

## Tax Salience: A review of the literature

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### ABSTRACT

This study provides an understanding of tax salience through the review of the literature. The tax salience refers to the prominence and visibility of the taxes and their influence over the taxpayer's behavior. This study reviews the background literature on tax salience, how the tax policy is influenced by it, and the reaction of consumer behavior towards tax salience. The study uses the review of literature as a research methodology. The study uses the review strategy of narrative review by synthesizing, organizing, and assembling the earlier literature related to tax salience. The google scholar database was used to retrieve relevant studies for the narrative review. The time period of the key studies is mainly from 1987 to 2023. The paper concludes that tax salience despite being a relatively young field of economics has a pivotal role in influencing tax policies and consumer behavior. This study provides guidelines for future researchers with respect to how the consumer reacts to salience of taxation. For the policy framework it can be mandated that the policy makers in order to optimize the tax systems should not overlook the concept and area of tax salience. Since the tax salience has a significant role in influencing and shaping the consumer behavior.

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## INTRODUCTION

Salience is a psychological term that is considered to be a stimulus that builds the decision-maker's attention (Bordalo et al., 2022). In the economic scenario, the salience of the individual's attention could be either limitless or it can be limited toward specific goals. The researchers Bordalo et al. (2022) in their study documented that salience also influences the consumer's decision-making when they are buying the products. Importantly, the consumers can see the visible attributes of the products such as their features and labeled prices, because of their prominence. While on the other hand the non-prominent attributes such as sales tax costs, the consumers often ignores. This behavior of the consumer can be explained because of the salience. When it comes to taxation the individuals are often not fully aware of the true tax inclusive cost of a product (Alm & Kasper, 2023). The salience can be defined in multiple ways depending upon the discipline. In the cognitive science discipline salience is described as an object's property that makes it much more visual or easy to be perceived. For the semantics branch which covers the linguistics area, the salience can be referred to as the state of prominence (Heusinger et al., 2019).

The behavioral economics also influences the field of taxation. It provides an understanding concerning the way the taxes are presented which ultimately affects the taxpayer's behavior. This phenomenon is referred to as tax salience (Gamage & Shanske, 2011). Tax salience is considered to be a relatively new area in the field of taxation (Varela, 2016). The tax salience provides information on the way the taxes are presented and visualized; their effect on the overall economy. More importantly, it stresses that individuals change their behaviors concerning how the taxes are displayed, especially the taxes that are highly salient. As argued Varela (2016) irrespective of the tax liability that the individuals own; other determinants influence the individual's behavior, amongst them is the tax salience. The salience has also been referred to as the ease of calculation of taxes (Coste, 2024). This provides not only interest in the field of tax research but it also adds importance to give equal weightage in understanding the other important factors that affect the individual behavior; a notable one is the tax salience.

Earlier the works of Ramsey (1927) provided the foundations of tax salience; documenting that the buying agents responded to changes in taxes the same way as the change in price levels. Frank Ramsey's work provides evidence that the tax salience was also academically acknowledged at that time. Despite this, it wasn't formally fully integrated into the tax literature as an important essence of taxation. However, later on in the recent advancements in tax studies, there has been evidence and support by the recent literature that the salience of tax has a pivotal role in influencing consumer behavior. If the after-tax price of the good

is less prominent, the consumer would react less towards it (Goldin, 2015). The pricing mechanism is one example of the tax saliency; on the other spectrum the tax saliency can influence the overall economy (Varela, 2016). Moreover, the tax saliency due to its attention level also influences the incidence of taxation on consumers (Kroft et al., 2020).

