Taxpayer Beliefs and Views:
Two New Surveys

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Monika Reinhart*

Abstract

The importance of behavioural economics in supplementing and extending the neoclassical analysis of taxpayer behaviour has been recognised for some time. This paper summarises contributions to date and outlines a way forward for integrating the behavioural and neoclassical approaches and developing a more coherent strategy of encouraging taxpayer compliance. The paper then provides significant further evidence relating to taxpayer behaviour by reporting some of the main results of two substantial surveys (N = 2,040 and 2,374) of Australian citizens’ beliefs, attitudes, values and motivations with respect to the tax system, widely defined. It is concluded that the behaviour of Australian taxpayers’ is not determined only by considerations of narrow economic rationality based on the expected financial costs and benefits of compliance or non-compliance but is also influenced by a much wider range of factors. Examination of the importance of these other factors might be the most fruitful way of improving tax compliance in the future.

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1. Introduction

The standard economic approach to analysing taxpayer behaviour offers many useful insights about what is in the interests of individuals to do in response to different economic costs and benefits. However, it has increasingly been supplemented by a more behavioural analysis. The two approaches have also been recognised by tax administrations as nicely illustrated by the following two quotations originating from the US Internal Revenue Service (IRS):

Are you crazy? A total paranoid to think that they really do know everything about you? That given half a chance, the IRS will wipe you out and send you off to jail?

No, I can assure you, there’s nothing paranoid, even neurotic, about feeling that way. Mental instability in no way creates that state of fear and loathing. What you feel exists for good reasons: the IRS has worked hard to put it there.

Nothing is more central to the IRS strategy of tax collecting than scaring you, the taxpayer, and keeping you that way.1

Since that was written by one of their former officials, the IRS have been working on an alternative approach, endorsed by the then Vice President Al Gore and Treasury Secretary Robert E. Rubin:

For the past five years, this Administration has been committed not just to a fairer tax code, including cutting taxes for middle-class families, but also to fairer tax collection. Our philosophy is simple: the taxpayers don’t work for us, we work for them.2

These two approaches are also to be found in the academic literature on tax compliance.3 The first of these is the relatively narrow view based on ‘economic rationality’ and draws largely on economic analysis – some of

which is very sophisticated and some of which is not. The second approach may be termed the ‘responsible citizen approach’ that draws on findings from other academic disciplines such as psychology and sociology. There is now a huge literature on tax compliance, much of it based on a relatively narrow interpretation of economic rationality and utility maximisation. Some studies are seriously limited by their failure to take account of wider issues. Even a comprehensive definition of the term ‘compliance’ is more complex than many commentators seem to appreciate and should incorporate a wider behavioural dimension.

Any successful strategy for promoting compliance will necessarily draw on both approaches and in some important ways they complement each other. However, there has been a difference in emphasis as the two opening quotations illustrate. It is therefore helpful to take account of relevant empirical evidence that might indicate different roles these approaches might play in taxpayer compliance. This paper specifically draws on results from two substantial surveys. The first is the Community, Hopes, Fears and Actions Survey (CHFA Survey); a national Australian survey designed to assess attitudes towards the Australian tax system. In June 2000 a sample of 7,754 Australian voters were sent a 40 page self-completion questionnaire incorporating 450 questions. Non-responders were sent subsequent mailings and 2,040 usable replies were received. The second survey was conducted between November 2001 and February 2002 using a 28 page questionnaire with some 350 questions that was sent to 6,764 Australians. Non-responders were again followed up and 2,374 usable responses were received. The results provide further evidence that taxpayers’ decisions are not just a simple calculation of likely financial costs and benefits in complying or not complying with the requirements of the tax system. Instead, they suggest that taxpayers’ attitudes and beliefs about the Tax Office and of paying tax can affect their compliance. Although there has been a great deal of work in the economic rationality tradition on compliance costs in Australia this present survey is concerned with wider issues regarding motivation and attitudes.

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Before discussing the findings we should first provide an indication of the direction the paper is going to take. Given its relevance to taxpayer compliance and attitudes it is helpful to remind ourselves of the purposes of taxation and this is done in Section 2. This also helps clarify the basis of the different views on the subject. The concept of tax compliance is then examined in more detail in Section 3. The approach to tax compliance based on economic rationality then follows in Section 4 and the taxpayer as a responsible citizen approach in Section 5. Section 6 turns to the evidence provided by the two surveys. Finally, Section 7 draws some conclusions.

2. The Purpose of Taxation

Following Musgrave\(^6\) and others, the economic justification for the public sector and the consequent requirement for taxation can be described as having three areas - the allocation branch, the distribution branch and the stabilisation branch. The allocation branch is concerned with inefficiencies in the market system in the allocation of economic resources. In an important sense this is the root of the economic rationality approach to tax compliance. The distribution branch is concerned with the redistribution of income and wealth towards that which society considers more equitable. It is in this justification for government economic activity that one of the roots of the ‘responsible citizen’ approach lies. The third area is the stabilisation branch which might justify a role for government in trying to smooth out cyclical economic fluctuations and ensuring a high level of employment and price stability. However, there has been considerable debate and dispute about how effective the public sector can be in this matter.\(^7\)

Musgrave’s classification provides a useful general framework for attempting to integrate the two basic approaches to tax compliance and this is illustrated in Figure 1. The allocation branch is concerned with issues of efficiency in resource allocation, and this is conventionally analysed by supposing that individuals act to maximise utility. Tax compliance is therefore also seen as a matter of economic rationality and taxpayers as individuals who consider the pecuniary gains and losses from compliance or non-compliance. The distribution branch is concerned with issues of equity and incidence – how the effects of taxes are distributed. This would

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\(^7\) For example, see James & Nobes, supra note 3, chapter 6.
see taxation as an equity matter and might view the taxpayer in the more complex role of a member of society rather than simply a calculator of gains and losses. Both approaches offer explanations of compliance behaviour and major contributions to the development of a compliance strategy.

**Figure 1: Different Approaches to Tax Compliance**

<table>
<thead>
<tr>
<th>Rationale for Public Sector Expenditure and Taxation</th>
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<tbody>
<tr>
<td><strong>Allocation Branch</strong></td>
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<tr>
<td>Issues of efficiency in resource allocation.</td>
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<tr>
<td>Tax compliance as a problem of economic rationality?</td>
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<tr>
<td>The taxpayer as selfish calculator of pecuniary gains and losses?</td>
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<tr>
<td>Optimal compliance policy?</td>
</tr>
<tr>
<td><strong>Distribution Branch</strong></td>
</tr>
<tr>
<td>Issues of equity, fairness and incidence.</td>
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<tr>
<td>Tax compliance as a problem of equity and fairness?</td>
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<tr>
<td>The taxpayer as a “good citizen”?</td>
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</tbody>
</table>

The main question of interest here is how to integrate them in designing an overall strategy by deriving what might be called an optimal compliance policy. While there is a wealth of literature on various aspects of compliance, there is relatively little on how these aspects might be optimally combined with others in order to develop an overall strategy for compliance. This could, however, be important even at a more detailed level. For instance, it has been pointed out that a policy innovation designed to reduce one form of non-compliance might result in taxpayers transferring their non-compliance activities to take advantage of a now superior alternative opportunity.\(^8\) Simply assessing only the direct impact of that measure

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might be inadequate and misleading. More generally, a full evaluation of any aspect of compliance policy should take account of its effects on each of the relevant areas and the best place to start is to look again at the concept of tax compliance.

