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# Tax Evasion Behaviour and Demographic Factors: An Exploratory Study in Australia

## **Abstract**

The tax compliance behavioural literature indicates that, among other factors, demographic variables play an important role in the compliance behaviour of taxpayers. This exploratory study investigated the relationship between demographic variables and Australian personal taxpayers' attitudes towards tax evasion. An electronic survey of 300 Australian personal taxpayers' was conducted by a market research company on behalf of the author. The findings revealed that, for the majority of the demographic variables analysed, statistically significant relationships were established with Australian's attitudes towards tax evasion. These results provide useful information for revenue collecting authorities and have implications for tax policy development.

## **Keywords**

tax, compliance, demographic variables, evasion

## TAX EVASION BEHAVIOUR AND DEMOGRAHIPIC FACTORS: AN EXPLORATORY STUDY IN AUSTRALIA

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The tax compliance behavioural literature indicates that, among other factors, demographic variables play an important role in the compliance behaviour of taxpayers. This exploratory study investigated the relationship between demographic variables and Australian personal taxpayers' attitudes towards tax evasion. An electronic survey of 300 Australian personal taxpayers' was conducted by a market research company on behalf of the author. The findings revealed that, for the majority of the demographic variables analysed, statistically significant relationships were established with Australian's attitudes towards tax evasion. These results provide useful information for revenue collecting authorities and have implications for tax policy development.

### INTRODUCTION AND BACKGROUND

An important issue for any government and revenue collecting authority is to obtain knowledge and understanding of the reasons for taxpayer non-compliance. However, measurement of the magnitude of intentional and unintentional non-compliance can be difficult as it involves estimating levels of uncollected tax, which by its nature is not detected by the revenue authority. Nevertheless, the amount of tax lost through evasion is potentially enormous. (The IRS estimated it to be \$US 345 billion<sup>1</sup> in 2006 which amounted to 16.3% of estimated actual paid plus unpaid tax liability). In Australia, in 2002-03 an estimate of the underground economy was approximately 10 billion or 1.2% of the level of GDP.<sup>2</sup>

Consequently, revenue authorities need to continually combat tax evasion if they are to provide the quality and quantity of public goods and services expected by the taxpaying community. By examining the behavioural attitudes of taxpayers more closely and identifying their particular compliance traits, it is envisaged that revenue authorities will be able to better target their audit strategies in respect to non-compliers and bridge the tax gap (ie the difference between tax properly payable according to the law and the tax actually collected).

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<sup>1</sup> Slemrod J, 'Cheating Ourselves: The Economics of Tax Evasion' *Journal of Economic Perspectives* Vol 21, 1, (Winter 2007) 25-48.

<sup>2</sup> *Australian Economic Indicators* ABS Publication, October 2003.

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### Aim and overview of this exploratory study

This study investigates whether a relationship exists between selected demographic variables and the attitudes of Australian personal taxpayers towards tax evasion. There are clearly many factors at play and taxpayer demographics is only but one. Other non-demographic factors, such as complexity of the tax legislation, audit rates, tax rates and the opportunities for evasion, also impact upon compliance levels but are outside the scope of this exploratory study. Nevertheless, some indirect evidence of these non-demographic factors has been discovered throughout the study. An examination of corporate taxpayers was omitted, but could be considered as a follow-up study.

The link between taxpayers' attitudes towards penalties and their consequential attitude towards evasion or non-compliant behaviour is one which has been subject to considerable research.<sup>3</sup> The study of penalties is important given that it is one of the factors which is within the control of tax authorities and can directly impact upon taxpayer behaviour. This study focused on the relationship between taxpayers' knowledge of tax penalties and the affect of penalties upon their attitudes to tax evasion/compliance with selected demographic variables. The emphasis in the study was placed on how taxpayers' felt penalties impacted as a deterrent measure and the appropriate use of penalties by the revenue authorities. In particular cases where the taxpayers themselves had been subject to a penalty for evasion their impressions thereof were also elicited.

The study focused on selected demographic variables of the Australian population which could assist the Australian Taxation Office (ATO), identify the typology of taxpayer most likely to evade tax or be susceptible to tax penalties. The details of the questionnaire specifically elicited respondents' attitudes towards various types of business and individual tax evasion, their awareness and understanding of the penalties for tax evasion, an indication of the number of respondents who had been involved in some type of tax evasion and respondents attitudes regarding tax law enforcement, tax fairness and tax morals.

Section two of this article defines taxpayer compliance in terms of this analysis and summarises some of the findings of behavioural studies on tax compliance. Section three outlines the specific demographic variables employed in this study and

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<sup>3</sup> See for example, Grasmick HG and Scott WJ 'Tax Evasion and Mechanics of Social Control: A Comparison of Grand and Petty Theft,' (1982) *Journal of Economic Psychology*, 2, 213-230, Hasseldine DJ and Kaplan SE, 'The Effect of Different Sanction Communications on Hypothetical Taxpayer Compliance: Policy Implications from New Zealand,' (1992) *Public Finance*, 47 1 45-60, Kinsey KA, 'Theories and Models of Tax Cheating,' (American Bar Foundation Working Paper No 8717) (1988).

provides a further summary of findings of related studies which have employed these demographic variables. This is followed by a description of the research methodology in section four. A discussion and analysis of the research findings including statistical significance is provided in section five. Finally, section six summarises and concludes the study by providing some tax policy considerations identifies limitations and makes suggestions for future research.

## LITERATURE REVIEW

### Definition of taxpayer compliance

There is no standard all embracing definition of compliance adopted across all tax compliance studies. For example, taxpayer compliance has been defined as compliance with reporting requirements, meaning that the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the internal revenue code, regulations and court decisions applicable at the time the return is filed.<sup>4</sup> An alternative definition has been offered by James and Alley<sup>5</sup> that considers tax compliance in terms of the tax gap. This is the difference between 'true' individual income tax liability and that finally collected on a voluntary basis or by enforcement action. However, this latter definition has also been viewed as somewhat simplistic. For the purposes of this study, the former definition of tax compliance has been adopted.

There is evidence of a multi-disciplinary approach with respect to research into tax compliance. Contributions have come from a variety of academic fields including, accounting, law, economics, sociology and psychology. Several comprehensive literature reviews have also been conducted including, for example, Jackson and Milliron<sup>6</sup>, Andreoni et al,<sup>7</sup> and Richardson and Sawyer.<sup>8</sup> The reviews indicate that

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<sup>4</sup> Roth JA, Scholz JT and Witte AD (eds), *Taxpayer Compliance an Agenda for Research*, Vol 1, Philadelphia PA: *University of Pennsylvania Press* (1989) 21. See also Jackson, BR and Milliron VC, 'Tax Compliance Research: Findings Problems and Prospects' (1986) 5 *Journal of Accounting Literature* 125 – 165; Richardson M and Sawyer AJ, 'A Taxonomy of the Tax Compliance Literature: Further Findings, Problems and Prospects' (2001) 16 *Australian Tax Forum* 137-320 and Tan LM and Sawyer AJ, 'A Synopsis of Taxpayer Compliance Studies – Overview Vis-à-Vis New Zealand' (2003) 9:4 *New Zealand Journal of Taxation Law and Policy* 431-54.

<sup>5</sup> James S and Alley C, 'Tax Compliance, Self Assessment and Tax Administration in New Zealand- Is the Carrot or Stick More Appropriate to Encourage Compliance?' (1999) 5:1 *New Zealand Journal of Taxation Law and Policy* 3-14, at 11.

<sup>6</sup> Jackson BR and Milliron VC, 'Tax Compliance Research: Findings, Problems, and Prospects' (1986) 5 *Journal of Accounting Literature* 125-165, 142.

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there are mainly two schools of thought or drivers for greater or lesser compliance by taxpayers. These are known as the 'economic' school and 'psychology' school. Models developed by proponents of the latter school have fallen into a number of sub categories. The studies in these sub categories are many and varied in terms of methodologies employed and compliance factors examined. (See for example, Kinsey,<sup>9</sup> Ajzen and Fishbein,<sup>10</sup> Alm Sanchez and De Juan.<sup>11</sup>) For the purpose of this exploratory study, only the research findings from the wider social psychology (behavioural) school will be reviewed.

### Social psychology models

Social psychology models inductively examine the attitudes and beliefs of taxpayers' in order to understand and predict human behaviour. In examining the findings from the various social psychology studies completed to date it is evident that a number of studies originate from both Australian and overseas. The following review comprises a selection of both local and overseas social psychology studies undertaken to date.

### Overseas studies

A study by Ajzen and Fishbein<sup>12</sup> found that taxpayers' behaviour is directly determined by their intentions that are a function of their attitude towards behaviour and perception of social norms. This research indicated that compliance behaviour is influenced by peers and community standards, which thereby impact upon taxpayer thinking and actions.

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<sup>7</sup> Adreoni J, Erard B and Feinstein J, 'Tax Compliance' (1998) 36 *Journal of Economic Literature* 818.

<sup>8</sup> Richardson M and Sawyer AJ, 'A Taxonomy of the Tax Compliance Literature: Further Findings Problems and Prospects' (2001) 16 *Australian Tax Forum* 137-320, 149.

<sup>9</sup> Kinsey KA, 'Theories and Models of Tax Cheating' *American Bar Foundation Working Paper No 8717* (1988).

<sup>10</sup> Ajzen I and Fishbein M, *Understanding Attitudes and Predicting Social Behaviour*, (Englewood Cliffs, Prentice Hall, 1980).

<sup>11</sup> Alm J, Sanchez I and De Juan A, 'Economic and Non-Economic Factors in Tax Compliance' (1995) 48 *Kyklos* 3-18.

<sup>12</sup> Ajzen I, and Fishbein M, above n 10.

From a tax administration viewpoint, other researchers<sup>13</sup> have concluded that compliance could also be influenced, by educating taxpayers of their social responsibility to pay and thus their intention would be to comply. Schmolders<sup>14</sup> suggests as a behavioural problem that tax compliance depends on the cooperation of the public. Another study by Hite<sup>15</sup> also found that there are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority of non-compliers. Assisting taxpayers by improving the flow and quality of information or educating them (eg, TV campaigns) into becoming more responsible citizens has the potential to yield greater revenue rather than if it were spent on enforcement activities. For instance, it is evident that in New Zealand (NZ) and Australia the revenue authorities support taxpayers through a range of easily accessible explanatory leaflets and provide a useful site on the internet. Undertaking this course of action has had the desired affect of improving taxpayer relations and consequently voluntary compliance.<sup>16</sup>

The work of Hite<sup>17</sup> also suggests that both gender and education generally impact upon taxpayer compliance. Hite points to an example of where in reducing the amount of litter in America, instead of the authorities increasing penalties, the real improvement came when there was the slogan uplifted to 'Keep America Beautiful'.<sup>18</sup> Although Hite's study provided evidence of the impact of these demographic variables upon compliance behaviour, other studies have found it difficult to find direct associations between compliance and demographic variables. Nevertheless, this area continues to be an active area of research within taxpayer compliance.