The tax saliency has its significance, which is an important means to enhance the tax systems (Chen & Ni, 2023). However, despite its significance, the accounting and tax literature is mostly silent in this area. Therefore, this paper focuses on the review of the literature concerning tax saliency. As documented by Varela (2016) tax saliency is a relatively new field. Hanlon and Heitzman (2010) presented a review of tax research. They discussed taxation from a multi-disciplinary perspective by taking into account the disciplines of accounting, finance, economics, and law. In their study despite the fact they provided a thorough analysis of the taxation; however, the saliency of tax wasn't thoroughly discussed. Similarly, the study by Shackelford and Shevlin (2001) in their review of tax research wrote extensively on taxation. They wrote on the tax saliency concerning capital gains taxation. This saliency of capital gains tax affects the investor trading in the stock market. Despite their discussion of the saliency tax concerning the capital gains tax, the review is relatively minute towards tax saliency. Most of the review of their study has been on other areas of taxation; thus, leaving a research gap on tax saliency for future tax reviewers to explore.

This study looks forward to analyzing the different papers that are related to tax saliency. It presents a review of the literature to provide an understanding of the tax saliency literature. Tax saliency is relatively a young field of economics (Varela, 2016); therefore it is crucial to provide a review of it to combine the different studies and provide a research perspective. Similarly, a lot of literature on tax saliency is scattered, therefore this study review provides a basis for gathering the relevant tax saliency literature. This study looks to provide a focus on the tax saliency, which would help tax researchers to develop a thorough understanding and conduct future studies on it. Finally, synthesizing the tax saliency literature provides an opportunity to not only extend the existing studies but also provide additional empirical support to it.

Although this study provides the review of tax saliency, however it has a particular focus on the consumption taxes, especially how the tax saliency affects the consumer behavior and decision making. For instance, if the consumer wants to buy and spend \$1000 on a laptop from Amazon, however the extra \$60 of sales tax hinders her of doing so, this can be explained due to the effects of saliency of tax on consumer behavior. However, research has shown that a lot of tax provisions may not be salient, therefore, the consumers may often ignore these. In the same example, if the \$60 sales tax is under salient, the consumer

might often ignore it and buy the laptop (Holderness, 2017). Similarly, by attaching tax inclusive price tags on items of grocery can diminish the consumer demands (Chetty et al., 2009).

The remaining paper is organized as follows; its second section discusses methodology, third section discusses the methodology of the literature review, its fourth section discusses the empirical review of literature on tax salience, and finally the fifth provides the conclusion of the study with future research directions.

## METHODOLOGY

The study's methodology is based upon the review of the literature. The literature review as a research methodology has its relevance (Snyder, 2019). The review of literature can be used for many scholarly purposes. It can be used not only for the indication of future studies but also provide a summary analysis of findings (Massaro et al., 2016). The narrative review is one of the literature reviews. This study adopts the review strategy of narrative review. The literature search was carried out by using the database of google scholar. This was conducted by mainly using the keywords of tax salience. The time period of the key review articles is mainly from 1987 to 2023.

## THE METHOD OF LITERATURE REVIEW

This paper follows the method of literature review as per the guidelines given by the study of Templier and Paré (2015) . This study employs the method of narrative review (Ftouhi & Ghardallou, 2020). This consists of assembling, analyzing, and synthesizing the earlier published research on tax salience. Since tax salience is an emerging field, this study will document the reviews of the relevant literature concerning tax salience and how it affects the individual's behavior, particularly the consumer. Equally important, the review study also takes into account those earlier studies that despite not having explicitly explained the tax salience, but have significantly contributed to the research related to tax salience. These related studies guide the tax salience field, especially providing a link to the recent studies of tax salience. In addition to this, the narrative review of this study will provide a research understanding for future researchers in the area of tax salience. The strategy is to gather relevant studies of tax salience or related to it and present them accordingly.

## SYNOPSIS OF TAX SALIENCE RESEARCH

The past literature has also discussed not exclusively the tax salience, but still, it had a focus on tax salience, which established the foundations for the tax salience. This paper documents the past academic literature first by discussing the aspects of tax salience, and then later onwards in its review documents the recent trends of tax salience. It reports the literature on tax salience and consumer behavior towards it. Lastly, reports the recent trends of tax salience and what the literature is reporting. Above all, it helps in defining the clear directions of the tax salience research. Importantly, the theoretical underpinning of tax salience can be largely based on the salience theory of choice. According to the salience theory of choice, the decision makers' decisions are heavily influenced by the salient returns and rewards (Bordalo et al., 2012).

