation between new disputes and the accountants' number. In fact, the result is an increase of 4,267 cases, on average, with the increase of one unit each new accountant. The next step through the

use of the endogeneity test shows a result of 0.21-0.22 highlighting the absence of endogenous variables. This allows us to consider the instrument a valid one.

**Results are summarized in the following table**

VARIABLES	(1) Fixed effect	(2) Fixed effect and Controls	(3) Instrumental
yIscritti	4.631*** (1.166)	3.441** (1.419)	4.267** (1.919)
Laueitierz		3.74e-05 (2.66e-05)	-0.000267*** (8.92e-05)
yregtot		0.0261 (0.0167)	0.0248** (0.0101)
2012.t	-0.00110*** (0.000181)	-0.00109*** (0.000186)	
2013.t	-0.00140*** (0.000194)	-0.00139*** (0.000205)	
2014.t	-0.00185*** (0.000189)	-0.00181*** (0.000216)	
2015.t	-0.00170*** (0.000199)	-0.00172*** (0.000241)	
Constant	-0.00277 (0.00198)	-0.00466** (0.00216)	-0.000650 (0.00251)
Observations	513	513	103
R-squared	0.213	0.221	0.242
Number of id	103	103	

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 1 Results of Fixed effect and Instrumental regression between rate of litigation and number of accountants by prov**

The main result that can be identified is an increase in the number of accountants related to an increase in the rate of litigation. Especially there is an increase in the appeal rate of 4,267 points as the number of accountants increases by one unit. This therefore confirms what is reported in literature and the initial part of this chapter. In fact, in accordance with the arguments, through this thesis the accountant is in a position such

as to have an interest in increasing the propensity to appeal against the Revenue Agency's acts. This happens because the accountant himself is in a situation of informational and experiential supremacy which, in the present context, is recognized by both parties. The result confirms the hypothesis of parallelism both in medical and legal fields. It also considers induction as part of the agency relationship between agent and client.

Tax litigation, like the assets of other markets in which SID has been studied, is a type of economic asset that cannot be assessed by those buying it. In fact, it can be defined both as an experiential good, which can only be evaluated later, and at the same time a credential good as the customer is not completely able to evaluate the result of the service. In fact, the utility that the consumer receives from the asset can only be known after the process outcome. Moreover, the customer does not have sufficient knowledge to be able to evaluate the actions taken by his own agent. The reason lies in the complexity of the tax system, the necessary studies on the economic field and the lack of experience. Furthermore, even if the customer / taxpayer possessed the information, he would not have the knowledge necessary to evaluate it and to understand the actions to be implemented in response to the control carried out by the Tax Authority. Added to this is the difficulty of evaluating the professional reputation, something that could be useful to the client. In fact, since the tax process is difficult to assess and changeable, it does not offer a suitable scenario for a specific assessment of the professional's performance. This context forces the client to rely on the advice of his agent / accountant who, in theory, should act for the well-being of his client. The economic context of the dispute, however, encourages the professional to support his own interest



only. In fact, the accountant benefits from every single tax process undertaken regardless of the result achieved. For this reason, together with the evidence from the analysis which has been carried out, it can be reasonably stated that there might be a sort of inductive phenomenon on the part of the accountant. This situation therefore requires a rethinking of the system, aiming at the creation of a policy that can encourage both the awareness of taxpayers and the responsibility of their agents. This will be carried out also in order to limit the repercussions on the law system which, precisely because of this context, finds itself having an excess of judicial cases affecting Tax Courts' normal work.

## **2.4. Conclusion**

In this chapter the hypothesis that the number of accountants produces an increase in the number of cases was tested. And this happens because of the existence of a demand induced by professionals on their clients. An increase due to an adverse selection effect due to the consideration of the service offered by the accountants as an experiential asset. The empirical results are in line with our idea and hypothesis: an increase in the number of accountants in the Italian tax system contributes to an increase in the number of appeals; the correlation is robust to endogeneity.

The main work result leads to a reflection on policies. In particular, a system like the Italian one based on a fixed payment system produces an overabundance of causes and leads therefore to an information exploitation by the accountants. They then tend to support causes regardless of the real chance of success. For example, Emons (2000), Polinsky and Rubinfeld (2003) show that lawyers find themselves making the most out

of their position when they are paid for a single act or on an hourly basis; the same hypothesis can be seen in the Italian system in which payments are regulated and standardized on a national basis. The main suggestion of this work, therefore, is embodied in the provision of a contingent payment. This payment is then linked to the process' outcome in order to discourage the continuation / induction to resort for processes whose probability of success is low. Finally, a further suggestion could be the inclusion of a limited student number at universities in order to limit the growth in the number of accountants, as well as to discourage the hypothesis of SID.

### *Chapter 3*

#### *Tax Consultants, Transaction Costs and Institution Quality*

**Abstract:** This analysis aims at investigating the influence that an inefficient institutional system (low institution quality) has on the increase in transaction costs and the power of delegated professionals to assume technical roles for taxpayers. The thesis and the research question that therefore develops, is based on the need of having to recourse to a professional when the institutional context proves itself and is also perceived as unable to fulfill its obligations and, even more so, to enforce the system of rules. This translates into a superior power for the professional which, in an agent-client relationship, involves the accentuation of the client's dependence position, due to an increase in information asymmetry and adverse selection and moral hazard situations. The professional, the subject of this analysis, is well aware of his/her own advantageous position, due to instability of the institutions and tends to move to the local areas where this forementioned instability is higher. All of this has a negative impact on the taxpayer, which sees an increase in what literature calls transaction costs. This last category includes all direct and indirect costs due to the relationships that an economic subject has to face. My analysis will compare a representative index of the institutions' quality, built on a different variables proxy, with local data on accountants and the economic context. The analysis will exploit a 5-year panel with control variables and will implement the use of an instrumental variable in order to take into account the different needle effects, any omitted variables or measurement errors. This chapter is divided into three parts: the first is dedicated to the investigation context by analyzing the background in which the study hypothesis moves; the second focuses both on the

concept of transaction costs and the position of the professional; while in the third, through an empirical analysis, the thesis of the inverse relationship between professionals and administrative quality is supported by identifying the causal relationship ruling the two variables under study. Finally, I will underline the need to implement policies aimed at creating an institutional background more functional to the economic system as a whole, in order to create a reduction in transaction costs and incentivize investments.

### **3.1. Introduction**

Scientific literature has shown how good institutions are essential to support the economic efficiency and growth of their countries (Acemoglu, Johnson and Robinson 2005.). The importance of institutions plays a crucial role within the functioning of the market to ensure sustainable development, thus making them non-replaceable: if on the one hand the market is fundamental for the economy's growth, on the other hand, institutions are necessary to make the market work (Ogilvie and W. Carus 2014). The quality functioning of institutions is therefore a prerequisite for development (Kimaro, Keong, and Sea 2017), it ensures synergies and a better performance of economic agents (Law & Habibullah 2006, Rasiyah 2011). The quality of institutions ensures a system efficiency as a whole (Rahmayanti & Horn 2010; Avkiran 2006;) and contributes to a better allocation of resources and reducing transaction costs (Barrios and Schaechter 2008). Inefficient institutions, on the other hand, can damage economic systems in two different ways. First because the activities as a whole are affected by the fact that the organizational structure is not adequately supported by the institutional apparatus, then because inefficiency "pockets" are created. And these "pockets" will then become profit opportunities for rent-seekers. This chapter deals with this last case with reference to the role of a specific category of professionals: accountants operating in Italy to manage tax returns and litigation of individuals and businesses. The hypothesis investigated here is that they benefit from the inefficiency of the institutional context and this allows in some cases to pursue rents that distance the system as a whole from efficiency.

The pivot is precisely the low quality level of the institutions favouring and in many cases forcing citizens to request the assistance of a professional in order to fulfill the requirements of the institutional system. For example the customer finds himself/herself in need of an agent for a law application, given the complexity and changeability of the system, whose continuous evolution involves new rules, as well as for the management of relations with the institutional system. For example, in the case of the emergence of disputes with the administrative system, to understand the regulatory system or to resolve uncertain situations.

The research proceeds with a provincial basis data collection of the orders of accountants, companies and the education level, combining them with an index that expresses, through a proxy of variables, the administrative quality. Continuing with the chapter, both the quality of the variables involved and the construction process will be described into details. The research hypothesis is to demonstrate how in local situations, where the institutional context has a lower quality level, accountants tend to allocate their headquarters and take advantage of uncertain situations. The professional has a greater position and demand in places where the need to solve problems is higher and the relationships with the institutional system, for example the public system, are not clear. The main consequences are the strengthening of its supremacy position and the information asymmetry with respect to the customer. Furthermore, transaction costs increase due to an inefficient institutional environment.