Other social and psychology studies conducted overseas have found that the fairness and equity of a tax system also impacts upon compliance levels.<sup>19</sup> In particular, the notion of 'exchange equity' (where taxpayers believe they are not receiving the

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<sup>13</sup> Cialdini RB, 'Social Motivations to Comply: Norms, Values and Principles,' in Roth JA, Scholz JT, and Witte AD (eds), 'Taxpayer Compliance Social Science Perspectives' (1989) Vol 2, Philadelphia, PA: *University of Pennsylvania Press*: 200-227.

<sup>14</sup> Schmolders G, 'Fiscal Psychology: A New Branch of Public Finance' (1959) 12 *National Tax Journal* 340-345.

<sup>15</sup> Hite PA, 'Identifying and Mitigating Taxpayer Non-Compliance' (1997) 13 *Australian Tax Forum* 155-180.

<sup>16</sup> See Commissioner of Taxation *Annual Report 2005-06*, Commonwealth of Australia, Part 3.6 Compliance Assurance and Support for Revenue Collection, 108-114.

<sup>17</sup> Hite P, above n 15.

<sup>18</sup> Hite P, above n 15, 161.

<sup>19</sup> Tan LM, 'Taxpayers Perceptions of the Fairness of the Tax System – A Preliminary Study' (1998) 4 *New Zealand Journal of Taxation Law and Policy* 59-71, 60.

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benefits from the government in exchange for taxes paid) affects compliance. Although tax fairness is only one factor in achieving overall compliance, the NZ Government, for example, has continuously placed great emphasis on this criterion.<sup>20</sup> In terms of having greater impact, the argument is that a fairer tax system will improve voluntary compliance. Consequently, fiscal psychologists, maintain that a taxpayer's belief in the tax system rather than the penalty structure is more salient in generating compliance.<sup>21</sup>

A number of other overseas studies have also examined the link between perceptions of fairness with tax evasion.<sup>22</sup> For instance, Spicer<sup>23</sup> found a significant association between fairness and tax evasion, while Song and Yarbrough's<sup>24</sup> study discovered a significant association, with 75% of the subjects stating that the ability to pay was more significant than the benefits. Hite and Roberts<sup>25</sup> found that most taxpayers thought that mildly progressive tax rates were the most fair and, in a later study, found further that tax fairness was significantly associated with perceptions of an improved tax system, concluding that tax fairness and tax evasion were related. Chan et al<sup>26</sup> also found that taxpayer attitudes (fairness) had a positive relationship with tax compliance in both Hong Kong and the United States of America (USA).

On the other hand, other overseas studies have found no association between tax fairness perceptions and tax compliance behaviour. (See Vogel,<sup>27</sup> Porcano,<sup>28</sup> and Antonides and Robben<sup>29</sup>). A creditable reason for the inconsistency as suggested by

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<sup>20</sup> Tan LM, above n 19, 60.

<sup>21</sup> Tan LM, above n 19, 61.

<sup>22</sup> Richardson G, 'The Impact of Tax Fairness Dimensions on Tax Compliance Behaviour in an Asian Jurisdiction: The Case of Hong Kong' (Winter 2006) *International Tax Journal* 39-52.

<sup>23</sup> Spicer MW, 'A Behavioural Model of Income Tax Evasion' (1974) Unpublished PhD Thesis: Ohio State University.

<sup>24</sup> Song Y and Yarbrough T, 'Tax Ethics and Tax Attitudes: A Survey' (1978) *Public Administration Review* 58, 442-452.

<sup>25</sup> Hite A and Roberts ML, 'An Analysis of Tax Reform based on Taxpayers' Perceptions of Fairness and Self-Interest' (1992) *Advances in Taxation* 4, 115-137

<sup>26</sup> Chan CW, Troutman CS and O'Bryan D, 'An Expanded Model of Taxpayer Compliance: Empirical Evidence From The United States and Hong Kong' (2000) *Journal of International Accounting, Auditing and Taxation* 9, 83-103.

<sup>27</sup> Vogel J, 'Taxation and Public Opinion in Sweden: An Interpretation of Recent Survey Data' (1974) *National Tax Journal* 27, 499-513.

<sup>28</sup> Porcano TM, 'Correlates of Tax Evasion' (1988) *Journal of Economic Psychology* 9, 47-67.

<sup>29</sup> Antonides G and Robben HSJ, 'True Positives and False Alarms in the Detection of Tax Evasion' (1995) *Journal of Economic Psychology* 17, 617-640.

Jackson and Milliron<sup>30</sup> and Richardson and Sawyer<sup>31</sup> is the multi-dimensional nature of tax fairness as a tax compliance variable. However, despite the inconsistent findings of various researchers, it is widely acknowledged that demographic variables, such as, age, gender, marital status, education, culture and occupation have an affect upon fairness perceptions which ultimately impacts upon compliance.

Some social psychology studies have also examined the impact of moral values upon taxpayer compliance. Indeed, much of the empirical work that has been carried out by social researchers in this area tends to refute the economic model of compliance (that taxpayers are utility maximizing creatures that only weigh up the expected costs of non-compliance against the potential gains). For example, it has been demonstrated by laboratory experiments<sup>32</sup> that, even where the deterrence factor is so low that evasion makes obvious economic sense, some individuals will nevertheless comply. Consequently, where random audits exist or where it is planned that only a small percentage of returns are selected for audit, a purely rational taxpayer would still be able to virtually discount audit as a serious deterrent factor.<sup>33</sup> In this environment it has been found that some taxpayers nevertheless comply due to their high tax morals and values and consequently this becomes an important variable to investigate.

#### **Australian studies**

Previous Australian research into taxpayer compliance behaviour since the early 1980s included the work of Wallschutzky,<sup>34</sup> who found that the exchange relationship (exchange equity mentioned previously) was the most important hypothesis explaining why taxpayers who evaded tax felt justified in doing so. In Wallschutzky's study, a comparative analysis of the behaviours of tax evaders and those of the general population was conducted. Interestingly, the findings revealed that there was very little difference in the attitudes of both the evader group and the general population towards why people evade tax. In a later study by Wallschutzky<sup>35</sup> this notion was reinforced where findings revealed that some 86% of survey respondents considered that the level of income tax in relation to the level of

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<sup>30</sup> Jackson BR and Milliron VC, above n 6.

<sup>31</sup> Richardson M and Sawyer AJ, above n 8.

<sup>32</sup> Alm J, Sanchez I and De Juan A, above n 11.

<sup>33</sup> Pilkington C, 'Taxation and Ethical Issues' in Growthorpe C and Blake J (eds), *Ethical Issues in Accounting* (1998, London, Routledge).

<sup>34</sup> Wallschutzky IG, 'Possible causes of Tax Evasion' (1984) 5:4 *Journal of Economic Psychology* 371-84.

<sup>35</sup> Wallschutzky IG, *Taxpayer Attitudes to Tax Avoidance and Evasion* (Australian Tax Research Foundation Research Study No 1, 1985).

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government services was too high.<sup>36</sup> Other findings from this study indicated that the burden of taxes was the main justification for increased levels of tax evasion and that tax advisers were perceived to have a significant impact upon taxpayers avoiding tax.

More recently, both a qualitative and quantitative study by McKerchar<sup>37</sup> investigated the impact of complexity upon tax compliance focusing on Australian personal taxpayers. The findings revealed that the incidence of unintentional non-compliance and intentional over-compliance was high. Australian personal taxpayers appeared to be overpaying their tax liability as a result of complexity, and these findings confirmed earlier overseas findings.<sup>38</sup> The clear message for the tax authority was that by addressing the effective simplicity of the tax system both the integrity and fairness of the tax system would be improved.

Another recent study which investigated the impact of culture upon the perceptions of tax fairness and tax compliance was conducted by Gilligan and Richardson.<sup>39</sup> This empirical preliminary study of students from both Australian and Hong Kong universities revealed that there was no universal relationship or pattern that existed cross-culturally between the different facets of tax fairness perceptions and tax compliance. The authors indicated that legitimacy may well be the influence that shapes how fair tax systems are perceived to be and how likely people are to comply with their tax obligations.

A further study conducted by Coleman and Wilkins<sup>40</sup> revealed that there was a diversity of opinion and attitudes towards the tax system and compliance issues amongst the Australian public. One of the likely factors that could impede attitude change is the uneven level of comprehension or involvement in the tax system. This raises the issue of tax knowledge/education and the impact of this variable in improving overall taxpayer compliance. However, Niemiowski, Baldwin and

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<sup>36</sup> Ibid 43.

<sup>37</sup> McKerchar M, *The Impact of Complexity Upon Tax Compliance: A Study of Australian Personal Taxpayers* (Australian Tax Research Foundation, Research Study No 39, 2003).

<sup>38</sup> Ibid 207, See also Long S and Swingen J, 'The Role of Legal Complexity in Shaping Taxpayer Compliance' in Van Koppen P, Hessing D and Van der Heuvel G (Eds), *Lawyers on Psychology and Psychologists on Law* (Swets & Zeitlinger, Lisse) 127-145.

<sup>39</sup> Gilligan G and Richardson G, 'Perceptions of Tax Fairness and Tax Compliance in Australia and Hong Kong- A Preliminary Study,' (2005) 12:4 *Journal of Financial Crime* 1-13.

<sup>40</sup> Coleman C and Wilkins M, in Walpole M and Evans C, *Tax Administration in the 21<sup>st</sup> Century* (Prospect, Sydney, 2001) 263-4.

Wearing,<sup>41</sup> found that the results of tax evasion behavioural research over the last thirty years has remained contradictory and inconclusive. The researchers indicated that this was mainly due to the research addressing only a few variables at a time. The authors concluded that despite extensive research there was still a lack of consistent reliable predictors or explanations of the causality of tax evasion.

Consequently, given then that tax evasion occurs for a variety of reasons and that there are a number of factors which influence it, it would be naive to think that analysing demographic variables alone would produce all the answers. As such, this study only focused on the relationship between taxpayers' knowledge of tax penalties and the affect of penalties upon their attitudes to tax evasion/compliance via examining selected demographic variables. In particular, the focus was on whether there was a link between the effect and impact of the perceived penalties upon taxpayers' compliance decisions. Further research in this area is warranted, as evidenced by previous major tax compliance literature reviews (including Jackson and Milliron<sup>42</sup> and more recently Richardson and Sawyer<sup>43</sup>) which have also indicated that the effectiveness of the perceived severity of legal sanctions with respect to tax compliance is largely unresolved.

### DEMOGRAPHIC VARIABLES

The following section reviews the more specific tax compliance studies which employed the demographic variables selected for this study. This study focused on demographic variables which were likely to produce relevant information with respect to the tax behaviour of the Australian community. The most common demographic variables employed in the study therefore included; gender, age, ethnicity, education, occupation, income level, location and tax returning filing experience.

#### *Gender*

A common finding amongst studies reviewed by Richardson and Sawyer and previously Jackson and Milliron<sup>44</sup> was that female taxpayers were more compliant than their male counterparts. In particular, a comprehensive study conducted by

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<sup>41</sup> Niemiowski P, Baldwin S and Wearing A, in Walpole M and Evans C, Chapter 18, *Tax Administration in the 21<sup>st</sup> Century* (Prospect, Sydney, 2001) 211.