### Background of Tax salience

Historically the tax salience and the effects of tax perceptions can be recognized by John Stuart Mill in 1848 who stated that the money which the tax payer pays out of his pocket directly is the only taxation which he is certainly sure about (Morone & Nemore, 2015). Furthermore, the tax salience can be traced back to the study of Ramsey (1927), which documented that individuals respond to changes in tax rates similar to changes in price levels. The supply and demand factors were also discussed. However, the study provided a good understanding of that time that the tax was itself an important factor that could affect the individual's behavior. Later on, the study by Smith and Kinsey (1987) documented that the individual's compliance is dependent upon numerous factors. Individuals have different opportunities concerning complying with the tax law or not. The individual's decision-making is an important phenomenon concerning tax payments. Importantly, Smith and Kinsey (1987) mandated that salience of tax is an important criterion for the individual's decision making.

The study by Elffers et al. (1987) analyzed the different tax evasion measures. The study came up with an interesting tax evasion measure that didn't disclose confidentiality. Importantly, the study while addressing tax evasion also mandated that different forms of psychological behavior and norms influenced the tax evasion behavior. The study documented that the psychological salience of behavior also had an effect. Thus, providing evidence that psychological factors play a key role in influencing tax compliance. The overlap between government spending, taxation, and social psychology has been referred to as fiscal psychology Lewis (1982). Importantly, the study by Lewis (1982) acknowledged that the individual behavior and attitudes significantly influenced their tax behavior. It was also discussed in the study that governments can

reduce the burdens of tax notionally. On the contrary, it would be still collecting taxes. The notional tax burdens in a way can be reduced by the government by making them less visible. For instance, the indirect taxes are less visible than the direct taxes (Wilensky, 1975). Moreover, the personal income taxes being direct are more salient (Kwak & Shon, 2022).

Boyne (1987) documented that property tax rates are one of the most salient features of the political structures. This is due to the reason that property taxes are the most visible form of taxes. The property taxes are huge amounts that the taxpayers have to pay. The study termed these taxes as fiscal illusions. Moreover, the study also mandated that tax policies are highly influenced by voter preferences. Nevertheless, the tax salience also inspires the political system. Moreover, the increase in the public spending and welfare programs of the developed countries, have also faced significant political difficulties. The political environment in the US has focused on increasing the tax salience. However, the tax salience has not only affected the political systems but also brought challenges to it. The increase in the poll tax resulted in the ending of Margaret Thatcher's government (Pierson, 1996). It can be observed that the earlier studies of tax salience were mostly focused on political motives. The highly salient taxes, such as the poll taxes, brought serious political challenges.

Later on, the study by and (2000) provided the foundations for tax salience, that it is largely influenced by psychological factors. The researchers Alvarez and Mccaffery (2000) mandated that tax behavior is also subject to different attitudes specific to gender. The study documented the salience hypothesis in this regard. The gender differences towards the tax salience can be explained that men are more likely to anchor their anti-tax attitudes towards the taxes. While on the other hand, women are more likely to respond to taxation as per their social spending positions. Importantly, the study stressed that both men and women when confronted with paying taxes, value self-interest above all. However, as compared to men women give less consideration to tax salience. The study not only helps in understanding the tax salience but also provides the guidelines in understanding the gender-based possible determinants of tax policy.

