



# Social Marketing for the Reduction of Tax Evasion: The Case of Electronic Invoicing in Portugal

# 11

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## Chapter Overview

This case study is on a social marketing campaign to decrease tax evasion in Portugal. The main campaign goal was to promote wider general use of invoices with the customer's tax number. The social marketing campaign is based on marketing incentives to issue an invoice. The incentives involve tax deductions, an invoice lottery (with tax numbers) every month, direct marketing actions, and advertising. The process of generating invoices by traders became mandatory and simplified with certified systems. Customers can show a bar code which can be easily scanned to introduce their tax number in invoices. This process has become culturally accepted and part of the normal sales process. The social marketing intervention decreased VAT tax evasion in priority sectors and is creating a social norm of generating invoices with

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tax numbers, through tax deduction incentives and an invoice lottery. In the long term, tax evasion as a social norm should be re-evaluated in order to control social marketing effectiveness.

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## Campaign Background

The non-declared shadow economy in Portugal was quite substantial at the end of the first decade of the millennium, with a VAT gap of 15% in 2012 (European Commission, 2015). Tax evasion has been highly researched in terms of its dimension, evidence, and causes. In Portugal, the non-registered economy in 2012 was estimated at 26.74% of Gross Domestic Product (GDP) (Afonso, 2014).

In January 2013, a new invoicing system was introduced in Portugal to fight against the underground economy and tax evasion. This system had several requirements and incentives: (a) all business firms had to issue an invoice on all transactions, even if not requested; (b) they had to make monthly reports of all invoices to the central system; and (c) consumers received a tax benefit of 15% of VAT in car and motorcycle maintenance and repair, accommodation and food services, hairdressing and other beauty treatments if the invoice had the customer's tax number (Cunha, 2015). Since January 2015, taxpayers who request invoices can benefit from a set of deductions. In 2013, Portugal incorporated a campaign with an extra tax deduction. Consumers initially received a tax benefit of 5% rising six months later to 15% of supported VAT (in four sectors) with a limit of 250 € per person. In order to have access to this reward, it was mandatory to insert the individual tax number in invoices. In 2015, a tax reform replicated the model for general expenditures, considering deductions of 35% income tax, with a maximum of 250 € per person, related to invoices with the tax number. Supporting all these changes, the authorities created a website that helps individuals and companies to register and track their tax situation. At the same time, several technical recommendations have been produced in terms of tax system reformulation and communication for behavior change. Promotional publicity encouraging citizens to ask for an invoice in all transactions was developed and broadcast on TV but lacked impact due to the absence of any associated reward.

To encourage voluntary compliance with requesting an invoice with the tax ID number, exchange theory in social marketing states it is important to demonstrate that the benefits outweigh the opportunity costs (Maibach, 1993; Peattie and Peattie, 2003). The use of incentives in social marketing is part of the benefit/price elements (Lefebvre, 2011) and a conscious form of exchange based on a positive reward—an exchange form called “hugging” (French, 2011). For that reason, a set of deductions was defined and integrated into the state budget as a reward system for those who request an invoice with tax number (Autoridade Tributária e Aduaneira, 2012). This situation led to the creation of an integrative social marketing campaign based on rewards as an incentive to effect behavior change, through highly persuasive

communication using direct marketing with a positive/pleasure narrative to attract citizens to the social cause. Also, a national lottery was implemented using the generated invoices as coupons for citizens to participate in winning prizes.

Social norms theory holds that the perception of our peer group values determines our own behaviors (Kenny and Hastings, 2011). Thus, the phenomena of tax evasion can be connected as a social norm, based on the misperception of community members' acceptance of such attitudes and behaviors (Wenzel, 2005). In Portugal, tax evasion was misunderstood as a social norm commonly assumed by individuals, with serious implications in public budgets and fair competition between companies. It became a political priority for the European commission and its member states for the purpose of (a) recapturing lost revenues; (b) preventing administrative intervention in the promotion of voluntary payment systems; and (c) promoting a fair tax system and including it as a citizenship value, with non-compliance risks perceived in terms of punishment and negative effects on economic growth. Social marketing is considered to be an effective tool for changing attitudes in regard to misunderstanding social norms (Kenny and Hastings, 2011).

