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Tax Reliefs as Safeguards Against Excessive Taxation

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Abstract

Theoretical background: Literature indicates that high marginal tax rates elicit significant resistance from taxpayers, contributing to income underreporting and tax evasion. Taxpayer responses vary, as each individual possesses a distinct Laffer curve. When fiscal burdens are perceived as excessive, legal tax avoidance strategies are favored by taxpayers, who view them as ethically permissible, unlike illegal tax evasion, which is considered hazardous. If excessive burdens drive taxpayers into the shadow economy, long-term adverse consequences may arise, including the hysteresis effect (persistence of tax evasion driven by learning) and the snowball effect (social conformity leading to increased cheating). Tax reliefs, particularly deductions from the tax base, diminish progression and serve as a mechanism to mitigate incentives for illegal evasion.

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

Purpose of the article: This article aims to analyze the extent to which tax reliefs, specifically those necessitating additional expenditures, can function as mechanisms to reduce incentives for tax evasion. The study examines the correlation between the number of taxpayers transitioning to the second tax bracket and the utilization of specific reliefs to identify those safeguards against excessive taxation levels.
Research methods: The research utilized annual Personal Income Tax (PIT) settlement data published by the Ministry of Finance, spanning the the years 2007–2023. The analysis distinguished between lump-sum reliefs (automatic, e.g., child relief) and deductions (contingent upon expenditure, e.g., IKZE, disability expenses, donations). Due to the non-stationarity of the initial time series data, the study assessed the relationship by analyzing the correlation between the change (first difference) in the number of taxpayers in the second tax bracket and the change in the number of individuals claiming specific tax reliefs.
Main findings: The analysis revealed a strong, statistically significant correlation between the transition to the second tax bracket and the increased utilization of the disability relief, the Individual Retirement Security Account (IKZE) relief, and deductions for donations for religious purposes. Conversely, no significant correlation was found for automatic reliefs (child relief) or deductions not primarily motivated by tax incentives (blood donation relief). The findings indicate that taxpayers in the higher bracket favor deductions for expenses they would have incurred anyway (disability relief) or for those linked to additional individual benefits (IKZE). Tax benefits become valuable and justify the associated costs only at elevated marginal tax rates. The utilization rates of such deductions can serve as a useful indicator for fiscal authorities to evaluate taxpayers' perceptions of their tax burden.

Introduction

The literature indicates that increases in income tax, particularly high marginal tax rates, elicit significant resistance from taxpayers. Empirical studies from the 1980s (Clotfelter, 1983; Poterba, 1987; Feldstein, 1995) indicate that higher marginal tax rates contribute to income underreporting and, as a result, facilitate tax evasion. It is important to note that responses from individual taxpayers can differ markedly. Taxpayers demonstrate varying tolerances for tax burdens, resulting in distinct Laffer curves for each individual. Fiscal authorities aim to optimize tax revenues by creating tax structures that fulfill fiscal responsibilities while minimizing negative taxpayer responses that could lead to a long-term decrease in budgetary revenue. Gomułowicz (1995) highlighted the importance of this issue, asserting that the enduring efficiency of taxation is a fundamental aspect of the tax system. He posits that it functions as a criterion for assessing the suitability of tax source selection. The type of tax base and the structure of the tax schedule are of fundamental importance.

Tax reliefs may play a significant role in this context. Their design can reinforce or weaken tax progression (Wagstaff & van Doorslaer, 2001), thus influencing taxpayer responses to alterations in tax burdens. Research indicates that taxpayers favor legal methods for reducing tax liability rather than illegal solutions, which are viewed as morally unacceptable (Hofmann et al., 2008). Reliefs can function as a mechanism that diminishes incentives for tax evasion, thereby enabling taxpayers to comply with the system.

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

Excessive fiscal burdens can lead to long-term consequences, including the hysteresis effect (Alm & Yunus, 2009) and the snowball effect, which may diminish taxpayers' willingness to fulfill their tax obligations permanently. The analysis of tax reliefs should extend beyond their traditionally recognized non-fiscal functions to include their effects on taxpayers' responses to taxation, particularly regarding behavior under a progressive tax scale.