The tax policies are also framed by the salience of the issues. The media has a significant role in explaining the salience of the issues. Importantly, the salience of tax and its discussion has increased since 1989; however the tax evolved into a political controversy at that time, and this was also due to the General Sales Tax (GST). This brought changes in the tax policies of that time to focus more on shifting the tax burden on the producers and the rich rather than on shifting on to the consumers. The focus had been to make the hidden tax much more visible or prominent (Soroka, 2002). Additionally, it has been documented by one of latest study that the income tax is much more salient as compared to

the consumption tax (Kao et al., 2024). Thus, these tax policy discussions in the past paved towards understanding more of the tax salience. Especially, how the media captures the public attention in their news of the salience of the tax has important implications for the economy. Apart of tax policy design, one of the early studies of tax salience comes from Chetty et al. (2009) which documented the frameworks in how the tax salience affects the consumer decision making. They conducted an experiment and observational study. It was concluded that with their study along with the positive theory of tax salience could be helpful in optimizing the tax system structure.

### Tax Salience and Consumer Behavior

The literature concerning tax salience and how it impacts consumer decisions has recently been growing. There have been earlier studies that have focused on how consumers arrive at decision making whereas the other important factors such as taxes are ignored because of their lower salience. For instance, in one of the earlier studies by Gottfries and Hylton (1987) the researchers based upon a survey asked the respondents how they will respond to a meal plan. The results documented that respondents when involving decision making their decision choices aren't rational when it comes to taxes under the economic theory. Moreover, there was lack of understanding of the marginal costs. This provides the explanation that consumers often ignore the tax costs, which under normal economic conditions is a significant cost factor. This can be further clarified by those cost factors that were less visible, the consumers often ignored them. Additionally, the firms sell products to the customers by not disclosing the full price of their products. Consumers mostly ignore the additional hidden costs of the products Heidhues et al. (2016) .

Morwitz et al. (1998) in their experimental study mandated that the firms in their product pricing often follow the partition pricing strategy. The partition pricing strategy consists of dividing the product's prices into different parts, such as the base and shipping costs. The firms divide the prices to increase their products demand. The study found that partitioned prices of the products increased their demand. This can be explained that partitioned pricing mitigates the recalled costs of the consumers. This leads to an increase in the product demand. The study of Morwitz et al. (1998) provided insights into how the consumers react to the partitioned price. Interesting the study of Morwitz et al. (1998) paved the way for how product price partitioning can influence consumer behavior. Moreover, it also leads to understanding the phenomena of tax salience.

Ott and Andrus (2000) in their exploratory study analyzed consumer trends concerning vehicle purchasing among different US states. The study found

that even though the US states charged taxes on vehicles; however, consumer buying had a minor and negligible effect when they considered purchasing the vehicles that had taxes. The consumers considered the taxes on vehicles less important. This could be explained because of the salience of the taxes. Consumers when framing their buying decisions, often ignore the tax costs, mainly due to the reason that tax costs are not prominent. [Kim and Kachersky \(2006\)](#) also attributed the consumer's decision-making phenomenon to the mental accounting principle. Importantly, the salience of the prices does affect the perceptions of price. However, to exclusively understand what makes the frameworks of price salient this remains undiscovered.

Another study by [Arnett et al. \(2003\)](#) analyzed consumer relationships and documented that consumers often look into the product's benefits that are not solely based on economic terms. However, depending upon the type of organization, the non-governmental organization (NGO) can also reward the donors and consumers with additional benefits such as tax breaks, which are equally valuable. Hence, the study by [Arnett et al. \(2003\)](#) provides the research motivation that irrespective of the direct monetary rewards, the indirect rewards such as tax advantages can be valuable to the consumers as well. The study by [Shapiro and Slemrod \(2003\)](#) surveyed the US households to analyze how the tax rebates affected their buying. The study found that specifically, the US income tax rebate of the year 2001 induced the consumers to increase their spending. The study found that only 21.8 % of those who received the rebate stated that they would increase their spending. Nevertheless, this provides evidence that consumer behavior is influenced by the taxes. However, concerning the salience of the tax there is still a need to look into the important factors that can impact consumer behavior.