My work considers the Italian framework in which accountants are the main interlocutors and suppliers of countless services in relations with public administrations as regards tax matters, from the presentation of tax return to main subsidies requests, without forgetting that they are often deputies to resolution of uncertainty situations, in

terms of understanding the institutional context's dynamics. The hypothesis in this case is that in a transparent institutional context, relations with taxpayers could be directed or in any case mediated only in some cases by third party professionals. The complexity of the system, on the other hand, is further complicated by a change in legislation which in Italy according to the indicators identified by Schuck (density, technicality, differentiation, and indeterminacy) is high (Di Vita G. 2010), affecting the choices of citizens who have to resort to a professional to meet the requirements.

Through an empirical panel investigation strategy, this chapter aims at confirming the hypothesis by evaluating how the relationship between accountants in a given area is connected and the low institutional quality. The causal relationship is identified through the use of an instrumental variable external to the system, backdated, and able to isolate the influence movement of administrative quality on the number of tax professionals. The analysis, therefore, will try to demonstrate how an increase in the quality of institutions can decrease the costs of services, as a consequence of the reduction in the services required of professionals. In fact, simplifying and facilitating the relationship for services and fulfillments requests contributes to streamlining the system and increasing compliance. The analysis concludes that, given the evidence of the advantage that professionals derive from complexity, they are inclined to install themselves where the system is intricate. The information asymmetry and the consequent moral hazard and adverse selection are the main culprits for the inferiority of the taxpayer vis-à-vis the professional.

The work is organized as follows: in section two the quality of the institutions is analyzed and the repercussions in the economic context are identified; later, in the third part, the role of transaction costs and their connection with institutions and the

professional is investigated, finally, in the last part the research hypothesis is applied to the Italian context.

### **3.2. Quality of the Institutions**

The quality index of institutions is used to show and explain how structural, cultural and institutional factors play a key role in the evolutionary and development process; and therefore, they can essentially play a role in guiding and conditioning the success or decline of a continent, businesses and even individuals, as it has been amply testified by literature. For example, we can quote: Hall and Jones 1999, Acemoglu et 2000, 2001 and Esterly and Levine 2003, supporting the theory both from a theoretical and empirical point of view, for which the market, the openness to international trade and cultural factors are important guidelines in a broader growth process. All this is combined with the institutional fabric influencing industrial productivity through needle effects connected to a high institutional quality. Syverson (2011) and Chanda and Dalgaard (2008) identify the presence of spillover effects and the competition degree as the main channels affecting business productivity. The needle effects operate through incentive mechanisms for corporate investment (Griffith et al 2006; Bloom et al 2013; Barttelsman et al. 2008) and together with the intensity and quality of market regulation, they can positively move the system growth. A regulatory system with particular standards of qualitative efficiency, which incentives and makes profits profitable, has an undoubted advantage on growth (Knittel 2002; Nicoletti and Scarpetta 2005; Arnold et al 2008). Conversely, inadequate regulation reduces incentives to increase productivity



(Bridgam et al. 2009). Undoubtedly, institutions play a key role in this process, therefore we can define them as the determining elements in decision-making processes (Douglass North 1990). These premises justify the interest that literature has devoted to the role that the quality of the institutional fabric plays in a country's economy context; low quality clogs the system and offers no investment incentives. The growth level, the development degree, inequalities, education and other important economic variables are directly related to institutional quality. Among the fundamental institutions of a country there is public administration (Perry J. and Christensen R. 2015), which represents the operational arm of the government to implement a wide range of services necessary for the civil and economic life of citizens (JP Olsen 2004). In this context, the role of external professionals is directly connected with the performance of the institutions, as their service is fundamental for relations with institutions to the extent of their complexity. Conversely, a complex system determines an assistance request for. It can therefore be said that this de facto intervention is a consequence of transaction costs with relations with institutions. The importance of institutional quality has been ascertained and confirmed by numerous studies (McGuinness 2007; Acemoglu and Robinson 2008; Chanda and Dalgard 2008) which have demonstrated its role in economic growth through the creation of a lean system, capable of reducing costs for different investors. An effective institutional system promotes social and technological growth (Rodrik et al 2004) and involves a reduction in transaction costs, for example, in relations with the public administration (Loayza et al. 2005). Streamlining relationships and efficiency have a positive impact on economic performance and competition (Aron 2000), also contributing to a better resources allocation (Boiwen and De Clercq 2008). Indeed, numerous empirical studies both cross-country (Barro and Lee 1993, Nugent

1993, World bank 1997, Brunetti 1997, Knack and Keefer 1997; Djankov et al 2002) and at regional level (Heliwell and Putnam 1995, Barro and Sala-i -Martin 1995, Arrighetti and Serravalli 1999, Dall'Aglio 1999) have provided evidence of the evident link between institutional quality and the different measures and variables of local economic performance.

In the context of market and businesses, the role of institutions in terms of quality, as anticipated, plays a fundamental role. In this chapter, the focus is in particular on the use of the services of tax consultants, that is, those who are responsible for resolving disputes relating to taxes, drafting tax returns and fulfilling everything orbiting around the tax sector. Their role, this is the thesis of this empirical survey, has a direct connection with the system quality in which businesses and taxpayers operate. An institutional system performance, measured by a composite quality index capturing countless aspects of the social sphere, has an impact on the cost of the professional-client relationship both in direct terms, such as the need to constantly turn to professionals in the sector, and in indirect terms, such as the time lost in institutional relations with a consequent lower incentive to invest.

The most obvious and, in the hypothesis of research, the most identifiable aspect is the allocation and/or predisposition of professionals to prefer working areas where the institutional quality is low. In this case, the tax professional has an advantage in these areas as a result of the greater institutional complexity translating into a cost for businesses and taxpayers with a gain for the professionals working there. In fact, the transaction costs, both in terms of real direct needs to interface with the institutional system and in terms of needle effects generated by the context of uncertainty and complexity, tend to increase in local situations where the institutional context is

ineffective and inefficient. Professionals on their side have a higher experiential and cognitive background than taxpayers, and this leads them on one hand to learn about the functioning of institutional realities, and on the other to have greater power in these specific areas. The professional, in fact, is constantly in contact with the institutions and many times the legislative system itself requires the contact, for relations with public administrations, both as a mandatory element and as a necessary element to resolve the interpretative conflicts of the legislative system. One above all is the tax aspect which is of fundamental importance in this context; the same activates a vicious circle in a complex, ineffective and inefficient system, where legal certainty is low, with a direct consequence on the economic fabric, on private investments and on the behavior of taxpayers. In fact, investments move to areas where the quality is higher and taxpayers tend to decrease their compliance.

### **3.2.1. The impact of institutional quality**

The institutional structure, public policies and various regulations influence taxpayers both as individuals and as companies (Verbič M, Slabe-Erker R (2009)) and have a direct impact on the country's general economy and on the economic system's competitiveness. A good institutional system is essential in order to guarantee the effective functioning of the state and implement various policies. The consequences of a scarce and ineffective administrative bureaucracy impose costs on individuals and businesses (Slabe-Erker and Klun 2012); in the last few decades, global regulation has become complex in terms of administrative procedures, imposing heavy costs on businesses and taxpayers in general.

The generated costs can be divided into direct and indirect; the former are identified in an increase in taxes and fees, the latter, on the other hand, are found in hidden and latent costs. The latter can be identified in the amount of time lost for administrative procedures and payments to professionals for relations with the public administration, for example, for obtaining licenses and permits, with a consequent burden on the economy. Furthermore, frequent reforms of the legislative system contribute to creating friction within the administrative apparatus (Collins 1993). The problems of institutional quality also have international repercussions in terms of globalization and trade process, hindering investments. Furthermore, it should be emphasized that changes take time, with years characterized by consequent stagnation and slowdowns due to the learning/adaptation process (Weidner, 2002; Sonnenfeld and Mol, 2002; Dicken et al., 2001).

