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Tax Literacy of the Working Youth in Portugal

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Master in Management

Supervisor:

PhD, Paulo Jorge Varela Lopes Dias, Assistant Professor

Iscte – Instituto Universitário de Lisboa

September, 2024



BUSINESS
SCHOOL

Department of Marketing, Operations and General Management

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Acknowledgments

This dissertation represents the culmination of a long academic and personal journey, which would not have been possible without the support and encouragement of various people. I want to express my heartfelt gratitude:

- To my parents who support and love me unconditionally at every moment of my life
- To my boyfriend who has been there for me every step of the way and has made my worries so much easier
- To my grandparents for all their love and concern
- To my friends and work colleagues who encouraged me to continue with this project while working and made it easier for me to let all the steam off my chest.
- To my advisor who, in moments of disorientation, helped with his knowledge and professionalism
- To those who are not with me, who accompanied me in all my hours of despair and happiness.

Resumo

A fiscalidade é um aspeto fundamental de qualquer sociedade, uma vez que financia os serviços públicos e contribui para o desenvolvimento económico de um país. No entanto, a complexidade dos sistemas fiscais, bem como a falta de educação fiscal, pode levar a problemas como a evasão fiscal e a descrença nas instituições do Estado e a uma moral fiscal baixa. Este estudo analisa o impacto da iliteracia fiscal nos indivíduos em início de carreira em Portugal, centrando-se nos seus conhecimentos fiscais e atitudes face ao cumprimento da legislação. Partindo da ideia de que a tributação deve ser considerada um dever cívico e não uma obrigação, a investigação explora a forma como a ausência de educação fiscal nos currículos portugueses influencia a relação entre os cidadãos e as autoridades fiscais.

Através de um estudo empírico com cidadãos em início de carreira profissional em diversas áreas, esta tese pretende analisar a predisposição dos indivíduos para melhorar os seus conhecimentos fiscais e as suas percepções sobre se a educação fiscal formal seria vantajosa para a sua vida pessoal e profissional. O estudo avalia ainda se a iliteracia fiscal contribui para uma fraca moral fiscal, levando a um aumento do incumprimento e a um enfraquecimento do contrato fiscal entre o governo e os seus cidadãos. Espera-se que os resultados permitam compreender os potenciais efeitos positivos da integração da educação fiscal em fases anteriores do sistema educativo, de forma a promover um melhor cumprimento fiscal e a estabilidade macroeconómica em Portugal.

Palavras-chave: Cumprimento; Educação Fiscal; Evasão Fiscal; Fiscalidade; Literacia; Moral Fiscal.

Abstract

Taxation is a fundamental component of any society since it finances public services and contributes to a country's economic development. However, the complexity of tax systems along with the lack of tax education, can lead to problems such as tax evasion, distrust in state institutions, and low tax morale. This study analyzes the impact of tax illiteracy on individuals in the early stages of their professional careers in Portugal, focusing on their tax knowledge and attitudes toward compliance. Starting from the idea that taxation should be viewed as a civic duty rather than an obligation, the study investigates how the lack of tax education in Portuguese curricula affects the relationship between citizens and tax authorities.

Through an empirical study of citizens at the beginning of their professional careers in various fields, this thesis aims to analyze the predisposition of individuals to improve their tax knowledge and their perceptions of whether formal tax education would be advantageous for their personal and professional lives. The study also assesses whether tax illiteracy contributes to poor tax morale, leading to an increase in non-compliance and a weakening of the fiscal contract between the government and its citizens. It is expected that the results will allow an understanding of the potential positive effects of integrating tax education into earlier stages of the education system, in order to promote better tax compliance and macroeconomic stability in Portugal.

Keywords: Compliance; Literacy; Taxation; Tax Education; Tax Evasion; Tax Morale

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List of Abbreviations

EESC - European Economic and Social Committee

EU - European Union

FIIAPP - The International and Ibero-American Foundation for Administration and Public Policies

IMI – Municipal Tax on Property

IMT – Municipal Tax on the Transfer of Property

IRC – Corporate Income Tax

IRS – Personal Income Tax

IS – Stamp Duty

IVA/VAT – Value-added tax

OECD - Organization for Economic Co-operation and Development

PTA - Portuguese Tax and Customs Authority

SPSS - Statistical Package for the Social Sciences

CHAPTER I - Introduction

Taxation is a critical element of society, and according to Lopes and Brites (2016), taxes should be viewed as a citizen's duty rather than an obligation, because it is an essential component of the State's existence, the revenue collected from taxes finances the government to provide public services and for the country's economic development.

In a democracy, citizenship implies that to have rights and freedom, there are obligations to fulfill duties and responsibilities to the community or nation, which makes people part of a fiscal contract¹ with the state, citizens pay taxes, and the government provides public services. The breach of contract, on citizens' behalf, negatively affects the individuals, who will need to pay higher rates to compensate for the non-compliance of others, and consequently impacts the capability of the government to support fundamental services for the society. However, if the government fails to provide, people feel that their money is not being properly used, and subsequently tax evasion rates get higher, and the revenue received from taxes decreases.

Tax compliance is fundamental in order to have macroeconomic stability in a country. Once there is a significant level of tax avoidance, it is necessary to enforce compliance. According to the Organization for Economic Co-operation and Development (OECD), improving citizens' tax morale is a way to decrease the need for compliance enforcement. Tax morale depends on the willingness of an individual to comply with taxes voluntarily. Nevertheless, for there to be tax morale, taxpayers must understand their rights and duties, and most importantly, they must comprehend the intrinsic necessity to pay taxes.

Taxation is not directly taught regardless of academic level in Portugal unless one chooses to study socioeconomics at university. However, it will be a subject that will have an impact on the lives of every citizen. In order to have higher tax morale, taxation should be introduced in education at an early age. University students would have to be made aware of the taxes payable

¹ “The fiscal contract is that there are potential gains from trade. In principle, taxation is a bargaining game in which states and citizens reach a mutually beneficial deal, whereby states exchange goods and services for revenue.” (Timmons, 2004)

when they start working, understand why they must make discounts, and know which taxes to pay buying a car or their first house because these students will be the next generation of taxpayers in society. In this sense, it is imperative to understand the tax system in force in each country.

According to Hoppe, et al. (2021), the Portuguese tax system is rated as being highly complex, and World Bank (2013) ranks Portugal as a leading country in terms of tax bureaucracy in Europe. The Portuguese tax system is based on a set of state and local taxes, whether direct or indirect. The economic nature of taxes can be distinguished between taxes on income, taxes on patrimony, taxes on consumption, and social security contributions. The Portuguese tax system relies on a variety of state and local taxes, in both direct and indirect form. The economic essence of taxes can be divided into four categories: income taxes, patrimony taxes, consumption taxes, and social security contributions.

The literature regarding Portuguese tax literacy is not abundant, even though tax education in Portugal is being promoted through initiatives by the government and non-governmental organizations. The level of tax literacy among Portuguese citizens is low which may lead to an unpleasant relationship of distrust and uncertainty between Tax Authorities and the population.

The main objective of this dissertation is to understand the impact of fiscal illiteracy in the early years of a career in Portugal. Additionally, the willingness of the citizens to increase their knowledge and to have a perception of the introduction of curricular tax education would be helpful on the professional and personal levels. Therefore, it is important to carry out an empirical study with people who have recently graduated and are in the job market, in different fields of expertise, so that it is possible to determine whether the training they have or have not received has an impact on their tax knowledge and their understanding of taxation as citizens.