3. The Concept of Tax Compliance

The definitions of tax compliance frequently used in the literature might be considered to be too simplistic. The most common previous approach has been to conceptualise compliance in terms of the ‘tax gap.’ This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance, though there are some variations. For example, and rather curiously, Brand refers to the ‘market share’ of the Internal Revenue Service (IRS) in the USA. What Brand means by this is ‘the amount of the projected total tax base that the IRS actually collects.’ Andreoni, Erard and Feinstein include a time dimension to compliance, but are still mainly concerned with tax evasion as the central part of the tax gap definition. However, the basic concept of the ‘tax gap’ of non-compliance seems to be far too simplistic for practical policy purposes. Successful tax administration requires taxpayers to co-operate in the operation of a tax, rather than be forced to undertake every aspect of their obligations unwillingly. Tax law cannot cope with every eventuality and has to be supplemented with administrative procedures and decisions and, just as importantly, in order to work it has to have a reasonable degree of willing compliance on the part of the taxpayers themselves.

One issue is whether ‘compliance’ refers to voluntary or compulsory behaviour. If taxpayers ‘comply’ only because of dire threats or harassment or both, this would not appear to be full compliance, even if 100 per cent of the tax was raised in line with the ‘tax gap’ concept of non-compliance. Instead, it might be argued that proper compliance means that taxpayers meet their tax obligations willingly, without the need for enquiries, obtrusive investigations, reminders or the threat or application of legal or administrative sanctions. A more appropriate definition could therefore

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9 A more comprehensive definition has been developed by James & Alley, supra note 3.
include the degree of compliance with tax law and administration that can be achieved without the immediate threat or actual application of enforcement activity.

It is also too simplistic to suppose that there is some fixed tax revenue that would be collected if all taxpayers observed 100 per cent obedience with the law. The level of potential tax revenue is determined by the level of economic activity. It is possible that an intrusive tax regime might reduce the willingness of taxpayers to earn more money or engage in commercial activity, not only because of the associated tax liability, but because that extra liability might involve inconvenient administrative requirements or the risk of a heavy handed official response. There is also the ‘spite effect’ described by Musgrave. It is not known how powerful any spite effects might be but they could further affect the revenue potential. Paradoxically the ‘tax gap’ definition of non-compliance might then have been partly satisfied because there is less to collect.

Tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are conventionally distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. Since taxation is not always precise, Seldon has also coined the term ‘tax avoision’ to describe circumstances where the law might be unclear. However, some commentators see non-compliance only as a problem of evasion, which does not seem to capture the full policy implications of the issue. Clearly tax evasion is an extreme form of non-compliance. However, if law-abiding taxpayers go to inordinate lengths to reduce their liability this could hardly be considered to be ‘compliance’ either. Such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. ‘Tax exiles’ even seem to prefer to emigrate, rather than fulfil their obligations as citizens - hardly an example of ‘compliance.’ Even if such activities are within the letter of the law, they are clearly not within the spirit of the law. Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law.

12 Musgrave, supra note 6, at 240.
The ‘tax gap’ approach overlooks the possibility that some taxpayers pay more than their legal obligation. Not all taxpayers seek out every possible method of reducing their tax liability and an unknown number do not claim their full entitlement to allowable deductions. For example, in reporting on non-filers in ‘The Australian Tax System: Fair or not?’ survey, McCrae and Reinhart\textsuperscript{15} had one respondent who stated ‘I pay too much tax, I’m just too lazy to claim it! [a tax rebate] But I’d rather have a decent health system and pay more’.

A further complication, of course, is that taxation is used for many other purposes than raising revenue. As an instrument of economic and social policy the purpose of taxation is often to influence behaviour. It can therefore actually be the intention of the tax that it is avoided. For example, it has been argued that higher taxes on alcoholic drinks\textsuperscript{16} and tobacco\textsuperscript{17} would reduce the consumption of those products and lead to improvements in the health of the population. Any such changes in behaviour would constitute tax avoidance, but it would be in the spirit as well as the letter of the law and would fit the definition of compliance offered here, but not the ‘tax gap’ definition discussed earlier. There have also been developments in other forms of ‘corrective taxation’ referred to as environmental taxes,\textsuperscript{18} green taxes\textsuperscript{19} and so on. The ‘tax gap’ approach to compliance is clearly too simplistic and inappropriate with respect to compliance in such cases. Compliance in this context would appear to indicate compliance with government policy in a wider sense, rather than only compliance with the tax law, and therefore what could be expected from a responsible citizen.

4. Taxpayer Compliance and Economic Rationality

This approach to tax compliance is based on a relatively narrow interpretation of economic rationality. It is supposed that totally amoral

\textsuperscript{15} J McCrae & M Reinhart, Non-filers: What we know, Centre for Tax System Integrity Research Note 1, (2003), Australian National University (http://ctsi.anu.edu.au).


\textsuperscript{17} WK Viscusi, Promoting smokers’ welfare with responsible taxation, \textit{National Tax Journal}, 47 (1994), 547-558.


\textsuperscript{19} WE Oates, Green taxes: Can we protect the environment and improve the tax system at the same time? \textit{Southern Economic Journal}, 61 (1995), 915-922.
individuals maximise their utility by maximising their income and wealth. They will evade tax if they consider that by doing so they can expect to increase their spending power. According to Bernasconi ‘evading tax is like gambling’ and is perceived as an economic transaction like any other. Following this approach, compliance and non-compliance are simply explained by the sum of costs and benefits involved.