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## **SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats)**

The following SWOT analysis is related to the Portuguese government tax authority (TA).

### **Strengths**

The Portuguese government has implemented an electronic finances website. The website has a user-friendly layout, an email alert system for individual deadlines, and almost all tax services are available online, with some taxpayers having no other option but to use this service (e.g., electronic self-employed receipts) (Cunha, 2015).

In 2013, the Portuguese government created a mandatory licensed billing system for businesses. That system requires merchants to register all invoices, with or without the tax number of the client.

The Portuguese government intensified their role and intervention in supervising economic activities, with a special focus on the punishments for tax evasion.

### **Weaknesses**

Lack of knowledge of companies and of their businesses and activities.

Lack of proximity with companies and other taxpayers.

Lack of communication with the target audience for the negative consequences of tax evasion.

Insufficient resources, namely inspection resources.

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## Opportunities

The general adherence to the electronic tax services in the official website offers an opportunity to create a system for taxpayer relationship management.

Rewards or tax reductions were well accepted by taxpayers, due to the high amount of extra tax levied at the time of financial crisis and the external support for public budgetary readjustment in Portugal.

## Threats

The national commission for data protection declared that personal tax information should be an option (e.g., to get a reward) but not a mandatory step to get general tax deductions on income. Data protection is still an unresolved issue in this campaign, since authorities can track all personal purchases that citizens make.

There is a generalized culture of tax evasion as a social norm.

An “Invoice Culture” between taxpayers is difficult to implement due to the popularity of informal community markets, and transactions in the country.

The popular perception of exaggerated taxation and revenue misuse.

An historically “bad” relationship between the TA and individuals and business firms.

The high rate of VAT applied by the government to the majority of goods and services (23%) is a high cost for tax compliance.

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## Target Audience

All Portuguese citizens with a tax number were targeted by the campaign. It was necessary to change mentalities, attitudes, and behaviors of citizens in regard to the social norms of tax evasion. The campaign aimed to promote voluntary invoice requisition in all transactions. This goal is very difficult to reach, but consumers are responding positively. The Portuguese government considered restaurants and accommodation service providers and clients to be priority targets, along with hairdressers, beauty clinics, and vehicle repair garages. These services were the sectors of most concern in the parallel economy (Secetaria de Estado dos Assuntos Fiscais, 2015). To expand this campaign, later legislation specified other tax benefits related to general family expenses, health and education expenditures, and housing charges.

Individuals and business firms that buy and sell goods or services are also a target, since they must issue invoices on all transactions even if not requested, and they should communicate the essential elements of all invoices monthly to Tax Administration (Cunha, 2015). Traders are targeted through specific legislation and benefits, such as the possibility of reducing some of the current bureaucratic requirements and the simplification of some reporting obligations.

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## Campaign Objectives

Social marketing interventions may be effective in establishing social norms that determine tax compliance intentions (Bobek, Roberts and Sweeney, 2007; Kenny and Hastings, 2011). The Portuguese government developed an e-invoice social marketing campaign for the purpose of fighting fraud and tax evasion. With a dedicated website for electronic submission and validation of invoices by merchants and citizens, the campaign calls for voluntary compliance, giving tax incentives in exchange for the opportunity cost of tax evasion. The incentive is commonly part of social marketing interventions as a reward for a desired behavior (Lefebvre, 2011). The social marketing campaign follows the hugging model of exchange, which involves getting a reward from making a desired attitude and behavior change (French, 2011).

The main objectives focused on raising public awareness, recognition, and action: awareness of the problems related to fraud and tax evasion; recognition that asking for invoices is a simple and basic social norm which has a potential impact in fighting against tax evasion; action means that asking for invoices can bring benefits to citizens, and that this can propel/impact the desired changes.