The following research starts with a review of the literature, addressing taxation and tax literacy, the difference between tax compliance and tax morale, the importance of tax education, and a brief explanation of the Portuguese tax system and Portuguese taxpayers' literacy. Subsequently, the methodology used, and the hypothesis are to be validated with the research. The data presentation which was acquired with the answers to the questionnaire and a discussion of the results obtained, followed by the conclusion of the investigation.

CHAPTER II - Literature Review

2.1. Taxation and Tax Literacy

The great subject of this dissertation is tax literacy, which makes it important to mention certain concepts and definitions of taxation and the importance of being tax literate in order to comply with obligations and have greater tax morale.

According to the European Economic and Social Committee (EESC), taxation is crucial to create revenue for governments since it impacts significant areas including development, investment, and employment. “Taxation affects citizens and companies (...) as a multidimensional phenomenon. Not just as a simple legal, economic, and political phenomenon, but essentially as a human and social phenomenon” (Santos, 1999). The government’s revenue is guaranteed through the application of a set of taxes and laws levied on income and patrimony (direct taxation), or consumption (indirect taxation). Taxation provides funding for services and products that are not delivered by the market, schools, highways, legal system, and national defense for example. Direct taxation, such as wealth and propriety taxes, can be used to create a more equitable society. Furthermore, through indirect taxation, every sale, importation, or exportation is taxed, however, the application of higher taxes on some products like alcoholic beverages, tobacco, or gambling, which is called “sin tax”, therefore taxation can discourage consumers from purchasing these items or services. Thus, from an economic perspective, the effective use of taxes can lead to the macroeconomic stabilization of a country, and from a social point of view, it has the potential to reduce disparities in society. (Basariya, Arab, & Ahmed, 2019) Additionally, it is essential from a human and social perspective to provide public services such as the healthcare system and education, taxpayers are the cause and measure of the nature of every tax. Therefore, since individuals and companies are the main forces behind the tax system, it becomes important to understand the complex of taxes applicable in their country of residence.

According to Clercq (2021), Tax literacy is a component of financial literacy that involves having specialized knowledge about taxes and the numerical skills necessary to handle tax-related calculations. Mahajan (2022) defines tax literacy as “the acquisition of knowledge and skills to

manage the tax properly, adhering to tax provisions and become self-dependent for the computation of tax liability under various heads of income, claim deductions, timely payment and e-filing of returns. The main concern of taxation literacy is to increase the revenue from the public without inviting any litigation, i.e., through voluntary compliance of tax by the taxpayers.”. The ability to understand and correctly interpret taxes is the result of tax education, which enables people to acquire knowledge about tax information and understand their obligations and rights, in other terms to have tax literacy.

According to Chardon, et al. (2016), tax literacy is a part of financial literacy, which is defined as “the ability to make informed judgments and to make effective decisions regarding the use and management of money”, the results of Chardon's previous research demonstrate that the population under study presented a high level of financial literacy, however when questioned about their level of fiscal literacy, “had tax literacy scores classified either ‘poor’ or ‘low’”. (Chardon, Weathering the Storm: Tax as a Component of Financial Capability, 2011). Even though tax literacy may be considered a subset of financial literacy, it should be an essential component of citizens' educational curriculum.

“Weak understanding of taxes lowers the level of trust citizens have in the tax system. This can translate into higher rates of tax evasion or avoidance, raising the cost of taxation for everyone. It can also lead to the failure of social programs to reach their intended targets.” (Godbout, Genest-Grégoire, & Guay, 2017). The following section explains the importance of tax morale to have greater tax compliance, resulting in lower rates of tax evasion and avoidance.

2.2. The relation between Tax Compliance and Tax Morale

Lang, et al. (2018) believe that tax compliance is “an essential component of any well-functioning tax system”, and Roth, et al. (1989) define compliant taxpayers as people who “fulfill every aspect of their tax obligations, including registering with the tax authority as required; filing the required returns on time; accurately reporting tax liability (in the required returns) in accordance with the prevailing legislation, rulings, return instructions, and court decisions; paying any outstanding taxes as they fall due; and maintaining all records as required.”, in other words, tax compliance is

the decision of taxpayers to comply with tax laws and regulations by paying taxes on time and accurately.

Accordingly, Oladipo, et al. (2022), refers to tax compliance as the willingness of taxpayers to comply with tax laws to achieve economic balance and the process of convincing taxpayers to follow the laws. In this sense, some various theories and models underpin citizens' tax compliance, for instance the following:

Table 1 - Theories of tax compliance: key concepts

Theory/Model	Description	Key Authors	Key Factors Affecting Compliance
Economic Deterrence Model	Taxpayer behavior is influenced by the tax rate, the likelihood of detection, and penalties for fraud, which determine the benefits and costs of tax avoidance.	Allingham and Sandmo (1972)	Tax rate, detection likelihood, fraud penalties
Financial Exchange Theory	Compliance is encouraged by incentives; governments can improve compliance by providing preferred products effectively and accessibly.	Cowell and Gordon (1988)	Incentives, effective and accessible government services
Social Influence Theory	Individuals' compliance behavior is influenced by social norms and the behavior of their reference group.	Snavely (1990)	Social norms, reference group behavior
Political Accountability Model	Tax compliance depends on the trust citizens have in their governments.	Kirchler et al. (2008)	Trust in government
Theory of Planned Behavior	Perceived behavioral control, influenced by attitudes, subjective norms, and control beliefs (skills, resources, and opportunities), impacts tax compliance behavior.	Saad (2011)	Perceived control, attitudes, subjective norms, controlling beliefs
Comparative Treatment Theory	Fairness and reasonableness of the tax system affect tax compliance behavior.	Walsh (2012)	Perceived fairness and reasonableness of the tax system

Tax administrators have a concern about tax compliance and the level of enforcement needed to have greater compliance however, there is a “great deal of emphasis on improving “tax morale”, by which they² generally mean increasing voluntary compliance with tax laws and creating a social norm of compliance.” (Luttmer & Singhal, 2014)³. The OECD and The International and Ibero-American Foundation for Administration and Public Policies (FIIAPP) (2015) noted that “low tax morale not only weakens the citizens’ commitment to the common social project, it also reinforces a vicious cycle: people justify not paying their taxes on the grounds that the state is not keeping its side of the social bargain; this leads to insufficient revenue for improving services, services decline and so the cycle perpetuated”, so, tax morale can be considered tax compliance due to the taxpayer's will rather than because it is merely an obligation. The OECD stated the existence of a “vicious cycle” that can perhaps be broken by increasing the tax morale of citizens, with the premise that greater tax morale leads to lower fiscal evasion. Tax morale can be increased through education which is the subject in the coming section.

2.3. The Importance of Tax Education

“Taxpayer education is a means of empowering taxpayers, giving them knowledge and tools to be able to better understand the tax system, increase tax morale and, finally, increase tax compliance” (OECD, 2021). Taxation is not directly taught regardless of academic level unless one chooses to study socioeconomics at university. However, it will be a subject that will have an impact on the lives of every citizen. The education of citizens in taxation is not limited by age, young adults and university students are the next generation of taxpayers, and it is imperative to educate them to improve taxpayers’ trust and consequently voluntary compliance.