The aim of this article is to examine the extent to which tax reliefs, particularly those necessitating additional expenditures, can function as mechanisms to reduce incentives for tax evasion. This analysis examines the correlation between the number of taxpayers transitioning to the second tax bracket and the utilization of specific reliefs, thereby enabling the identification of tax reliefs that serve as a safeguard against excessive taxation levels.

Literature review

Elevated marginal tax rates promote tax evasion via the underreporting of taxable income. Evidence corroborating this assertion was accessible as early as the 1980s. Clotfelter (1983) demonstrated that tax evasion is responsive to variations in tax rates. The estimates indicate a positive and significant elasticity of unreported income in relation to marginal tax rates. Feldstein (1995), in his analysis of the U.S. tax reform of 1986, identified a significant elasticity of taxable income concerning the marginal after-tax rate. Poterba's (1987) study reveals that the elasticity of unreported capital gains concerning marginal tax rates ranges from 0.64 to 1.54. Sillamaa and Veall (2001) examined the effects of flattening marginal rates, revealing a significant impact on self-employed individuals and high-income taxpayers.

Adam et al. (2017) examined the notches and kinks in marginal tax rate schedules of the British income tax system over a span of forty years to assess taxpayer responses to income tax and social security contributions. At the kink points, where the marginal tax rate increases, clustering was observed among business owners and the self-employed, whereas individuals earning solely wage income did not exhibit such clustering. Responses to notches, characterized by an increase in the average tax rate, indicate that a majority of wage earners encounter substantial obstacles to income management; less than 25% modify their income even when such adjustments would enhance both consumption and leisure. The study indicates that wage earners who adjust at the notch points are predominantly part-time workers, who generally earn lower wages and work longer hours compared to their counterparts who do not adjust. Kleven et al. (2011) conclude that the high compliance rate among taxpayers with third-party reported income is primarily due to limited opportunities for effective evasion rather than a reluctance to cheat (p. 653). Entrepreneurs, who declare their own taxable income, possess considerably more opportunities to underreport income

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Data: 30/10/2026 16:14:16

compared to employees, whose income is reported by their employers. Entrepreneurs are the group most affected by marginal tax rates.

Kopczuk (2005) identifies a broader spectrum of potential behavioral responses that influence reported income. Taxpayers may decrease their labor supply or engage in tax avoidance activities (which are legal, albeit occasionally aggressive) as a reaction to elevated tax rates. Income may also be reallocated among various tax bases or entities. This researcher indicates that shifting income over time can be a strategy to mitigate high taxation. Three conclusions can be derived from the referenced studies. First, progression promotes the underreporting of taxable income. Second, this effect is contingent upon the taxpayer type. Third, taxpayer responses may manifest in two forms: legal, such as tax avoidance, or illegal, such as tax evasion.