<sup>42</sup> Jackson BR and Milliron VC, above n 6.

<sup>43</sup> Richardson M and Sawyer AJ, above n 8.

<sup>44</sup> Richardson M and Sawyer AJ, above n 8 and Jackson BR and Milliron VC, above n 6.

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Oxley<sup>45</sup> in New Zealand reported that women were more often compliers in comparison with men and less often tax evaders or tax avoiders. However, Richardson and Sawyer noted that this compliance gap between males and females appears to be narrowing with the emergence of a more independent, non-traditional generation of women.<sup>46</sup> In a survey of American taxpayers, Hite<sup>47</sup> focused on the interaction between gender and education. Female respondents with college degrees tended to be more tolerant of non-compliance than females without college degrees. On the contrary, this study found that males tended to be less tolerant of non-compliance as their education levels increased.

### *Age*

The majority of studies reviewed by Richardson and Sawyer<sup>48</sup> that examined the age variable found that older taxpayers tended to be more compliant than younger taxpayers.<sup>49</sup> Also a study by Tittle<sup>50</sup> in 1980 observed that younger taxpayers were more risk-seeking, less sensitive to penalties and also reflected the social and

psychological differences related to the period in which they were raised. However, there has been a significant number of studies that have found no relationship.<sup>51</sup> Richardson and Sawyer have proposed four possible explanations for the inconsistent findings. Firstly, the significance of the age variable does not extend to all taxpayers. Second, it was found that inconsistent definitions of taxpayer non-compliance have been employed throughout most tax compliance research. Third, when age is considered in association with a number of other variables its affect on taxpayers' compliance is diluted. Finally, the interaction of age with other compliance

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<sup>45</sup> Oxley P, 'Women and Paying Tax' (1993) in C Scott (ed), *Women and Taxation* (Wellington Institute of Policy Studies) 31.

<sup>46</sup> For example, Robben et al [1989] found no significant relationship between gender and compliance, but their experiment involved only 22 females and twice as many males.

<sup>47</sup> Hite PA, above n 15, 155.

<sup>48</sup> For example, Beron KJ, Tuachen HV and Witte AD [1992] found the age was positively related to compliance for low and middle income proprietors, whereas Dubin and Wilde [1986] found a similar effect only for low and high income non-business taxpayers.

<sup>49</sup> See, eg, Smith KW, 'Reciprocity and Fairness: Positive Incentives for Tax Compliance,' in Slemrod J (ed), *Why People Pay Taxes: Tax Compliance and Enforcement* (1992, Ann Arbor, MI, University of Michigan Press) 223.

<sup>50</sup> Tittle C, 'Sanctions and Social Deviance: The Question of Deterrence' (1980, New York: Praeger).

<sup>51</sup> See, eg, Porcano TM, 'Correlates of Tax Evasion' (1988) *Journal of Economic Psychology* 47.

variables could be problematic. The consequences for this study as with others, is the need to control for the impact of this demographic in the analysis.

### *Ethnicity*

There has only been minimal research undertaken with respect to tax compliance and ethnicity. A literature review by Roth et al<sup>52</sup> which used whites and non-whites as a proxy variable found whites to be more compliant. However, Beron et al<sup>53</sup> suggest the results are dependent upon other variables used in the study. In particular the income variable was found to have a distortive effect. Other studies of commitment to compliance using indices have found the largest differences between races.<sup>54</sup>

### *Education*

The affect of education on taxpayer compliance is also unclear, based on previous studies.<sup>55</sup> The reasons given for these conflicting findings are varied. First, there can be difficulty in determining which aspect of education is being measured. Comprehensive literature reviews<sup>56</sup> have identified four measures of education - the general degree of fiscal knowledge, knowledge involving evasion opportunities, general educational attainment and specific tax knowledge. These different dimensions may assist in explaining the confusion surrounding the effect that the education variable has on taxpayer compliance. Correlations between education and other compliance variables may also have contributed to the inconsistent results found. Other possible compliance variables that have been suggested to have a

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<sup>52</sup> Roth JA, and Scholz JT and Witte AD, above n 4.

<sup>53</sup> Beron KJ, Tauchen HV and Witte AD, 'The Effect of Audits and Socioeconomic Variables on Tax Compliance,' in Slemrod J (Ed), *Why People Pay Taxes: Tax Compliance and Enforcement*, (1992, Ann Arbor, MI, University of Michigan Press) 67.

<sup>54</sup> See, eg, Song Y, and Yarborough T, above n 24.

<sup>55</sup> See, eg, Wallschutzky [1993] who indicated that education is the variable most likely to improve compliance, whereas Beron, Tauchen and Witte [1992] indicated that inconsistent results are produced as education is highly correlated with income level.

<sup>56</sup> See, eg, Jackson BR and Milliron VC, 'Tax Compliance Research: Findings, Problems, and Prospects' *Journal of Accounting Literature*, Vol 5, 1986, 125-165 and Richardson M and Sawyer AJ, 'A Taxonomy of the Tax Compliance Literature: Further Findings Problems and Prospects,' (2001) Vol 16, *Australian Tax Forum*, 137-320, 149 and Lewis A, *The Psychology of Taxation* (1982, Martin Robertson, Oxford) 127.

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relationship with education are gender,<sup>57</sup> income level,<sup>58</sup> ethics,<sup>59</sup> taxpayers' perceptions of fairness,<sup>60</sup> detection<sup>61</sup> and sanctions.<sup>62</sup>

### *Occupation*

There is a lack of clear research direction for occupation and employment status as variables contributing to taxpayer's compliance behaviour.<sup>63</sup> The reasons for this lack of clarity could be that many studies employ different occupational categories in their research. These occupational categories have ranged from specific occupational strata<sup>64</sup> to broad categories.<sup>65</sup> Another reason for the lack of direction could be the suggestion that the opportunities for non-compliance are associated with the particular occupation rather than the occupation itself.<sup>66</sup> Consequently, further research needs to be done utilising occupation as an independent variable.

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<sup>57</sup> Hite PA, above n 15, 155.

<sup>58</sup> Beron KJ, Tauchen HV and Witte AD, above n 53, 67.

<sup>59</sup> Mc Graw LK, and Scholz JT, 'Norms, Social Commitment and Citizens Adaption to New Laws,' in Van Koppe PJ, Hessing D and Van den Heuvel G (eds), *Lawyers on Psychology and Psychologists on Law* (Amsterdam the Netherlands, Swets and Zeitlinger 1988) 105.

<sup>60</sup> Roberts ML, 'An Experimental Approach to Changing Taxpayers Attitudes,' Towards Fairness and Compliance via Television' (1994) 16 *Journal of the American Taxation Association* 67.

<sup>61</sup> Smith KW, 'Reciprocity and Fairness: Positive Incentives for Tax Compliance' (1992), in Slemrod J (ed), *Why People Pay Taxes, Tax Compliance and Enforcement*, (Ann Arbor MI, University of Michigan Press) 223.

<sup>62</sup> Grasmick HG and Bursik RJ, 'Conscience, Significant Others and Rational Choice: Extending the Deterrence Model' (1990) 24 *Law and Society Review* 837.

<sup>63</sup> See, eg, Porcano [1988] above n 28 and Beron, Tuachen and Witte [1992] above n 48.

<sup>64</sup> See, eg, Mason R and Calvin L, 'A Study of Admitted Income Tax Evasion' (1978) *Law Society and Review* 12, 73. The author's occupational categories were, professional/technical, managers and officials (not-self employed) managers and officials (self employed), clerical and sales, craftsman, operators and unskilled.

<sup>65</sup> Hasseldine DJ, Kaplan SE and Fuller LR, 'Characteristics of New Zealand Tax Evaders: A Note' (1994) 34 *Accounting and Finance* 79. Hasseldine's survey only included two categories - self-employed/sales/professional and clerical/administration/manual.

<sup>66</sup> Robben HSJ, Hessing DJ and Elffers H, 'Legal Controls and Type of Employment in Tax Evasion Behaviour,' in Lea SEG, Webley P and Young BM (eds), *Applied Economic Psychology in the 1990's* (Vol 1, Exeter, UK, Washington Singer Press, 1990) 512.

*Personal income level*

Recent research has confirmed earlier findings of Jackson and Milliron<sup>67</sup> that the evidence on the income level variable is mixed and unclear.<sup>68</sup> Prior research has found supporting evidence for three contrasting views encompassing positive,<sup>69</sup> negative<sup>70</sup> and no correlation<sup>71</sup> with taxpayer compliance. It is possible that correlations between income level and other tax compliance variables, in particular, the effect of tax rates, may explain why the findings are so inconclusive.<sup>72</sup>

*Location*

There is also a lack of research evidence regarding the relationship of the location variable and taxpayer non-compliance. One of the reasons put forward for this could be that the various sub-categories of states and territories are inconsistent from study to study. Like the income variable, it is also possible that correlations between the location variable and other tax compliance variables are distorting and the findings are therefore inconclusive.<sup>73</sup>

*Work experience/tax return filing experience*

Finally, there appears to be a lack of research into the relationship between work experience and tax return filing experience as independent variables and taxpayer compliance. The popular reason for this situation could be the interaction that these variables have with other independent variables. For example, variables such as age, income level, and occupation are intuitively linked to work experience and consequently tax return filing experience. A study by Tan<sup>74</sup> tested the effects of working and filing status of taxpayers' with their perceptions of fairness of the tax system. The findings indicate that both variables have an effect on the perception of fairness of the tax rate structure and filing status has an effect on the perception of fairness of the tax burden on different income levels.

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<sup>67</sup> Jackson BR and Milliron VC, above n 6.

<sup>68</sup> See, eg, Christian and Gupta [1993] and Hite [1997].

<sup>69</sup> Smith KW, above n 61.

<sup>70</sup> Baldry JC, 'Tax Evasion is not a Gamble: A Report on Two Experiments,' (1986) Vol 22, *Economic Letters* 333.

<sup>71</sup> Worsham RG, 'The Effect of Tax Authority Behaviour on Tax Compliance: A Procedural Justice Approach,' *Journal of the American Taxation Association* 18, 2, (1996): 19-39.

<sup>72</sup> See, eg, Feinstein JS, 'An Econometric Analysis of Income Tax Evasion and its Detection,' *RAND Journal of Economics* [1991] 22, 14-35.

<sup>73</sup> *Ibid*, 14-35.

<sup>74</sup> Tan LM, above n 19.

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It is therefore evident from surveying the tax compliance literature and in particular, the studies which focused on demographic variables that further research needs to be undertaken in this area. Clearly there have been mixed results caused by the use of different variables and the operationalisation<sup>75</sup> of those variables in many of the studies to date. This particular analysis aims to overcome some of these issues by concentrating on fewer variables and controlling for the impact of demographic variables. In particular, as this study focuses on the relationship of penalties upon taxpayer compliance/evasion decisions via examining selected demographic variables, it is anticipated a meaningful contribution to the literature can be made albeit an exploratory study.