The main objective of tax education is to “confer not only an obligation and necessity to pay tax but also social justice and public benefit of taxes. Paying taxes is a major goal of the state and its citizens. Justice is served only when everyone pays the taxes imposed on them. The more

² Reference to tax administrators.

³ The authors used a different definition to proceed with the investigation – “We will define tax morale broadly as an umbrella term capturing nonpecuniary motivations for tax compliance as well as factors that fall outside the standard, expected utility framework.” (Luttmer & Singhal, 2014).

people will report about their income and pay their taxes, the less each of us will pay”. (Israel Tax Authority, 2023)

The OECD and FIIAPP report from 2015 explains that taxpayer education is not a means to have more revenue by creating teaching programs, nor is the main objective to collect more money for the government or to simply explain why taxes should be paid in the first place. The main objective of taxpayer education is to raise awareness among citizens of the social value of taxes and how it impacts not just the lives of individuals but also the financial condition of the country in which they live. Additionally, it implies establishing consciousness that tax avoidance policies only contribute to others paying more, and aggravate the country's economic recession, which is detrimental to its development and, as a result, to society's comfort. Tax education is essential in addressing tax fraud and evasion, not only for individuals who deliberately avoid fulfilling their obligations but also for those who are unaware of their responsibilities. (Saad, 2014) There is a need to make citizens aware of the correct fulfillment of their tax duties and to make them aware of their rights and duties. Tax education is one way of addressing this lack of fiscal responsibility.

Briefly, tax education should make individuals aware of their tax rights and duties, essentially the payment of taxes, the functioning of the State, and the use of resources, as well as raising consciousness about the fulfillment of civic duty and encouraging the rejection of tax evasion.

Tax education is intended to make citizens conscious of their tax obligations and rights. In this sense, each citizen should understand how the tax system works in one's own country to be compliant and have higher tax morale.

2.4. Tax System in Portugal

The Portuguese tax system encompasses a variety of taxes levied on individuals, businesses, and transactions. The Portuguese tax system is based on the Constitution of the Portuguese Republic of 1976, which defines the underlying principles, particularly concerning the nature of taxes and the rights and guarantees of taxpayers. This system is based on a set of state and local taxes, whether direct or indirect.

According to Portuguese Tax Law, the economic nature of taxes can be distinguished between taxes on income, taxes on patrimony, taxes on consumption, and social security contributions.

- Taxes on income are subdivided into personal income tax (IRS) and corporate income tax (IRC).
 - IRS applies to the income of Portuguese residents and non-residents who obtain income in Portugal. The tax is determined according to the amount of income earned, with the corresponding rate being applied, depending on the scale to which you belong, and taking into consideration the deductions provided for by law (e.g. education or health expenses).
 - IRC is based on the real profit of companies, generally at a tax rate of 21%, and on the elimination of economic double taxation of distributed profits.
- Taxes on patrimony are subdivided into municipal tax on property (IMI) and municipal tax on the transfer of property (IMT)
 - IMI is levied on the taxable value of rural and urban properties in Portuguese territory.
 - IMT is a tax on the transfer of the right of property in immovable property situated in national territory and is charged on the value stated in the contract or, if higher, on the property's patrimonial tax value,

Both are taxes collected by the local municipalities where the properties subject to this tax are located. (Diário da República, 2024)

- The taxes on consumption are the value-added tax (in Portuguese IVA, in English VAT) and the stamp duty (IS)
 - VAT is a tax applied to sales or services provided in Portugal. VAT is paid by the consumer when they pay for a good or service. The vendor or service provider receives the VAT amount and then submits it to the Portuguese Tax and Customs Authority (PTA).
 - IS applies to all acts, contracts, documents, titles, papers, and other legal facts or situations, including transfers of assets free of charge. Transactions subject to VAT

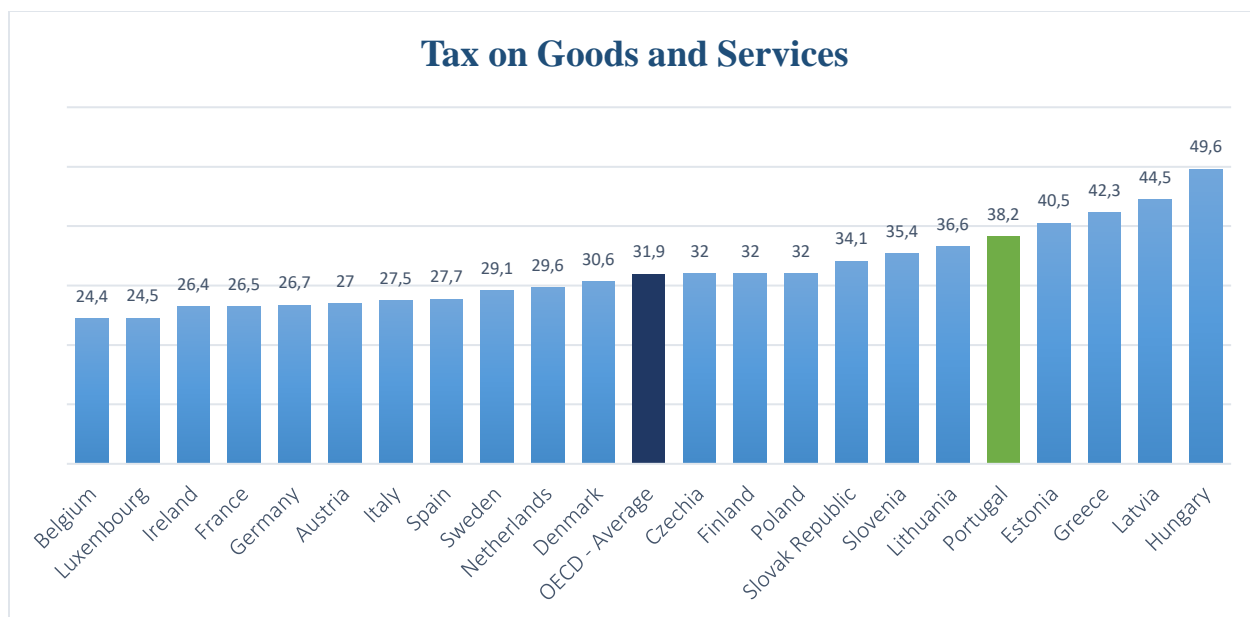
are not subject to IS. Stamp duty is the oldest tax in the Portuguese tax system, created in 1660. (Diário da República, 2024)

- Regarding social security contributions, employers are responsible for the payment of the contributions of the people working in their service. The contributions paid by the employer to Social Security include the percentage that concerns them and 11% of the employee's remuneration. These social security contributions entitle the Portuguese citizen to benefits such as sickness or unemployment subsidies and a pension in the event of disability or retirement.

These are the principal taxes that constitute the Portuguese tax system. Nevertheless, there are still other taxes that are levied on the circulation of vehicles, the consumption of tobacco, and the consumption of alcoholic beverages, for example.

According to OECD, “tax on goods and services is defined as all taxes levied on the production, extraction, sale, transfer, leasing or delivery of goods, and the rendering of services, or on the use of goods or permission to use goods or to perform activities” which consist mainly of VAT⁴. Portugal has amongst the highest rates in the European Union (EU), in indirect taxes such as VAT, as shown in the graphic below for the year 2022.