An early model frequently quoted is that of Allingham and Sandmo and there have been many refinements and developments of their model since. Clearly the tax structure – that is the set of tax rates – may influence compliance22 and there has also been work on regressive taxes23 and non-linear tax schedules.24 Other aspects that might affect the rate of return to non-compliance, such as inflation25 are also included and there are many other factors which might be quantified and included in the decision-making process. Uncertainty is also an important factor in these calculations26 and can, of course, extend to other players in this game – even those such as risk averse tax collectors.27 This leads on to other costs such as those of concealment.28 In addition, the chances of getting caught are obviously important so the probability of tax evasion being detected is relevant,29 as

are the deterrent effects of auditing for non-compliance\textsuperscript{30} and the relative effects of different audit schemes.\textsuperscript{31} Tax agents are also important so the whole approach can also be applied to them - for instance the penalties that might be imposed on them.\textsuperscript{32} This cost-benefit approach can also be extended to the point that compliance can be improved with pecuniary rewards to taxpayers.\textsuperscript{33} It is also possible that taxpayers consider the benefits the community receives from government expenditures.\textsuperscript{34}

However, this narrow ‘calculus of pleasure and pain’ as described by Jevons in the 19th Century does not seem to provide a full explanation of taxpayer behaviour. For example, there is empirical evidence that shows that many taxpayers are inherently honest and will disclose their financial affairs accurately regardless of the incentive to cheat.\textsuperscript{35} A policy of treating the taxpayer as a responsible citizen rather than just an amoral fiscal gambler seems to justify more attention than perhaps it has in policy areas to date. This is also important given the greater role self-assessment now plays in some tax systems.\textsuperscript{36}

5. The Taxpayer as a Responsible Citizen

The second approach to tax compliance is helpful in the present context and there are many contributions from different disciplines that suggest there is a range of other factors that might influence taxpayers’ behaviour.

For instance, work in sociology has suggested a number of relevant variables such as social support, social influence, attitudes and certain background factors such as age, gender, race and culture. Psychology reinforces this approach and has even created its own branch of ‘fiscal psychology’. The contribution of psychology includes the finding that attitudes towards the State and revenue authorities are important factors as well as perceptions of equity in determining compliance decisions. The roles of individuals in society and accepted norms of behaviour have also been shown to have a strong influence. The main theme of this approach is that individuals are not simply independent selfish utility maximisers (though this might be partly true) but that they also interact with other human beings in ways that depend on different attitudes, beliefs, norms and rules. It also means that as taxpayers they can normally be expected to act as responsible citizens. That is, in normal circumstances, they should conform with reasonable obligations of the tax system without the detailed application of enforcement activity mentioned in the previous section.

There are many detailed contributions to this approach – including some by economists. For example, Spicer and Lundstedt examined taxpayer norms and attitudes towards the tax system and tax offenders some time ago, and non-maximising behaviour more recently. The importance of equity and fairness has also been a frequent theme. Background factors such as cultural influence have been examined, so too have the implications of

different political systems. More direct contributions to policy in this area have come from a number of authors. For example, one is an appeal to taxpayers’ conscience and also to feelings of guilt and shame. Others have suggested more positive help for taxpayers and different methods of achieving this - such as the use of television to change taxpayers’ attitudes towards fairness and compliance.

This research gives an indication of the extensive range of academic evidence that supports the responsible citizen approach. This view has also been recognised by some tax authorities, for example in the UK, Japan and Australia. The UK revenue service has had a traditionally deferential approach towards income taxpayers, though there has been some movement away from that stance in recent years, particularly following the introduction of a partial system of self-assessment from the 1996/97 tax year.

In Japan the purpose of tax administration in the self-assessment system is to ensure all taxpayers understand the importance of taxation and submit returns and pay their correct tax liabilities voluntarily. To achieve this, Japanese tax administration aims to establish a consistent and sound environment for compliance and sets out its policy under three main headings:

46 PA Hite, A positive approach to taxpayer compliance, Public Finance, 44(2) (1989), 249-266.
establish an environment which encourages taxpayers to submit proper returns and pay taxes voluntarily. This includes communication with taxpayers through public relations, general guidance and consultations. In tax audits, one of the aims is also to use the opportunity to improve taxpayers’ understanding of the tax system and to facilitate voluntary compliance;

• to ensure correct assessments – with enforcement action if necessary;

• to develop self-disciplined and efficient offices with good human relations. This recognises that to improve voluntary compliance on the part of taxpayers, the revenue authorities should act in a fair and impartial way and their work should be disciplined, cheerful and efficient. With the right attitudes, taxpayers find it easier to approach the tax authorities.

Despite its sometimes aggressive reputation, the US Internal Revenue Service has recognised the importance of voluntary compliance – for example as outlined in its document *Compliance 2000.* The views of those with an interest in tax administration, both inside and outside the IRS, were asked to respond to questions about the organisational goals of the IRS and compliance strategies to achieve those goals. The IRS document also states:

> These efforts should be viewed as ‘doing the job right on the front end’. Correcting problems and unintentional non-compliant behaviour through enforcement sanctions should be viewed as ‘rework’. Quality principles demonstrate that ‘rework’ is more costly than ‘doing the job right on the front-end’... Increasing citizen participation and ownership of the tax system is an integral part of this direction. Such techniques as taxpayers accessing their own account data; identifying and removing organisational barriers to compliance; and positive incentives for compliance should be pursued.

In Australia the responsible taxpayer approach has also been considered by their revenue service. The Australian Tax Office (ATO) has developed a ‘Compliance Model’ which links different motivating factors in taxpayers’


51 Internal Revenue Service, *supra* note 50, at 17.
compliance behaviour and the appropriate Tax Office response. The model shows a continuum of taxpayer attitudes towards compliance at four levels together with the appropriate compliance strategy as follows:

<table>
<thead>
<tr>
<th>Attitude to Compliance</th>
<th>Compliance Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have decided not to comply</td>
<td>Use full force of the law</td>
</tr>
<tr>
<td>Don’t want to comply</td>
<td>Deter by detection</td>
</tr>
<tr>
<td>Try to, but don’t always succeed</td>
<td>Help to comply</td>
</tr>
<tr>
<td>Willing to do the right thing</td>
<td>Make it easy.</td>
</tr>
</tbody>
</table>

In the academic literature the style of enforcement emphasised is to begin by taking account the problems, motivations and conditions behind non-compliance. Taxpayers are initially given the benefit of the doubt and the revenue service’s trust in their honesty is an important part of an initial regulatory encounter. Strong emphasis is placed on educating taxpayers regarding their tax obligations and assisting them to comply, while those aspects of administration that rely principally on threats and the automatic imposition of penalties are not emphasised. It is only when taxpayers continue to be uncooperative that more interventionist measures (for example sanctions) are considered.

There is also the Australian *Taxpayers’ Charter* introduced by the ATO in 1997. This followed the Joint Committee of Public Accounts’ 1993 enquiry into the ATO’s administration of the Income Tax Acts. The Committee expressed concerns about the perceived imbalance of power between the ATO and the community and recommended the development of the *Taxpayers’ Charter* as a possible remedy. The *Charter* has been described as:

> the document that defines the kind of relationship the Australian Tax Office aspires to have with the Australian public. The Charter provides the basis

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for establishing a cooperative, respectful and trusting relationship with the public.\textsuperscript{55}

Clearly this is entirely consistent with the responsible taxpayer approach. We now turn to some empirical evidence from Australian citizens on how far they considered the Australian Tax Office to have acted in line with the \textit{Charter} and more general evidence relating to the narrow economic and responsible citizen approaches to taxpayer compliance.