### RESEARCH METHODOLOGY

Given the demographic variables outlined above and the results of previous tax compliance studies, the details of this particular study and the methodology employed, follows. Specifically in terms of an exploratory analysis and giving a snapshot of the data gathered, it was considered that employing chi-square tests was appropriate to explore the relationship between two categorical variables (i.e. perceived penalties and selected demographics). Chi-square, as a non-parametric technique is ideal for situations where data are measured on nominal (categorical) scales and also where sample sizes are relatively small,<sup>76</sup> as is the case here. Chi-square is also a fairly robust test that does not have such stringent requirements and does not make assumptions about the underlying population distribution.<sup>77</sup>

As indicated previously an extension of this work using a multi-variant analysis which involves more complex procedures and relies on additional assumptions, could nevertheless be employed at a later date.

For the purpose of this exploratory analysis the chi-square statistical tests was chosen to investigate the affect of demographic variables on selected survey questions. Independent variables included; age, gender, ethnicity, education, occupation, personal income level, location and last tax return lodged. These are amongst the most common demographic variables utilised in tax compliance research and are

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<sup>75</sup> Operationalisation of a variable means measuring it in different ways. The mixed results of studies that have examined penalties and compliance may be a consequence of the fact that very few studies have examined the sanction compliance variable from the viewpoint of taxpayer's perceptions. Therefore future research should focus on this operationalisation of the variable as it holds the most potential relevance for the field of tax compliance research- see Richardson and Sawyer, above n 6, 193.

<sup>76</sup> Pallant J, SPSS Survival Manual, 286.

<sup>77</sup> Pallant J, SPSS Survival Manual, 286.

relevant to the Australian population. Specifically, survey questions three, four, twelve, fifteen and eighteen were statistically analysed in the study against the independent demographic variables. These questions represented the thrust of the study in terms of tax penalties for evasion, and taxpayers' attitudes towards tax evasion, law enforcement, tax morals and tax fairness. The demographic variables employed were tested for statistical significance at the 5 per cent level. (i.e. statistically significant at  $p < \text{or} = 0.05$ )

In particular, three categories of significance were used. The first category was where the empirical value was less than or equal to 0.05 ( $p < \text{or} = 0.05$ ) which indicates a significant result. That is, the results were less likely to be due to chance. The second category was marginally significant where the empirical value was greater than 0.05 but less than 0.15 ( $0.05 < p < 0.15$ ). The theoretical reason for using 0.15 to measure marginal significance was to allow some flexibility for values just above the 0.05 level without totally discounting its impact. The third category was insignificant where the empirical value was greater than 0.15 ( $p > 0.15$ ). Consequently, in this category there was no significant relationship between the variables. It should be noted that depending upon the number of degrees of freedom (df), it is important that the numbers in each cell are large enough to make chi-square tests appropriate. That is, chi-square tests should not be used where more than 20 percent of the expected frequencies are smaller than five or when any expected frequency is less than one.<sup>78</sup> Cross tabulation (SPSS output) of the chi-square results was examined to determine the relationship between the dependent and independent demographic variables while the frequencies and percentage breakdown of responses to all questions was also examined to enable comparisons with other studies.<sup>79</sup> (See Tables 1-13 below.)

### Survey instrument

An electronic survey questionnaire was distributed by a market research company via a web link on behalf of the author to ascertain Australian personal taxpayers' attitudes towards tax evasion. The strength of this approach is that it enabled a

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<sup>78</sup> Cooper DR, Schindler PS, *Business Research Methods*, (2003) 8<sup>th</sup> Edition, (Boston, Irwin/McGraw-Hill) 537.

<sup>79</sup> See, eg, Birch A, Peters P and Sawyer A, 'New Zealanders Attitudes to Tax Evasion: A Demographic Analysis' (2003) *New Zealand Journal of Taxation law and Policy* Vol 9, 65-109, Gilligan, G. and Richardson, G, 'Perceptions of Tax Fairness and Tax Compliance in Australia and Hong Kong- A Preliminary Study' *Journal of Financial Crime*, Vol 12, No 4, 2005, 1-13, Wallschutzky IG, 'Possible causes of Tax Evasion' *Journal of Economic Psychology*, (1984) Vol 5, No 4, 371-384 and Tan LM, 'Taxpayers Perceptions of the Fairness of the Tax System - A Preliminary Study' (1998) 4 *New Zealand Journal of Taxation Law and Policy* 59-71, 60.

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reasonable number of respondents,<sup>80</sup> (in terms of applying statistical analysis) who were fairly representative of the population (see below) to be surveyed efficiently and effectively with a guaranteed response rate. Approval was sought and obtained from the requisite Monash University Human Ethics Committee prior to implementation particularly given the sensitivity of the information being requested. Responses to the survey were completely confidential and no names were given by participants. The electronic survey involved participants clicking through 34 separate computer screens and took approximately 15-20 minutes to complete. The survey contained thirty-two questions<sup>81</sup> including five preliminary screening type demographic questions and another twenty-seven main stream questions. In most questions a seven-point Likert scale was employed to indicate the degree of agreement or disagreement.

### Survey sample

The selection of the survey sample or panel members is based on a fairly common method employed by many market research companies. Firstly an invitation to become a panel member is advertised on a variety of web sites to ensure that a representative group of people can be selected. Potential panel members are emailed a form to fill in about themselves which collects a huge amount of demographic data, including occupation, age, gender, marital status, ancestry, general interests, make of car, location, level of education and income, etc so that respondent profiles can be created. This information is entered into a data base which can then be used to select which respondents will be most suitable for a particular survey. Each respondent is then offered a modest incentive (usually between Aus \$2.50-\$4.00) based on the survey complexity, topic and length. The actual incentives for participating in the survey are paid via an online voucher system whereby respondents are entitled to purchase products and services with their vouchers. Restrictions apply as to the number of surveys any participant can do within the time period. Respondents are sent the survey link along with an explanatory statement about the research and are invited to participate. Participation is entirely voluntary but checks are carried out to ensure that surveys were completed correctly and within reasonable time frames.

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<sup>80</sup> See Fowler F, *Survey Research Methods* (2nd edn, Sage Newbury Park, 1993) 30-33. Fowler demonstrated that in terms of representativeness of samples to population, a sample of 150 would describe a population of 15,000 or 15 million with virtually the same degree of accuracy. As such, 300 surveys were adequate based on the 21 million Australian population, given the accuracy of the results would not improve greatly with a larger sample size.

<sup>81</sup> Some of the questions in the survey were adopted from the study into tax scheme investors undertaken by Murphy K, (2003) Center for Tax System Integrity (CTSI) Australian National University (ANU).

This particular tax survey consisted of a fairly representative sample of the Australian population according to the latest figures derived from the website of the Australian Bureau of Statistics (ABS).<sup>82</sup> Respondents or panel members were selected according to various locations across Australia, taxable incomes above \$6,000, age, gender, occupation, ethnicity, education level, and lodgement of their last income tax return. It took approximately 4 weeks to receive 300 completed surveys. It should be noted however, that as this is not a random sample survey the actual response cannot be compared to response rates of other random surveys. Generally it is considered that a response rate of anything over 30% in a random tax survey is acceptable given the sensitive nature of the topic and the response rate of previous tax compliance surveys.<sup>83</sup> Nevertheless, in sourcing participants via a market research company as in the case of this study, a fairly representative sample of the population was obtained and ethical and privacy requirements were observed.

### Independent Variables - Demographic Profile of the Sample

**Table 1: Summary of Demographic Data Preliminary Questions S1-S 5 and Q23-27**

<b>Q S1 In the last financial year did you personally have a taxable income? (ie \$6,000 or more)</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	300	100%
No	0	0%
<b>Total</b>	<b>300</b>	<b>100%</b>
<b>Q S2 What was the highest level of education completed?</b>	<b>Frequency</b>	<b>Percentage</b>
Year 10 (or below)	48	16%
Year 11	24	8%
Year 12	36	12%
Certificate	71	24%
Advanced Diploma/Diploma	33	11%
Bachelor Degree	59	20%
Post Graduate Degree	29	9%
<b>Total</b>	<b>300</b>	<b>100%</b>
<b>Q S3 What is your Occupational group?</b>	<b>Frequency</b>	<b>Percentage</b>

<sup>82</sup> See <[www.abs.gov.au/AUSSTATS/abs@nsf](http://www.abs.gov.au/AUSSTATS/abs@nsf)>.

<sup>83</sup> See McIntosh and Veal achieved a 50% response rate, Tan 58% in a mail out survey, Oxley 29% and Hasseldine 22%.

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Manager	31	10%
Professional	56	19%
Associate Professional/Educational	39	13%
Tradesperson	30	10%
Clerical, Sales and Service	96	32%
Production and Transport	20	7%
Labourer	21	7%
Not working	7	2%
<b>Total</b>	<b>300</b>	<b>100%</b>
<b>Q S4 Where do you live?</b>		
	<b>Frequency</b>	<b>Percentage</b>
NSW	96	32%
VIC	77	26%
QLD	57	19%
SA	25	8%
WA	30	10%
TAS	6	2%
NT	3	1%
ACT	6	2%
<b>Total</b>	<b>300</b>	<b>100%</b>
<b>Q S5 Your Gender</b>		
	<b>Frequency</b>	<b>Percentage</b>
Male	157	52%
Female	143	48%
<b>Total</b>	<b>300</b>	<b>100%</b>
<b>Q23 Age</b>		
	<b>Frequency</b>	<b>Percentage</b>
18-19	8	3%
20-29	78	26%
30-39	49	17%
40-49	79	26%
50-59	73	24%
60 and over	13	4%
<b>Total</b>	<b>300</b>	<b>100%</b>
<b>Q 24. Ethnicity</b>		
	<b>Frequency</b>	<b>Percentage</b>
European Origin	40	14%
British Origin	29	10%
Asian Origin	15	5%
Australian	206	68%

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Other	10	3%
<b>Total</b>	<b>300</b>	<b>100%</b>
<b>Q 25 Personal Income</b>		
	<b>Frequency</b>	<b>Percentage</b>
Less than \$10,000	12	4%
\$10,000	11	4%
\$20,000	33	11%
\$30,000	44	15%
\$40,000	68	23%
\$50,000	39	13%
\$60,000	26	8%
\$70,000	28	9%
\$80,000	11	4%
\$90,000	13	4%
\$100,000	6	2%
\$110,000	1	0.3%
\$120,000	6	2%
\$130,000	0	0%
\$140,000+	2	0.7%
<b>Total</b>	<b>300</b>	<b>100%</b>
<b>Q26 Last Tax Returned Lodged</b>		
	<b>Frequency</b>	<b>Percentage</b>
2005/06 year	269	90%
2004/05 year	23	7%
2003/04 year	2	0.07%
2002/03 year	0	0%
2001/02 year	1	0.03%
Not lodged in last 5 years	5	2%
<b>Total</b>	<b>300</b>	<b>100%</b>
<b>Q27 Status- if not working</b>		
Unemployed	1	14%
Retired from paid work	1	14%
Full -time student	0	0%
Home duties	3	43%
Other	2	29%
<b>Total</b>	<b>7</b>	<b>100%</b>

As the demographic profile of the sample itself was fairly representative of the Australian population it consequently produced useful data to assist in the analysis of the research questions posed. Some preliminary demographic questions were

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posed at the beginning of the survey and served as a type of screening tool for potential participants. Question S1 ensured that all taxpayers had a taxable income and were required to lodge tax returns. For instance, respondents such as self-funded retirees who were not working but nevertheless had a taxable income in excess of \$6,000 and lodged a tax return, were also included. Question S2 regarding education level indicated that a large number of those surveyed had obtained a leaving certificate 71(24%) or had completed a bachelor degree 59(20%). This is higher than the average educational level of the Australian population which is more like year 12 level. Question S3 categorised occupational groupings according to those derived from the Australian Bureau of Statistics (ABS).<sup>84</sup> Not surprisingly the majority 96(32%) fell into the clerical, sales and service industry. A further 56(19%) indicated they were in the professional category which would include the likes of doctors, lawyers and accountants. The sub-group of associate professionals/education at 39(13%) included the likes of teachers, academics and social workers. Question S4 revealed where respondents were located in Australia and not surprisingly, the majority came from the more populated states of NSW 96(32%) and Victoria 77(26%). Finally, question S5 gave the gender breakdown of the sample which was representative at males 157(52%) and females 143(48%) of respondents.

