

## THE OBLIGATION OF A FLAT STAMP DUTY AS A SOCIAL JUSTICE ISSUE

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**Abstract:** This article presents two studies, that examine the effects of procedural fairness, outcome favorability, and outcome fairness on the adoption of the Stamp Duty Act. Two-factor experimental studies were conducted with 2 procedures (fair vs. unfair) and 2 outcome favorability or outcome fairness. Study 1 found no effect of procedural fairness, with the level of tax decision acceptance dependent only on outcome favorability. Respondents accepted personally favorable decisions even when they resulted from unfair procedures. The effect of fair process was only related to outcome fairness, with tax decision acceptance resulting from fair procedures being higher, regardless of their consequences. The results show that outcome favorability has a stronger effect than outcome fairness.

**Keywords:** stamp duty, tax, procedural fairness, outcome favorability, outcome fairness, commitment

**JEL codes:** J5, J33

**Research aims:** present taxation as a social solidarity approach in society governing process.

**Research novelty:** is made new interpretation for the obligation of a flat stamp duty as a social justice issue.

## **Introduction**

Justice is one of the most crucial features underlying tax systems and laws. The issue of how to fairly distribute tax burdens between citizens is discussed widely by economists, philosophers and politicians. The issue is also prominent in social discourses surrounding the state, citizens, and their duties. As Feld and Frey emphasize, taxpayers are motivated not only by a concern to maximize their own well-being, but also by concerns for the state of their country. A citizen's sense of duty underlies their voluntary cooperation with state authorities and compliance with tax laws. Trust is the basis of civic commitment (Kirchler 2007). If people believe that an authority is respectful, they trust its motives and work toward a common goal. Fairness in taxation, especially procedural fairness, helps to build and maintain trust. It also has a significant influence on taxpayer morale. Where fairness is perceived, two types of motivational posture towards taxation might develop: commitment posture and capitulation posture (Braithwaite 2003). The former is based on a sense of moral obligation and the perception of taxpaying as an act of goodwill, the latter is based on the perception of tax authorities as representing a legitimate authority. Procedural fairness provides authorities with psychological legitimacy (Tyler 1997). The present studies focused on the fair process effect and aimed to increase understanding of

relationships between procedural fairness, outcome fairness and outcome favorability in the context of acceptance of tax authority decisions. The fair process effect is a commonly replicated finding and concerns the issue of how perceived procedural fairness affects people's reactions to decisions. Thibaut and Walker (1978) demonstrated that people are more willing to accept a judge's decision if the trial procedure is fair, even if the outcome is unfavorable. The acceptance of negative outcomes when a procedure is perceived as fair is known as the fair process effect. The current studies examined the fair process effect in the context of taxation. More specifically, we attempted to demonstrate the effects of perceived procedural fairness on taxpayers' acceptance of government decisions. The studies also tried to clarify the issues of whether the constructs of outcome favorability and outcome fairness can be used interchangeably, as is done in much research, and whether the fair process effect is equally related to outcome fairness and outcome favorability in the context of taxation.

### **Literature Review**

The United States and other mature economies face persistent fiscal problems. The combination of aging populations, increasing demand for health care in the face of rising costs, and commitments toward equality of educational opportunities all outstrip the apparent willingness of the public to levy taxes to pay for these goals. Matching desired expenditures to desired taxation is naturally a difficult political challenge, as it forces the politicians and the public to decide what they really want and what they are willing to sacrifice to obtain it. One should not expect that weighing costs

versus benefits in complex settings would ever be easy – or pretty. Making these challenges even more difficult are the questions that swirl around the “fairness” of taxes. Tax fairness embraces a variety of diverse questions and issues: what types of taxes should be levied, who should pay them, how they should be administered, and what processes should be used to make these decisions.

The principle of social justice, as an integral part of the general principles of constitutional law, regulates public relations not directly, but through specific constitutional and legal norms, embodied in these norms and in the law-enforcement activities of state authorities. From the study of these norms, it becomes clear that the principle of social justice in its actual manifestation has indicators or, in other words, criteria through which it is possible to assess the strengths and weaknesses of the state.

Any more precise analysis of how attractive a country is in terms of taxation must inherently include cross-border investment.

Tax accounting is a specific subsector of accounting that focuses more on – surprise, surprise – tax returns and payments instead of financial statement preparation. It is governed by the Internal Revenue Code of the IRS, which gives particular rules that individuals and businesses need to follow when preparing their tax returns. Tax accounting is more particular about income, qualifying deductions, donations, and investment gains/losses for individuals. Tax accounting takes other things into consideration for businesses, making it much more complex compared to personal tax accounting. It places greater scrutiny on how they spend funds and identifying taxable and non-taxable transactions. Regardless if

personal or for your business, tax accounting zeroes in on how you or your enterprise uses and receives funds.