\section{The Surveys}

The empirical evidence presented in this paper comes from two surveys. The first is the Community Hopes, Fears and Actions (CHFA) Survey.\textsuperscript{56} The goals and measures of this survey are summarised in Braithwaite,\textsuperscript{57} the survey method, sample representativeness and data quality in Mearns and Braithwaite\textsuperscript{58} and preliminary findings from the survey are presented in Braithwaite, Reinhart, Mearns and Graham.\textsuperscript{59} The survey was designed to obtain a picture of the beliefs, attitudes and motivations held by Australian citizens with respect to the Australian Tax Office, the tax system, Australian democracy and other taxpayers in the year 2000. This was a particularly interesting time for such a survey to be undertaken as it coincided with the introduction on 1 July that year of a goods and services tax (GST).\textsuperscript{60} Therefore, public consciousness of taxation could be expected to be higher than it might have otherwise been.

The amount of information generated by the survey was substantial. The questionnaire ran to 40 pages and contained 450 questions. It included a number of psychometric scales concerned with attributes such

\begin{itemize}
\item \textsuperscript{55} V Braithwaite & M Reinhart, \textit{The Taxpayers' Charter: Does the Tax Office comply and who benefits?}, Centre for Tax System Integrity Working Paper No. 1, (2000), Australian National University, Canberra, at 1.
\item \textsuperscript{56} Braithwaite, \textit{supra} note 4.
\item \textsuperscript{57} Braithwaite, \textit{supra} note 4.
\item \textsuperscript{58} M Mearns & V Braithwaite, \textit{The Community Hopes, Fears and Actions Survey: Survey method, sample representativeness and data quality}, Centre for Tax System Integrity Working Paper No. 4, (2001), Australian National University, Canberra.
\item \textsuperscript{59} V Braithwaite, M Reinhart, M Mearns & R Graham, \textit{Preliminary Findings from the Community Hopes, Fears and Actions Survey}, Centre for Tax System Integrity Working Paper No. 3, (2001), Australian National University, Canberra.
\item \textsuperscript{60} S James, \textit{VAT/GST: the UK experience revisited}, \textit{Revenue Law Journal}, 10 (2000), 72-87.
\end{itemize}
as trust, justice and social values, together with a wide range of questions measuring respondents’ interactions with the tax system. Also measured were a selection of demographic and background factors of the respondent and his or her spouse.

The sample was chosen at random from publicly available electoral rolls. A sample of 7,754 Australian voters was chosen – a figure that contemporary response rates suggested would yield at least 2,000 usable responses. The survey process was based on the Dillman Total Design Method\textsuperscript{61} that has also been the model for other successful academic mail surveys. The initial mailing was sent out in June 2000 consisting of a covering letter, the questionnaire and a reply-paid envelope. The letter explained the intent of the survey and guaranteed anonymity, though each questionnaire contained an identification number to allow non-respondents to be followed-up. After 19 days the 6,765 non-respondents were sent a reminder card encouraging them to have their say. After a further 12 days a second reminder card was sent to the remaining 6,060 non-respondents. Finally, after another 35 days a second questionnaire, covering letter and reply paid envelope were sent to the 5,303 remaining non-respondents. Twenty four days later another reminder card was sent to non-respondents and this was followed up again by a final reminder card eight days later. After these repeated appeals for participation, and after people who were not contactable were taken into account, a total of 2,040 usable responses were received – an adjusted response rate of 29 per cent.\textsuperscript{62}

In order to gauge how representative these responses were, the Australian Bureau of Statistics was commissioned to provide comparative data from the 1996 Census of Population and Housing. Statistical comparisons

\textsuperscript{61} DA Dillman, \textit{Mail and Telephone Surveys: The Total Design Method}, (1978), New York: John Wiley.

\textsuperscript{62} While this response rate seems somewhat low, it compares very well with other recent tax surveys conducted in Australia (K Murphy, \textit{The Australian Tax System of Tax Scheme Investors}, (2002), Centre for Tax System Integrity: Australian National University; I Wallschutzky, Possible causes of tax evasion, \textit{Journal of Economic Psychology}, (1984), 5, 371-384; I Wallschutzky, \textit{Issues in research methods: With reference to income tax research}, (1996), Unpublished manuscript, University of Newcastle, Australia; M Wenzel, K Murphy, E Ahmed & M Mearns, \textit{The What’s fair and what’s unfair survey about justice issues in the Australian tax context}, (2003), Centre for Tax System Integrity: Australian National University). While it is possible that the low response rate may produce a response bias, it should be noted that the sample was broadly representative of the overall population.
suggested that the sample was broadly representative of the population with respect to sex, occupation and education but with some bias towards those working in areas requiring reading and writing skills. Also, younger age groups were under-represented which is not unusual in surveys of this sort and might also have been influenced by the tendency for financial and tax arrangements to be more complex for those in older age groups.

The second survey was a development and expansion of the CHFA Survey and was again modelled on the Dillman Total Design Method. One of the main aims of the second survey was to explore whether or not views towards taxation had changed over the two year period. The survey was conducted between November 2001 and February 2002 and employed a 28 page self-completion questionnaire containing some 350 questions. There were 308 questions in common with the original CHFA survey. As before the questionnaire consisted of a number of psychometric scales measuring attributes of interest, together with questions measuring interaction with the tax system and a selection of demographic and background variables. The second survey sample consisted of three groups. The first consisted of 1,944 of the respondents to the original CHFA Survey (the other 94 had removed their ID number on the first survey), 2,000 randomly selected non-contacts from the CHFA Survey and a new sample of 3,000 from the electoral roll. The main purpose for contacting an additional 5,000 taxpayers who did not complete the first survey was to boost the overall response rate to the second survey. It was not expected that the groups would differ in their responses (hence, for the purposes of the present paper the responses of all the taxpayers to the second survey were combined).

A “pre-letter” was sent to each of the 6,944 selected respondents on 12 November 2001 explaining the purpose of the study, identifying the Australian National University as the sponsoring organisation, guaranteeing respondent confidentiality and offering a toll-free 1800 number should they have any questions. A number of refusals and returned letters were received and a package containing a covering letter, questionnaire and reply-paid envelope was sent to the remaining 6,764 individuals nine days later. No return date was specified. This was to avoid the temptation to respondents of leaving the questionnaire until that time or failing to complete it because that date had passed. Each questionnaire contained an identification number to allow selective follow-up of non-respondents. After eight more days, the 5,903 non-respondents were sent a reminder postcard and after a further seven days a second reminder postcard was sent
to the remaining 4,999 respondents. A second questionnaire was sent to the remaining 3,996 after a further 13 days. Reminder postcards were sent again 27 days later and again after a further nine days. By the end of June 2002 a total of 2,374 usable responses were received. It is interesting to note that 195 responses were received from among the 2,000 individuals who had not responded 18 months earlier to the CHFA survey. The final unadjusted response rates by sample group were 59.7 per cent for the respondents to the 2000 CHFA survey, 9.75 per cent of the non-contacts from the 2000 survey and 32.4 per cent of the new sample from the electoral roll.