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## Benefits, Barriers, and Competition

Citizens can feel they are fighting tax evasion and getting a tax benefit at the same time. Consumers are granted a 15% tax benefit on the VAT of acquisitions in the previously mentioned priority areas, as well as participation in a Lucky Invoice Lottery. Another important benefit is related to the access of information; because consumers can check if their invoices are correct on the Tax Administration (TA) website and add any invoices that have not been registered, if need be.

In terms of barriers, there is a sense of a lack of privacy since all the information about consumers' transactions is available on the website and accessible to different authorities, and the dominant economic model was supported by social norms that justified an underground economy and tax evasion.

In terms of benefits for traders, the system was created and designed in a way that should lead companies to face no significant additional costs; intentionally using existing accounting systems and in the medium/long term it was expected that companies would progressively have less bureaucratic issues (Cunha, 2015). Although, there are some constraints that adversely affect firms. First, it was necessary to have a computerized accounting system; second, there was a potential lack of appropriate tax management, coupled with previous experience of tax evasion; third, the perception that extra technical support would be needed and, finally, as previously mentioned, for citizens the dominant economic model was supported by values that justified an underground economy and tax evasion.

In terms of competition, we note the previous norm of consumers not asking for an invoice because of the fear of data loss and control of personal financial activity by the government, or because of the extra time it takes in the purchasing process; for companies, not issuing an invoice to avoid high VAT or informal activity which is not suitable for issuing invoices. This required a major behavioral change and had to overcome the risk aversion inherent to change, as well as the belief that tax evasion is more advantageous.

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## Positioning

The social marketing role of this campaign was to effect attitudes and behavioral change in the declaration of transactions. This is an important step to improving the economy in a spirit of fairness, with all the citizens fulfilling their tax obligations (Faizal and Palil, 2015). In brief, at a moment of high tax increases the campaign emphasized the importance of the collective contribution of citizens to creating a fair economy, because when everyone pays their obligations each individual pays less. So, we can say the marketing focus was on promoting fairness and equity (Faizal and Palil, 2015).

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## Marketing Strategy

### Product

The campaign included a reward to promote the desired behavior change in terms of extra tax benefits, following the “hugging” form of exchange proposed by French (2011). Besides raising social consciousness on the need to declare income, the tax deduction is an incentive to a direct behavior response. The reward had a maximum amount, and invoice collection could be stopped after that amount. However, the campaign aimed for routine compliance through offering an extra reward in the monthly invoice lottery. The campaign also created higher merchant supervision, with penalties for tax evasion, and the creation of mandatory invoice systems certified by the authorities. It is not clear if the incentive strategy can be maintained, but we plan to monitor the campaign in a long-term period in order to evaluate the social marketing effectiveness in terms of change in social norms (Kenny and Hastings, 2011).

### Price

Following the exchange theory in social marketing, the cost-benefit analysis is done by the audience and motivates behavior change. In the first stage of the campaign,

**Fig. 11.1** e-Invoice Digital Card available at <https://faturas.portaldasfinancas.gov.pt/painelAdquirente.action>; accessed 09/01/2018



the reward was not giving commensurate value for the tax evasion alternative. This meant that adopting the behavior change mediated the cost of the alternative opportunity for tax evasion, which tended to be a higher amount. After six months, the government decided to increase the reward to reduce the value of associated opportunity. Based on this routine, citizens had to ask for an invoice with the tax number in all transactions. This means repeating that number in daily routine activities and the oral transmission of that number several times per day, in supermarkets, at restaurants and shops, taking more time for payment and repeated attempts to verbally convey personal information in very noisy environments. To overcome that inconvenience, authorities created a digital card with the tax number that citizens can show on their mobile phone or print for a bar code scan (Fig. 11.1). The card offers a convenient way of including the tax number in invoices, thereby reducing lost time and avoiding the need to memorize the number and communicate it orally.

The psychological discomfort of asking for an invoice from retailers with whom a customer has a long-time relationship could initially be a constraint, but with reward incentives general adherence to asking for an invoice with tax number quickly became the social norm, and the process was adopted by traders because it was obligatory, with or without a tax number.