John Rawls's theory of Justice, probably the most influential tract including expert opinion on social justice in the late twentieth century, explaining this phenomenon. From Rawls's perspective, combating social inequality lies at the heart of the project of social justice and must be aggressively pursued subject only to constraints on basic liberties and the mitigating consideration of individual behavioral responses to taxation. The economic literature has its own version of an expert theory of justice. Nobel laureate James Mirrlees developed the theory of optimal income taxation.

The study of tax law, in its most meaningful form, involves pulling these individual experiences together to explain how our tax system operates more broadly in and on our society. After all, through the composite of political choices that we, as a society, make about what, whom, and how we tax, we actually paint a portrait of our collective self. In that portrait, we can see those who are included in the collective American "self"; that is, those whose lives, relationships, and actions we publicly value, validate, and support. And if we look carefully enough, this tax portrait can also help us to see the many "others" who have been left out because they somehow do not fit this "ideal." It is no wonder that our tax laws draw lines between "self" and "other" in these ways because, "as social scientists have observed, debates about taxes often center [on] the limits of the community, the boundaries of 'us' and 'them.'"

Mirrlees started from a utilitarian perspective of maximizing a social welfare function of the utilities of individuals who differ only in their capacities for earning. He then incorporated the effects of

limited information on the part of the government as well as the disincentive effects of taxation into a quantifiable model of income taxation and redistribution. An entire generation of increasingly sophisticated economic practitioners now takes this approach as a starting point for expert models of distributive justice. It has become the economists equivalent to Rawlss theory as the workhorse of distributional analysis. Indeed, there are some basic similarities. Aside from the notion of basic liberties, economists generally view Rawlss conclusion that we should maximize the welfare of the least well-of– the “maxi-min” principle – as just one possibility within the basic Mirrlees framework depending on the precise specification of the social welfare function.

In contrast to these expert theories of justice, we offer an alternative of folk justice. What is folk justice? Broadly defined, it is the full constellation of attitudes that individuals hold in their daily lives about all dimensions of justice. One clue to ordinary ideas of justice is that in their day-to-day lives, individuals are often much more concerned about process and procedure than they are about purely distributional issues, or “who gets what.” Expert theories of justice inevitably focus on distribution. Folk justice may include distributional concerns, but also includes procedural concerns.

While Socrates may have been the enemy of folk justice, Aristotle was an ally. In his *Politics*, Aristotle emphasizes that humans naturally live in political environments, that is, environments beyond the family. The distinctive human characteristic is speech, which sets humans apart from bees and other social creatures. Humans, unlike bees, live naturally in political environments because they use a gift of speech not simply

to seek a secure life (*Leviathan* or *The Matter, Forme and Power of a Commonwealth Ecclesiasticall and Civil*, commonly referred to as ***Leviathan***, is a book by the English philosopher Thomas Hobbes (1588–1679) but to secure a good life. And essential to securing that life is articulating and debating notions of good and bad and right and wrong in political settings. In other words, humans embrace their own versions of folk justice to discover the good life. Their pursuit of folk justice is what makes humanity a naturally political animal.

Various deductions are made from employees' salaries, the amount of which reduces the obligations towards them. These include income tax, social security contributions (for social security pensions), stamp duty, union dues, compensation for material damage caused to the organization, repayment of loans received from banks, for goods sold on credit, deductions for court enforcement documents, etc. The first three of the above are mandatory (social security contributions for those born after January 1, 1974).

Psychologists, along with economists, have studied in detail how basic norms of fairness may affect the allocation of goods and services and lead to seemingly altruistic behavior. There is now a rich experimental literature documenting these findings. Other researchers have documented how individuals may often hold strong moral positions – moral mandates – that dominate their social interactions and trump economic concerns. Psychologists have also noted the complex relationships – not always particularly rational – between individual assessments of fairness and social settings. A new body of research, system justification theory,

describes how individuals bend their notions of fairness to make it consistent with the status quo - roughly, a theory of social cognitive dissonance.

**Table 1. Social security contribution scheme**

In case of calculation base up to 100,000 AMD	1500 AMD
In the case of a calculation base from 100,001 to 200,000 AMD	3000 AMD
In the case of a calculation base from 200,001 to 500,000 AMD	5500 AMD
In case of calculation base from 500,001 to 1,000,000 AMD	8500 AMD
In case of calculation base of 1,000,001 AMD or more	15 000 AMD

### **The methodology**

The research used methods of analysis, comparison, and systematic approach to identify the necessary results. Comparative analysis compares data between different periods or between budget and actual data to identify unexpected changes.