The representativeness of the sample was again assessed using data collected from the 2001 Census of Population and Housing. As in the first survey, the sample in the second survey was broadly representative of the population with some bias towards those working in professional occupations. In addition, the second survey both under-represented younger participants and slightly over-represented older participants.

The respondents in both the 2000 and 2002 surveys were between 18 and 93 years of age (M = 48.39, SD = 15.55 for 2000 and M = 50.10 and SD = 14.98 for 2002). For the 2000 survey, 47 per cent of respondents were male and 53 per cent female. For the 2002 survey 51 per cent were male and 49 per cent female. The average personal income level of the 2000 respondents for the previous financial year was approximately AUS$28,000 and their average family income was about AUS$49,000. For the 2002 respondents the figures were AUS$32,000 and $54,000 respectively.

The Taxpayers’ Charter

The surveys consisted of different sections, each designed to measure different aspects of taxpayers’ attitudes and opinions towards the ATO, the tax system and paying tax. Also measured were their views about the type of world they would like to live in. Discussion will be limited to those findings relevant to taxation. One section of both surveys presented taxpayers with the 12 principles outlined in the ATO’s Taxpayers’ Charter. Survey respondents were informed that the Taxpayers’ Charter was the document that sets standards for the way the ATO conducts its dealings with taxpayers. Respondents were asked if they believed the ATO behaved in accordance with the 12 principles of the Taxpayers’ Charter.

One of the most positive responses indicated that taxpayers thought they were being treated as honest by the Tax Office – a very supportive factor in encouraging the responsible citizen approach.63
Table 1 presents a summary of the responses to this section of both surveys. Of the three best areas of performance, two might be categorised as straightforward and routine – ‘accepting your right to get advice from a person of your choice’ and ‘keeping the information they contain about you confidential’. However, as already indicated, it is notable that the other principle that was rated in the top three was related more directly to the way taxpayers felt they were treated – namely as ‘honest’ in their tax affairs.

At the other end of the scale respondents were less impressed with the accountability of the ATO and its efforts in minimising compliance costs. Worries about minimising compliance costs is a reminder that the narrow economic rationality approach is also relevant and this result might indicate an area where there is scope for some improvement.

One matter for concern is the apparent fall in the mean ratings between the 2000 and 2002 surveys. There is no statistically significant differences for the responses regarding the ATO ‘respecting your privacy’ or ‘helping to minimise your costs in complying with tax laws. However, with respect to all the other 10 principles Table 1 indicates significant falls in respondents’ agreement that the Australian Tax Office meets it obligations under the Taxpayers’ Charter.

One interesting question was whether some segments of Australian society had different views regarding the ATO’s adherence to the Taxpayers’ Charter. Taxpayers’ responses to the CHFA Survey were therefore analysed with respect to seven social-demographic indicators – personal annual income, age, sex, marital status, number of children, nationality and educational attainment. The results indicate that there were no major differences between social-demographic groups in their views about the Tax Office’s performance with respect to the Charter. However there was a slight tendency for older people, those with less personal income and those with no children to express more confidence in the Tax Office’s performance.64

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63 See also Braithwaite et al, supra note 59.
64 Further details of this analysis and the results are presented in Braithwaite & Reinhart, supra note 55.
Table 1: Mean ratings given by respondents on the degree to which the Australian Tax Office meets its obligations under the Taxpayers’ Charter for total samples for the year 2000 and 2002#

<table>
<thead>
<tr>
<th>Taxpayer’s Charter</th>
<th>Mean</th>
<th>Total sample</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year 2000</td>
<td>Year 2002</td>
</tr>
<tr>
<td>Accepting your right to get advice from a person of your choice</td>
<td>3.96</td>
<td>3.68**</td>
</tr>
<tr>
<td>Treating you as honest in your tax affairs</td>
<td>3.95</td>
<td>3.69**</td>
</tr>
<tr>
<td>Keeping the information confidential</td>
<td>3.93</td>
<td>3.86*</td>
</tr>
<tr>
<td>Treating you fairly and reasonably</td>
<td>3.66</td>
<td>3.39**</td>
</tr>
<tr>
<td>Respecting your privacy</td>
<td>3.65</td>
<td>3.64 NS</td>
</tr>
<tr>
<td>Giving you access to information they hold about you</td>
<td>3.64</td>
<td>3.45**</td>
</tr>
<tr>
<td>Offering you professional service and assistance</td>
<td>3.47</td>
<td>3.39*</td>
</tr>
<tr>
<td>Giving you advice and information</td>
<td>3.42</td>
<td>3.30**</td>
</tr>
<tr>
<td>Explaining decisions about your tax affairs</td>
<td>3.39</td>
<td>3.30*</td>
</tr>
<tr>
<td>Giving you the right to a review from outside the Tax Office</td>
<td>3.38</td>
<td>3.20**</td>
</tr>
<tr>
<td>Being accountable for what they do</td>
<td>3.28</td>
<td>3.09**</td>
</tr>
<tr>
<td>Helping to minimise your costs in complying with tax laws</td>
<td>2.89</td>
<td>2.84 NS</td>
</tr>
</tbody>
</table>

* p < 0.05
** p < 0.001

#Scores range from 1 (almost never) to 5 (almost always). Year 2000 Minimum N = 1,873. Year 2002 Minimum N = 2,203.

TAXPAYERS’ EXPERIENCES WITH THE TAX OFFICE

Another section of both surveys captured the respondents’ personal experiences with the ATO. Questions covered whether respondents had ever been audited by the ATO, whether they had ever been fined or penalised by the ATO, whether they had ever contested an assessment given by the ATO and whether they had ever requested information from the ATO. About a third of all respondents indicated that they had had some kind of conflict with the Tax Office in the past. However, while 72 per cent reported in 2000 that they mostly or almost always agreed with the decisions of the ATO, this figure had fallen to 52 per cent in the 2002 survey. Looking specifically at the group who responded to both the
surveys, the percentage who indicated they agreed with decisions of the ATO fell from 74 per cent in 2000 to 55 per cent in 2002.

TAXPAYER ATTITUDES

In this part of the surveys – designed to measure taxpayer attitudes towards the ATO – there is more evidence that seems to support the responsible citizen approach. Respondents were presented with 61 attitude statements and were asked to indicate how much they disagreed or agreed with each statement (responses could range from 1 ‘strongly disagree’ to 5 ‘strongly agree’). From the 61 attitude statements, 12 multi-item scales were constructed to measure taxpayers’ motivational postures towards the ATO as well as their views about the fairness and legitimacy of the ATO.