The remaining demographics questions were posed at the end of the survey. In particular, the results of question 23 revealed that the majority 279 (93%) of respondents fell between the 20-60 year old age-bracket. This is not that surprising given that this age group are probably the most familiar and comfortable with using electronic mediums. Question 24 indicated that the sample was representative of the Australian population with 206 (68%) of respondents indicating that they were born in Australia. Despite the fact that Australia is a very multi-cultural society, the figures are representative of the ABS statistics.<sup>85</sup> Likewise, in question 25 the majority of respondents 184 (62%) earned between \$20,000 and \$50,000 per annum. This salary range is also representative of the majority of the Australian population. Question 26 indicated that the majority of respondents 269(90%) lodged their 2005-06 tax return as expected while finally, in question 27 for the few respondents who indicated they were not working, the main reason given for this was home duties.

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<sup>84</sup> See [www.abs.gov.au/AUSSTATS/abs@nsf](http://www.abs.gov.au/AUSSTATS/abs@nsf).

<sup>85</sup> See [www.abs.gov.au/AUSSTATS/abs@nsf](http://www.abs.gov.au/AUSSTATS/abs@nsf).

## DISCUSSION AND ANALYSIS OF RESEARCH FINDINGS

## Dependent variables.

Table 2: Q1-Q2 Public Awareness of Tax Issues

Respondents Opinion	None (1-2)	Some (3-5)	A Lot (6-7)	Total Reponses
<b>Q1 How much information about tax issues do you receive from the following sources?</b>				
a. The ATO	147 (49%)	118 (39%)	35(12%)	300 (100%)
b. Tax Practitioners	143 (48%)	94 (31%)	63 (21%)	300 (100%)
c. Work Related Publications	155 (52%)	124 (41%)	21 (7%)	300 (100%)
d. TV, Radio, Newspapers	118 (39%)	161(54%)	21 (7%)	300 (100%)
e. Friends /family	110 (37%)	159 (53%)	31 (10%)	300 (100%)
<b>Q2 What level of knowledge do you have of the following issues?</b>				
a. Own tax rate	59 (20%)	152 (51%)	89 (29%)	300(100%)
b. the top marginal tax rate	117 (39%)	113 (38%)	70 (23%)	300 (100%)
c. The Likelihood of being audited (ie have an auditor inspect your records or conduct an interview)	133 (44%)	127 (42%)	40 (14%)	300 (100%)
d. What the penalties are for tax evasion	147 (49%)	106 (35%)	47 (16%)	300 (100%)
e. How many people are convicted for tax evasion	219	67 (22%)	14 (5%)	300 (100%)

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in Australia each year	(73%)			
f. What portion of the Australian population try to evade tax	206 (69%)	76(25%)	18 (6%)	300 (100%)

In Table 2 questions 1 and 2 asked respondents about the sources of the tax information they receive and their general understanding of tax issues. The aim of these questions was to get some broad indication of the respondents' awareness of tax issues. As the focus of this study was on whether there was a link between the affect and impact of the perceived penalties and taxpayers' compliance decisions (i.e. attitude to evasion), it was evident from the results in Table 2 that taxpayers had very little knowledge of the penalties altogether. Based on this it would be reasonable to assume that the penalty itself may have had little, if any, bearing on their compliance decisions. It was important to establish this information regarding taxpayer's awareness of penalties at the out set of the study, as any answers given regarding hypothetical penalties in later survey questions have originated from a low knowledge base. The results in Table 2 may also have implications with respect to the demographic variable, the level of education QS2. However, as indicated by Jackson and Milliron<sup>86</sup> there is a difference between general educational attainment and specific tax knowledge, which perhaps, is what is being highlighted here. Respondents are generally well educated, (compared to the national average) but nevertheless lack tax specific knowledge or education.

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<sup>86</sup> Jackson BR and Milliron VC, above n 6.

**Table 3: Q3 Tax Penalties and Deterrence**

Respondents Opinion	Very Mild (1-2)	(3-5)	Very Severe (6-7)	Don't know (8)	Total Responses
Q3 Below is a list of possible cases of tax evasion. What level of penalty (ie monetary fine, jail sentence, community service or educational program) do you think the ATO should use against a taxpayer who ...					
a. Underreporting cash earnings	36 (12%)	184 (61%)	53 (18%)	27 (9%)	300 (100%)
b. Exaggerating deduction claims	33 (11%)	194 (65%)	50 (17%)	23 (7%)	300 (100%)
c. Fails to pay tax debts	21 (7%)	137 (46%)	121 (40%)	21 (7%)	300 (100%)
d. Shifts profits abroad.	10 (3%)	73 (24%)	183 (61%)	34 (12%)	300 (100%)
e. Under declares government payments	18 (6%)	115 (38%)	141 (47%)	26 (9%)	300 (100%)
f. Underreports taxes	11 (4%)	144 (48%)	118 (39%)	27 (9%)	300 (100%)
g. Fails to lodge a tax return	46 (16%)	133 (44%)	101 (33%)	20 (7%)	300 (100%)
h. Under declares investment income	17 (6%)	136 (45%)	127 (42%)	20 (7%)	300 (100%)

In Table 3, question 3 asked respondents to describe what level of penalty should be used by the ATO for various types of tax evasion. In most cases around 90% of respondents felt that some form of punishment was appropriate with less than 10% indicating that they didn't know. Chi-square tests revealed a significant relationship at the 5 per cent confidence level between the occupation variable and the penalty for underreporting cash earnings ( $X^2 = 82.810$ ,  $df = 49$ ,  $p = 0.002$ ). With reference to Q S3 in Table 1, it was found that respondents who fell into the categories of Tradespersons, Labourer and Production and Transport, were more accepting of underreporting cash earnings as compared to other occupational categories. Another significant

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relationship was found between the personal income variable Q25 and the under reporting of cash ( $X^2 = 119.272$   $df = 91$ ,  $p = 0.025$ ). In particular, the cross- tabulation of the results indicated that respondents on lower incomes (ie less than \$30,000 per annum) were more accepting of the non-reporting of cash earnings than those in higher income groups. This finding is not surprising given that those on lower wages have less disposal income and sometimes turn to cash jobs as a way of breaching the gap between them and higher income earners.

The age variable Q 23 was also significant with shifting profits abroad ( $X^2 = 377.128$   $df = 315$ ,  $p = 0.009$ ). More senior respondents (i.e. greater than 50 years old) were certainly less accepting of this type of evasion as compared to those respondents in the younger categories. One reason for this might be the lack of understanding of more senior respondents to see this as a type of legitimate tax planning for some, while they continue to pay high levels of tax. Marginally significant results were also found for shifting profits abroad ( $X^2 = 113.615$   $df = 91$ ,  $p = 0.054$ ) and exaggerating deduction claims ( $X^2 = 119.272$   $df = 91$ ,  $p = 0.093$ ) with respect to the educational variable Q S2. That is, respondents who attained a bachelor degree or higher, held a dim view of this type of evasion. Finally, the gender variable was significant for under declaring government payments ( $X^2 = 12.396$   $df = 7$ ,  $p = 0.088$ ) and underreporting taxes ( $X^2 = 16.410$   $df = 7$   $p = 0.022$ ) respectively. Clearly women were less tolerant than their male counterparts when it came to this type of evasion. Arguably this could be a result of women mainly being the beneficiaries of such payments (i.e. social security benefits).

**Table 4: Q 4 Penalties Scenario**

Respondents Opinion	(1)	(2)	(3)	(4)	(5)	(6)	(7) Not Approp	Total

<p><b>Q4 Assume the following case: A business owner, (X), provided 'discounts' for customers in return for being paid in cash. Here, the business owner was able to reduce tax illegally by \$10,000. The ATO would demand that the business owner pays back the tax evaded plus penalties and interest. What would you consider an appropriate penalty for the fraud?</b></p>								
<b>4a) Monetary Fine</b>	< \$5,000	\$5,000	\$10,000	\$15,000	\$20,000	>\$20,000		
	70 (23%)	58 (19%)	53 (18%)	32 (11%)	14 (5%)	15 (5%)	58 (19%)	300 (100%)
<b>b) A Prison Sentence</b>	< 1 week	1 week	2 weeks	3 weeks	4 weeks	>4 weeks		
	0	0	1	1	4 (1%)	14 (5%)	280 (93%)	300 (100%)
<b>c) Community Service</b>	< 1 week	1 week	2 weeks	3 weeks	4 weeks	>4 weeks		
	4 (1%)	0	11 (4%)	5 (1%)	22 (8%)	43 (14%)	215 (72%)	300 (100%)
<b>d) Education Program</b>	<3 days	3 days	6 days	9 days	12 days	>12 days		

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	24 (8%)	31 (10%)	14 (5%)	13 (5%)	15 (5%)	16 (5%)	187 (62%)	300 (100%)

In Table 4 question 4 asked respondents for their opinion as to the appropriate penalty for tax fraud for a hypothetical scenario of a business owner (X) who negotiated discounts for customers in return for being paid in cash. The study revealed that most respondents believed that this form of tax evasion was not as serious to warrant a custodial penalty which is consistent with the findings of other studies.<sup>87</sup>

Most of the chi square tests conducted for this question revealed that there were no significant relationships between the various types of penalty and the demographic variables selected. However, there was a significant finding for the relationship between both the occupational variable QS3 ( $X^2 = 18.691$ ,  $df = 7$   $p = 0.009$ ) and the lodgment variable Q26 ( $X^2 = 19.351$ ,  $df = 4$   $p = 0.001$ ) and the monetary fine. That is, respondents in most of the occupational groups in QS3 preferred the monetary fine other than the Manager and Professional categories which preferred an educational program. The result may have implications for the tax compliance habits of managers and professionals who have more to risk in terms of a monetary penalty. For instance, managers and professionals may see the monetary fine as being less attractive, and therefore have a greater belief in an educational program improving the future compliance behaviour of the business owner in Q4.