### **3.2.2. Difficulty of changing**

Making the institutional system qualitatively efficient is a slow process that requires an initial phase of policy implementation implying a reduction in the effectiveness and quality of the same. Only in the long term, following an adequate adjustment process, an overall improvement of the institutional context will be achieved (Erker 2003). This particular situation implies that institutional changes require a weighted assessment carried out with prudence and precision. In particular, sudden changes from above, without adequate implementation, have negative practical repercussions. Improvements, where possible, must be implemented gradually, necessarily taking into account the economic impact (Easterly 2008) they can have. In addition, societies are heavily

influenced by the past, and this results in an understanding and interpretation of changes based on what is in place now or was previously (Hollingsworth 2000). A further obstacle to bear in mind is that institutions operate in both an economic and political environment where they are under pressure from different interest groups (Čok et al., 2009). All this makes it difficult not only to implement policies and reforms but also to track down and identify the most appropriate, which is why governments are required to set up policies aimed at analyzing data in order to identify the most suitable strategies to reduce costs of transaction.

In most cases we can have a high regulation and a low quality of the institutional system: this situation makes it completely useless to offer detailed regulation. In fact, if on the one hand greater regulatory detail may lead to a better relationship between efficiency and equity, on the other hand there is the risk of making it completely useless if there is not sufficient administrative adequacy to make it operational and applicable. Companies therefore find themselves not only having to adopt systems in line with high regulation but then seeing this expense completely useless if not encountered by an effective application of the same. In contexts of low institutional quality, companies find themselves unable to adapt to the market and face it, having and accruing a high transaction and adaptation cost.

### **3.2.3. Institutional quality as a competitive obstacle**

Institutional quality in a competitive market context, which is not only national but also international, generates friction resulting in obstacles that influence taxpayers's actions both as companies and as entrepreneurs. In fact, a situation of regulation or laws that can on the one hand be detailed but not adequately accompanied by a high and efficient

institutional quality and activity, generate significant transaction costs. In fact, the absence of an adequate administrative apparatus makes government action and also legislative system implementation something complicated.

All this translates, especially for companies working in an international context, into a limiting situation due to their competitive position. Indeed, governments are faced with the challenge of reducing transaction costs through policies aiming at cutting bureaucratic costs (red tape), improve services and improve reform evaluation procedures through RIA (regulatory impact assessment). Important research agrees on the fact that efficient regulatory systems lead to reducing transaction costs, on the contrary, inefficient administration generates significant costs by damaging the system as a whole (Garneau 2009, Deitz et al 2009a).

#### **3.2.4. Transaction costs: Origin of the concept of transaction costs**

The origin of the concept of transaction costs is to be associated with the literature on institutions that in normal economic jargon are defined as the "rules of games" (North 1990). Institutions are the main actors in economic decision-making processes and can lead to less or greater friction within them. In fact, institutions have both macro and micro economic importance. At a macroeconomic level, the environment is represented by the level of political, social and legal rules that can slow down or accelerate economic activities depending on how they are designed. At a micro level, the institutional dimension structure can lead to frictions in the cooperation or competition between the different economic actors: an example can be identified in too complicated

and/or changing rules (Williamson 1993). Transaction costs can therefore be defined as expenses making a transaction possible without actually creating value (Coggan et al. 2015; Shahab et al 2018(1)). They are usually divided into three categories: research and information costs, bargaining costs and enforcement costs. Added to these are the costs of protecting and creating property rights (Dahlman 1979; Allen 1999).

### **3.2.5. Transaction cost and institutions?**

Transaction costs in economics are the ancillary costs of market using. They include the costs for exchange and trading in the market and the costs for enforcing and creating property rights (Allen 1999). They are, therefore, defined as all costs involved in transactions beyond the physical costs of production (Webster & Lai, 2003; Nilsson & Sundqvist, 2007). The origin of this definition dates back to Coase (1937) and was subsequently developed by Williamson (1985), Cheung (1989) and North (1992). In particular, Williamson uses an analogy with the world of mechanics to represent transaction costs: if an engineer looks for friction/obstacle problems in mechanical systems, the economist aims to identify transaction costs. This chapter focuses on the idea that an increase in these costs leads to an inevitable advantage for those appointed to resolve, manage and simplify the actions of economic subjects who work and / or want to act in a certain institutional environment.

The role of institutions and, in particular, their quality, is important in reducing this particular type of cost. In fact, the same have an important role in transactions that are considered the basic unit in economic activities (J.Commons 1931). The theory of

transaction costs (Williamson 1998) also takes into account one of the main actors of the economic context: public institutions (Williamson 1999). In particular, costs arise with the public administration due to the need to interface with it (regulatory system, taxes, financial support and any other type of service provided by the same) which, when it does not work well, experiences a considerable increase in transaction costs. For example, delays in judicial systems, inability to collect taxes or provide services generates damage to the economic fabric which is discouraged to invest. These costs are defined as compliance costs which, in accordance with the definition of the OECD 2001, are: “the formalities and paperwork that a business carries out, or pays someone to carry out on their behalf, to comply with tax, employment and environmental regulations. They include all the time and resources spent by owners, managers, staff or hired expert to understand regulations, collect, plan, process, report, retain data and fill in forms required by governments at all levels”.. . Compliance costs, therefore, concern all forms of slowdown and difficulty, not only in complying with the law but also in understanding it while staying up-to-date with its changes. Among the compliance costs, the cost of tax management plays a particular role (Sandford 1995, Kaplow 1998, Slemrod 1998, Evans 2003, Allers 1994, Klun and Blazix 2005) as it sees the professionals involved in this survey more involved. Institutional quality is one of the main factors that play a leading role in compliance costs and, specifically, in the development of a country. In fact, the reforms alone are not able to advance the country or make it attractive for companies or individual taxpayers, without an adequate institutional system capable of transposing them, applying them and making them understandable. A study conducted by Deitz et al (2009) showed that for the states of South-Eastern Europe the reforms in the field of public energy alone were not sufficient



to allow the adoption of the EU energy models and the main problem was the general public administration low quality.

All unnecessary restrictions on businesses or bureaucratic burdens caused by institutions lead to undesirable obstacles to the market, innovation, investment and economic efficiency (Majcen 2005). Especially in a period of profound and rapid changes, regulations and formalities can be both an impediment to innovation and a probable creation of barriers to trade, investment and economic efficiency in general. Therefore, compliance costs are found to be barriers to economy and those who are appointed by the system to play the role of intermediaries benefit from them. In fact, the latter become obligatory and essential elements for operating in the country. Entrepreneurs and economic activities in general in their choices are not only guided by the market but also by the legislative and administrative environment. The regulation and bureaucracy of a country are important tools in the hands of governments both to attract economic activities and to protect public interests. However, costs are not always a damage for market operators, in fact professionals are considered the main beneficiaries of a uncertainty situation.

### **3.2.6. The context of transaction cost decisions: the architecture of the institutional background**

Institutional quality plays a key role in transaction costs. A parallel can be made with individuals who are directly influenced by the architecture of the background in which they operate, as behavioral science has highlighted (Thaler and Sunstein 2008). Behavioral sciences identify in the term "nudge" the architectural choice simplifications

facilitating the promotion of the welfare of the subjects involved in decisions and, on the contrary, a complicated context may not make it easy to pursue the optimal choice. In particular, a situation of the latter type has recently been called "sludgy" (Thaler 2018; Sunstein 2018) and is aimed at identifying those contexts in which useless uses make individual choices more complicated. The focus is on the design of the institutions and not on them in the strict sense; in fact, institutions are an essential element, but the design of their functioning is a key role element. The focus is on the quality of the system which, if more or less efficient, can make economic operations less onerous and the use of professionals less frequent. Furthermore, it would also reduce the power of these market agents, who find themselves really specialists in the functioning of institutional design, thus making economic agents such as taxpayers dependent on their services. An addiction that arises both from relating to obtain services or to be recognized for benefits and to solve problems related to the application of legislation.

For example, in some governments the possibility of using administrative services could be difficult or the low institutional quality could make their functioning inefficient, consequently making relations with public administrations expensive. Furthermore, financial services and tax advisory lobbies have an incentive to maintain and, indeed, increase the complexity of tax systems by keeping the demand for their services high (Shahab, Sina, and Leonhard K. Lades 2021). This can also be generated by bureaucratic processes leading to time waste which, combined with an excessive request for documentation, contribute to creating an environment full of frictions. These contexts can be defined as "sludgy choice" problems in which the decision-making architecture makes the pursuit of one's own welfare complicated; from some points of view, complexity can be associated with a sort of rational choice limit of public decision

makers or representatives of the economic parties who do not allow them to pursue a streamlining (Soman et al 2019).