MOTIVATIONAL POSTURES

Motivational postures represent the ways in which individuals position themselves with regard to a regulatory authority and are predispositions to compliant or non-compliant behaviour. One of the aims in both surveys was to measure five motivational postures in the taxation context: commitment, capitulation, resistance, disengagement and game playing. Prior research that explored the role of motivational postures in people’s compliance decisions was only able to identify the first four postures. However, that research was conducted in the nursing home context. In her book, Valerie Braithwaite described what she saw as a fifth attitude to compliance in the taxation arena; that of game playing.

If a taxpayer adopts a commitment posture towards the tax system and the ATO, it means that they feel a sense of moral obligation to pay their taxes and pay their taxes with good will because they believe paying tax ultimately advantages everyone. If adopting the posture of capitulation it means that a taxpayer may not be happy with the ATO or tax system, but they acknowledge that it is a part of life and that they must accept that taxes need to be paid. Capitulation signals an intention to be cooperative.

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66 Braithwaite, supra note 65.

67 Braithwaite, supra note 65.
with the ATO. Taxpayers who adopt a resistant posture are likely to view the ATO with antagonism because they feel the ATO pushes them around. Further, these taxpayers believe that people should take a stand against the ATO. Taxpayers who are disengaged from the tax system are those who do not care that they are not doing the right thing by the ATO and they believe the ATO cannot do anything to them if they choose not to pay their taxes. Finally, taxpayers who adopt a game-playing posture enjoy the game of finding the grey areas of tax law and the challenge of minimising tax.68

From the description of these postures, it can be seen that taxpayers who adopt a committed or captured posture are more likely to be compliant, while those who are resistant or disengaged are more likely to be non-compliant. Game players tend to like finding the loopholes in tax law so are also more likely to be non-compliant with the spirit of the law.

The dominant postures revealed by the survey are commitment and capitulation. Scores ranged from 1 (strongly disagree) to 5 (strongly agree) and the mean score for commitment was 3.85 in 2000 and 3.94 in 2002 (a significant increase) and for capitulation 3.40 in 2000 and 3.38 in 2002. As Braithwaite (2003) suggests, this might be expected in a democracy and reflect a positive orientation to authority.69 Resistance was the next most popular posture (M = 3.18 in 2000, increasing to 3.21 in 2002) – perhaps a sign of a healthy democracy in that many taxpayers are willing to question the decisions of the tax authority. The least pervasive postures were game-playing (M = 2.42 in 2000 and 2.35 in 2002) and disengagement (M = 2.31 in 2000 and 2.30 in 2002) – again an encouraging result for Australian tax compliance.

Fairness and Legitimacy

A particular area of interest in the surveys involved taxpayers’ perceptions of justice and legitimacy. In the field of law enforcement, Tom Tyler has previously used a number of scales to measure aspects of procedural justice and institutional legitimacy and these scales were also measured in the Australian tax survey.70 Procedural justice concerns the perceived fairness of the procedures involved in decision-making and the perceived treatment

68 V Braithwaite et al., supra note 59.
69 Braithwaite, supra note 65, at 23.
one receives from a decision maker. Findings in the literature suggest that when people feel that the procedures involved in decision making are unfair then this may undermine the perceived legitimacy of the decision maker.\textsuperscript{71} If an organisation is perceived to be illegitimate then people are generally less likely to follow and accept their decisions.\textsuperscript{72} The particular scales used in the CHFA Survey to measure perceived procedural justice and legitimacy were (1) neutrality, (2) respect, (3) trust in fair treatment, (4) citizens treated as trustworthy, (5) consultation with the community, (6) perceived legitimacy and (7) obligation to obey decisions.

Table 2 shows that the ATO was rated at or above the midpoint on four of the five measures of procedural justice in the CHFA survey. With respect to the fifth measure regarding consulting the community and the average scores for the two legitimacy scales – overall favourability (which was a measure of legitimacy) and obligation to accept the Tax Office view – it was found that the responses were all just below the midpoint, indicating that the Tax Office could do more in these areas to improve community confidence in the tax system.

The 2002 survey did not include two of the variables relating to procedural justice – ‘neutrality’ and ‘trust in fair treatment’. As Table 2 shows, there was the same mean score for ‘respect’ in both surveys, but regarding both ‘citizens treated as trustworthy’ and ‘citizens felt consulted about tax issues’ there was a significant drop in the mean scores in the 2002 survey. However in terms of legitimacy there was an increase in the mean score regarding ‘obligation to obey’.


Table 2: Mean scores of respondents on scales measuring the procedural justice shown to citizens by the Australian Tax Office and the legitimacy of the Tax Office for the total sample in 2000 and 2002#

<table>
<thead>
<tr>
<th>Scales</th>
<th>Year 2000</th>
<th>Year 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Procedural Justice</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neutrality</td>
<td>3.27</td>
<td>NA</td>
</tr>
<tr>
<td>Respect</td>
<td>3.26</td>
<td>3.26NS</td>
</tr>
<tr>
<td>Trust in fair treatment</td>
<td>3.06</td>
<td>NA</td>
</tr>
<tr>
<td>Citizens treated as trustworthy</td>
<td>3.20</td>
<td>3.14**</td>
</tr>
<tr>
<td>Citizens felt consulted about tax issues</td>
<td>2.70</td>
<td>2.62**</td>
</tr>
<tr>
<td><strong>Legitimacy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall favourable evaluation</td>
<td>2.75</td>
<td>2.75NS</td>
</tr>
<tr>
<td>Obligation to obey</td>
<td>2.69</td>
<td>2.85**</td>
</tr>
</tbody>
</table>

** p < 0.01

#Scores range from 1 (strongly disagree) to 5 (strongly agree). Minimum n for 2000 = 1,971.
Minimum n for 2002 = 2,294.
NA means that this variable was not presented in 2002.

PERCEPTIONS OF FAIRNESS IN TAXATION

In order to measure the extent to which Australian taxpayers thought that the current tax system was not collecting tax fairly, respondents were presented with a list of 12 different occupational groups and were asked whether they thought each of the groups paid their fair share of tax. Respondents were also asked whether they thought they themselves paid their fair share of tax. Using an analysis provided by Kinsey and Grasmick (1993)\(^{73}\) the responses were used to compute a measure of vertical unfairness, which shows the extent to which respondents thought that the system was not collecting tax fairly. Table 3 indicates that respondents on average felt that the wealthy were not paying their fair share of tax. For example, 77 per cent (78 in 2002) of respondents believed chief executives were paying

less than their fair share, including 53 per cent who felt they were paying ‘much less’ than their fair share. This contrasted with only 1 or 2 per cent who thought waitresses, farm labourers and unskilled factory workers were paying much less than their fair share.