There was also a significant relationship found between the age variable in Q23 and a prison sentence ( $X^2 = 61.603$ ,  $df = 45$   $p = 0.050$ ). That is, senior taxpayers (ie over 50 years of age) had a stronger belief with respect to harsher penalties for the tax fraud in Q4. Other marginally significant results were also discovered for the educational program and the gender variable QS5, ( $X^2 = 3.519$ ,  $df = 1$   $p = 0.061$ ), occupational variable QS3, ( $X^2 = 11.399$ ,  $df = 7$   $p = 0.122$ ), location variable QS4, ( $X^2 = 11.219$ ,  $df = 7$   $p = 0.129$ ) and tax return lodgement variable Q26, ( $X^2 = 7.857$ ,  $df = 4$   $p = 0.097$ ). Specifically, females in professional occupational groups and those located in NSW and Victoria preferred an educational program as the penalty. These latter results tend to indicate that outside of a monetary fine, the more preferred penalty for this type of tax fraud would be an educational program of some kind. These findings are also consistent

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<sup>87</sup> See Karlinsky S, Burton and Blanthone, 'Perception of Tax Evasion as a Crime' (2004) *e Journal of Tax Research* Vol 2, No 2, 226-240 and Gupta R, 'How the Perceptions of Tax Evasion as a Crime mirror the Penalties', Paper presented at the Australasian Tax Teachers Association Conference, TC Beirne School of law, the University of Queensland, January 2007.

with Hite<sup>88</sup> regarding the impact of gender and education upon tax compliance. The implications for tax compliance behaviour, is that more educational programs for taxpayers may be a vital ingredient in improving overall compliance.

**Table 5: Q5 Penalties Scenario Continued**

<b>Respondent's Opinion</b>	<b>No Effect (1-2)</b>	<b>(3-5)</b>	<b>Large Effect (6-7)</b>	<b>Total</b>
<b>Q5 Now please assume you are the business owner and you had been caught committing the tax fraud. To what extent do you think it would affect what other people thought of you if ?....</b>				
a. you were the subject of a tax audit	127 (42%)	128 (43%)	45 (15%)	300 (100%)
b. you were penalised for underreporting taxable income to the ATO	63 (21%)	167 (56%)	70 (23%)	300 (100%)
c. you were found guilty in court of tax evasion and were required to pay a fine in addition to the tax owed	26 (9%)	150 (50%)	124 (41%)	300 (100%)
d. you were found guilty in court of tax evasion and were required to pay a fine in addition to the tax owed and were sentenced to a jail term	13 (4%)	73 (24%)	214 (72%)	300 (100%)
e. you were found guilty in court of tax evasion and were required to pay a fine in addition to the tax owed, were sentenced to a jail term and received media exposure .	11 (3%)	44 (15%)	245 (82%)	300 (100%)

In Table 5 question 5 asked respondents to put themselves in the tax fraud scenario given above and indicate their

views regarding the perceptions of others with respect to various outcomes. In 214 cases (72%) felt that if they were sentenced to a jail term in addition to being found guilty and fined, then it would have a large effect of what other people thought of them. This is particularly important in terms of business/personal reputation and good standing in the community. It was clear that to receive media exposure as well, on top of the jail sentence, was also undesirable, and given that 245 cases (82%) of respondents indicated that it would have a large effect of what other people thought

<sup>88</sup> Hite P, above n 15.

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of them. In terms of taxpayers' perceptions of tax evasion as a crime, the findings are consistent with that of Karlinsky.<sup>89</sup>

The results in Table 5 also indicate that the effectiveness and impact of the perceived severity of legal sanctions does impact upon compliance decisions. If respondents are only subject to the inconvenience and embarrassment of an audit, a fine or a court appearance, it is questionable as to whether their tax paying behaviour would change. On the other hand, if respondents were subject to imprisonment or media exposure it appears to influence others and consequently their own actions. This is important in terms of the connection made with social norms and in particular, the issue of taxpayers' actions being influenced by what their peers think. This is consistent with the findings of previous studies by Ajzen and Fishbein<sup>90</sup> and contributes to the on going issue of the severity of legal sanctions raised by Richardson and Sawyer.<sup>91</sup>

**Table 6: Q6 Likely Penalty For Tax Fraud**

Respondent's Opinion	Response
<b>Q6 Which of the following do you think is most likely to happen to business people found guilty of underreporting \$10,000 of business income and evading \$3,000 of tax.</b>	
1.They would have to repay the tax owing only	25 (8%)
2. They would have to repay the tax owing plus interest	102 (34%)
3. They would have to repay the tax owing plus interest plus a civil penalty of 50% of tax evaded (i.e. \$1,500)	111 (37%)
4. They would have to pay the tax, interest and civil penalty as well as being charged with a criminal offence, brought to court and fined	54 (18%)
5. They would have to pay the tax, interest and civil penalty as well as being charged with a criminal offence, brought to court and either imprisoned or put on prohibition	8 (3%)
<b>TOTAL</b>	<b>300 (100%)</b>

In Table 6, question 6 asked respondents what they thought would be the most likely consequence of business people being found guilty of underreporting \$10,000 of business income and evading \$3,000 in tax. The findings indicate that taxpayers perceptions of the penalty is no greater than it actually is which is inconsistent with

<sup>89</sup> See Karlinsky et al, above n 87.

<sup>90</sup> Ajzen I and Fishbein M, above n 10.

<sup>91</sup> Richardson M and Sawyer AJ, above n 8.

findings of a study done by Carnes<sup>92</sup> et al, which indicated that taxpayers perceptions of penalties are larger than what they actually are. If respondents are fairly knowledgeable about what the likely penalty would be for a simple case of tax evasion as depicted above, then one would assume that this may influence their compliance behaviour in terms of this level of evasion. The results also demonstrate that respondents did possess some tax specific knowledge, despite the generally low tax knowledge base of respondents indicated in Table 2.

**Table 7: Q7 Personal Penalty/Offence**

Respondents Reasons	Penalty imposed (Yes)	Penalty not imposed (No)
<b>Q7 Have you ever been fined or penalized in some way by the ATO and if so, for what type of offence?</b>	26 (9%)	274 (91%)
1 By overstating deductions, rebates, tax offsets etc	1	
2. By understating income	10	
3. Defrauding or deceiving the Commonwealth	3	
4. Failing to withhold and remit tax	0	
5. Other	12	

In Table 7, question 7 asked respondents whether they had been fined or penalised in some way by the ATO and positive responses were received in 26 cases (9%). For the majority of 10 cases, the main type of evasion was not surprisingly, understating income. Whether this was intentional or inadvertent is unknown but it continues to be the most common type of evasion. Overstating deductions, rebates offsets was surprising low at only 1 case, however there were 12 cases in the 'other' category which accounted for nearly half of all cases. Interestingly, there were 3 cases of criminal offences of defrauding or deceiving the Commonwealth while in 274 cases (91%) of respondents were not penalised by the ATO. The fact that there was evidence of admitted evasion further supports the claim that evaders are prepared to reveal details if they feel comfortable with the anonymity of the survey instrument.<sup>93</sup>

<sup>92</sup> Carnes GA and Eglebrecht TD, 'An Investigation of the Effect of Detection Risk Perceptions, Penalty Sanctions and Income Visibility on Tax Compliance' (1995) *Journal of the American Taxation Association* 17: 26-41.

<sup>93</sup> Kinsey KA, above n 9.

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Table 8: Q8-10 Personal Response To Penalties

Respondents Opinion	(1) –(2)	(3)-(5)	(6)-(7)	Total Responses
Q8 Overall, do you think the ATO's decision to penalise you was	Absolutely Unfair		Absolutely Fair	
	10 (39%)	11 (42%)	5 (19%)	26 (100%)
Q9 Do you think the penalties against you were	Very Mild	About Right	Very Severe	
	3 (12%)	17 (65%)	6 (23%)	26 (100%)
Q10 Were the reasons for the penalty clear or unclear to you?	Totally clear		Totally Unclear	
	16 (62%)	8 (31%)	2 (7%)	26 (100%)

In Table 8, questions 8-10 asked the guilty respondents of what they felt about the penalty that had been imposed upon them. The majority, somewhere between (39%-81%) felt that the decision to penalise them was generally unfair, while the majority, around (65%) felt that the penalties themselves were about right. The latter result consequently raises the concern of whether current penalties are acting as a sufficient deterrent in shaping taxpayer compliance. On the other hand it also appears from Table 8 that the ATO is doing a good job in communicating their enforcement actions as the majority of respondents, somewhere between (62%- 93%), felt the reasons for the penalties were made clear to them. This is evidence of good enforcement communication which was found to be an important factor in improving taxpayer compliance in a study conducted by Feld and Frey.<sup>94</sup> Consequently, if the reasons for why the penalty is imposed can be conveyed to offending taxpayers in a clear and effective way, it may well influence their future compliance decisions despite the actual level of penalty. Other studies which have investigated the issue of procedural justice<sup>95</sup> also support this contention.

Table 9: Q11-Q13 Tax Law Enforcement

Respondents Opinion	Strongly	Neither	Strongly	Total
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<sup>94</sup> Feld and Fry, 'Deterrence and Tax Morals: How many Taxpayers and Tax Administrators Interact?' Centre for Tax System Integrity (CITSI, Canberra Conference, Australian National University, 2003) 1-19.

<sup>95</sup> Murphy K, 'Study into Tax Scheme Investors' (2003) Center for Tax System Integrity (CSTI) Australian National University (ANU).

	Disagree (1-2)	Agree or Disagree (3-5)	Agree (6-7)	Reponses
<b>Q11 In the following, there are some more general positions concerning the issue of law enforcement.</b>				
a The prospect of tough penalties would deter people from evading tax	32 (10%)	155 (52%)	113 (38%)	300 (100%)
b. The likelihood for being caught for tax evasion is small	74 (25%)	195 (65%)	31 (10%)	300 (100%)
<b>Q12 Please indicate how important each of the following strategies are to improve taxpayer compliance.</b>				
a. By educating the public and improving taxpayer services	13 (4%)	109 (36%)	178 (60%)	300 (100%)
b. By increasing the number of audits	46 (15%)	195 (65%)	59 (20%)	300 (100%)
c. By increasing both civil and criminal penalties	33 (11%)	191 (64%)	76 (25%)	300 (100%)
d. Through exposing people who cheat the tax system (e.g. publishing names of tax evaders in the ATO annual report or increasing the number of taxpayers charged with criminal offences)	35 (12%)	160 (53%)	105 (35%)	300 (100%)
e. Through providing incentives for paying the correct amount of tax (e.g. provide free tax services)	18 (61%)	80 (27%)	202 (67%)	300 (100%)
<b>Q13 Please indicate to what extent you disagree or agree with the following statements</b>				

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concerning the ATO's administration.				
a. Given the responsibility to collect income taxes on behalf of the government the ATO does a good job.	22 (8%)	208 (69%)	70 (23%)	300 (100%)
b. The ATO is too lenient and not strict enough when it comes to dealing with tax evaders.	64 (22%)	193 (64%)	43 (14%)	300 (100%)
c. The ATO intrudes too much on the lives of those who obey tax laws.	45 (15%)	166 (55%)	89 (30%)	300 (100%)
d. The ATO's authority should be strengthened.	58 (19%)	195 (65%)	47 (16%)	300 (100%)

Following on from the issue of enforcement activities were questions 11-13 of the survey depicted in Table 9. Specifically, question 11 asked respondents to indicate whether they agreed or disagreed with particular statements concerning the issue of law enforcement and the results tend to indicate that respondents' perceptions of getting caught is higher than in reality. Question 12 asked respondents about how effective certain strategies were in improving taxpayer compliance. It was evident that the general population appears to prefer the more positive educational approach rather than the negative punitive approach. These findings are consistent with the literature<sup>96</sup> with respect to the carrot versus stick approach.