### **3.2.7. The main consequences of transaction costs**

Transaction costs, which, as widely discussed, are an important element in economic valuations have many and different consequences. Literature has included them in three fundamental guidelines: costs related to the levels of effectiveness, efficiency, and equity (Rørstad et al., 2007; Kuperan et al., 2008; Coggan et al., 2015; Mack et al., 2019; Shahab & Viallon, 2019(1); Shahab et al., 2019(2)). Specifically, transaction costs affect the market effectiveness, for example, making the execution/realization of a contract complicated; or, the case closest to this analysis, when I request a subsidy, a service and/or a convention, its implementation becomes difficult, complicated, cumbersome and difficult to implement. All this increases, for example, the demand for specialized services such as tax services which are often not only necessary for the normal functioning of businesses, but also mandatory. Consequently, the private sector decreases contracts, discouraged by the difficulty of carrying out the actions, with consequent damage to the entire economic system.

In addition, transaction costs also affect the efficiency of government programs, making reform's application difficult and loading businesses and citizens with unnecessary bureaucracy with the consequence of creating a cumbersome and slow system that is often also inconclusive. The slowdowns generated by this type of cost have a significant

weight in market operations since they involve the use of resources without a direct return.

Finally, there are repercussions in terms of equity, generating differences in treatment even at local level since, where the administration works better or worse, more or less advantageous conditions are created with obvious damage on the market.

Transaction costs therefore have a considerable weight and are often difficult to quantify. The literature has identified the quantification of these by measuring all the direct and indirect costs incurred by the parties to complete a transaction (McCann & Easter, 1999; Falconer & Saunders, 2002; Fang et al., 2005; Kuperan et al., 2008; Coggan et al., 2015; Shahab et al., 2018(1)).

The range of transaction costs, therefore, can vary according to the type of measurement criterion to be used. In general we can define it as all the financial / monetary costs involved in the transaction. These costs include: administration fees, brokerage fees, the costs of hiring a consultant and brokerage, transport costs and the various costs involved in investigating to understand the system.

The types of inherent costs are, therefore, innumerable as well as extensively investigated and discussed in the literature (Dahlman, 1979; Collins & Fabozzi, 1991; McCann & Easter, 1999; Thompson, 1999; McCann et al., 2005; Shahab et al., 2019(1)) All this is further conditioned by the hourly cost of the time taken for the resolution of disputes and which, for a company and / or a taxpayer, has a considerable weight in an open market economy. This background is to the direct advantage of professionals who, therefore, tend to actually install their services where their services are most needed.

### **3.2.8. The role of the agent**

In this thesis, the agent is identified with the tax consultant who enjoys an advantageous position in an environment of high institutional transaction costs. Specifically, the costs relating to fiscal and fiscal relations with institutions are very high at times, especially in sectors where the administration have a low quality index; in addition, this type of cost is characterized by a strong information asymmetry between the appointed professional and the economic entity requesting the transaction. Institutions can play a key role in the relationship between agent and client in solving the problem of information asymmetry that leads the professional to enjoy an advantageous position based both on the technicality, which the tax sector requires, and on the experience he/she can enjoy; consequently, institutions could implement activities aimed at reducing the information gap and consequently the transaction costs. One of the first actions to be implemented is the reduction of situations in which the role of the professional is essential.

The simplification of tax processes and the tax system could represent a first step in this direction, as it would reduce both the information asymmetry and costs with a consequent reduction in dependence on the tax professional for relations with the public administration. In addition, it would be necessary to improve efficiency which would make compliance not only simpler but also lower the possibility of error on the part of the taxpayer.

### **3.2.9. The characteristics that make the agent's position strong**

The reasons for this dominant position can be found in the main development / growth determinants of transaction costs. The factors that give rise to transaction costs, if on the one hand they can be innumerable (Coggan et al., 2013; McCann, 2013; Shahab et al., 2018(2)) can be summarized in three main elements: specificity, uncertainty and frequency (Williamson 1985, 1996). The specificity of an operation makes those resources used not redeemable in another: “specialized investment that cannot be redeployed to alternative uses or by alternative users without a loss in productive value” (Williamson 1996).

The specificity can be declined under different aspects: the site of production, physical and dedicated assets, human capacity (Williamson, 1981), brand name (Williamson, 1985), time of production (Malone et al., 1987), and procedural specificity (Zaheer & Venkatraman, 1995). If on the one hand, therefore, I may have resources that I use in multiple processes such as money or generic equipment, I often find myself having the need to develop a specific investment such as certain skills, information or specific advice that cannot be used in other fields.

Uncertainty is another element that plays a key role in determining transaction costs. The partners of an operation may have limited information and information asymmetry regarding various aspects such as, for example, actual costs, potential profits and losses. In this case, the realization of an economic operation becomes very difficult, difficult and risky (Williamson, 1975; Dixit, 1998; Saussier, 2000). Uncertainty can be identified in terms of volatility and ambiguity (Carson et al 2006). The first concerns the uncertainty about future conditions and the ambiguity concerns the evaluation of present

and past experience. Transaction costs emerge precisely as a consequence of this topology's management of uncertainty and volatility, and that also creates latent costs.

Frequency is another factor affecting transaction costs. In fact, when the frequency of an operation is low, costs increase as economic agents become efficient only in repeating an operation with the consequence that occasional events generate higher costs. The subjects, in fact, are able to learn and improve performances by repeating the so-called "Learning by doing" (Arrow 1971). Frequent transactions reduce marginal transaction costs as a result of the increase in the ability to redistribute information and capitalize on those acquired in processes and contracts that become standardized. In fact, frequent transactions on the same good or service make it possible to generate economies of scale, generate experience for operators, making them able to carry out operations in a more streamlined manner and reduce future costs.

Professionals and experts undoubtedly benefit from these aspects of transactions. In fact, they can enjoy particular characteristics allowing them to reduce their costs (specific transactions high frequency) and increase their position of strength in the market for transaction costs (specificity and uncertainty).

### **3.2.10. The agent and the information asymmetry**

The accountant, as well as those appointed to particular types of professional services, enjoys a particular advantageous position, which in a context of high transaction costs can only be an advantage. In fact, the presence of these types of frictions between tax payers and institutions makes the services provided by tax professionals essential and almost mandatory in relations with the institutional context. Furthermore, where the

institutional mechanisms are characterized by a low quality, professionals tend to have more power by counting on the additional complications that an inefficient system generates. In analyzing transaction costs, we note that the factors that generate them are also the main ones responsible for the professional's advantage in agent-client relationships. The aforementioned factors are: specificity, uncertainty and frequency and, as we can see, they are also key elements in the relationship with taxpayers.

The specificity of the service makes the service unique and characterized by complexity. This complexity of both the legislation and the necessary experience makes the relationship unbalanced towards the professional. In fact, the technicality and specialization of the tax sector characterized by mutability and complexity of interpretation oblige the taxpayer to rely on the professional's advice, trusting that the same acts in his/her interest.

Furthermore, the uncertainty of the result makes the professional's position even stronger. In fact, many times the tax legislation is subject to interpretation that makes both the financial administration's choices unpredictable and the choices to be made by the professional not correctly assessed. Furthermore, the professional also enjoys an experiential background that makes him/her able to better predict and evaluate the client's position. Uncertainty environments are further facilitated by situations of low administrative quality which contribute to the uncertainty of the result and of the choices to be made.

The frequency and singularity of the services often make the professional the only one able to interpret the client's situation, who is naturally inclined to rely on his/her advice



and suggestions. In fact, legislation often obliges you to rely on those who know the customer's history and, therefore, are the only ones able to make the best choices.

The combination of the difficulty of the tax matter with a low quality and institutional system makes the position of the professional even stronger. The poor institutional quality forces even more to turn to professionals to try to streamline relations with the administration. In addition, the situations of moral hazard and adverse selection that characterize this type of goods are strengthened. In fact, the products sold by professionals could be defined as both experience goods and credence goods since not only the customers are not able to evaluate them a priori, but they are not even able to evaluate them later due to the lack of knowledge elements, which do not allow them to evaluate performance outcomes.

The quality of the institution can play a key role in this type of relationship. In fact, a high quality institutional environment can facilitate and streamline the relationship. If, as anticipated, the institutions represent the rules of the game by functioning well, they can make the system efficient and reduce the need for recourse to the professional. Often the need to resort to the tax professional is linked to the difficulty of interpreting the rules, of knowing them and also of dealing with the institutional ones.. Institutional quality is also expressed in terms of the effectiveness and efficiency of a public administration: an administration that works well, reduces disputes, increases compliance and consequently lowers transaction costs. Often, therefore, the lobbies of professionals prefer a difficult, intricate and low quality system capable of generating more and more work for them combined, also, with the possibility of justifying negative performance results. Reason why professionals tend to favor areas where the institutional quality is low and can both increase their work by inducing choices to their

clients not always in the interest of the latter, but also become an essential element in relations with institutions.