Most of the research studies have been conducted on a single source of price. However, due to the growth of markets product pricing has become complex. This complexity of pricing has led to the introduction of multidimensional pricing. The multi-dimensional pricing also consists of the tax costs. Multidimensional pricing often causes consumers computational complexity when they are trying to calculate the multi-dimensional price. Since the computations are usually carried out mentally; the reliance on mental calculation often causes inaccurate calculations and stress ([Estelami, 2003](#)). The study of [Estelami \(2003\)](#) nevertheless, provides insights towards the multi-dimensional price levels, importantly that the consumer products are often faced with complex and multiple prices of a single product. The tax is one of the costs that are attached to the multi-dimensional price of the product. However, due to cognitive limitations, the consumers are not able to calculate the prices rationally. This raises the questions of salience, especially the visibility of tax costs, and how they



can influence consumer behavior. It is likely that the taxes that are non-salient are largely ignored by the consumers.

In their review study the researchers [Krishna and Slemrod \(2003\)](#) extensively examined the consumer product price design concerning the US tax systems. The researchers documented that tax designers and policy makers do their best to decrease the perceived tax burdens among consumers. This is mainly done for political purposes, for the politicians to increase their chances of winning in the next elections. The researchers argue that tax designers effectively design tax codes to decrease the perceived tax burdens. Thus, the government designs the tax systems in such a way as to take benefit from the public's behavioral biases. One of the influential papers by [and \(2000\)](#) explained that behavioral and cognitive biases can better explain the existing tax system structures. The discussed tax literature provides comprehension with respect to how the consumers frame the taxation. Especially, where there are a lot of behavioral factors associated with the tax system of which the tax makers often take advantage.

The study by [Brunell and Glazer \(2001\)](#) provided evidence that retailers often quote the prices \$9.99 as compared to \$10.00. This is due to the reason that retailers fool the consumers that the actual price is close to \$9.00 rather than \$10.00. Thus, signaling to the consumers that the product is on sale. However, the price is approximately \$10.00. Furthermore, this study explores the government's behavior when they are setting the tax rates. Especially, the tax salience phenomenon is involved when the government is setting the tax on Gasoline. The study provided an example that if the tax legislators want to decrease the salience of taxes, particularly when they are increasing the tax on gasoline which could be in double digits. The tax legislators often work by reducing the tax salience; this is done by making sure that the tax imposed on gasoline doesn't go into double digits. Relatively, few states would impose the 10 cents of the amount on taxes, to reduce its visibility. This provides the explanation that the prominence of the tax which is also referred to as the tax salience has a significant influence over consumer behavior. Apart from the business firms, the governmental authorities also consider the tax salience.

M [McCaffery and Baron \(2006\)](#) in their study documented that people tend to prioritize more on the cues that are salient, while ignoring the non-salient ones. Moreover, the individuals mostly ignored the tax policies indirect effects, such as price increase due to taxes. The researchers also mandated that individuals gave much more preference to the taxes that were hidden rather than the more transparent ones. The individuals ignored the thinking that who would pay for the taxes. The individuals gave much more preference to the hidden taxes when it was uncertain regarding who would pay these taxes. The researchers argued

that people generally don't like to pay taxes; therefore the governments cleverly in a fiscal language manage to hide these taxes. Furthermore, the researchers stated that taxes can be fully or partially hidden, in these cases the incidence of taxation, that is who generally pays the tax is generally hidden from the taxpayers. The study's experiments were based upon questionnaires. The study provided an understanding concerning tax visibility which is the tax saliency and how consumer behavior is influenced by it. It should be noted that apart from the business firms; the governments also tend to cleverly play with the fiscal language to make the taxes less saliency. There are both business and political grounds for that.