### **Research results**

Distributive tax fairness refers to the distribution of tax burdens across citizens and comparison of one's own tax burden with that



of similar others, as well as to the relationship between the amount of tax paid and the amount of money received back in benefits from the state. Horizontal tax fairness concerns taxpayers' evaluation of their tax burden compared to the amount of tax paid by taxpayers in the same revenue bracket. Vertical fairness refers to comparisons between one's own tax burdens and the amount of tax paid by taxpayers in different revenue brackets. Finally, exchange tax fairness refers to the extent of government services received by a tax payer relative to the tax they have paid: taxpayers compare their personal contributions to the state's finances (paid taxes) with the benefits they receive from the state (e.g., access to various public goods and services; Wenzel 2003). Studies have demonstrated a significant impact of subjective distributive tax fairness on tax compliance. The greater the horizontal and vertical tax fairness, the higher the satisfaction with the balance between tax burdens and the public goods provided by the state, and the lesser willingness to evade tax (Alm et al. 1992; Bosco and Mittone 1997; Braithwaite 2003; Cowell 1992; Falkinger 1995; Levi and Saks 2009; Moser et al. 1995; Niesiobędzka 2014; Pocarno 1988; Pommerehne et al. 1994; Spicer and Becker 1980; Verboon and VanDijke 2011).

Procedural tax fairness refers to the decision-making process (the degree of taxpayer participation and the perceived possibility of controlling the tax decision process) and to interpersonal relations between taxpayers and tax authorities. Furthermore, it also includes assessment of the quality of information provided by legislators and tax authorities. Research shows a significant influence of procedural tax fairness on taxpayers' decisions, with

perceived fairness of the formal procedures involved in decision-making, perceived quality of treatment by tax authorities, and tax authorities' informational practices all encouraging tax compliance. The more decisions are free from bias, stable, neutral, respectful, sympathetic and honest, and the greater the clarity and comprehensibility of the information about tax regulations, the less the propensity for tax evasion (Almetel. 1993, 1999; Almand Torgler 2006; Cuccia and Carnes 2001; Maroney et al. 1998; Murphy 2003, 2004; Niesiobędzka 2014; Pommerehne et al. 1994; Wartick 1994). The term procedural fairness has both instrumental and relational meanings. Fair practice guarantees fair outcomes in the long-term and sends the symbolic message that one is valued and respected as a member of the collective (Lind and Tyler 1988; Tyler 1997; Tyler and Lind 1992). Bies and Moag (1986) emphasized the importance of interpersonal justice as a construct of respectful, unbiased, confident and friendly interactions with authorities. Bies (2005) considered relational fairness as primary because it connects with self-image, violations of which are particularly painful to people.

The manner in which taxpayers receive notification explicitly reveals the character of mutual relationships between tax authorities and taxpayers. A formal announcement with strict sanctions classifies the individual as a suspect and casts them automatically into the role of a fraudster. The sense of being under constant control with the implied lack of trust negatively influences intrinsic motivation to pay taxes. Also, reminder letters based upon principles of procedural justice yield greater tax compliance than standard letters emphasizing penalties (Wenzel 2003), and Torgler

(2004) demonstrated that procedural fairness determines the effectiveness of moral persuasion aimed at encouraging tax compliance. Thus, taxpayers are sensitive to moral persuasion only when tax authorities treat them with respect, dignity and in an unbiased manner.

**Table 2. Stamp duty rates expressed in drams and percentage**

no	Up to	Unit of measure dram	Unit of measure, %
1.	100000	1500	1.5 and more
2.	100001-200000	3000	1.5-3
3.	200001-500000	5500	1.1-2.75
4.	500001-1000000	8500	0.85-1,7
5.	1000001 + ....	15000	until 1.5

From the data in the table, it becomes clear that in the case of an accrued salary of up to 100,000 drams, a liability of 1,500 drams arises, in the case of 100,001-200,000 drams - 3,000, in the case of 200,001-500,000 drams - 5,500, in the case of 500,0001-1,000,000 drams - 8,500, in the case of more than 1,000,000 drams - 15,000. Taking into account the fact that relative indicators more accurately reflect the situation, let's calculate the specific weight of each rate. Thus, in the case of accrued wages up to 100,000 drams, a liability of 1.5 percent or more arises, in the case of 100,001-200,000 drams - 1.5-3 percent, in the case of 200,001-500,000 drams - 1.1-2.75 percent, in the case of 500,001-1,000,000 drams - 0.85-1.7 percent, in the case of more than 1,000,001 drams - 0-1.5 percent.