The preceding analysis indicates that the degree of underreporting taxable income may be mitigated by diminishing progression, specifically through the reduction of notches in the marginal tax rate. To identify methods for reducing progression, it is essential to analyze the impact of individual elements of tax design. Tax credits, the rate structure, and allowances generally enhance the progressivity of the personal income tax (PIT), while deductions from the tax base diminish its progressivity (Wagstaff & van Doorslaer, 2001). Earlier studies by Seetharaman (1994) and Young et al. (1999) yield similar conclusions. One clear approach to diminishing progression is to lower the rates in the subsequent brackets of the tax scale. Nonetheless, this solution may not be optimal regarding tax revenue levels. Reducing the tax rate leads to a decrease in tax revenue from all individuals within a specified tax bracket. In contrast, even commonly accessible deductions are not typically claimed by all eligible taxpayers, especially when the right to deduct is contingent upon incurring additional expenses. The implementation of deductions enables the establishment of a buffer for taxpayers who view the marginal tax rate as excessively high. This approach is warranted, as recent research indicates that each taxpayer possesses a distinct Laffer curve (Gamarra Rondinel et al., 2024). A specific level of taxation may be acceptable to one taxpayer, while it may elicit resistance in another, leading to efforts to reduce the tax burden. At a specific marginal tax rate, certain taxpayers will choose to continue fulfilling their tax obligations, whereas others may seek methods to avoid or evade taxation. Tax reliefs enable taxpayers to legally decrease their tax obligations, thereby mitigating the risk of individuals transitioning to the shadow economy. Evidence indicates that taxpayers favor legal strategies for minimizing their tax liabilities (Drywa, 2016). Hofmann et al. (2008) indicate that taxpayers view legal tax avoidance as intelligent and ethically permissible, whereas tax evasion is regarded as unethical and hazardous. Research by Kirchler, Maciejovsky, and Schneider indicates that participants perceive tax avoidance favorably while viewing tax fraud unfavorably (Kirchler et al., 2003). Analyses by Kołodziej indicate that taxpayers view legal methods for reducing the tax burden as more intelligent (Kołodziej, 2024).

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

Tax authorities ought to leverage the inherent inclination of taxpayers to fulfill their obligations honestly. In situations where taxpayers resort to illegal tax evasion as a result of excessive burdens, the state may encounter two adverse outcomes. The initial adverse consequence of driving taxpayers into the shadow economy is the phenomenon known as hysteresis effect. This phenomenon, referred to as the ratchet effect, indicates that taxpayers who have previously committed tax fraud are predisposed to repeat such behavior. Alm and Yunus's (Alm & Yunus, 2009) studies provide substantial evidence of hysteresis in income taxation, particularly highlighting the persistence of tax evasion. Research indicates that hysteresis occurs as taxpayers learn from their experiences, leading to a habitual tendency to evade taxes (Raczkowski, 2016; Szołno-Koguc & Ołówko, 2019). The learning effect indicates that current year reporting decisions may be influenced by prior reports. Taxpayers may draw on their prior experiences with tax reporting, influencing their current decision-making (Alm & Yunus, 2009). Evidence suggests that tax evasion may be more persistent than the findings of Alm and Yunus indicate; Frimmel et al. (2019) argue that this phenomenon exhibits intergenerational characteristics. Given that norms and preferences related to taxation are enduring and passed down through generations (Luttmer & Singhal, 2014), the involvement of one generation in the shadow economy may influence tax morality for an extended period. Bruttel and Friehe (2014) highlight the persistence of tax compliance behaviors, indicating that factors not directly tied to immediate material benefits can still affect individual taxpayer decisions.

The second adverse consequence linked to excessive taxation, and subsequently driving taxpayers into the shadow economy, is the phenomenon known as the snowball effect. Fortin et al. contend that taxpayers modify their attitudes regarding income underreporting in accordance with the level of underreporting observed within their group, a phenomenon referred to as endogenous conformity. An increase in the cheating behavior of others correlates with a heightened tendency for individuals to engage in cheating (Fortin et al., 2007). Consequently, a high level of taxation may lead one taxpayer to engage in tax fraud, thereby increasing the likelihood that others, who would otherwise not consider tax evasion, will also participate in such behavior. Frey and Torgler observe that taxpayers may exhibit conditional willingness to pay taxes based on the prosocial behavior of their peers. Individuals' willingness to pay taxes increases with the perception of honesty among other taxpayers (Frey & Torgler, 2007).

Indirect evidence suggests that tax reliefs may diminish incentives for tax fraud by alleviating progression, as they are typically utilized by high-income individuals who encounter substantial increases in their marginal tax rate. Data from the U.S. tax system indicate that individuals with higher incomes utilize tax reliefs more extensively. The most significant tax advantages for high-income taxpayers stem from preferential treatment of capital gains. Individuals in the 80th to 95th income percentiles predominantly utilize itemized deductions, including charitable contributions

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

(Berger & Toder, 2019). Comparable evidence exists for nations including Canada (Department of Finance Canada, 2024) and Germany (Blömer et al., 2024). This pattern may stem from increased access to tax advisory services for high-income individuals, as well as heightened motivation due to elevated tax burdens.