Furthermore, the policies that aim to rebalance the situation between agent and customer lose effectiveness if not supported by a qualitatively high administrative system. In fact, an institutional apparatus with a low qualitative index produces not only an increase in costs for the business in general, but also decreases the certainty of the operations that an efficient and open market requires. An efficient system attracts businesses and taxpayers as they have fewer problems in dealing with the administrations in which they live with less and less use of professionals in the various sectors. The tax sector, often one of the most important for the country system, it is essential that it is reliable and efficient in order to reduce compliance costs which, combined with the costs of the system itself, become a disincentive for those who want to invest.

In fact, institutions are an essential element of an economic landscape, which is why their functioning must be improved. Institutions represent the rules of a system and how these rules are designated is even more important. Reducing the gap and frictions in relationships plays a key role and an increase in quality is the guiding channel towards obtaining a tangible result within the system. The rules may be the best but if not applied well they do not have the potential effect they can have.

The hypothesis, therefore, that I want to test with this chapter is whether, as previously stated, the professional tends to prefer territorial realities in which the administrations have a low quality level; firms and individual accountants will tend to settle in areas where recourse to their services is inevitably required, which combined with their

position of information asymmetry makes their position more privileged in the agent-client relationship.

### **3.3. Do tax professionals choose local realities where the administrative quality is lower? The specification of the problem**

The question of this analysis is to try to explain whether the agents' density is higher where the institutional system is qualitatively lower. In fact, as argued, a poor quality system has as a direct consequence a difficult relationship of the economic system with the functioning mechanisms of the administrative apparatus. In this particular case, the question arises as to whether accountants benefit from these frictions, which increase both the direct and indirect costs of businesses and their power in the delicate agent-client relationship. The observation starts from the evaluation of a qualitative index that evaluates the institutional performance under different aspects and relates it to the number of accountants.

Answering the question whether there is a tendency for accountants to locate themselves in specific geographical areas, where institutions are qualitatively less strong, is not easy given the considerable influence that external factors can have on such a type of decision. The topic discussed in this chapter on transaction costs is applied to the reality of the Italian context with the aim of establishing whether a situation of high transaction costs is actually connected to a greater power of professionals and to an increase in demand for services provided by the accountants themselves. The tax sector, most of all, plays a key role in corporate decision-making and, therefore, the services rendered by accountants play a fundamental role for taxpayers. In addition, it should be noted

that in the Italian context the accountant holds offices that not only have the function of preparing the tax return, but are often the subjects appointed by the tax payers both for relations with institutions (request for subsidies, benefits and other types of interventions aimed at obtaining and recognizing rights) and for the resolution of disputes that may arise in relations with tax agencies.

The hypothesis that an accountant should prefer these situations has been widely debated in the course of this chapter: situations of uncertainty do nothing but increase the professional's ability to induce the choices of his client and, in addition, the poor quality of the connected institutions. with delays, frictions or non-application of the law, consequently brings out the need for recourse to the same.

### **3.3.1. Data and empirical Strategy**

The built dataset analyzes the situation at the level of the Italian provinces. Data were collected at the provincial level of the Professional Orders of Accountants, using the number of accountants at the provincial level divided by the number of the population of the province under analysis ( $y_{Iscritti}$ ) as a dependent variable. These are combined with data from ISTAT (*Italian Institute of Statistics*), which allow for the extrapolation of local characteristics; in particular, I used a variable describing the percentage of subjects who have obtained a university degree, in order to take into account the local education level ( $Laureaterz$ ), and data on the resident population at provincial level ( $Pop$ ). Then I added the number of companies registered with the Chamber of Commerce (Italian public institution responsible for monitoring business activity), in

order to obtain a variable representing the territory economic level (yreg). Finally, the explanatory variable of the IQI problem joins the panel: Institution quality Index (Nifo, Annamaria, and Gaetano Vecchione 2014). This last variable represents a proxy of the institutional quality at Italian provincial level.

## **IQI**

In particular, the Institution Quality Index is a composite index developed by Nifo and Vecchione (2014) and follows the structure of the World Governance Indicator (WGI) developed by Kaufmann et al (2011) as part of the Knowledge for Change Program promoted by the World Bank. The index is structured in six dimensions: Voice and accountability; Political stability and absence of violence and terrorism; Government effectiveness; Regulatory quality; Rule of Law; Control and Corruption.

The study data elaborating IQI are collected from institutional sources, research institutes, professional registers. Specifically, the items included in the index describe: **Voice and accountability**: captures the participation in public elections, the phenomenon of associations, the number of social cooperatives and cultural liveliness measured in terms of books published and purchased in bookshops. **Government effectiveness** instead measures the endowment of social and economic structures in Italian provinces and the administrative capacity of provincial and regional governments in relation to policies concerning health, waste management and the environment. **Regulatory quality** comprises information concerning the degree of openness of the economy, business environment and, hence, the ability of local administrators to promote and protect business activity. **Rule of law** summarizes data on crime against

persons or property, on magistrate productivity, trial times, the degree of tax evasion and the shadow economy. **Corruption** summarizes data on crimes committed against the public administration; the number of local administrations overruled<sup>7</sup> by the federal authorities; and the Golden–Picci Index, measuring the corruption level on the basis of ‘the difference between the amounts of physically existing public infrastructure [...] and the amounts of money cumulatively allocated by government to create these public works’.” (Nifo, Annamaria, and Gaetano Vecchione. 2014 p.1633).

The summarized dataset consists of a panel data over a five-year period (2011-2015) using: The Order of Accountants; The Chamber of Commerce, Industry and Handicraft; ISTAT; IQI.

Provincial data includes: Time variable from 2011 to 2015; Pop indicating the number of citizens for each province; YIscritti: number of per capita tax advisors registered; IQI at provincial level; Yreg: number of firms per capita; Laureterz expresses the education level at provincial level, indicating the percentage of subjects who have obtained a tertiary qualification.

### **3.3.2. Specification of the problem**

The verification of the research hypothesis moves through the use of the panel structure built by combining the data described in the previous section. The data analyzed are collected from 2011 to 2015 at provincial level. The structure of the panel data allows everyone to take into account the temporal effects and unnoticed variables at local level, trying to eliminate the possibility of correlating the error and the control variables. In

addition, the presence of data endogeneity is assumed due to possible omitted variables, measurement errors or hypotheses of inverse causality. In particular, this latter situation could emerge when it is conceivable that professionals are able to cause a lowering of the institutional quality as a whole and that, therefore, causality moves in the opposite direction to the specified hypothesis. The solution to the problem is advanced through the use of an instrumental variable: a combination of variables backdated over time representing the endowment of social capital of the Italian provinces. Specifically, a family of indicators collected from 1999 to 2003 were used, collected in the Atlas of the social capital of Cartocci, Roberto, and Valerio Vanelli (2006). In literature (North 1990, La Porta et al. 1999, 2000; Sokoloff and Engerman 2000, 2002; Acemoglu et al. 2001, 2002) it has been widely argued that historical economic, political and social factors may explain the variation in government performance, reason why the Cartocci-Vanelli index based on the diffusion of daily press, the level of electoral participation, the diffusion of grassroots sport associations, the density of voluntary associations and the diffusion of blood donations is believed to provide a valid tool for isolating the IQI variation at local level.

The identification strategy of the survey problem assumes that the number of accountants is a function of the institutional quality level with the following model:

$$NumberofConsultant_{it} = \beta_0 + \beta_1 InstituionQualityIndex_{it} + X_{it}\beta_2 + \varepsilon_{it}$$

The first term, which represents the dependent variable (Y), identifies the number of accountants for each province and for each year of observation. The  $\beta_1$   $[[InstituionQualityIndex]]_{it}$  indicates the quality level of the specific province and  $X_{it}$  indicates the controls set inserted in order to control other variables that may affect

the number of accountants (in the specific case it was considered appropriate to insert the companies' number and education level). Finally,  $\varepsilon_{it}$  indicates the error term.

The problems that econometric analysis encounters are related to possible temporal, individual effects and hypotheses of endogeneity in the problem's specification. The first two types of problems are faced by preparing a fixed effects analysis approach that allows to take into account the time and individual factor by exploiting the data panel structure; the new specification of the problem is then:

$$\text{NumberofConsultant}_{it} = \alpha_i + \gamma_{t_0} + \beta_1 \text{InstituionQualityIndex}_{it} + X_{it} \beta_2 + \varepsilon_{it}$$

the equation thus transformed allows to take into account both the fixed provincial effects  $\alpha_i$  and the fixed temporal effects  $\gamma_t$ .