Table 3: The percentage of respondents who said that certain occupational groups paid ‘a bit less’ or ‘much less’ than their fair share of tax. (‘much less’ responses in brackets) for the years 2000 and 2002 for the total sample#

<table>
<thead>
<tr>
<th>Occupational Group</th>
<th>Year 2000</th>
<th>%</th>
<th>Year 2002</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief executives of large companies</td>
<td>77 (53)</td>
<td>78</td>
<td>(53)</td>
<td></td>
</tr>
<tr>
<td>Owner manager of large companies</td>
<td>70 (38)</td>
<td>75</td>
<td>(44)</td>
<td></td>
</tr>
<tr>
<td>Senior judges and barristers</td>
<td>64 (32)</td>
<td>74</td>
<td>(45)</td>
<td></td>
</tr>
<tr>
<td>Surgeons</td>
<td>59 (24)</td>
<td>60</td>
<td>(26)</td>
<td></td>
</tr>
<tr>
<td>Doctors</td>
<td>51 (17)</td>
<td>49</td>
<td>(15)</td>
<td></td>
</tr>
<tr>
<td>Tax agents</td>
<td>46 (14)</td>
<td>48</td>
<td>(16)</td>
<td></td>
</tr>
<tr>
<td>Farm owners</td>
<td>29 (8)</td>
<td>29</td>
<td>(8)</td>
<td></td>
</tr>
<tr>
<td>Small business owners</td>
<td>24 (4)</td>
<td>23</td>
<td>(3)</td>
<td></td>
</tr>
<tr>
<td>Tradespeople</td>
<td>22 (5)</td>
<td>23</td>
<td>(5)</td>
<td></td>
</tr>
<tr>
<td>Waitresses</td>
<td>10 (2)</td>
<td>10</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Farm labourers</td>
<td>9 (2)</td>
<td>9</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Unskilled factory workers</td>
<td>6 (2)</td>
<td>5</td>
<td>(1)</td>
<td></td>
</tr>
</tbody>
</table>

# Minimum n for 2000 = 1,899 and for 2002 = 2264.

Honesty

Another section of each questionnaire explored respondents’ views regarding honesty – both their own views and what they considered other taxpayers think. The results are shown in Table 4.

In line with previous research,74 respondents regarded themselves as more honest when it comes to paying tax than most other people. For

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example, 72 per cent of respondents to the 2000 survey and 73 per cent of the 2002 survey agreed that they should honestly declare cash earnings on their tax returns. Yet only 20 per cent of the 2000 survey and 26 per cent of the 2002 survey believed that other people thought the same. Again these findings support the responsible citizen approach (that is, even though they believe others are not being honest in their tax affairs they still value being seen to be honest themselves).

Table 4: Percentage of respondents who agreed with a given statement as a description of what they personally believed and as a description of what they thought others believed for the years 2000 and 2002 for the total sample#

<table>
<thead>
<tr>
<th>Belief</th>
<th>% Agreed personally</th>
<th>% Agreed others believed this</th>
</tr>
</thead>
<tbody>
<tr>
<td>You should honestly declare cash earnings on your tax return</td>
<td>72</td>
<td>20</td>
</tr>
<tr>
<td>It is acceptable to overstate tax deductions on your tax return</td>
<td>8</td>
<td>53</td>
</tr>
<tr>
<td>Working for cash-in-hand payments without paying tax is a trivial offence</td>
<td>32</td>
<td>56</td>
</tr>
<tr>
<td>The government should actively discourage participation in the cash economy</td>
<td>48</td>
<td>23</td>
</tr>
</tbody>
</table>

# Minimum n for the year 2000 = 1,971, and for the year 2002 = 2,314.

DETERRENCE THEORY

As already indicated, the ‘economic rationality’ approach to compliance suggests that tax non-compliance is a decision simply involving the financial gains and losses weighted by the probability of being caught when evading tax. Contemporary deterrence theory, however, suggests that there are a number of dimensions that influence behaviour, apart from the risk of detection.75 These extra dimensions include the perceived probability of receiving various punishments, and the psychological and social

75 Grasmick & Bursik, supra note 45.
consequences of being caught. The questionnaire therefore included two hypothetical situations in order to test this view. The first was a scenario in which the taxpayer was asked to imagine they had not declared cash income of $5,000. The second scenario involved the taxpayer declaring work deductions amounting to $5,000 that were not legitimate.

Respondents were first asked to indicate what they thought the chances were that they would get caught for these offences. As can be seen in Table 5, 59 per cent of respondents in 2000 and 54 per cent in 2002 thought there was a greater than 50/50 chance that they would get caught falsely claiming work deductions of $5,000. Fewer respondents (i.e., 36 per cent in 2000 and 33 per cent in 2002) felt they would get caught not declaring cash income of $5,000. In order to test the perceived probability of receiving various punishments, respondents were asked what the chance would be of receiving four types of punishment if they did get caught. The key findings are again presented in Table 5. As can be seen, responses given to the cash scenario were generally similar to the deduction scenario. Approximately 70 per cent of respondents thought there was a greater than 50/50 chance they would have to pay back tax and interest if caught, falling to approximately 55 per cent believing they would have to go to court if detected.

As mentioned above, there are also psychological and social problems posed by being caught for making false tax claims or not declaring cash income, which may go on to influence compliance behaviour. These psychological and social dimensions were measured two ways in the surveys. First, respondents were asked how much of a problem it would be for them if they received various types of punishment. As can be seen in Table 5, approximately 80 per cent of respondents thought it would be a large problem if they were taken to court, fined and told to pay their tax with interest (this was regardless of whether they were caught not declaring cash income or falsely claiming working deductions). Surprisingly, however, only around 41 per cent thought it would be a large problem if they had to pay their tax back with interest.

The second way in which the psychological and social dimensions of deterrence were measured was to ask respondents about what their

76 Respondents were not required to clarify what sort of problem receiving a punishment would cause for them, only how much of a problem it would be. ‘Problem’ here could therefore refer to any number of perceived problems (e.g., financial, embarrassment, anxiety, feeling stigmatised, etc.).
emotional reactions would be to the particular punishment of being fined. In order to measure these emotional reactions, respondents were asked to respond to 26 questions; each was presented on a 4-point scale (1 ‘not likely to feel this way’ to 4 ‘almost certain to feel this way’). The 26 statements were based on Eliza Ahmed’s work on shame management and responses to 18 of the statements were combined to form the shame acknowledgement scale. According to Ahmed, compliance is an unlikely outcome unless punishment results in reactions of shame acknowledgement (feeling guilty and embarrassed, wanting to put things right). Ahmed also argues that those who do not feel shame for wrong-doing are likely to displace their shame. Shame displacement is a maladaptive emotional reaction and it undermines compliance as it leaves people feeling angry and resentful towards the authority imposing the punishment. People who displace their shame are also more likely to blame others for their wrong-doing. The shame displacement scale was formed by combining responses to eight of the 26 statements. Respondents’ mean scores to both the shame acknowledgement and shame displacement scales are presented in Table 5. From the results, we can see that the taxpayers sampled are much more likely to say they acknowledge shame than displace shame if caught for an offence.