⁴ The percentages presented in Graphic 1 - Tax on goods and services - Total, % of taxation, 2022 or latest available are covered by “multi-stage cumulative taxes; general sales taxes - whether levied at manufacture/production, wholesale or retail level; value-added taxes; excises; taxes levied on the import and export of goods; taxes levied in respect of the use of goods and taxes on permission to use goods, or perform certain activities; taxes on the extraction, processing or production of minerals and other products. This indicator relates to government as a whole (all government levels) and is measured in percentage both of GDP and of total taxation.” (OECD (A), 2024)

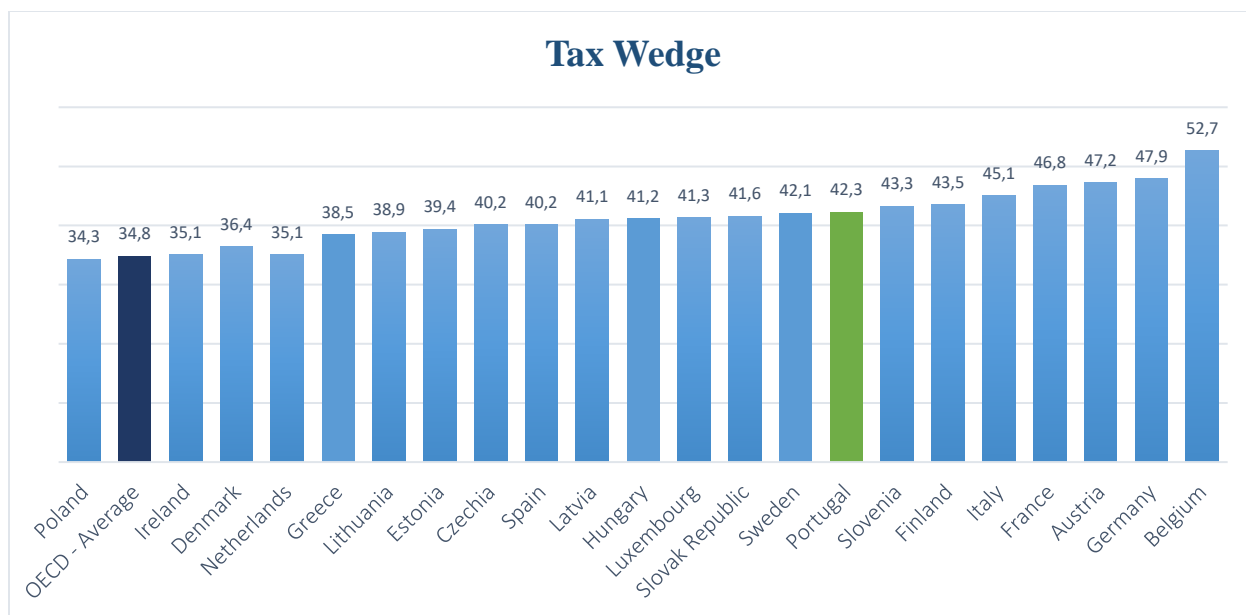


Graphic 1 - Tax on goods and services - Total, % of taxation, 2022 or latest available

Source: Revenue Statistics: Comparative tables (OECD (A),2024)

As shown in Graphic 1, the tax rate on goods and services in Portugal is 38.2% higher than the OECD average of 31.9%, and a difference of 13.8 percentage points to Belgium, which is the country in the EU with the lowest figure. In terms of EU countries, Portugal has the fifth highest tax rate on goods and services, with only Estonia, Greece, Latvia, and Hungary having higher rates.

The OECD presents a new analysis focusing on the comparison between countries of the tax burden on labor by analyzing income tax paid by employees, cash benefits received by in-work families, and the associated social security contributions and payroll taxes made by employees and employers, which are key factors affecting the workforce participation and hiring decisions of individuals and businesses respectively. Graphic 2 demonstrates the percentage of labor costs for a single person with no children in the European Union in 2023.



Graphic 2 - Tax wedge for the average single worker in European countries (2023)

Source: (OECD (B), 2024)

In Graphic 2, Belgium presents the highest percentage of tax wedges with 52,7% and Poland with the lowest with 34,3% of EU. Portugal presents the eighth highest value having a tax rate of 42,3%, which shows a difference of 7.5 percentage points to the OECD average.

In an analysis comparing Graphic 1 and Graphic 2, Belgium shows the lowest values on taxes on goods and services and the highest tax burden on labor, creating a balance between indirect taxes and direct taxes, respectively. Following the same idea of analysis, countries like Germany, Austria, and France have higher rates in the second graphic and lower percentages in the first graphic. In the case of Portugal, it is the country with greater taxes on labor and taxes on goods and services, simultaneously. Portuguese taxes have the highest values in both the goods and services rate (5th place) and the labor rate (8th place) in the countries of the European Union.

In this sense, it is important to evaluate the level of tax literacy and tax education among Portuguese citizens, in order to understand whether the need for high rates is justified by poor knowledge leading to cases of tax evasion and tax crime.

2.5. Tax Literacy in Portugal

Tax education in Portugal is being promoted through various initiatives by the government and non-governmental organizations.

An unpleasant relationship between the taxpayer and the tax authority may lead to distrust and rejection to the government's actions. In this sense, over the last few years, the government began to work on simplifying tax processes, such as the introduction of automatic IRS, in which certain information is pre-filled to facilitate filling in the tax return. These measures aim to increase tax literacy by reducing the complexity involved. Additionally, the government and other entities often launch awareness campaigns to inform citizens about their tax rights and duties, such as the deadline for submitting tax returns, the importance of requesting invoices with initiatives to motivate this request.

Portuguese citizens have little civic awareness when it comes to fulfilling their tax obligations and there should be collaboration between the Tax Authority and the Ministry of Education to foster this civic-tax awareness in the younger age groups of the population. Nevertheless, citizens are interested in learning more about the subject and consider the existence of tax plans, programs, and initiatives important for the evolution of tax literacy in Portugal.

In December of 2023, it was proposed by the Bill of Resolution no. 952/XV/2 of the Assembly of Republic which aimed to "include elementary aspects of financial literacy in the elementary school curriculum so that all students are exposed to them regardless of the vocational choices they make in high school", the bill was rejected and there were no further developments with the new political conjuncture of the country. The implementation of financial education in elementary or secondary education would have an impact on tax education for the following generations of taxpayers in Portugal.

CHAPTER III – Methodology

3.1. Research Question

The dissertation, for which this thesis project is presented, consists of a literature review demonstrating the importance of fiscal literacy and tax education. The main purpose of this dissertation is to determine the level of tax literacy among the working youth in Portugal, as they represent the upcoming generation of taxpayers whom are expected to pay taxes over the course of the next four decades.

The research question for the dissertation is “What is the level of tax literacy of the young working class in Portugal?”.

3.2. Purpose and Method

In this sense, to research the level of tax literacy, a questionnaire survey⁵ was used as a quantitative research method, as it involves a systematic process of collecting quantifiable data and analyzing it according to a set of rigorous statistical techniques. The formulation of the questionnaire was based on pre-existent surveys of tax literacy, and due to the lack of material in this area, were also used questionnaires regarding financial literacy and adapted for the reality of this research. The questionnaire had open-ended questions with short answers, and closed-ended questions with multiple-choice answers, and scale answers based on the five-point Likert scale which is a rating system that allows respondents to express a range of opinions with five response options with two extremes, two intermediate, and one neutral option.