Endogeneity problems are addressed, as anticipated, through the use of a two stage approach and the implementation of an exogenous instrumental variable. In fact, the possibility that the IQI variable is endogenous does not allow us to hypothesize causality in the problem's specification; in order to take this into account, a series of indicators are used which represent the backdated social capital over time (1999-2001) with respect to the dataset being analyzed.

### **3.3.3. Descriptive statistics and empirical analysis**

The first set of images shows the distribution of accountants at the provincial level in Italy and in the second set, however, the data at the provincial level of institutional quality are represented.



Tax advisors across Italy 2011 to 2015

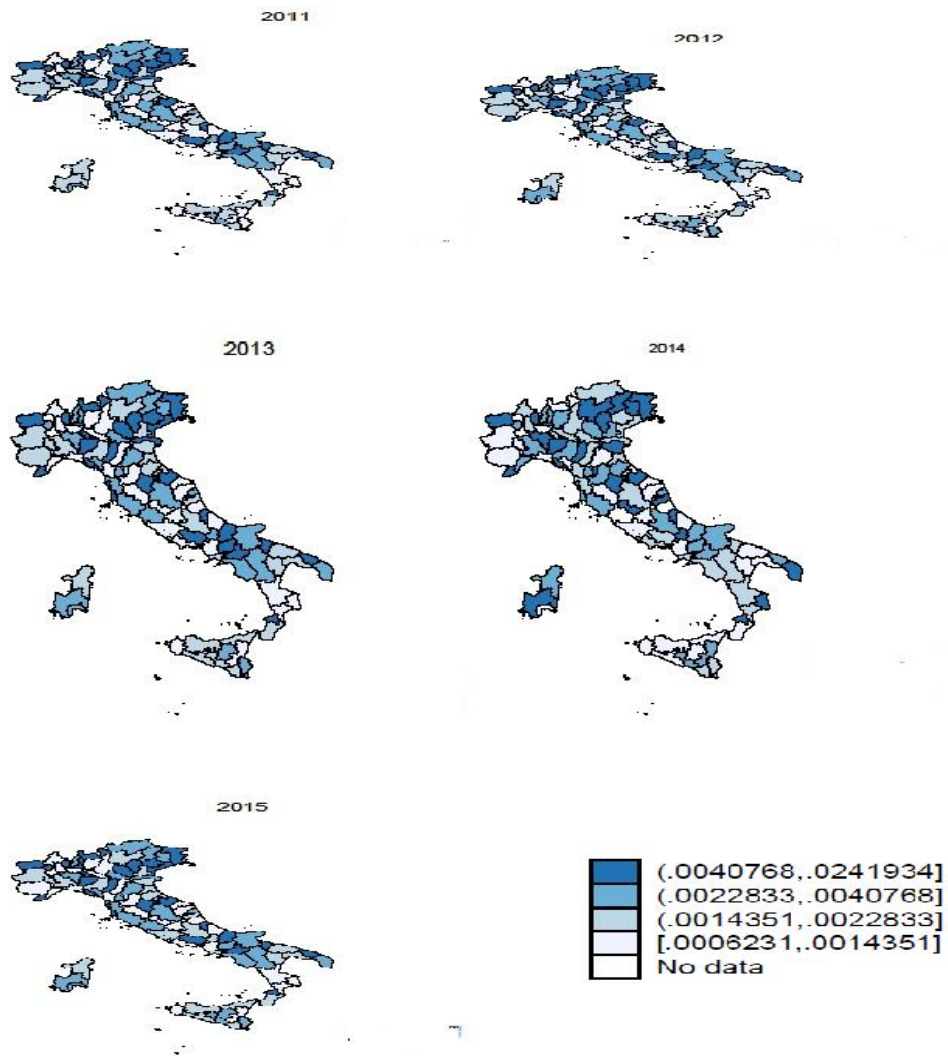
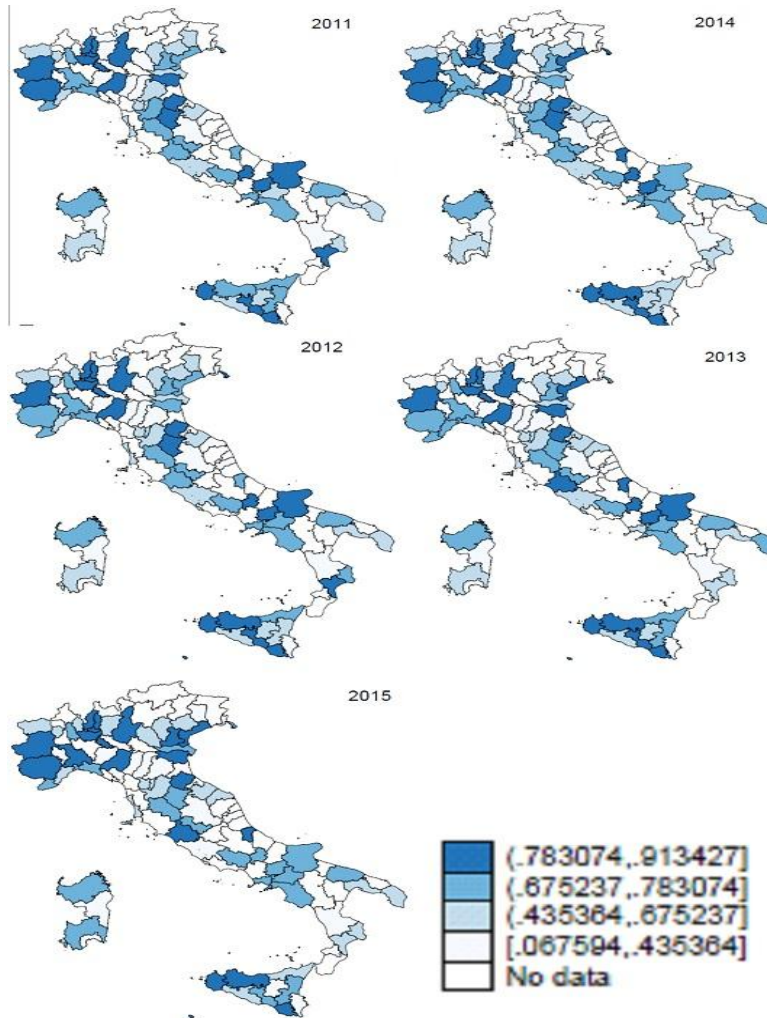


Figure 4 Images show the accountants' distribution rate from 2011 to 2015.

The following image illustrates the territorial breakdown of the IQI index.



## **IQI 2011-2015**

**Figure 5 Images show the IQI distribution rate from 2011 to 2015**

The figures shown above illustrate the distribution of the two main variables of this analysis: the number of accountants and the IQI index distribution. In particular, it can be pointed out that in the provinces where the number of accountants is higher, a high

IQI index does not correspond. However, the analysis requires appropriate considerations as there are a number of local and economic factors affecting the distribution of the respective variables. In particular, the number of businesses has a direct impact on the province level, as it represents both an index of territory industrialization and a direct increase in work for accountants; the education level is an indicator both of the possibility of accessing the profession of chartered accountant and of local literacy.

The first analyzes show a negative correlation between the number of accountants and the institutional quality index, giving a first validity to our hypothesis that environments with low institutional quality are characterized by a greater appeal towards accountants.

The correlation index is -0.30.

A first pooled regression on the entire dataset returns a statistically valid negative ratio -0.0006582 (p-value lower than 0.01).

By implementing some simple regressions in the different years of the analysis, a negative relationship is obtained between the two variables. In particular: 2011 (-0.0007151), 2012 (-0.0006913), 2013 (-0.0005554), 2014 (-0.0006608) and 2015 (-0.0007147). The hypothesis of a negative relationship therefore continues to remain valid and supported by the first simple analyzes.

Then, we proceed to structure the analysis as specified in the research hypothesis. Therefore, the panel structure (xtset) is introduced in order to take into account the possible individual and temporal effects. Other two controls are introduced in order to

capture further elements of influence in the variation of the number of accountants: the number of businesses at provincial level which, as stated above, has a direct impact on the number of accountants: it is a direct demand parameter for their services; the local level of education represents a further element both to assess the knowledge and, therefore, a better relationship with the institutional system by the province's inhabitants and because the level of education affects the possibility of accessing the qualification of tax professional .

The use of the aforementioned approaches continues to return a negative ratio (-0.0001155).

The problem of the possibility of individual and temporal fixed effects is supported by the use of the Hausman test. The results with the implementation of the fixed effects remain statistically valid (p-value less than 0.01) and with a negative ratio (-0.000128).