## Place

The placement of the social marketing campaign is anywhere that consumers make a commercial transaction. To access the tax benefits, all the invoices with a tax number were automatically included in the e-invoice website. This means that the taxpayers did not have to keep the paper invoices because a digital version is automatically included in the tax services website. However, by the end of the year, the taxpayer must validate each invoice and can also add any invoices not registered by merchants. The mandatory equipment for generating bills and invoices by all merchants allows easy access to the behavior change. Due to the high impact of the campaign and the frequency of consumers asking for an invoice, this step started to

be included in the process of transactions. In fact, the merchant usually asks first if an invoice is required to avoid requests for invoices after the payment, which are not possible to generate. Also, some informal activities related to sectors with higher rewards tend to formalize an invoice system, such as transportation services, car parks, and canteens in companies and schools where citizens started to ask for an invoice with tax number.

## Promotion

The campaign was communicated with persuasive public announcements in mass media—radio, television, and newspapers. In addition to promoting the social benefits of fighting tax evasion and the tax deduction rewards, a *Lucky Invoice Lottery* was also created. All invoices with a tax number are converted into lottery coupons. In the first stage, the monthly lottery was associated with a luxury car. Later, the number of lotteries was changed to 4/5 per month and the car was replaced by a money prize in the form of a treasury certificate. By the end of 2017, this special lottery had been won by 216 taxpayers. The *Lucky Invoice Lottery* is broadcast on television and has a mobile app so that taxpayers can verify the number of coupons they have, based on the number of invoices with their tax number.

As part of the direct marketing, authorities send e-mails and sms messages to remind people of the importance of asking for an invoice in all transactions. The positive narrative of these e-mails for contributing to the cause is personalized and signed by a responsible for tax services. The information includes the number of invoices collected by all citizens since the beginning of the year, the impact on the economy, and the number of coupons each person has for the next lottery. The e-invoice website also immediately calculates the amount of benefits in tax deductions for each citizen.

## People

The campaign includes asking for (individuals) and issuing (companies) invoices, so on both sides we have people whose attitude and skills have an important role, not only in the service delivery but also in reaching the campaign objectives. The disposition and attitude of all actors and the way in which questions are handled can make the difference between retaining or losing another follower/adopter of the program or improving or ruining the reputation of the program.

## Process

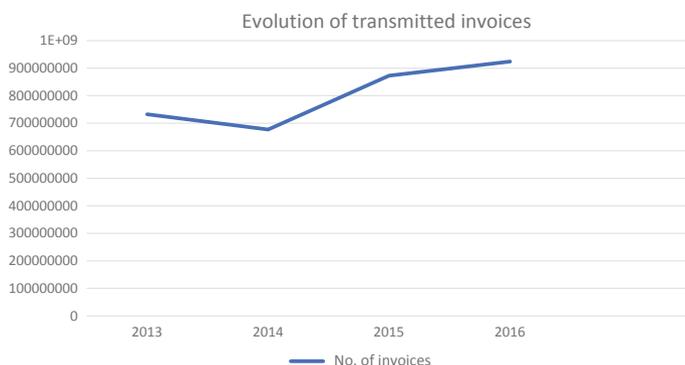
The process of the campaign should be as friendly and intuitive as possible. Consumers should ask for an invoice in all purchases, the invoices will appear on

the website and consumers have the possibility of entering invoice elements into the website if they see some information is missing; traders must submit all invoices to the AT webpage. The process is easier for the consumers than for traders, so the process requires designing software solutions, an interface with the economic agents and the implementation of the reform (Cunha, 2015).

## Program Evaluation

It is important to track and evaluate the program. The public budget records show an increase in the global tax revenues directly connected with e-invoice actions (Secetaria de Estado dos Assuntos Fiscais, 2015). The Portuguese VAT gap calculated by European Commission decreased to 12% in 2014. Figure 11.2 shows the evolution of invoices generated in Portugal between 2013 and 2016.