The questionnaires were published online from the 13th of April 2024 until the 22nd of June 2024. The survey was directed at the recent working generation, with a limit of ten years as a taxpayer. The population of interest for this sample is Portuguese citizens, female and male, aged over eighteen, of the working class for less than ten years, with different levels of education, nature, type of profession, and income.

⁵ Annex I - Questionnaire

In order to process the data, the SPSS (Statistical Package for the Social Sciences) computer program will be used.

3.3. Hypotheses

Regarding the hypotheses that will be tested in this dissertation, it is intended to determine whether the existence of tax education on an academic level had effects on the beginning of the early life as a taxpayer. Godbout, et al. (2017) states that “A good understanding of the tax system has also been shown to increase taxpayers’ inclination to comply with their full taxpaying obligations.” (Godbout, Genest-Grégoire, & Guay, 2017). Accordingly, some argue that higher education increases tax compliance, defending that higher education citizens have a greater understanding of law and taxation, and in this sense are more tax compliant. (Lewis, 1982; Torgler, et al., 2007; Godbout, et al., 2017)

Hypothesis 1: Having tax education in the academic background reflects a higher level of tax literacy.

Additionally, it is intended to understand if having a higher income has any reflection on the level of tax literacy amongst Portuguese citizens. Higher-income level is frequently linked to easier access to resources and education which enhance financial literacy, in particular comprehension of taxes (OECD, 2013). Alm and Torgler (2006) indicate that people with greater incomes typically pay their taxes more on time, which may be connected to their greater knowledge and comprehension of tax regulations. Accordingly, Kappler, et al. (2013) suggest that individuals with greater incomes normally tend to exhibit a higher financial literacy, including the understanding of taxes and compliance.

Hypothesis 2: Having a higher income reflects a higher level of tax literacy.

Furthermore, the objective of the research is to have a perception of whether Portuguese citizens would be interested in having tax education and at what stage in life it would have been important to receive such education. Teaching financial literacy at a young stage in life prepares individuals for adult responsibilities such as taxes, savings, and budgeting. (Lusardi & Mitchell,

2013) Introducing tax literacy in the secondary education system is important because it coincides with students' increasing engagement with financial systems, including part-time jobs and savings.

Hypothesis 3: Citizens strongly support implementing tax literacy programs in school curricula to improve the levels of tax literacy in society.

The following chapter regards the analysis of the data collected through the questionnaires, with the intention to answer the hypotheses raised in the research.

CHAPTER IV – Data Presentation and Discussion of Results

4.1. Statistical Analysis

The statistical analysis involved descriptive statistics (absolute and relative frequencies, means and respective standard deviations) and inferential statistics. This included the Student's t-test for one sample, the Student's t-test for independent samples, the One-Way Anova test, the Kruskal-Wallis test, Fisher's test and the Chi-square test of independence. For samples with a size greater than 30, normality of distribution was accepted according to the central limit theorem. The normality of distribution was analyzed with the Shapiro-Wilk test and the homogeneity of variances with the Levene test. The chi-square assumption that there should be no more than 20% of cells with expected frequencies lower than 5 was analyzed. In situations where this assumption was not met, the Chi-Square test was used by Monte Carlo simulation. The differences were analyzed using the standardized adjusted residuals.

The significance level for rejecting the null hypothesis was set at $\alpha \leq 0.05$ however, if $0.05 < \alpha \leq 0.10$, considered marginally significant.

The statistical analysis was carried out using the software Statistical Package for the Social Sciences (SPSS) version 29 for Windows.

4.2. Characterization of the sample

In order to characterize the respondents as much as possible, while maintaining their anonymity, some sociodemographic questions were asked. As such, respondents were asked about their gender, age, education, level of income, time in the working market, and professional status.

The sample consisted of 140 respondents. The majority were female (64.3%), aged between 21-25 (63.6%), had a bachelor's degree (61.4%), had an annual income of between €10,000 and €20,000 (52.1%), had been in the job market for between 1 and 5 years (53.6%) and were employees (92.1%).

Table 2- Characterization of the sample

	N	%
Gender		
Female	90	64,3
Male	50	35,7
Age		
< 21	3	2,1
21-25	89	63,6
26-30	40	28,6
> 30	8	5,7
Education		
Primary or Secondary	20	14,3
Degree	86	61,4
Master's/PhD	34	24,3
Income		
< 10.000€	25	17,9
Between 10.000€ and 20.000€	73	52,1
Between 20.000€ and 40.000€	38	27,1
> 40.000€	4	2,9
Time in the market		
1 to 5 years	75	53,6
6 to 10 years	25	17,9
Less than 1 year	40	28,6
Professional status		
Employed	129	92,1
Self-employed	11	7,9

4.3. Data presentation and discussion of results

In this section, the main results of the analysis carried out on the data contained in the 140 questionnaires collected are presented to answer the questions under study about the tax literacy of young adults in Portugal.

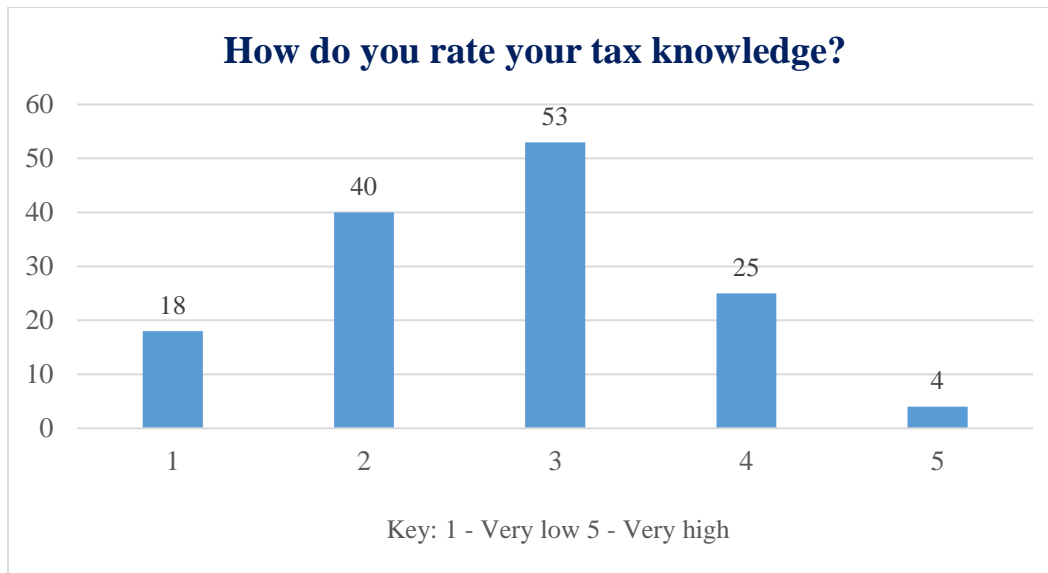
As an introduction to the topic of tax literacy, the citizens were asked whether there were subjects regarding taxation, regarding the answers slightly more than half indicated that during their academic education, they did not have any subjects that addressed taxation topics (55%).

Table 3 - In your academic training...