Chi-square tests results for question 12 revealed that there was a significant relationship between the educational variable in Q5 and increasing both civil and criminal penalties Q12(c) ( $X^2 = 58.982$ ,  $df = 36$   $p = 0.009$ ), and the lodgment variable Q26 ( $X^2 = 51.446$ ,  $df = 24$   $p = 0.001$ ). Generally respondents with a higher educational level (Advanced Diploma or higher) indicated that increasing penalties would not be an effective strategy in improving compliance. As indicated previously, the higher educated in the sample tended to favour educational programs rather than penalties, which might be a reflection of their own general knowledge as opposed to tax specific knowledge.

A significant relationship was also reported between exposing people who cheat the tax system Q12 (d) and the age variable in Q23, ( $X^2 = 327.918$ ,  $df = 270$   $p = 0.009$ ), the ethnicity variable in Q24, ( $X^2 = 38.200$ ,  $df = 24$   $p = 0.033$ ) and the lodgment variable

<sup>96</sup> James S and Alley C, above n 5.

Q26, ( $X^2 = 68.227$ ,  $df = 24$   $p = 0.000$ ). The results indicate that senior respondents (over 50 years of age) and those of non-Australian origin were more in favour of exposing tax cheats compared to those younger Australian respondents. Although not providing conclusive evidence there is support for these findings in the literature.<sup>97</sup> The results suggest that generally senior Australians and ethnics prefer stricter enforcement of the law and want to see others in the taxpaying community brought to justice for non-compliance. There is also support in the literature<sup>98</sup> with regards to the enforcement issue, that suggests if complying taxpayers see other tax evaders' escape without identification or penalty (ie name and shame) it may well have a detrimental impact upon their own future compliance decisions.

**Table 10: Q14-Q15 Tax Fairness**

Respondents Opinion	Strongly Disagree /Not Very Important (1-2)	Neither Agree or Disagree (3-5)	Strongly Agree/ Very Important (6-7)	Total Reponses
<b>Q14 All things considered the income tax system in Australia is fair?</b>	111 (37%)	172 (57%)	17 (6%)	300 (100%)
<b>Q15 Please indicate to what extent you disagree or agree with the following statements concerning tax fairness.</b>				
a. The income tax system requires me to pay more than my fair share compared to others on the same income who are able to legally reduce their income	24 (8%)	164 (55%)	112 (37%)	300 (100%)
b. The income tax system requires me to pay more than my fair share	19 (6%)	130 (43%)	151 (51%)	300 (100%)

<sup>97</sup> Noble R, 'Tax Evasion Amongst Small and Medium Business' *Tax National* Vol 6 (2002) 22-35.

<sup>98</sup> See Wenzel R, 'The Social Side of Sanctions: Personal and Social Norms as Moderators of Deterrence' (2002) Center for Tax System Integrity (CSTI) Australian National University (ANU).

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compared to others with higher incomes....				
c. The Income tax system allows a substantial number of people to legally avoid paying their fair share of tax due to the availability of sophisticated, artificial tax schemes	13 (4%)	117 (39%)	170 (57%)	300 (100%)
d. For the most part, the Australian government's spending results in very little waste.	140 (47%)	136 (45%)	24 (8%)	300 (100%)
e. Taxpayers are provided with good government programs and services in return for paying their taxes	109 (36%)	171 (57%)	20 (7%)	300 (100%)
f. Overall, the level of taxation of individuals in Australia is about right.	115 (38%)	165 (55%)	20 (7%)	300 (100%)

In Table 10 the issue of tax fairness was raised and the results from Question 14 indicate, in general, that Australia is considered a very highly taxed country. This has some justification when Australia is compared to other countries within the Organisation for Economic Co-operation and Development (OECD).<sup>99</sup> Question 15 asked respondents to give their opinion on various issues of tax fairness including, horizontal, vertical and exchange equity. Overall the results confirm that there is a general dissatisfaction with the fairness of the tax system per se.

The chi-square tests found that there was a significant relationship between the gender variable Q 55 and horizontal equity Q15 (a), ( $X^2 = 14.271$ ,  $df = 6$   $p = 0.027$ ) and government spending Q 15(d) ( $X^2 = 14.292$ ,  $df = 6$   $p = 0.027$ ). In particular, male respondents were very negative towards paying more than their fair share of tax and the wastage in government spending, compared to their female counterparts. This may have implications for tax compliance behaviour given that males are the dominant income earner and if their desire to comply is hampered by feelings of injustice in the tax system, it is likely to result in greater evasion.

<sup>99</sup> See <[www.oecd.org/topicstatsporta/0,3398\\_en\\_2825\\_495698](http://www.oecd.org/topicstatsporta/0,3398_en_2825_495698)>. Australia's top personal income tax rate was 47% in 2005, currently 45%.

Significant relationships were also discovered between the age variable Q 23 and vertical equity Q 15(b) ( $X^2 = 342.994$ ,  $df = 270$   $p = 0.002$ ), the tax system allowing for tax avoidance Q 15(c) ( $X^2 = 320.723$ ,  $df = 270$   $p = 0.018$ ) and government spending Q 15(d) ( $X^2 = 318.921$ ,  $df = 270$   $p = 0.022$ ). In particular, senior taxpayers (over 50 years of age) were less sympathetic with regards to tax evaders and the waste in government spending as compared to their younger counterparts. The overall implications for tax compliance behaviour, is that tax fairness perceptions are vitally important and need to be addressed which is consistent with the literature.<sup>100</sup>

**Table 11: Q16-Q18 Tax Morals**

<b>Respondents Opinion</b>	<b>Not at all/ Not very Important/ Strongly Disagree (1-2)</b>	<b>(3-5)</b>	<b>Very Much/ Very Important/ Strongly Agree (6-7)</b>	<b>Total Reponses</b>
<b>Q16 Please rate how important each of the following are to you?</b>				
a. Your individuality	4 (1%)	74 (25%)	222 (74%)	300 (100%)
b. Your Profession Industry	10 (3%)	139 (47%)	151 (50%)	300 (100%)
c. The Australian Community	5 (1%)	112 (37%)	183 (62%)	300 (100%)
d. Being an honest taxpayer	10 (3%)	100 (33%)	190 (64%)	300 (100%)
<b>Q17 These questions ask you what YOU think</b>				
a. YOU think one should honestly declare all income on one's tax return?	8 (2%)	73 (24%)	219 (74%)	300 (100%)
b. Do YOU think it is acceptable to overstate				

<sup>100</sup> See Hite A and Roberts ML, above n 25 and Chan CW, Troutman CS and O'Bryan D, above n 26.

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tax deductions on ones tax return?	67 (22%)	162 (54%)	71 (24%)	300 (100%)
c. Do YOU think working for cash in hand payments without paying tax is a trivial offence?	207 (69%)	74 (25%)	19 (6%)	300 (100%)
d. Do YOU think the majority of Australians try to evade tax?	87 (29%)	147 (49%)	66 (22%)	300 (100%)
<b>Q18 People who evade tax probably do so for different reasons. For each of the following, if you were to evade tax what would be your main reason for doing so?</b>				
a. I would want to compensate myself for being unfairly disadvantaged by the tax system	72 (24%)	146 (49%)	82 (27%)	300 (100%)
b. I would look after my own interests first, as everyone else does	67 (22%)	162 (54%)	71 (24%)	300 (100%)
c. I would see it as a game against the ATO and thought I would get away with it	207 (69%)	74 (25%)	19 (6%)	300 (100%)
d. I would find it rational to get the most out of any situation	87 (29%)	147 (49%)	66 (22%)	300 (100%)
e. I would have had a bad experience against the ATO and would want to get even.	193 (64%)	85 (28%)	22 (8%)	300 (100%)

In Table 11, questions 16 -18 were aimed at gauging respondents' opinions concerning tax morals. Generally, the findings indicated that it may well depend upon the type of tax evasion, the opportunity for evasion or the amount of information regarding tax evasion, that shapes taxpayers' attitudes and moral beliefs.

Consequently, the majority of respondents were generally uncertain with regard to the variety of reasons given for evading tax. Surprisingly, reasons of self interest and compensation appeared to be in the minority based on the percentages derived, which is inconsistent with the equity arguments presented earlier by Tan.<sup>101</sup>

However, chi-square tests revealed a different story with respect to tax morals. There was a significant relationship found between the gender variable Q5 and a number of issues raised in Q18, in particular. For example, the reason of compensation Q18(a) ( $X^2 = 18.095$ ,  $df = 6$   $p = 0.006$ ), ATO game, Q18 (c) ( $X^2 = 25.533$ ,  $df = 6$   $p = 0.001$ ), rationality Q18 (d), ( $X^2 = 25.453$ ,  $df = 6$   $p = 0.000$ ), and a bad experience with the ATO Q18 (e) ( $X^2 = 14.097$   $df = 6$   $p = 0.029$ ), were all found to be statistically significant with respect to the gender variable. In particular, males were more likely to see it as rational to evade and this also raises the concept of neutralization theory.<sup>102</sup> That is, where taxpayers have the ability to eradicate guilt feelings and feel justified in their evasion actions. These taxpayers usually have their own agendas and are able to remove themselves from community norms and perceptions. Certainly males were also more extreme in terms of wanting to be compensated and playing the 'ATO game' by taking the risk to evade. The implications for taxpayer compliance, is that the findings clearly illustrate that there are still differences in the tax morals of males and females with the former generally possessing weaker tax morals.

Another significant relationship was found between the ethnicity variable Q24 and Q18(c) ATO game ( $X^2 = 43.575$ ,  $df = 24$   $p = 0.009$ ). In particular, respondents of Australian origin were more likely to see evasion as a game compared to respondents from other nationalities. The impact of culture upon the perceptions of tax fairness and tax compliance as found in the study by Gilligan and Richardson,<sup>103</sup> which indicated that there was no universal relationship or pattern between different cultures. This study reinforces this finding. The other significant relationship found in this study was between the age variable Q23 and a bad experience with the ATO Q18 (e) ( $X^2 = 324.936$ ,  $df = 270$   $p = 0.012$ ). Younger respondents (those under the age of 50 years) indicated that having a bad experience with the ATO and wanting to get even would be the main reason for their evasion, as compared to more senior respondents. A bad experience with the ATO could include for example, experiencing an audit, imposition of a penalty or receiving poor service. On the issue of service, it is notable that the ATO did not meet their own service standards during the 2006-07 tax year (ie, 10 of the 23 benchmarks were not meet).<sup>104</sup> The implications

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<sup>101</sup> Tan LM, above n 19.

<sup>102</sup> Richardson M and Sawyer AJ, above n 8, 153.