In 2013, more than 2 million taxpayers deducted the incentive, the total value of the incentive was €25.4 million and about 8.5 million Portuguese have invoices issued in their names and participate in the Lucky Invoice Lottery draw weekly (Cunha, 2015). However, some families tend to organize the invoice requisition based on the amount of reward associated, which means that by the end of the year individuals may not ask for invoices with the same frequency, when the maximum reward has passed. For that reason, the Lucky Invoice Lottery is an extra reward to counter that eventual reaction, but this implies that the behavior change may not be sustainable and may not work without the incentives, although there has not been any study on those who have won prizes and their continued compliance. We know that five years after the introduction of the e-invoice campaign the number of invoices increased, and issuing invoices is still a casual act in many shops. However, social norms theory requires a long-term social marketing intervention (Kenny



**Fig. 11.2** Evolution of invoices generated in Portugal. *Source* Portuguese Tax and Customs Authority accessed at <https://faturas.portaldasfinancas.gov.pt> on 09/01/2018

and Hastings, 2011). A long-term evaluation of the campaign for some changes in social norms, especially with generational transformations, may provide evidence of the social marketing effectiveness.

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## Discussion and Lessons Learned

Giving information to taxpayers about the seriousness of the non-declared economy, its risks, and ways to be part of the solution is essential, since taxpayers may estimate others' practice of tax evasion as greater than their own (Wenzel, 2005). Different promotional mechanisms (e.g., e-mails, sms messages, tv advertisements) are an integral part of the e-invoice program outreach efforts to help improve the awareness and recognition of the program. These promotional mechanisms give information on topics related to tax benefits and deductions. Through clear and informed involvement, the website community members can learn more about fiscal taxes and incentives, the importance of making more transparent choices (asking for invoices in all economic operations) and be active on a regular basis.

The program has attained some level of respect and success, although the evolution and transformation of some aspects may not have yet been fully realized. Firstly, the typology of tax deductions has expanded, increasing tax benefits and making it possible to get them in a wide diversity of areas. However, the fact that the reward is conditioned by a maximum amount of expenses/invoices may decrease the behavior change after reaching the stipulated maximum value. This means that the campaign has not affected an attitude change, but just a behavioral change connected to a reward. So, the behavior may not be sustainable and may not work without the incentives, probably meaning that the self-interest value for prizes and incentives outweigh the collective and mutual value, underlining the importance of personal norms, i.e., one's own self-based standards or expectations of appropriate behavior (Cialdini and Trost, 1998; Bobek, Roberts and Sweeney, 2007). It is expected, however, that social norms may change regarding the culture of tax evasion in the long term, and new generations will consider tax compliance as the social norm.

Secondly, the website is the central pillar of the program and has undergone several changes to be more user-friendly, and nowadays most users find it very intuitive and easy to use.

To make the program more popular and call the taxpayers' attention, there are prizes/rewards for the website users. These prizes were offered through lotteries that were made and announced regularly. Initially, the awards were luxury cars, and 74 cars were offered in 2014 and 2015. The fact that the prize is a luxury car (with a value between 30,000 and 50,000 € and always from the same brand) is an easily criticized aspect, since it may be considered that the motivation to fight against non-declared economy is intimately linked with a luxury car, thus it may not lead to a sustainable behavior change. In 2016, with a different government, the prize was changed to an amount of money in treasury certificates (of equivalent value). There

are regular prizes every week (35,000 €) and extraordinary prizes, two per year (50,000 €). We can identify some advantages in this new prize, since it encourages family savings through the promotion of a state-saving financial product.

### Discussion Questions

1. Are the promotional mechanics adequate and enough to create awareness in the target audience?
2. What are the weaknesses of this program?
3. Do you have suggestions for improving the program's promotional efforts?
4. Are the fiscal benefits suitable and sufficient for increasing the problem recognition?
5. Are the rewards for website users adequate for increasing the problem recognition?
6. Are there ways of moving the self-interested values to the recognition that the total declaration of taxes can bring advantages to individuals and society?
7. Are there other target incentives that should be approached?
8. Are there opportunities to improve the program (for taxpayers)?
9. Are there some ethical considerations about data protection?

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