	N	%
Had no subjects dealing with tax issues	77	55,0
Had subject(s) with basic notions/introduction Taxation	28	20,0
Had subject(s) where you learned about Taxation (taxation, taxes, filling in returns)	35	25,0
Total	140	100,0

A high percentage of respondents answered that never had subjects dealing with tax issues at any point in their academic life, mainly due to their academic path choices in the tertiary level of education. The minority (45%) answered having subjects with an introduction to taxation or having subjects where taxation is thought, most of it because of pursuing careers related to taxation such as management, accounting, and law. This result demonstrates that while there is a great percentage of Portuguese workers having subjects dealing with taxation, it still does not reach the majority of young contributors in Portugal and, as will be shown throughout this chapter, is not sufficient for Portugal to have more educated and capable citizens when it comes to taxation.

As for the respondents' perception of their tax knowledge, around 38% of the 140 respondents rated it as average. Only 29 students, equivalent to 20,7%, considered that they had good or very good knowledge of tax issues. Which is lower than the number of respondents who consider their knowledge to be poor or very poor (58 responses, equivalent to 41,4% of the total sample).



Graphic 3 - Level of tax knowledge

Table 4 - How would you rate your tax knowledge...

	Minimum	Maximum	Mean	Standard deviation
Knowledge	1	5	2,67	1,00

Key: 1 - Very low 5 - Very high

The respondents rated their tax knowledge as relatively low, as it was significantly lower than the mid-point of the scale (3), $t(139) = -3.862$, $p < .001$. These results show that, despite having or not having academic training in taxation, young taxpayers do not have sufficient knowledge about taxation and have some awareness of this fact. Considering the results presented above, in which 45% of the respondents had subjects in their academic training in which they learned about taxation, this indicates that even if these topics are covered throughout their training, the results may show a low level of interest in the subject during the course. However, the respondents that present a higher level of knowledge may be the result of studying this subject or working in taxation-related areas and consequently have greater knowledge than the average.

In order to understand the respondents' perspective on whether they were aware of the taxes they were subject to and the returns they would have to file in their first year of work, a high percentage of respondents (66.4%) stated that they did not feel informed about it. In this sense,

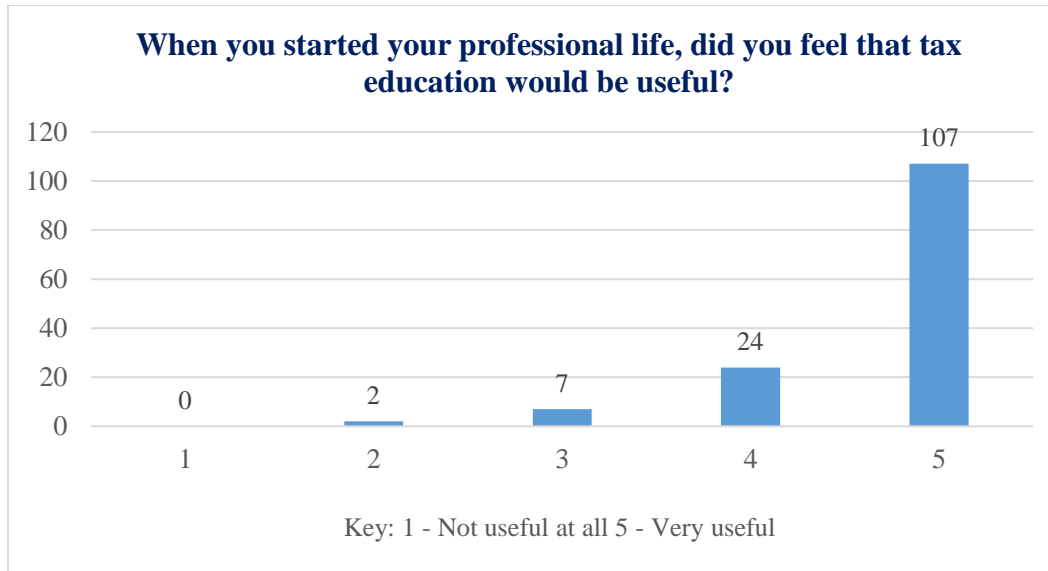
these results may demonstrate that only a third of young taxpayers know what taxes are being paid on their first salary, or when buying their first car or house and making conscious decisions on their investments.

Table 5 - Were you aware of the taxes and declarations you were subject to...

	N	%
No	93	66,4
Yes	47	33,6
Total	140	100,0

Regarding the usefulness of tax education for young professionals, more than 93% of the 140 respondents rated it useful or very useful. Only 9 students, equivalent to 6,4%, considered it as not useful or average usefulness. This might indicate the level of want and need in having tax education in the academic life of all citizens, regardless of the academic career chosen. On average, when the respondents started their professional careers, they felt it would be advantageous to have tax education since the average of the answers (4.69) is significantly higher than the midpoint of the scale (3), $t(139) = 31.376$, $p < .001$.⁶

⁶ Annex II – Table “*Would it be useful to have tax education, at the beginning of the professional career*”



Graphic 4 - Usefulness of having tax education when starting professional life

As discussed in the review of the literature, non-compliance with tax obligations affects the State and inherently affects all taxpayers and non-taxpayers, for comprehending the main causes of non-compliance it was asked in the survey the opinion of the respondents towards this subject with a multiple-choice question. The main causes of non-compliance with tax obligations, in the opinion of those surveyed, were a lack of tax education (82.9%) and an excessive tax burden (52.9%). Of the 140 respondents, 116 answered lack of tax education, since the reduced knowledge may lead to non-compliance by not being aware that a certain tax was due, for not being aware that a certain tax exists and that it will be applicable in the individual's case or of not being aware of the effect of not paying that tax and the consequences of not filing the return. The second most chosen, was the excessive tax burden which might be related to citizens perceiving that they are paying a high rate of tax for the return they are getting from the State, and therefore do not fulfill their obligations as a means of protest. Despite that, the answers to the questionnaire indicate a sensitivity to the fact that non-compliance with tax obligations is not due purely to a refusal, revolt, or financial incapacity to comply with payment.

Table 6 - Principal cause of non-compliance with tax obligations

	N	%
Lack of time/financial resources	22	15,7%
Complexity of the tax system	67	47,9%
Lack of tax education	116	82,9%
Excessive tax burden	74	52,9%

According to the respondents' opinion, in average terms, the implementation of tax education programs/initiatives is considered to be very important, as the average of the answers (4.71) is significantly higher than the scale's evaluation midpoint (3), $t(139) = 37.195$, $p < .001$.

Table 7 - The importance of the implementation of Tax Education programs/initiatives...

	Minimum	Maximum	Mean	Standard deviation
Implementation	2	5	4,71	,543

Key: 1 - Very unimportant 5 - Very important

In the opinion of a very high percentage of respondents, the Tax Education plan should be implemented in secondary school (82.1%) and mandatory (plan integrated into the education system, with tax, political, and current affairs topics). This implies there is a large support for including tax education as a traditional and structured component in the education system. The general agreement among answers suggests that individuals understand how important it is to teach young people about political issues, and tax regulations at an early stage in life, which may reflect the growing realization that knowledge of these subjects is necessary for responsible citizenship. The survey results confirmed the H3, there is broad support among citizens for the implementation of tax literacy programs in school curricula. The analysis revealed that a significant majority of participants expressed the opinion that the inclusion of tax education in secondary education with a mandatory program introduced in school curricula is essential to improve students' knowledge in taxation.