[Chetty et al. \(2009\)](#) in their study provided evidence that the taxes that were not salient, the consumers underreacted towards them. This came to the findings by conducting field experiments in the grocery store. When the price tags were posted with taxes this led to a decrease in demand for the product by 8%. Especially the tax-inclusive price tags of alcohol products reduced their consumption. The individuals made significant miscalculated decisions when optimally choosing the product concerning its pricing. This provided evidence that saliency is an important factor for the individual's behavioral response towards taxation. The study also developed a theoretical framework for welfare analysis which specifically took the tax saliency into account. Importantly, by including the tax saliency incentives into account, especially how the consumers specifically react to prices when faced with saliency factors, this could be helpful in maximizing the welfare of the consumer.

The study by [Finkelstein \(2009\)](#) examined the association between the tax saliency and the tax rates, through the use of electronic collection by the tolls. The basic argument of the study was that the electronic tolls are less salient than the manual tolls. The drivers have a less physically active role when it comes to electronic toll payments as compared to manual tolls. In the electronic toll's collections system, the payments are electronically paid to the tolls, whereas in the manual tolls, the drivers have to physically pay the cash, which increases the saliency of taxes. This makes the electronic tolls less tax salient as compared to the manual tolls. The study's findings showed that with the adoption of electronic tolls, the tax rates on the tolls increased significantly. Moreover, the study suggested that the toll rates of the electronic tolls were twenty (20) to forty (40) percent higher than the manual toll rates. The study concluded that the electronic toll rates led to an increase in the toll rates because of their lower tax saliency. The study by [Finkelstein \(2009\)](#) provided strong empirical evidence that reduced tax saliency increased the tax rates. The taxes visibility can significantly influence consumer behavior. However, the study also disclosed some of the limitations when it comes to tax saliency for future researchers. For example, the

tax salience of the different types of taxes such as income tax, withholding tax, and value-added tax (VAT): how they influence the tax rates and the consumer behavior. Importantly, the mentioned tax saliences of the types of taxes are an open research area for future researchers.

[Gamage and Shanske \(2011\)](#) documented that the tax salience is multifaceted. The tax salience can affect the decisions and judgments of the taxpayers differently. The study segregated the two decision-making frameworks into two main categories, the first one concerns consumer decision-making, it is referred to as the tax salience of marketing decision-making. The second one is the tax salience concerning the formation of political judgment. The researchers labeled these two as the market salience and the political salience of taxation. [Liebman and Zeckhauser \(2003\)](#) when referring to tax salience further used the terms of “spotlighting” and “ironing”. According to the spotlight phenomenon, the spotlight behavior occurs when the consumers mostly pay attention to the immediate prices and are ignorant of the full price. In other words, as per the spotlight phenomena, consumers mostly pay attention to the most immediate visible price and ignore the other costs such as taxes, thus the prices are underestimated. The second tax salience phenomenon is the ironing behavior. According to the ironing behavior, when the consumers are subject to multiple prices, they only perceive the average price. In short, the consumer only takes into account the average prices based on his or her perception level. Due to this, the other costs, such as taxes are mostly ignored by the consumers. [Gamage and Shanske \(2011\)](#) stated that both the spotlight and ironing literature are at their infancy stage, thus providing an important tax salience dimension to explore for future researchers.

[Goldin \(2015\)](#) documented that the salience of taxation have important implications on consumer behavior. Moreover, consumers when confronted with decision-making, their individualistic characteristics also influence their decision-making, especially concerning tax salience. The study provided important policy recommendations for designing commodity taxes concerning their salience. Based upon the [Ramsey \(1927\)](#) rule taxes should be imposed upon the consumers elasticity of demand for the taxed goods. The study results suggested that policy makers should also consider whether the elasticity of demand is due to the taxes imposed due to their low salience. Furthermore, the studies provided insights into how policymakers can use the low tax salience to increase social welfare. The different taxes have distinctive salient features which can be used for social welfare.