Considering these observations, tax reliefs may indicate taxpayers' perceptions of the tax burden. Fiscal authorities can evaluate the risk of taxpayers entering the shadow economy by analyzing the number of taxpayers utilizing deductions. This assessment aids in determining the taxation level at which there is a potential shift toward the downward-sloping portion of the Laffer curve.

In Polish literature, tax reliefs are predominantly attributed non-fiscal functions (Staniszewski, 2018). It is posited that they contribute to the attainment of economic and social objectives (Wyrzykowski & Kasprzak, 2016). Tax reliefs may additionally serve a fiscal function. Piolatto argues that existing literature inadequately acknowledges the various effects linked to tax deductions, particularly regarding how the actions of one taxpayer can affect the likelihood of income declaration by others. Deductions contingent upon expenditure incentivize consumers to report their purchases. This leads to a partial reallocation of demand from the black market to the legal market, as consumers require transaction documentation to qualify for the tax deduction. As a result, tax revenues are likely to rise. The expense incurred by the tax authority on the consumer's end is outweighed by the increased revenues produced on the seller's end (Piolatto, 2015). Poterba notes that the implementation of tax reliefs can lead to the reporting effect, suggesting that decreases in capital gains taxation may largely be self-financing as a result of heightened income reporting (Poterba, 1987).

The effectiveness of tax reliefs in achieving fiscal objectives largely hinges on the specific type of relief implemented. In Polish literature, the classical classification of reliefs differentiates among those that modify the tax base, tax rate, and tax amount (Gomułowicz & Małecki, 2000). This classification inadequately reflects the varied effects of this aspect of tax design on tax burdens, particularly for taxpayers with differing income levels. The assumption that tax base reductions primarily benefit higher-income individuals fails to consider whether such reliefs are granted automatically, without necessitating expenditure, or if they require additional financial or material contributions from the taxpayer. The requirement for an additional sacrifice renders the relief more selective. Only taxpayers who view their tax burden as excessively high and are willing to incur a cost to alleviate it will utilize such relief measures. Therefore, it is more suitable to utilize the classification found in the English-language literature, which differentiates among allowance, deduction, exemption, and credit. The initial category of relief is an automatic tax-exempt sum or lump sum payment. The subsequent category, deductions, involves subtracting actual costs from income. Exemption refers to the total exclusion of a specific item from taxation and is recognized in Polish literature as a distinct component of tax

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

design – exemption. The final category of relief involves direct deductions from the tax liability, known as credits.

Considering this classification, the deductions of expenditures from the tax base are notably important regarding their influence on the achievement of the fiscal function. This occurs as they alleviate the taxpayer's burden while necessitating additional expenditures from the taxpayer. The relief is not automatic; rather, it serves as a mechanism for adjusting the tax burden according to the individual's perception of its magnitude. Consequently, a taxpayer at the apex of their individual Laffer curve does not engage in tax evasion but rather utilizes legal methods to minimize their tax liability. The reduction of the tax base due to deductions influences the progressivity of the tax system, creating a significant incentive for higher-income taxpayers, who may be more likely to engage in tax evasion.

Research methods

This study aims to assess the effectiveness of tax reliefs, specifically those subtracted from the tax base, as mechanisms to alleviate tax evasion among taxpayers facing a substantial rise in their marginal tax rate upon entering the second tax bracket. The analysis aimed to verify the existence of a relationship by examining the correlation between the number of taxpayers in the second bracket of personal income tax and the number of individuals receiving specific tax reliefs.

The research utilized data published annually by the Ministry of Finance in reports concerning PIT settlements. The analysis encompassed only those reliefs for which adequately extensive time series were accessible. This research assumes that the data period for the use of a given relief must be no shorter than ten years. The study excluded reliefs of marginal significance or those with limited duration, such as the Internet relief. The research period is from 2007 to 2023, and was selected based on data availability.