Finally, in this chapter I want to deal with the problem of the IQI variable endogeneity and the hypothesis of inverse causality. Measurement errors, omitted variables or reverse causality among the variables under analysis could be hypothesized. In order to prepare a solution strategy for identifying the problem, an exogenous variable is traced which, in accordance with literature, is able to isolate the variation effect of the institutional qualitative index. In particular, it has been widely established that institutional quality is influenced by social capital variation ((North 1990, La Porta et al. 1999, 2000; Sokoloff and Engerman 2000, 2002; Acemoglu et al. 2001, 2002) which represents a valid measurement of the change of the local social structure with a direct impact on the institutions. The selected index, as anticipated in this chapter's

introduction, is a composite index collecting different aspects of the social capital variation.

The implementation of the social capital backdated by ten years with respect to our analysis, allows us to grasp an element that is completely external to the system analyzed. The use of a backdated variable requires structuring the analysis by collapsing the panel on the averages and subsequently implementing the regression. The results are statistically valid and return an index of -0.00149. The result can be interpreted in the light of the considerations made as a causal relationship supporting the initial thesis.

The results of the various approaches are as follows:

VARIABLES	(1) Pooled	(2) Panel	(3) Instrument
iqi_prov_	-0.000658*** (9.12e-05)	-0.000128** (6.48e-05)	-0.00149*** (0.000355)
yregtot		0.00910*** (0.000484)	0.00107 (0.00126)
Lauetiterz		-9.13e-07 (1.04e-06)	6.85e-05*** (1.53e-05)
2012.t		2.82e-05*** (7.64e-06)	
2013.t		6.46e-05*** (7.34e-06)	
2014.t		7.86e-05*** (8.22e-06)	
2015.t		9.22e-05*** (8.37e-06)	
Constant	0.00213*** (6.02e-05)	0.000682*** (6.79e-05)	0.00105*** (0.000294)
Observations	508	508	100
R-squared	0.093	0.570	0.251
Number of id		102	

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 2 Results of Fixed effect and Instrumental regression between number of accountants and IQI by prov**

### 3.3.4. Results

The survey gave validity to the thesis that the accountant tends to prefer institutional situations that are overall qualitatively low. The basic idea of this chapter is that the context of uncertainty coming from an overall low institutional environment contributes to the position of information asymmetry in favor of the accountant. One of the direct consequences of a quality lack is a general system inefficiency, with evident repercussions on the costs that an economic activity, individual or corporate, and even a

single taxpayer have to face. Among the costs that certainly have a greater weight within the institutional context are relations with public administration, which also plays an important role in the wide range of compliance costs. This type of costs, as anticipated, is contained in literature under the concept of transaction costs, which group within them all those types of direct and indirect costs faced by an economic subject. If on the one hand, however, they are a negative element for taxpayers, on the other hand for professionals who are responsible for interpreting the functioning mechanism of institutions, they can be a real advantage. The analysis shows a clear advantage for the professional to actually install himself/herself where his/her figure is much more in demand. In addition, the general uncertainty of low quality institution situations makes it less able to evaluate the professional's performance. The role of the intermediary and in this case of the accountant becomes, therefore, fundamental and decisive for operating in an uncertain institutional context where there is no guarantee of the environment's performance in which one operates. The uncertainty and specificity of the context therefore obliges the economic entity to rely on a professional figure who, as the analysis has shown, will not always act in his/her direct interest. In addition, the economic entity's inability to assess the professional's performance will make the agent-client relationship even more unbalanced, favoring the position within the characteristic information asymmetry of the increasingly unbalanced relationship.

The result also contributes to the creation of a further element of analysis, namely the role of institutions in rebalancing the client-agent relationship. In fact, an improvement in the institutional system through also and above all through streamlining and simplification of the administrative system can not only reduce the need to use these professionals but also help to align the information positions of the two parties involved

in the operation. Furthermore, the institutional context, as widely discussed, plays a key role in the development of the country system as a whole. Improving the institutions in which the economic subjects operate, contributes to attracting investments through a direct reduction of the costs the economic subjects have to face.

### **3.5. Conclusion**

The present work aims to contribute to the sector's literature both in terms of transaction costs and agent-customer relationship. The analysis's result shows the importance of an adequate institutional system. The adequacy of the system does not refer to the presence of specific institutions, which are defined as the rules of the game, but the point of investigation is their operation's design. A qualitatively high functioning in terms of reduction of delays, economic openness, low friction in relations, legal certainty and clarity can lead to a general improvement of the economic background. One of the main results can be immediately identified in the relationship with professionals, appointed to act as intermediaries in relations with institutions. Through the chapter, with an analysis, the figure of the accountant was investigated who, in the particular situation of the Italian context, plays both the role of tax consultant and preparer of returns. He/she is also the main interlocutor for the request for benefits, aid and dispute resolution. Improving institutions by reducing transaction costs can act as an investment attraction and an incentive for improved compliance. The first element is connected to the evidence that a functional environment makes the system competitive and profitable for economic activities as they can reduce costs which are often not related to direct gains, but only to losses. In fact, transaction costs



are costs that are not linked to direct benefits, but only to solve the problems of institutional functioning. Furthermore, all this would result in a generic improvement in compliance through the simplification of institutional relations with a direct decrease in the possibility of error. The benefit would be directed not only to public revenues, but to trust in the system with evident general economic growth. Finally, the analysis shows that the only ones benefitting from a malfunctioning system are those who generate work from uncertainty and, in this case, the accountants. The lobbies of tax consultants have an obvious interest in setting up in reality with a low quality index in which the need for specialist services is maintained high and can have greater power in influencing the decision-making choice of customers.

## Conclusion Générale

Cette thèse aborde un thème qui n'a pas été suffisamment analysé dans la littérature : la relation entre le contribuable et le comptable. L'analyse menée dans ce travail, à travers la collecte de la littérature et l'étude des données, vise à identifier les éventuelles défaillances du marché dans cette relation. Le contexte particulier, dans lequel les parties agissent, est un environnement caractérisé par des asymétries d'information, ce qui entraîne la création d'hypothèses d'avantages pour la partie la plus informée. Le comptable, comme l'illustrent les trois différentes sections de ce travail, peut bénéficier de sa position de supériorité liée à une majeure disponibilité d'informations et d'expérience par rapport au client. Il profite également de l'incapacité du contribuable d'évaluer objectivement sa propre situation et ses performances. Cette dynamique conduit le contribuable à se fier aux suggestions et au travail du professionnel, en croyant que celui-ci agit et prend des décisions dans son intérêt. L'évidence empirique, cependant, ne soutient pas cette conviction : elle a été démontrée, en effet, que le comptable peut même agir dans le but d'augmenter uniquement son propre intérêt, donc au détriment de la recherche du bien-être de ses clients. L'hypothèse sous-jacente affirme un manque de responsabilité finale de la part du professionnel qui agit en manière rationnelle.

En partant de l'asymétrie d'information dans les contextes professionnels, l'analyse a ainsi mis en évidence une hypothèse de parallélisme avec le domaine médical ; dans ce dernier contexte, l'attention a été portée sur les situations dans lesquelles le fournisseur

induit la demande. L'hypothèse de commencer du contexte médical, largement discutée dans la première partie, est justifiée par une étude et un débat approfondi qui s'appuie à une littérature de 30 ans. Cela a permis une analyse profonde des différentes dynamiques dans la relation patient /médecin. La situation a été développée ultérieurement sous les hypothèses conséquentes d'aléa moral et de sélection adverse, générés par l'asymétrie d'information entre les deux parties impliquées dans le contexte des relations professionnelles. L'apport de l'analyse s'est concentré sur la reconstruction de la dynamique relationnelle entre les contribuables et le comptable. Cependant, il prend également en considération les études réalisées dans le domaine juridique et identifie les particularités du secteur qui permettraient la création de conditions idéales pour générer le phénomène d'induction de la demande. En effet, la relation entre le comptable et le client, développée et décrite dans la première partie, est caractérisée par la conviction que le professionnel des impôts, soit la personne mieux placée pour prendre une décision au lieu du client. Le conseiller est considéré comme le gestionnaire du portefeuille, qui connaît à la perfection l'histoire fiscale du client. De plus que le client, conscient de son propre manque de connaissance, de compétences et d'expérience, se fie très facilement à la décision du professionnel.