Another study by [Budak et al. \(2016\)](#) clarified that tax salience can be related to complexity. Thus, providing the notion that the lower tax salience is related to higher levels of complexity of taxes. The study by [Budak et al. \(2016\)](#)

gave the term of tax saliency a new meaning of tax complexity. Consumers, who are faced with the price dilemma due to tax saliency, are more inclined towards tax complexity. The study recommended the simplification of taxation. Importantly, the complexity had to be understood and clearly distinguished concerning the complexity of designing the tax systems. The complexities of taxes affect consumer behavior. The complexities of taxes have salient effects; the consumers may not be able to accurately calculate the complex taxes (Congdon et al., 2009). This provides the future research direction for researchers to analyze how the complex taxes are related to tax saliency which can affect consumer behavior.

Y. Zheng et al. (2013) provided the contradictory findings with respect to the study of Chetty et al. (2009) regarding the tax saliency. The study of Y. Zheng et al. (2013) conducted a survey whereby its findings showed that the reduction of the demand is mainly a combined effect of saliency and information effect. The researcher's argued that information effect also plays a significant role in influencing the consumer's demand. The consumer might have some misperception of the product concerning its tax position. Therefore, simply ignoring the information effect would over value the saliency affect. The study by Y. Zheng et al. (2013) nevertheless provides important understanding that the tax saliency despite having its significance in explaining the consumer behavior, however there are also other factors associated with it, such as the information affect.

One of the recent studies by H. Zheng et al. (2019) documented that government drafted various policies to encourage the healthy behavior of the public. The government authorities especially when looking to discourage the use of soda have worked on increasing its prices. The study based its assumption that the saliency of tax is similar to a direct increase in the price levels. The study analyzed the government's use of different tax strategies to increase the price of the soda. The study used the random co-efficient logit model. The effects of sales tax and excise taxes on the Soda product market were analyzed. The findings showed that as compared to the sales tax, the excise tax was much more influential in decreasing the demand for soda products in the market. The study provided important policy ramifications to use the most effective tax instrument to increase or decrease a product demand in the market.

Hartmann et al. (2023) analyzed how the saliency of carbon taxes affect the carbon products consumption. The study documented that tax saliency has its significance for the policy makers who can consider whether to hide or disclose the carbon tax. Such policy design can influence the demand of the carbon products. The study mandated that the salient taxes of carbon are not as effective as the hidden taxes of carbon in reducing the consumer demands.

This is due to the reason that by explicitly disclosing the paying of carbon tax provides motivation to increase the consumption. The reason attributed due to the activation of the process of moral licensing. Thus, the study provided important policy ramifications how the state authorities could leverage their tax policy design with respect to tax salience in influencing the carbon products demand.

[Sukartini et al. \(2023\)](#) investigated the affects of price changes on consumers buying decisions of the food product in Indonesia. In the study the tax and subsidies were incorporated to examine how they would affect the consumers buying decisions of the unhealthy food products that are harmful to the health. The taxes and subsidies were formed as low, moderate and high. This was mainly due to the reason of the salience of tax. The results of the study showed that the individual participants didn't respond instantly with respect to the change of price which gets higher due to taxes and lower with respect to subsidies. The study's findings were contradictory to the established economic theory which mandated that individuals respond inversely in response to the food items price changes. Thus, the study didn't find any support for the economic theory.

Further studies of tax salience have especially been on how the market structure and tax salience interact with each other. The interaction between these two comes into existence when considering the tax incidence. Importantly, the incidence of sales tax on consumers leads to an increase in tax salience ([Kroft et al., 2020](#)). Commodity taxation has been a topic of academic discussion for welfare effects. There are studies that look into the welfare outcomes of taxes, especially if the taxes are less salient than the taxes, under the perfect market competition [Morrison and Taubinsky \(2019 - 2021\)](#). The study by [Kroft et al. \(2020\)](#) shows that greater attention and salience on the taxes; can escalate the incidence on the consumers.