The research encompassed two categories of reliefs. The first category includes lump-sum reliefs, whereby taxpayers receive an automatic deduction without necessitating any expenditure on their part. This group encompasses, for instance, child relief initiatives. The second type consists of reliefs characterized as deductions, with the amount contingent upon the expenditures incurred by taxpayers. This category encompasses reliefs for individual retirement accounts (IKZE), deductions for rehabilitation expenses, donations for religious purposes, contributions to public benefit organizations, and donations associated with blood donation.

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

Results

The initial phase of the study involved analyzing the correlation between the number of taxpayers in the second tax bracket and the number of individuals utilizing specific reliefs. Table 1 presents the results of the study.

Table 1. Correlation between the number of taxpayers in the second tax bracket and the number of individuals claiming specific tax reliefs

Type of tax relief	Pearson's *r*	*N*	*t*	*P*
Deductions for donations to public benefit organizations	0.76	11	4.18	0.00
Deductions for religious purposes	0.87	11	5.32	0.00
Total deductions for donations	0.78	15	4.46	0.00
Child relief	0.73	15	3.85	0.00
Individual Retirement Security Account (IKZE)	0.81	12	4.44	0.00
Blood donation relief	0.60	11	2.23	0.05
Disability relief	0.72	15	3.73	0.00

Source: own elaboration.

The data in Table 1 demonstrate a strong, statistically significant correlation between the number of taxpayers in the second tax bracket and the utilization of specific tax reliefs. This suggests that a taxpayer's transition into the second tax bracket may result in an increased utilization of all examined tax reliefs. The results of the Dickey–Fuller test (Table 2) indicate that the analyzed time series are non-stationary, rendering the correlation coefficients potentially unreliable.

Table 2. Results of the Dickey–Fuller test for the number of taxpayers claiming specific tax reliefs and for the number of taxpayers in the second tax bracket

Type of tax relief	Dickey–Fuller test	Critical values for selected significance levels			*N*	*P*
		1%	5%	10%		
Deductions for donations to public benefit organizations	−0.62	−3.75	−3.00	−2.63	16.00	0.87
Deductions for religious purposes	−1.40	−3.75	−3.00	−2.63	10.00	0.58
Total deductions for donations	0.26	−3.75	−3.00	−2.63	16.00	0.98
Child relief	−1.80	−3.75	−3.00	−2.63	16.00	0.38
Individual Retirement Security Account (IKZE)	−1.41	−3.75	−3.00	−2.63	11.00	0.58
Blood donation relief	−0.23	−3.75	−3.00	−2.63	10.00	0.94

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

Type of tax relief	Dickey–Fuller test	Critical values for selected significance levels			*N*	*P*
		1%	5%	10%		
Disability relief	−2.47	−3.75	−3.00	−2.63	16.00	0.12
Number of taxpayers in the second tax bracket	−1.80	−3.75	−3.00	−2.63	14.00	0.38

Source: own elaboration.

The study examined the relationship between fluctuations in the number of taxpayers in the second tax bracket and variations in the number of taxpayers utilizing specific reliefs to address the issue of non-stationarity in the time series. Table 3 presents the results of the calculations.

Table 3. Correlation between the change in the number of taxpayers in the second tax bracket and the change in the number of individuals claiming specific tax reliefs

Type of tax relief	Pearson's *r*	*N*	*t*	*P*
Deductions for donations to public benefit organizations	0.20	10	0.59	0.57
Deductions for religious purposes	0.60	10	2.12	0.07
Total deductions for donations	0.35	14	1.30	0.22
Child relief	0.12	14	0.43	0.69
Individual Retirement Security Account (IKZE)	0.69	11	2.82	0.02
Blood donation relief	0.04	10	0.11	0.92
Disability relief	0.95	14	10.86	0.00

Source: own elaboration.