Une autre contribution à la recherche a été exprimée dans la seconde section : à travers une démonstration empirique, on a mis en évidence la possibilité de créer des phénomènes d'induction puisque le professionnel peut soit conseiller que fournir un service. Le contexte résume les caractéristiques de spécificité, d'incertitude et d'asymétrie qui créent un pont parfait avec l'hypothèse initiale de parallélisme avec le domaine médical et juridique. Enfin, dans la dernière partie, on a montré comment un environnement institutionnel incertain nuit aux contribuables. Effectivement, un

contexte caractérisé par une qualité médiocre conduit à des situations de plus grande rentabilité pour les professionnels, conséquence directe de l'augmentation des coûts de transaction supportés par les contribuables. Dans un contexte institutionnel pauvre, le contribuable a de plus en plus besoin de se tourner vers le professionnel pour les services de relation avec l'administration publique, pour la gestion de situations et de dynamiques locales peu claires ; tout a été mis en évidence grâce à la démonstration de l'existence des cours d'appel de faible qualité incapable de contester les actions des professionnels. La démonstration a été réalisée à travers une analyse empirique qui a adopté l'utilisation de variables instrumentales afin de montrer la relation causale qui devait être à la base des hypothèses de recherche.

Le résultat vise à contribuer à la recherche de la dynamique concernant l'étude des relations professionnelles. Il en souligne la nécessité de développer une enquête dans le but d'améliorer le système institutionnel dans son ensemble, à partir d'une majeure l'efficacité du système public. Un processus qui passe à travers la simplification des relations institutionnelles peut conduire à une baisse des coûts de transaction, et à réduire la nécessité de s'adresser aux professionnels. Comme résultat, on attend donc des relations économiques plus stables et par conséquent une augmentation directe de l'attractivité de l'investissement. L'appel à exprimer nouvelles hypothèses liées au développement vise, en cas particulier, à améliorer le système fiscal par le biais de la simplification et à rendre la relation entre le contribuable et le système fiscal moins onéreuse et compliquée. Cela permet de sensibiliser l'opinion publique et réduire l'hypothèse d'erreur. L'attention doit alors être portée sur la conception du système institutionnel dans son ensemble et sur son application effective, afin de rendre de moins en moins nécessaire le recours aux spécialistes.

La contribution générale à la recherche se résume avec l'attention portée à la dynamique relationnelle entre le comptable et le contribuable. Ce rapport suscite, en raison de la complexité du système, des hypothèses de demande induite par le fournisseur à l'avantage direct du professionnel. Le professionnel est désormais en mesure d'exploiter sa position sans subir aucune répercussion. En réalité, comme on l'a hypnotisé dans l'article, les résultats de la performance entraînent des répercussions minimales sur le professionnel puisque les biens faisant l'objet de la discussion sont comparables à des biens de crédibilité : biens qui ne peuvent pas être évalués par le client utilisant le service. En effet, ce dernier ne possède ni les compétences ni les connaissances qui lui permettraient de juger et d'évaluer la performance. Un développement ultérieur des études peut également être influencé non seulement sur les aspects du litige, mais pourrait être utile pour comprendre la dynamique qui sous-tend les décisions concernant les revenus déclarés par le contribuable ; en particulier, on peut s'interroger sur l'influence du facteur commercial sur la dynamique et la véracité des déclarations, toujours en considérant l'asymétrie d'information et la confiance pour les conseils et les décisions prises du conseiller. Enfin, on suggère l'évaluation des outils capables d'automatiser la déclaration. Ces moyens ont la potentialité de simplifier les relations en réduisant la complexité et le recours au professionnel. On juge ainsi nécessaire d'introduire l'hypothèse de renforcer le rôle du comptable à travers l'étude des dynamiques qui sont à la base des suggestions fournies par les experts. De telle façon, le comptable serait plus impliqué dans les dynamiques procédurales et de contrôle afin de vérifier s'il représente un véritable intermédiaire entre l'État et le contribuable.

## **General conclusion**

This thesis addresses a theme that has not been adequately analyzed in literature: the relationship between taxpayer and accountant. The analysis conducted in this work, through the collection of literature and data study, aimed at identifying possible market failures in this relationship. The particular context, in which the parties act, is an environment characterized by information asymmetries, thus resulting in the creation of advantage hypotheses for the more informed party. The accountant, in fact, as illustrated in the three different sections of this work, finds himself/herself benefiting from a position of superiority, linked both to a greater availability of information and experiences, and to the client's inability to objectively evaluate his/her own situation and performance. This dynamic leads the taxpayer to rely on the professional's suggestions and work, in the belief that the same acts and makes decisions in his/her interest. The empirical evidence, however, does not support this: it was demonstrated indeed that the accountant can act with the aim of increasing only his/her own interest, therefore to the detriment of his/her clients well-being pursuit. The underlying hypothesis is the rational action of the professional who finds himself/herself deprived of the responsibility for the final result of his/her choices.

Starting from the information asymmetry in professional contexts, the analysis therefore highlighted a hypothesis of parallelism with the medical field; in this latter context, attention was paid to the situations in which supplier induced demand is generated. The hypothesis of starting from the healthcare context, as widely discussed in the first part, is justified by an extensive study and debate of almost 30 years of literature that allowed

a deep analysis of the different dynamics in the patient-doctor relationship. The situation was further developed under the consequent hypotheses of moral hazard and adverse selection generated by the information asymmetry between the two parties involved in the context of professional relationships. The contribution of the analysis focused on the reconstruction of the relational dynamics between taxpayers and accountant, also exploiting the studies conducted in the legal field, identifying the peculiarities of the specific sector that allow the creation of ideal conditions for the generation of demand induction phenomena. In fact, the relationship between accountant and client, as developed and described in the first part, is characterized by the belief that the professional, being the custodian of the client's tax history, is the best person appointed to make the most congenial decision to the subject's situation and, furthermore, the client, being aware of his/her own lack of knowledge, skills and experience, relies very easily on the professional's decision.

A further contribution to the research was expressed in the second section: through an empirical demonstration the possibility of creating induction phenomena is highlighted, since the professional can both advise and provide a service. Therefore, the context summarizes the characteristics of specificity, uncertainty and asymmetry that create a perfect link with the initial hypothesis of parallelism with the medical and legal field. Finally, in the last part, evidence was given of how an uncertain institutional environment characterized by poor quality leads to situations of greater profitability for professionals as a direct consequence of the increase in transaction costs borne by taxpayers. In a scarce institutional environment, the taxpayer has an increasing need to turn to the professional, both for relationship services with the public administration and for the management of unclear local situations and dynamics; all this was made evident

by the demonstration of the existence of low quality appeal institutions towards professionals' installation. The demonstration was carried out through an empirical analysis which adopted the use of instrumental variables in order to highlight the causal relationship that was supposed to be the research hypotheses' basis.

The result aims at contributing to the research of the dynamics 'study of professional relationships by highlighting the need for investigative developments in order to improve the institutional system as a whole, starting from an increase in the public system's efficiency. A process conducted through a simplification of institutional relations can lead to transaction costs lowering, with a clear decrease in the need to contact a professional. The expected final result is a greater certainty in the economic relations with a direct increase in the investment's attractiveness. The invitation to further development hypotheses are aimed at improving, in this particular case, the tax system through simplifications making the relationship between the taxpayer and the tax system less onerous and complicated in order to increase awareness and reduce the hypothesis of error. Attention, therefore, must be placed on the design of the institutional system as a whole and on the effective application of the same, in order to make the use of a dedicated professional less and less necessary.

The general contribution to the research is therefore summarized in the attention to the relational dynamics between accountant and taxpayer which, due to the complexity of the system, provoke hypotheses of supplier induced demand to the direct advantage of the professional. The professional is now in a position to exploit his/her position without repercussions. In fact, as hypothesized in the course of the thesis, the performance results have minimal repercussions on the professional since the goods subject to the discussion are similar to credence goods. And these goods cannot be



evaluated by the customer using the service. In fact, the same lacks both the skills and the knowledge that would make it able to judge and evaluate the performance. Further development of studies can also be influencing not only on the litigation's aspects, but also to understand the dynamics underlying the decisions in terms of the quantity declared by the taxpayer; in particular, one can question the influence of the commercial on the dynamics and the veracity of the statements, always under the hypothesis of information asymmetry and entrust to the advice and decisions of the same. Finally, it is advisable to evaluate tools capable of automating the declaration that can in some way simplify relations by reducing the complexity and recourse to the professional; just as it is also possible to introduce the hypothesis of empowering the role of the accountant through the study of the dynamics of the provided advice, assuming a greater involvement both in the ascertainment and procedural dynamics in order to verify the possibility of addressing the accountant's role as a true intermediary between the state and the taxpayer.

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