Finally as shown in the literature on tax salience, it can be observed that the tax salience field has grown in recent years. Importantly, the consumer's behavior is largely influenced by it. Even the tax policy framework and its salient features can influence the consumer's behavior ([H. Zheng et al., 2019](#)). Importantly, the tax salience can also be used for welfare as suggested by [Goldin \(2015\)](#). Moreover, the tax salience can also be politically motivated, opportunistic politicians design the direct and indirect taxes based upon the salience ([Kwak & Shon, 2022](#)). Importantly, the tax salience and the taxpayer's behavioral biases also affect the optimal tax base of the overall tax system ([Moore & Slemrod, 2021](#)). This provides the significance of the tax salience for the tax policymakers in designing effective tax policies that can provide effects for the public welfare. In addition to that the tax policy also influences consumer behavior. The tax salience field

despite being in its infancy stage is highly instrumental.

## CONCLUSION

Tax saliency despite being a relatively young field of economics (Varela, 2016), leaves an important mark of significance in tax policy formation and understanding the consumer behavior concerning taxation. This paper contributes in several ways, first, it provides a brief synopsis of the tax saliency literature, it provides the background of the tax saliency and finally, it discusses how tax saliency can influence consumer behavior. Above all, the study provides a comprehensive overview of the field of tax saliency. Therefore, this study provides future researchers with the necessary guidelines on how they can conduct studies in tax saliency. Importantly, it provides a starting point for the research in the field of tax saliency. The study provides research implications mainly for policy makers. The policy makers when devising tax policies, should also consider how the saliency of tax can influence consumer behavior. The policy makers should thoroughly analyze which taxes should be made more salient and their potential affects. Additionally, the review strategy was done based upon narrative review. Future review studies on tax saliency could be conducted based upon systematic review. Moreover, the tax saliency is a novel field, future researchers could also explore the dynamics of tax saliency in the developing countries, where there is a limitation in research. Finally, this review of literature extends the literature on tax saliency by providing a thorough review of the published papers on tax saliency.

### **Conflict of Interest Statement:**

There is no conflict of interest.

**Table 1.**

Table summary of key studies in the review

	<b>Authors</b>	<b>Findings</b>
1.	G Gottfries and Hylton (1987)	The results of the survey showed that prices and taxes were often misunderstood by the respondents.
2.	Morwitz et al. (1998)	The study found that partitioned prices of the products increase their demand.
3.	Ott and Andrus (2000)	The consumers had little affect regarding vehicle purchasing with respect to taxation.
4.	Estelami (2003)	The consumers have limitations to process the multidimensional price.
5.	K Krishna and Slemrod (2003)	The policy makers do their best to decrease the perceived tax burdens among consumers.
6.	Brunel and Glazer (2001)	The states are more concerned about the nominal value of taxes.
7.	M McCaffery and Baron (2006)	People tend to prioritize more on the cues that are salient, while ignoring the non-salient ones. Moreover, the individuals mostly ignored the tax policies indirect effects, such as price increase due to taxes.
8.	Chetty et al. (2009)	The taxes that are not salient, the consumers underreact towards them.
9.	Finkelstein (2009)	The tax salience has a significant influence over the toll rates. The reduction of tax salience results in increased rates of tolls.
10.	Gamage and Shanske (2011)	There are multiple dimensions of tax salience.
11.	Goldin (2015)	The taxes with different salience features provide a key policy insight to the policy makers. The taxes with different salience can be used effectively for welfare outcome.
12.	Budak et al. (2016)	The paper analyzed the experiences of 11 countries concerning the complexities in the tax system. Importantly, salience was also documented to be closely associated with the concept of complexity.
13.	Y. Zheng et al. (2013)	The consumer demands its reduction can be explained by the combined affect of salience and information affect.
14.	H. Zheng et al. (2019)	The consumers do not pay particular notice to the different types of taxes and their application. The excise tax has a much influential affect in reducing the consumer demand for soda product as compared to sales tax.
15.	Hartmann et al. (2023)	When the carbon tax was salient, consumers buying intentions were consistently greater.
16.	Sukartini et al. (2023)	The results of the study showed that the individual participants didn't respond instantly with respect to the change of price which gets higher due to taxes and lower with respect to subsidies.

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