The results indicate that the analyzed relationship is evident in three tax reliefs: the rehabilitation relief, the IKZE relief, and the relief for expenses related to donations for religious purposes. Conversely, no significant correlation exists between the variation in the number of taxpayers within the second tax bracket and the variation in the number of individuals utilizing reliefs for child-rearing, contributions to public benefit organizations, or donations for blood donation purposes. It is important to note that for all variables where Pearson's correlation coefficient values indicated a statistically significant relationship, the time series employed are stationary, as verified by the Dickey–Fuller test results (Table 4).

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

Table 4. Results of the Dickey–Fuller test for the first difference of the number of taxpayers claiming specific tax reliefs and for the first difference of the number of taxpayers in the second tax bracket

Type of tax relief	Dickey–Fuller test	Critical values for selected significance levels			*N*	*P*
		1%	5%	10%		
Deductions for donations to public benefit organizations	−1.35	−3.75	−3.00	−2.63	9.00	0.61
Deductions for religious purposes	−2.92	−3.75	−3.00	−2.63	9.00	0.04
Total deductions for donations	−2.35	−3.75	−3.00	−2.63	15.00	0.16
Child relief	−3.59	−3.75	−3.00	−2.63	15.00	0.01
Individual Retirement Security Account (IKZE)	−2.66	−3.75	−3.00	−2.63	10.00	0.08
Blood donation relief	−2.89	−3.75	−3.00	−2.63	9.00	0.05
Disability relief	−4.87	−3.75	−3.00	−2.63	15.00	0.00
Number of taxpayers in the second tax bracket	−6.63	−3.75	−3.00	−2.63	13.00	0.00

Source: own elaboration.

The analysis of the results indicates that taxpayers in the second tax bracket generally favor deductions for expenses they would have incurred irrespective of tax relief options, exemplified by the disability relief. The choice to employ a tax preference solely after surpassing the bracket threshold can be attributed to the observation that, for taxpayers within the first bracket, the expenses associated with claiming the deduction (such as costs for tax advisory services and the time needed to document and finalize the deduction) exceed the potential advantages. The tax benefit becomes significantly valuable and justifies the deduction only at elevated marginal tax rates.

A second group of taxpayers who enter a higher tax bracket and subsequently increase their interest in deductions consists of those willing to incur necessary expenditures to access the relief, provided that these expenditures are linked to additional individual benefits, as exemplified by the Individual Retirement Security Account (IKZE) relief. A comparable situation may arise with other deductions, including the thermal insulation relief. Nonetheless, the lack of adequate time series data precludes empirical validation of this hypothesis. A further finding indicates that entering a higher tax bracket may influence the deductions available for donations to religious organizations. The reasoning for this may resemble that seen in the context of disability relief. Lower marginal tax rates may result in taxpayers having insufficient motivation to document and deduct donations, while higher marginal rates significantly decrease tax liability through these deductions. Taxpayer income growth may also enhance the likelihood of making donations.

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

This effect is not observed in donations to public benefit organizations. Likewise, surpassing the tax bracket threshold does not motivate taxpayers to claim deductions for blood and plasma donations. This indicates that tax motives are not the main impetus behind *pro publico bono* activities. No significant increase in taxpayers' interest in automatic deductions, such as child relief, is observed upon entering the second bracket. This follows from the observation that tax preferences are predominantly employed by taxpayers in both the first and second tax brackets, indicating that a change in tax bracket does not affect their decision to utilize the deduction.

Discussion

The topic of tax reliefs has been extensively debated among economists. A considerable amount of literature challenges the rationale for implementing such instruments. OECD expert analyses suggest that tax reliefs can lead to inequitable outcomes, allowing ineligible groups to claim benefits (OECD, 2010b).

