

# RESEARCH INSIGHTS



## Calling Delinquent Taxpayers Turns Out to Be a Good Tactic to Collect Debts



Alternative methods of communication with taxpayers have proven to be more effective than the use of letters. The National Tax Agency of Colombia (DIAN) successfully increased collection of unpaid taxes through phone calls, *reminding* taxpayers of their obligation to pay due taxes and inviting them to the local tax office to clarify tax arrears.



Taxpayers targeted with phone calls were about 25 percentage points likelier to pay their taxes than the control group. That's about a five-fold increase.



The results indicate that personal interaction seems to be an important element in the decision to pay taxes, but it must be paired with easy-to-follow plans and immediate actions in order for this intention to be put into practice.

### CONTEXT

Tax delinquency is a major problem for most tax administrations in the world, and letters are their preferred method of communicating with taxpayers. Still, there are other technologies that could be more effective. A field experiment conducted by the National Tax Agency of Colombia (DIAN) used phone calls to reduce tax delinquencies.

### THE PROJECT

To increase tax collection and evaluate the effectiveness of phone calls and personalized interactions with taxpayers, DIAN randomly called subjects from a sample of 34,783 taxpayers with due tax liabilities. DIAN phone representatives followed a detailed script that highlighted the consequences of non-compliance and included a moral suasion message. During the call, they either scheduled an appointment for the taxpayer at their local office or accepted a promise for payment of existing tax liabilities.

#### Key concept



#### REMINDERS

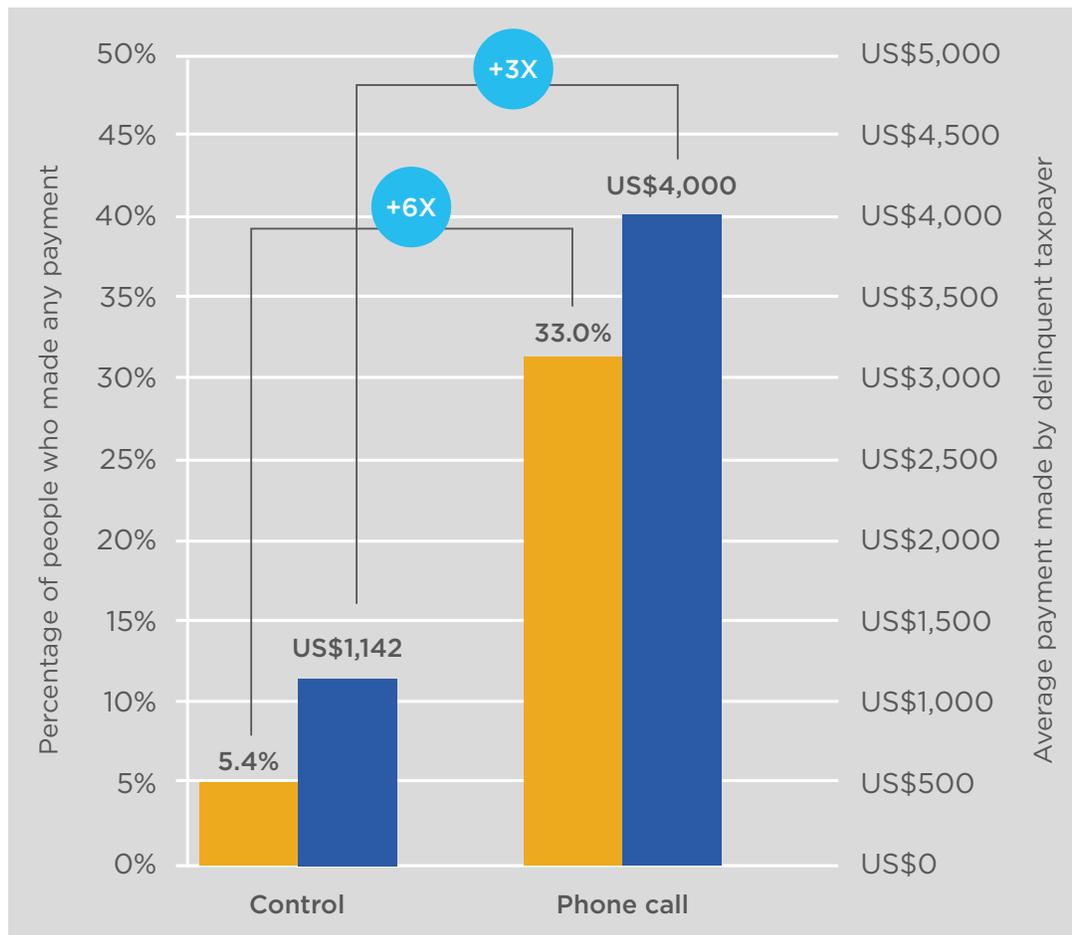
Reminders reduce the mental effort required to complete a planned action at some future point in time. The consequences of forgetting to do planned actions vary from none to significant.

## RESULTS

Results indicate that phone calls were very effective in increasing collection of unpaid taxes.

1. Taxpayers targeted with phone calls were about 25 percentage points likelier to pay their taxes than the control group. On average, payments made by this group were about three times those of the control group.
2. However, results vary across several observable characteristics of the taxpayers: the probability of payment is higher the lower the level of debt; phone calls seem to be less effective for firms than for individuals; and VAT and income tax debtors seem to react more readily than those who owe wealth tax.
3. Finally, there is some evidence of negative effects of the phone calls for so-called chronic debtors, i.e., individuals with an outstanding debt of more than seven years.
4. Almost all targeted taxpayers agreed to meet with the agent at the local office, but only 50% of those who committed to pay actually did.
5. This was highly cost effective for the tax agency, as each attempted call resulted in US\$470 in recovered debt (and almost US\$4,000 per contacted taxpayer).

## Effect of Phone Calls on Debt Collection



All results are statistically significant ( $p < 0.001$ ).

## POLICY IMPLICATIONS

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1. Which communication technology governments choose for tax enforcement is not trivial, as different methods of communication signal enforcement capacity to taxpayers. In the case of DIAN, a simple phone campaign resulted in significant collection outcomes for the agency.
2. The probability of payment is higher the lower the level of debt. This indicates tax authorities should contact taxpayers while their debt is still low and recent and avoid letting debts persist and grow over time.
3. Phone call campaigns, like others, have some limitations. First, if databases are not up to date, the contact rate could be low. Second, chronic debtors may find ways to avoid being contacted as technology progresses. Third, phone calls may be less effective with certain populations, such as firms.
4. A combination of cost-effective interventions, with limited phone calls targeting one group and personal visits with more severe prosecution for the small group of chronic debtors, might be the best strategy.
5. Commitments and planning strategies seem to work, and perhaps more so in terms of tax compliance than in other policy areas where they have been tested.

## IDB BEHAVIORAL ECONOMICS GROUP

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### FULL STUDY

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[Mogollón, M., D. Ortega y C. Scartascini \(2019\). Who's Calling? The Effect of Phone Calls and Personal Interaction on Tax Compliance.](#)

## DEPARTMENT OF RESEARCH AND CHIEF ECONOMIST

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