Table 8 - At what stage should the Tax Education plan be implemented:

	N	%
Basic Education	15	10,7
Secondary Education	115	82,1
Higher Education	10	7,1
Total	140	100,0

Respondents with a bachelor's degree believe citizens are less knowledgeable of tax obligations and benefits compared to those with a master's/doctorate degree, with a statistically significant difference (χ^2 KW (2) = 10.265, $p = .006$). Individuals with higher academic qualifications (master's/doctorate) are more likely to believe that citizens are more aware of their tax obligations and advantages than those with bachelor's degrees. Individuals with master's or doctoral degrees may have a more in-depth perception of tax systems as a result of their advanced studies in economics, finance, or politics, in this sense, they may be more optimistic about citizens' tax awareness, given their own greater knowledge base. Regarding the knowledge, usefulness, complexity, and importance factors, the outcomes are not considered statistically significant, which means that independently of the level of academic qualifications, analyzing the mean of the answers, the level of knowledge is rather low, being lower than the mean of 3 in all levels of education. The results of the research did not confirm the initial H1, it was not possible to demonstrate that young people with higher levels of education had higher fiscal literacy compared to those with lower levels of education. The perception of usefulness, complexity, and importance is high because all of the values for the three levels of education are always higher than the average.

Table 9 - Comparison by academic qualifications

	≤ High school		Bachelor's		Master's/Doctorate		Sig.
	M	DP	M	DP	M	DP	
Knowledge	2,75	1,02	2,67	1,02	2,62	,99	.729
Usefulness	4,55	,76	4,72	,63	4,68	,59	.563
Complexity	3,80	,95	3,93	,75	3,65	,65	.198

Awareness	2,15	1,09	1,83	,77	2,32	,77	.006**
Importance	4,75	,44	4,69	,60	4,74	,45	.987

M - Mean SD - Standard deviation * $p \leq .05$ ** $p \leq .01$ *** $p \leq .001$

There is a significantly higher proportion of respondents with secondary education or less who consider that one of the causes of non-compliance with tax obligations is that the tax burden is excessive (80% vs 51.2% and 41.2%), $\chi^2 (2) = 7.874$, $p = .020$. These results demonstrate that respondents with lower education levels have a higher sensitivity to the tax rates, which may be related to their perceived or real financial limitations. However, respondents with higher education levels tend to disregard more the tax burden as a reason for non-compliance, which is probably due to their likely higher incomes and possibly greater understanding of taxation, having more knowledge about benefits, deductions, and the tax system. Regarding tax complexity, individuals with bachelor's are more likely to see the complexity as a barrier to compliance since they may have more complex tax situations, such as investments and different income types, however do not have the knowledge to surpass the complexity and financial resources to have a financial consultant, since the perception of individuals with Master's or Doctorates tends to be high, however slightly lower than the values of respondents with Bachelor's. The p-value (0.093) is considered marginally significant to statistics ($0,05 > p > 0,10$).

Table 10 - Reasons for non-compliance and academic qualifications

		\leq High school		Bachelor's		Master's/Doctorate		Sig.
		N	%	N	%	%	%	
Lack of time	Not chosen	16	80,0%	72	83,7%	30	88,2%	.705
	Chosen	4	20,0%	14	16,3%	4	11,8%	
Complexity	Not chosen	14	70,0%	39	45,3%	20	58,8%	.093
	Chosen	6	30,0%	47	54,7%	14	41,2%	
Tax education	Not chosen	4	20,0%	13	15,1%	7	20,6%	.723
	Chosen	16	80,0%	73	84,9%	27	79,4%	
Tax burden	Not chosen	4	20,0%	42	48,8%	20	58,8%	.020*
	Chosen	16	80,0%	44	51,2%	14	41,2%	

The differences in the level of knowledge, appreciation of the usefulness, complexity, awareness of tax obligations, and importance of the implementation of tax education programs/initiatives according to the respondents' level of annual income have no statistical significance ($p > 0,05$). Although there are some differences in mean scores, particularly in terms of knowledge, complexity, and awareness the results are marginally significant ($0,05 > p > 0,10$) however, these differences are not strong enough to suggest that income level significantly affects how people view tax education programs. According to the research results, the H2 is refuted since there is no correlation between the level of knowledge and the income level of the respondents.

Table 11 - Comparison by income level

	< 10.000€		10.000€ - 20.000€		> 20.000€		Sig.
	M	DP	M	DP	M	DP	
Knowledge	2,56	1,16	2,55	,97	2,95	,94	.087
Usefulness	4,76	,52	4,73	,63	4,57	,70	.240
Complexity	3,64	,81	3,82	,71	4,00	,80	.066
Awareness	2,12	1,05	2,08	,78	1,76	,79	.090
Importance	4,68	,80	4,75	,46	4,64	,48	.263

M - Mean SD - Standard deviation

The relationship between the level of income and the reasons for non-compliance with tax obligations is not statistically significant ($p > .05$). Lack of time seems to be a less frequent cause of non-compliance regardless of income level. Higher-income people may have greater resources, such as accountants, to handle their tax matters, which explains the slightly lower rate. However, the non-significant p-value (0.406) indicates that income is not a significant predictor of whether someone considers "lack of time" as a reason for noncompliance. The lack of tax education has been identified as a significant driver for noncompliance across all income intervals. This could indicate a general vulnerability in tax education systems, which affects people of all economic levels. Despite a slight decrease in the highest income category, the p-value of 0.378 indicates no statistically significant change.

Table 12 - Reasons for non-compliance and income level

		< 10.000€		10.000€ - 20.000€		> 20.000€		Sig.
		N	%	N	%	%	%	
Lack of time	Not chosen	20	80,0%	60	82,2%	38	90,5%	.406
	Chosen	5	20,0%	13	17,8%	4	9,5%	
Complexity	Not chosen	18	72,0%	36	49,3%	19	45,2%	.083
	Chosen	7	28,0%	37	50,7%	23	54,8%	
Tax education	Not chosen	4	16,0%	10	13,7%	10	23,8%	.378
	Chosen	21	84,0%	63	86,3%	32	76,2%	
Tax burden	Not chosen	9	36,0%	39	53,4%	18	42,9%	.258
	Chosen	16	64,0%	34	46,6%	24	57,1%	

Conclusion

This chapter will conclude the research cycle. The purpose is to interpret and comment on the results obtained, but also to introduce a discussion on the subject of this study.

The conclusion will therefore be structured as the following, starting with a synthesis of the work carried out, stating the research question as well as some problems that arose during the reflection. This will be followed by a compilation of the main results obtained and the fundamental conclusions. Finally, personal reflections will be presented, highlighting the essential contribution of the research.

Although it is acknowledged that work of this nature cannot be generalized without running the risk of errors, the research intends to raise some ideas for consideration for future contributions.

The main purpose of this dissertation was to study the level of fiscal literacy in the beginning phases of career development in Portugal, and if there was interest in the citizen to learn more about taxation. An empirical study was carried out with people who have recently graduated and are in the job market, in different fields of expertise, so that it would be possible to determine whether the training they have or have not received had an impact on their tax knowledge and their understanding of taxation as citizens.