Tax reliefs are also argued to negatively impact the principle of tax neutrality. A. Auerbach argues that both the implementation of reliefs and the mere expectations of their introduction can distort taxpayers' decision-making (Auerbach & Hines, 1988). Tax reliefs are often highlighted as factors that enhance the complexity of the tax system (OECD, 2010b). The implementation of reliefs may consequently increase the cost of tax collection. Some sources indicate that they may enable tax avoidance (OECD, 2010a).

The literature has long advocated for increased tax neutrality by broadening the tax base, which involves the elimination of tax expenditures, due to the potentially adverse effects of tax preferences. This was anticipated to enhance tax revenues while concurrently facilitating the reduction of marginal tax rates. Kaplow contends that the assumption that expanding the tax base via tax relief reform inherently permits reductions in marginal tax rates is misleading. While these reforms may reduce nominal marginal tax rates by modifying statutory brackets, effective marginal tax rates (MTRs), which affect labor supply decisions, do not change (Kaplow, 2017). Reliefs can function as incentives that motivate taxpayers to engage in activities aligned with the broader public interest (Kaplow, 2017). A substantial body of evidence indicates that tax reliefs can yield beneficial societal outcomes, including enhancements in children's living conditions (Michelmore, 2025) and increases in labor supply and employment (Duncan et al., 2005). The findings indicate that this instrument is typically utilized as a policy tool aimed at achieving social or economic objectives. In contrast, it is considerably more challenging to identify evidence that tax reliefs can enhance the fiscal function of taxation by facilitating a more accurate alignment of tax liabilities with the individual preferences and capacities of taxpayers. It is frequently contended that pursuing non-fiscal objectives via tax reliefs results in a revenue loss (Ciuman, 2018; Dziemianowicz & Poniatowicz, 2017; OECD, 2010b).

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

Some authors recognize the potential of tax reliefs to optimize individual tax burdens. Mariański (2021) asserts that tax reliefs and exemptions designed to individualize tax liability are entirely legitimate. This claim does not imply that such reliefs can directly increase tax revenues; however, the analysis indicates that well-designed tax reliefs may yield long-term fiscal benefits.

Conclusions

The analysis indicates that tax reliefs in personal income tax may, in addition to their non-fiscal roles, also support the fiscal objectives of taxation. While it is challenging to find clear and direct evidence that tax reliefs – specifically deductions from income or the taxable base – positively impact tax revenues, there are indirect indications that these instruments may be advantageous for government revenue. Permitting deductions for incurred expenses helps prevent taxpayers near the inflection point of their individual Laffer curve from resorting to the shadow economy. Without these deductions, taxpayers may seek to evade taxation, potentially leading to a decline in tax revenues both in the short term and over the long term due to the hysteresis effect. Furthermore, taxpayer expenditures often produce beneficial social externalities, including enhanced retirement savings for citizens and improved energy efficiency in buildings. Preventing taxpayers from entering the informal economy diminishes the risk of the snowball effect, where tax evasion by certain individuals promotes wider social acceptance of non-compliance, subsequently increasing the likelihood of tax fraud proliferating within society.

This article's analyses indicate that taxpayers are more likely to take advantage of deductions when there is a substantial increase in their marginal tax rate. This subsequently diminishes the motivation for unlawful actions intended to lower tax obligations. Fiscal authorities should prioritize the adjustment of progressive income taxation to reflect the individual characteristics of taxpayers, particularly their perceptions of the tax burden, rather than pursuing its elimination (Stiller, 2016). Deductions from income or the tax base can provide a useful indicator for authorities in evaluating taxpayers' perceptions of their tax burden. An increase in the utilization of such reliefs may suggest that taxpayers perceive their tax burden as substantial, leading them to seek methods for reduction.

The findings indicate that tax reliefs do not function uniformly. Lump-sum reliefs are claimed by taxpayers in both the first and second tax brackets; however, reliefs that necessitate additional expenditures tend to be claimed more frequently as taxpayers move into a higher tax bracket.

Pobrane z czasopisma Annales H - Oeconomia **http://oeconomia.annales.umcs.pl**
Data: 30/10/2026 16:14:16

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