We believe that under these conditions, if the accrued wage of a hired employee is 101,000 drams, the salary to be paid will be

lower than in the case of 99,900 drams. Thus, from the accrued salary of 101000 drams, let's calculate, taking into account that the employee was born in 1970:

1. Income tax liability  $101000 \cdot 20 : 100 = 20200$
2. Stamp duty 3000
3. The salary to be paid will be  $101000 - 20200 - 3000 = 77800$

Other things being equal, in the case of an accrued salary of 99900 drams, it will be:

1. Income tax liability  $99900 \cdot 20 : 100 = 19980$
2. Stamp duty 1500
3. The salary to be paid will be  $99900 - 19980 - 1500 = 78420$

In fact, in the case of an accrued salary of 99900 drams, the salary to be paid will be 620 drams more Compared to the accrued salary of 101,000 drams ( $78,420 - 77,800 = 620$ )

As a result, an attempt to circumvent the law or the very implementation of the law, an increase in the shadow, will occur. We can make the same comparison for other rates: in the case of an accrued salary of 200,000-500,000 drams, the salary to be paid in drams will be lower than, in the case of an accrued salary of 500,000-1,000,000 drams, the salary to be paid in drams will be lower than, the picture is different: in the case of an accrued salary of more than 1,000,000 drams, the higher it is, the lower the percentage of the specified rate will be.

In general, there are progressive and regressive, proportional and fixed obligations. Progressive tax rates increase, and regressive ones decrease in accordance with the increase in income or property value.

Proportional tax rates are set as a uniform percentage, and fixed - as an absolute amount, regardless of the amount of income. In fact, the analysis shows that the stamp duty obligation is based

on regress, since it decreases in relative terms in accordance with the increase in income.

## **Conclusion**

The experimental results demonstrated that, in comparison with outcome and procedural fairness, outcome favorability has a predominant role in citizens' acceptance of tax authority decisions. Despite the existence of the fair process effect in many other fields, the fairness of tax authority processes did not influence acceptance of decisions. Another important finding concerned the differential impact of outcome favorability and outcome fairness on tax decision acceptance. Results suggested that these two constructs cannot be treated synonymously in the domain of taxation. It can be assumed that outcome favorability was associated with the personal benefits connected with a particular decision: that an individual considered it in terms of profits or losses. On the other hand, outcome fairness may be more connected with social comparisons, individuals assessing a particular decision through the prism of social fairness.

We propose a flat 1 percent stamp duty rate, which we believe will solve the problem of social justice for high and low wage earners.

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## ՀԱՄԱՀԱՐԹ ԴՐՈՇՄԱՆԻՇԱՅԻՆ ՎՃԱՐԻ ՊԱՐՏԱՎՈՐՈՒԹՅՈՒՆԸ ՈՐՊԵՍ ՍՈՑԻԱԼԱԿԱՆ ԱՐԴԱՐՈՒԹՅԱՆ ՀԻՄՆԱՀԱՐՑ

### Հայկ Հակոբյան

Հայաստանի պետական տնտեսագիտական համալսարան  
տ.գ.թ., դոցենտ

**Բանալի բառեր** – դրոշմանիշային վճար, հարկեր, ընթացակարգային արդարություն, արդյունքի բարենպաստություն, արդյունքի արդարություն, պարտավորություն

Հետազոտությունում ներկայացվել է սոցիալական արդարության սկզբունքը՝ որպես սահմանադրական իրավունքի ընդհանուր սկզբունքների բաղկացուցիչ մաս: Տվյալ նորմերի ուսումնասիրությունից էլ պարզ է դառնում, որ

սոցիալական արդարության սկզբունքն իր փաստացի դրսևորման մեջ ունի ցուցիչներ կամ այլ կերպ ասած՝ չափանիշներ, որոնց միջոցով հնարավոր է գնահատել պետության ուժեղ և թույլ կողմերը:

Մասնավորապես, աշխատողների աշխատավարձից կատարվում են տարբեր պահումներ, որոնց չափով նվազեցվում են պարտավորությունները նրանց հանդեպ: Դրանցից են՝ եկամտային հարկի, սոցիալական վճարի (կուտակային կենսաթոշակների համար), դրոշմանիշային վճարի, արհմիության անդամավճարի, կազմակերպությանը պատճառած նյութական վնասի հատուցման, բանկից ստացված վարկերի մարման, ապառիկ վաճառված ապրանքների համար, դատարանի կատարողական փաս տաթղթերով պահումները և այլն:

Երբ արդարությունը ընկալվում է, ապա հարկման նկատմամբ կարող են զարգանալ մոտիվացիոն կեցվածքի երկու տեսակ՝ պարտավորության կեցվածք և կապիտուլյացիայի կեցվածք: Առաջինը հիմնված է բարոյական պարտավորության զգացողության և հարկեր վճարելը որպես բարի կամքի դրսևորում ընկալելու վրա, իսկ երկրորդը՝ հարկային մարմինների կողմից օրինական իշխանության ներկայացուցիչ լինելու ընկալման վրա:

Ընթացակարգային արդարությունը իշխանություններին տրամադրում է հոգեբանական լեզվատիմություն: Պարտավորությունների հաշվարկման և հաշվառման գործընթացում կարևորվել է համահարթ դրոշմանիշային վճարի պարտավորությունը՝ որպես սոցիալական արդարության հիմնահարց:

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