78 Ahmed et al., supra note 77.
Table 5: Profile of responses regarding the costs of non-compliance in two hypotheticals for the year 2000 and 2002 for the total sample#  

<table>
<thead>
<tr>
<th>Source of deterrence</th>
<th>Not declaring cash income of $5,000</th>
<th>Falsely claiming work deductions of $5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability of getting caught</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>Probability of legal consequence (court + fine + tax with interest)</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Probability of legal consequence (court + tax with interest)</td>
<td>53</td>
<td>54</td>
</tr>
<tr>
<td>Probability of legal consequence (fine + tax with interest)</td>
<td>66</td>
<td>65</td>
</tr>
<tr>
<td>Probability of legal consequence (tax with interest)</td>
<td>68</td>
<td>68</td>
</tr>
</tbody>
</table>

Percentage saying a ‘large problem’  
(Responses on a 1 ‘no problem’ to 4 ‘large problem’ scale)  

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>How big a problem would it be if you were taken to court, fined and had to pay your tax with interest?</td>
<td>80</td>
<td>77</td>
<td>81</td>
<td>77</td>
</tr>
<tr>
<td>How big a problem would it be if you were taken to court, and had to pay your tax with interest?</td>
<td>71</td>
<td>68</td>
<td>72</td>
<td>69</td>
</tr>
<tr>
<td>How big a problem would it be if you were fined and had to pay your tax with interest?</td>
<td>63</td>
<td>64</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>How big a problem would it be if you had to pay your tax with interest?</td>
<td>42</td>
<td>41</td>
<td>42</td>
<td>43</td>
</tr>
</tbody>
</table>

Mean scale scores  
(Responses on a 1 ‘not likely’ to 4 ‘almost certain’ scale)  

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shame acknowledgement as a response to receiving a substantial fine.</td>
<td>3.07</td>
<td>3.06</td>
<td>3.05</td>
<td>3.03</td>
</tr>
<tr>
<td>Shame displacement as a response to receiving a substantial fine.</td>
<td>1.92</td>
<td>1.96</td>
<td>1.81</td>
<td>1.85</td>
</tr>
</tbody>
</table>

#Minimum n for the year 2000 = 1,860, and for the year 2002 = 2,228.
Tax Reform

If citizens are to be treated as responsible, then their views on tax reform are another area of interest. The aspect that was rated as the highest priority was that corporations should pay their fair share of tax – 60 per cent said this was of the utmost importance in the 2000 survey and 64 per cent in the 2002 survey. Removing grey areas of the law was of the utmost importance to 40 per cent of respondents in 2000 and 41 per cent in 2002. Responses to the remaining list of tax reforms by priority went as follows:

- Ensuring wealthier individuals pay their tax (37 per cent in 2000, 39 per cent in 2002);
- Making public the amount of tax paid by corporations (34 and 35 per cent);
- Minimising regulation and paperwork (34 per cent in both surveys);
- Keeping taxation as low as possible (31 and 30 per cent);
- Broadening the tax base so that everyone contributes (30 and 33 per cent);
- Giving corporations incentives to serve the community (29 and 28 per cent);
- Keeping administration costs down (28 and 29 per cent);
- Simplifying the tax system and removing as many exemptions as possible (25 and 26 per cent).

Public Expenditure

One question asked if respondents were satisfied with how their money was spent – 15 per cent (16 per cent in 2002) were, but 49 per cent were dissatisfied (50 per cent in 2002). Another set of questions asked respondents whether they would like to see more or less public expenditure on certain programmes. In general, respondents would like to see more expenditure on health (89 per cent in 2000 and 88 per cent in 2002 indicated they would like more spent), education (85 and 84 per cent), policing (70 per cent in both surveys), protection from illegal immigration (63 and 64 per cent), scientific research (61 and 62 per cent), employment (57 and 56 per cent) and industry development (56 and 58 per cent). Less than half of the respondents wanted to see more money spent on defence (48 and 47 per cent), welfare (46 and 42 per cent) law courts and legal aid (34 and 31 per cent) and the arts (16 and 14 per cent).
7. Conclusion

This paper summarises two very different approaches to tax compliance, each of which offer some insight into the issue of compliance. The narrow economic rationality approach sees the issue in terms of costs and benefits of compliant behaviour and therefore implies that the most important consideration is the expected financial return to different courses of action. According to this view, taxpayers will evade tax if they think they can gain from it financially. The responsible citizen approach attempts to take account of a wider range of factors that might influence taxpayer behaviour. This approach provides strong evidence that taxpayers are not simply independent selfish utility maximisers but that they also behave in ways that are consistent with different attitudes, beliefs, norms and rules. Citizens do not normally have to be coerced into behaving in a socially acceptable way and it is not necessarily true that they have to be with respect to taxation. Although crime might pay, most people do not find this to be a sufficient reason to become a criminal.

If most taxpayers are basically willing to comply with the requirements of the tax system, then tax agencies may be more effective if they concentrate on assisting them to do so rather than putting the emphasis on threats and sanctions. This can be done, for example, by producing clear and straightforward tax returns, guides and other forms of taxpayer support. Treating taxpayers who are essentially willing to comply as if they are potential criminals distracts both the tax agency and the taxpayers from the task at hand. Furthermore it might generate taxpayer resistance, legitimise tax evasion in the eyes of some taxpayers and even make it more acceptable for honest taxpayers to go to greater lengths to manipulate their affairs to avoid tax legally. With respect to those who are prepared to defraud revenue agencies for financial gain, the appropriate response would be to focus on reducing the likelihood of financial reward for tax evasion. This can be done by improving detection rates and imposing penalties where appropriate.

The results of two substantial surveys are presented in this paper and provide further evidence supporting the view that the narrow economic approach alone is not sufficient to provide a sound basis for developing a policy of promoting taxpayer compliance. For example Table 4 indicated that nearly three-quarters of respondents said that they should honestly...
declared cash earnings on their tax return and only a small minority thought it was acceptable to overstate tax deductions.

Given that the findings of the two surveys add weight to the responsible citizen approach, one area that might be examined is the relative importance of additional expenditure on promoting compliance. Rather than necessarily concentrating such resources on the minority who refuse to comply, at least some of it might be better spent providing more support to assist those who wish to do so to comply with the tax system. Instead of treating all taxpayers as irresponsible and potentially dishonest, a sound compliance strategy should be sufficiently flexible to take advantage of taxpayers’ willingness to act as responsible citizens while reserving more interventionist methods for those who are not willing to act in this way.

The Australian Tax Office has made significant progress in this direction, most notably in the development of the Compliance Model described in Section 4 above and which indicates the appropriate response to apparently different motivating factors in taxpayers’ compliance behaviour. It is clearly acknowledged that it is no longer sufficient just to establish whether particular taxpayers are compliant or not, but why they may not be compliant and what might be the best way to improve matters. Some other tax administrations have moved in the same direction and this seems to be the area with the most scope for improving compliance in the future.