<sup>103</sup> Gilligan G and Richardson G, above n 39.

<sup>104</sup> ATO Media Release, September 2007.

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for tax compliance could be that ATO resources and procedures regarding the issue of service may need to be addressed.

**Table 12: Q19-Q20 Engaging a Tax Agent**

Respondents Reasons	Tax Agent engaged (1)	Tax Agent not engaged (2)
<b>Q19 Did you rely on a tax agent or advisor in preparing your most recent income tax return?</b>	192 (64%)	108 (36%)
<b>Q20 Primary reason for using a tax agent</b>		
1.Fear of making a mistake	48 (25%)	
2.The tax system is too complex	68 (35%)	
3.Insufficient time to prepare my own return	10 (5%)	
4.To legitimately minimize the tax I had to pay	62 (33%)	
5. To get a faster tax refund	4 (2%)	

In Table 12 questions 19 and 20 asked if respondents engaged a tax agent or advisor and if so for what reason. The results reveal that 64% engaged an agent which is a little lower than the national average which is approximately 75%. For instance, in a study conducted by McKerchar<sup>105</sup> it was reported that agent lodged returns accounted for almost 75% of the total lodgements by personal taxpayers. Therefore based on the figures it appears a high reliance on tax agents by Australian personal taxpayers still exists.

**Table 13: Q 21-Q22 Tax Agent Scenario**

Respondents Opinion	Definitely Not (1)	Probably Not (2)	Don't know (3)	Probably yes (4)	Definitely Yes (5)	Total Responses
<b>Q21 The Tax Agent advises you NOT TO CLAIM the deduction on your return</b> a. Would you agree	10 (3%)	27 (9%)	60 (20%)	109 (36%)	94 (33%)	300 (100%)

<sup>105</sup> McKerchar M, above n 37.

with the advice the tax agent has given you?						
b Based on the Tax agents advice NOT TO CLAIM the suspect deduction would you continue to use this agent?	4 (1%)	30 (10%)	53 (18%)	121 (40%)	92 (31%)	300 (100%)
<b>Q22 Now the Tax Agent advises you TO CLAIM the deduction on your return</b> a. Would you agree with the tax agent's advice?	16 (5%)	54 (18%)	67 (22%)	140 (47%)	23 (8%)	300 (100%)
b Based on the Tax agents advice TO CLAIM The suspect deduction would you continue to use this agent?	12 (4%)	53 (18%)	63 (21%)	138(46%)	34 (11%)	300 (100%)

In Table 13, question 21 gave respondents a scenario where a tax agent advised them as to the deductibility of an ambiguous expense and sought their responses. The

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majority of respondents agreed with the advice, clearly indicating the level of faith personal taxpayers have in their tax agents and that the tax agents' guidance is paramount to the tax compliance decisions. These findings are also consistent with that of Wallschutzky<sup>106</sup> who found that tax advisers were perceived to have a significant impact upon taxpayers avoiding tax.

### SUMMARY AND CONCLUSIONS

#### Summary of findings

The main objective of this study was to investigate if a relationship exists between selected demographic variables and the attitude of Australian personal taxpayers towards tax evasion. In particular, this study focused on the relationship between taxpayers' knowledge of tax penalties and the affect of penalties upon their tax compliance decisions via examining selected demographic variables. As indicated previously, the thrust of the study in terms of statistical analysis centred on how taxpayers felt penalties impacted as a deterrent measure, the appropriateness of different penalties and taxpayers' attitudes towards law enforcement, tax fairness and tax morals. A brief summary of the study's findings under each of these main areas follows.

Initially it was clear from the results in Table 2 of the study that the majority of respondents' indicated they had little or no knowledge of tax penalties despite their higher than average level of education. This could have impacted upon the remaining answers submitted by respondents, given the low knowledge base. It also highlights the difference between general education attainment and tax specific knowledge found by Jackson and Milliron.<sup>107</sup>

The results in Table 3 indicated that, despite the majority of respondents generally agreeing to the imposition of penalties, it did vary depending on the type of evasion. For instance, women were more tolerant than males when it came to under declaring and underreporting taxes. Also lower income earners (<\$30,000 p.a.) and those in the Tradespersons, Labourer and Production and Transport occupational groups were more accepting of non-reporting of cash earnings. On the other hand, more senior respondents were less accepting of shifting profits abroad and felt that very severe penalties would be appropriate. Overall, a very guarded response to the use of penalties was conveyed.

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<sup>106</sup> Wallschutzky IG, above n 34.

<sup>107</sup> Jackson BR and Milliron VC, above n 6.

The results in Table 4 indicated that respondents in most occupational groups preferred the monetary fine, followed closely by the educational program for the particular case of tax fraud. It was evident that females and those in professional occupations, in particular, were very supportive of educational programs to address this level of evasion. However, it was noticeable that more senior respondents (ie, over 50 years of age) felt that harsher penalties would be suitable despite being in the minority. The results in Table 5 showed that the impact of the perceived severity of legal sanctions does also impact upon compliance decisions. Respondents indicated that an audit, monetary penalty or court conviction would be unlikely to change their taxpaying behaviour but jail time and media exposure would.

It is evident from the results concerning tax law enforcement in Table 9, that the majority of respondents indicated the more positive educational approach to improving compliance rather than the negative punitive approach. In particular, higher educated respondents (Advanced Diploma or higher) indicated educational programs in preference to penalties. However, the minority, more senior respondents (ie, over 50 years of age) and those of non-Australian origin were in favour of exposing tax cheats and generally stricter enforcement.

Overall, the majority of respondents also felt that the Australian tax system was unfair, as shown in Table 10. There was evidence of an imbalance in both horizontal and vertical equity. In particular, male respondents were very negative towards paying more than their fair share of tax and the wastage in government spending as opposed to females. Likewise senior respondents (ie, over 50 years of age) were less sympathetic with regards to tax evaders and also the waste in government spending.

The results in Table 11 clearly indicate that the tax morals of males are generally weaker than those of females. In particular, males were more likely to see it as rational to evade, wanted to be compensated and were generally happy to play the 'ATO game' by taking the risk to evade. The ethnicity variable also impacted upon taxpayer morals, as respondents of Australian origin were more likely to see evasion as a game than respondents from other nationalities. Meanwhile, younger respondents (ie, those under the age of 50 years) indicated that a bad experience with the ATO was the main reason for evasion. Finally, the results in Table 13 illustrate the high level of faith and dependency the majority of Australian personal taxpayers have in their tax agents and accountants.

### **Tax policy considerations**

Based on the above findings, it was evident for questions 23 to 27 and S1 to S5 of the survey that seven of the eight demographic variables analysed - including gender, age, ethnicity, education, occupation, personal income level and tax return

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lodgement - had statistically significant relationships with the attitudes of taxpayers' towards tax evasion. The only variable not to produce any significant results was that of location. In particular, the research indicates that a respondent's level of education, personal income, age, occupation; gender and ethnicity, play an important part in their attitudes towards tax penalties and tax compliance behaviour.

These findings are consistent with the findings of previous studies by Birch, Peters and Sawyer,<sup>108</sup> Hite,<sup>109</sup> Meier and Johnson,<sup>110</sup> Tan<sup>111</sup> and Richardson.<sup>112</sup> The study also produced direct evidence of admitted personal tax evasion amongst respondents, which helps to further validate results.

Overall the study revealed that the link between taxpayers' attitudes towards penalties and the consequential attitude towards tax compliance is dependant on a number of demographic and other factors. Specifically, the imposition of penalty not only depends upon the type of evasion, but also the gender, occupation and age of the respondent. Males, higher income earners (in traditional white collar-occupations) and more senior respondents in particular, appeared to support the use of penalties for various types of evasion, including cash reporting and shifting profits abroad. The preferred penalty was found to be the monetary fine, followed closely by an educational program for a lower case of fraud. However, it was the severity of a jail sentence and media exposure that was indicated to have the greatest influence on future compliance behaviour. The higher educated generally preferred educational programs to penalties while a minority of senior, ethnic respondents, preferred stricter enforcement. As previously indicated, the majority found the Australian tax system unfair, with males and seniors most prominent, whilst the tax morals of males are generally weaker than females.

Consequently the typology of taxpayer most susceptible to penalties and their influence upon compliance behaviour would include the likes of younger males, (ie < 50 years of age) high income earners, (ie > \$70,000 pa) and those in more traditional white collar occupations (ie professionals, associate professionals, clerical sales and retail). However, those on lower incomes (ie <\$30,000 pa) who are susceptible to the underreporting of cash, the lower educated (year 12 or below) and taxpayers of Australian origin who like to risk tax evasion, would not fall into this category of taxpayer. Therefore, for the ATO to effectively target its audit strategies in respect of

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<sup>108</sup> Birch A, Peters T and Sawyer AJ, above n 79.

<sup>109</sup> Hite P, above n 15.

<sup>110</sup> Meier RF, and Johnson WT, 'Deterrence as a Social Control: The Legal and Extralegal Production of Conformity' (1977) 42 *American Sociological Review* 292-304.

<sup>111</sup> Tan LM, above n 19.

<sup>112</sup> Richardson G, above n 22.

non-compliers it should look to the later type of taxpayer described above. Furthermore, the study suggests that the ATO may need to look at employing additional strategies alongside penalties against this later type of taxpayer, if changes in compliance behaviour are to be achieved. It is also worth noting that tax agents who represent these later types of taxpayers should also be investigated given the dependency and faith placed in them by those taxpayers regarding their compliance decisions.

### **Limitations of the study**

First, although this study appears to be fairly representative of the Australian taxpayer population, the actual selection process was conducted by a Market Research Company which recruited participants via their own data bases. As such it was not a random sample survey, but given the sensitive nature of the survey, this selection process was considered to be a valid approach. Second, the fact that a random sampling technique was not employed has also resulted in some demographic areas being under represented. For example, certain occupational groups, those of a lower educational standard and the age spread given that Australia is an aging population was not evident. Third, problems of honesty and misinterpretation in tax surveys are always present and hard to erase.<sup>113</sup> Finally, as the study focused on only eight demographic variables other demographics and non-demographic variables were not employed, thereby limiting the overall results.

### **Future research**

Nevertheless, it is proposed that this survey data will be subjected to more rigorous statistical analysis and employed in further taxpayer compliance research. In particular, it is suggested that tax behaviours and attitudes of tax evaders themselves could also be ascertained by utilizing this survey instrument. A comparison of those results could then be made with what has already been found in the results of the general population to assist in identifying any trends or patterns between the two groups. As more data is gathered and further analysed, hopefully the reasons for taxpayers' responses and attitudinal changes can be more closely explored. This should in turn result in improving the revenue authority's tax compliance strategies and targeting of certain taxpayer groups.

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<sup>113</sup> Ibid, n 22, 50. Actual taxpayer behaviour is measured by hypothetical compliance behaviour. However prior research by (Hite 1988, Roberts 1994, Hanno and Violette 1996) indicates that hypothetical tax compliance behaviour are reliable measures for actual compliance behaviour. Information provided by subjects on actual compliance behaviour tends to be sensitive, incriminating and likely to be misinterpreted (Hessing et al, 1988).