Taxation from an economic perspective relates to the effective use of taxes that can lead to the macroeconomic stabilization of a country, and from a social point of view, the potential to reduce disparities in society. (Basariya, et al., 2019) However, it is essential from a human and social perspective in order to provide public services such as the healthcare system and education, taxpayers are the cause and measure of the nature of every tax. Therefore, since individuals and companies are the main forces behind the tax system, it becomes important to understand the complex of taxes applicable in their country of residence. Leading to the importance of tax literacy, tax literacy is a part of financial literacy, which is defined as “the ability to make informed judgments and to make effective decisions regarding the use and management of money” (Chardon, et al., 2016)

Tax compliance can be referred to as the willingness of taxpayers to comply with tax laws to achieve economic balance and the process of convincing taxpayers to follow the laws. (Oladipo, et al., 2022) There are many theories on why people are compliant such as economic, financial,

social, political, or by comparison. The OECD and FIIAP stated that low tax morale weakens the citizen commitment to the State, but also perpetuates the existence of a “vicious cycle” in which people do not pay taxes, and for that reason, the public services are insufficient, which leads to more people not paying taxes since their needs are not being met. The OECD believes this cycle can perhaps be broken by increasing the tax morale of citizens, with the premise that greater tax morale leads to lower fiscal evasion.

Taxation is not directly taught regardless of academic level unless one chooses to study socioeconomics at university. However, it will be a subject that will have an impact on the lives of every citizen. Tax education is essential in addressing tax fraud and evasion, not only for individuals who deliberately avoid fulfilling their obligations but also for those who are unaware of their responsibilities. (Saad, 2014) Tax education is designed to provide individuals with a comprehensive understanding of their tax rights and responsibilities, which encompasses not only the necessity of paying taxes but also the broader workings of the State and the management of public resources. Additionally, it aims to raise awareness about fulfilling civic duties and to encourage the rejection of tax evasion. Therefore, every citizen needs to acquire an understanding of how the tax system functions within their own country. This thorough knowledge is crucial for ensuring tax compliance and fostering a higher level of tax morale, which ultimately supports the overall effectiveness and fairness of the tax system.

The Portuguese tax system is founded on the Constitution of the Portuguese Republic of 1976, which outlines the basic principles governing taxes and the rights and protections of taxpayers. This system includes a range of state and local taxes, which are divided into direct and indirect categories. According to Portuguese Tax Law, taxes are classified into four main types: income taxes, which apply to earnings from individuals and businesses; patrimony taxes, which relate to property and wealth; consumption taxes, such as VAT and stamp duty; and social security contributions, which fund social benefits like pensions and health care.

A questionnaire survey was used as a quantitative research method to determine the level of tax literacy among working youth in Portugal, as they represent the upcoming generation of taxpayers who are expected to pay taxes over the next four decades, and to answer the question "What is the level of tax literacy of the young working class in Portugal?". In conclusion, research results revealed that Portuguese young professionals currently possess a limited understanding of

tax-related matters, rating their knowledge as poor, with many expressing uncertainty about the taxes owed and the tax returns to file in their initial years of employment. A vast majority of participants underscored the value of incorporating tax education at the start of their careers, citing it as crucial for improving their tax compliance. The research identified that the lack of tax education and a heavy tax burden are primary factors contributing to non-compliance with tax obligations. In response to these findings, there is a strong consensus among respondents that a comprehensive Tax Education Plan should be implemented in secondary schools, integrating tax knowledge with political and current affairs topics, to better prepare future taxpayers.

Nevertheless, this study has certain limitations, particularly because the sample size is relatively small, which restricts the ability to extend the findings to the broader population of Portuguese taxpayers. Therefore, future research would benefit from including larger, nationally representative samples to enable broader generalization of the results. Additionally, due to the specificities and characteristics of the topic covered in this dissertation, the data was collected using online questionnaires. Even though the use of online questionnaires has several advantages, it is crucial to recognize their limitations. One of the main problems identified was the difference in understanding and interpretation of the questions, which can be interpreted in different ways and there is no possibility of providing detailed explanations or answering participants' questions and there is also a risk that participants will provide automatic or random answers, without understanding precisely what they are answering.

For future research, it would be useful to use more representative samples and expand dissemination beyond institutional emails and social networks. Considering other methods of data collection, such as face-to-face interviews and telephone contacts, could help to reach a wider audience that is more representative of the Portuguese population. Future research could explore the influence of different types of education and teaching methods (traditional classroom, digital learning, practical cases), as well as consider other contextual factors that may impact fiscal literacy. Furthermore, researchers might also examine the role of technology and digital tools in tax education.

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Annex

Annex I – Questionnaire

Translated from the Portuguese version published.

1. I agree to participate voluntarily.

I consider myself to have been duly informed about the objectives of the study, I have been guaranteed confidentiality and anonymization of the data, voluntary participation, and the possibility of withdrawing from participation at any time.

___ Yes

___ No

2. How many years have you been in the job market?

___ Less than a year ago

___ 1 to 5 years ago

___ 6 to 10 years ago

___ 11 or more years ago

3. Professional Status

___ Self-Employed

___ Employee

4. Specify your profession or field of work:

5. Literary Qualifications:

___ High School

___ Bachelor

___ Master

___ Doctorate

6. In your academic training:

___ Had any subject(s) where you learned about taxation (tax, filing returns)

___ Had subject(s) with basic notions/Introduction to Taxation

___ Had no subjects that dealt with tax issues

7. How would you rate your tax knowledge:

1 – Very low

5 – Very high

8. In your first year of work, did you feel that you were aware of the taxes you were subject to and the declarations you would have to submit?

___ Yes

___ No

9. When you started your professional life, did you feel that it would be useful to have tax education?

Being a taxpayer to the State, paying taxes, making financial investments, thinking about buying a car or house.

1 – Very Indifferent

5 – Very Important

10. Consider that the Portuguese tax system is:

___ Very Simple

___ Very Complex

11. Considers that citizens have a level of awareness of tax obligations and benefits in Portugal:

___ Very low

___ Very high

12. In your opinion, what is the main cause of non-compliance with tax obligations?

(choose the options you consider most relevant)

___ Complexity of the tax system

___ Excessive tax burden

- ☐ Lack of tax education
- ☐ Lack of time/financial resources
- ☐ Another option (written example)

13. Do you consider the implementation of Tax Education programs/initiatives important?

- ☐ Very unimportant
- ☐ Very important

14. Are you aware of any Tax Education programs/initiatives in Portugal and/or the European Union?

- ☐ Yes
- ☐ No

15. Indicate which Tax Education programs you are aware of:

16. In your opinion, should there be a Tax Education plan in Portugal?

- ☐ Yes
- ☐ No
- ☐ Do not have an opinion

17. At what stage should the Tax Education plan be implemented:

- ☐ Elementary school
- ☐ High school
- ☐ University

18. The Tax Education plan should be implemented:

- ☐ Optional attendance (extracurricular plan, training sessions, seminars)
- ☐ Compulsory Attendance (plan integrated into the Education System, with tax, political and current affairs topics)

19. Sex

- ☐ Feminine
☐ Masculine

20. Age

- ☐ Under 21
☐ 21 to 25
☐ 26 to 30
☐ Above 30

21. What is your annual income:

- ☐ Less than 10.000€
☐ Between 10.000€ and 20.000€
☐ Between 20.001€ and 40.000€
☐ Between 40.001€ and 60.000€
☐ More than 60.001€

22. Thank you for your participation!

Thank you for your time, your answers are essential for my dissertation. If you know someone who has been in the job market for less than 10 years, share the questionnaire, so that you can reach a greater number of people!

If you have anything to add regarding the topic of Tax Education:

Annex II – Table “*Would it be useful to have tax education, at the beginning of the professional career...*”

	Minimum	Maximum	Mean	Standard deviation
Usefulness	2	5	4,69	,636

Key: 1 - Not useful at all 5 - Very useful

