

11-28-2012

## The impact of tax professionals upon the compliance behavior of Australian individual taxpayers

Ken Devos  
*Monash University*

Follow this and additional works at: <http://epublications.bond.edu.au/rlj>

---

### Recommended Citation

Devos, Ken (2012) "The impact of tax professionals upon the compliance behavior of Australian individual taxpayers," *Revenue Law Journal*: Vol. 22 : Iss. 1 , Article 2.  
Available at: <http://epublications.bond.edu.au/rlj/vol22/iss1/2>

This Journal Article is brought to you by the Faculty of Law at [ePublications@bond](mailto:EPublications@bond). It has been accepted for inclusion in Revenue Law Journal by an authorized administrator of [ePublications@bond](mailto:EPublications@bond). For more information, please contact [Bond University's Repository Coordinator](#).

---

# The impact of tax professionals upon the compliance behavior of Australian individual taxpayers

## **Abstract**

The tax compliance literature indicates that limited research attention has been given to gauging the influence of tax professionals upon individual taxpayer compliance behaviour. This potential gap in the literature needs to be addressed given that tax professionals not only act as intermediaries between the Australian Taxation Office (ATO) and the majority of individual taxpayers but they can directly influence taxpayers' ethical behaviour and the level of compliance.

This empirical study explored whether or not a relationship exists between the advices provided by tax professionals and the compliance behaviour of Australian individual taxpayers (both evaders and non-evaders) taken from the taxpayers' perspective. The findings revealed that there was a statistically significant relationship between the need for engaging tax professionals and compliance behaviour generally. There was also evidence of a statistically significant relationship between tax professionals' aggressive advice and the compliance behaviour of non-evaders. It is envisaged that this study's results will provide useful information for the Australian Taxation Office and have implications for tax policy development.

## **Keywords**

Taxpayer Compliance Behaviour - Influence of tax professionals on taxpayer clients, Empirical analysis based on taxpayer attitude to evasion, taxpayer attitude to whether tax system is perceived as too complex

## THE IMPACT OF TAX PROFESSIONALS UPON THE COMPLIANCE BEHAVIOUR OF AUSTRALIAN INDIVIDUAL TAXPAYERS

KEN DEVOS\*

The tax compliance literature indicates that limited research attention has been given to gauging the influence of tax professionals upon individual taxpayer compliance behaviour. This potential gap in the literature needs to be addressed given that tax professionals not only act as intermediaries between the Australian Taxation Office (ATO) and the majority of individual taxpayers but they can directly influence taxpayers' ethical behaviour and the level of compliance.

This empirical study explored whether or not a relationship exists between the advices provided by tax professionals and the compliance behaviour of Australian individual taxpayers (both evaders and non-evaders) taken from the taxpayers' perspective. The findings revealed that there was a statistically significant relationship between the need for engaging tax professionals and compliance behaviour generally. There was also evidence of a statistically significant relationship between tax professionals' aggressive advice and the compliance behaviour of non-evaders. It is envisaged that this study's results will provide useful information for the Australian Taxation Office and have implications for tax policy development.

### INTRODUCTION

Taxpayers employ tax professionals<sup>1</sup> to represent them for a number of reasons. These reasons include, a desire to lodge accurate returns mainly due to their lack of tax knowledge based on the complexity of the current tax law, a desire to minimize the tax they are required to pay, their fear of making a mistake and being penalised, or just having a lack of time to complete their own return. Regardless of the reason or reasons, tax professionals currently represent 75 per cent<sup>2</sup> of Australian Individual taxpayers and potentially have a large influence upon taxpayers' compliance attitudes and behaviour.

Prior studies indicate that research into the relationship between taxpayers and tax professionals has increased over the last twenty years and knowledge has advanced significantly as a result. Several different aspects of tax professionals as a compliance variable have been examined, including: why taxpayers engage tax professionals, what factors influence tax professionals' aggressiveness, the role of penalties in encouraging co-operation by tax professionals and how the use of a tax professionals affects taxpayer compliance.<sup>3</sup> However, compared to the large number of studies that have examined the first three aspects of tax professionals mentioned above, relatively few have examined the last aspect which is the relationship between tax professionals' advice and taxpayer compliance

---

\* Dr Ken Devos is a Senior Lecturer in Taxation Law in the Department of Business Law and Taxation, Monash University.

<sup>1</sup> Tax professionals for the purpose of this study includes tax preparers, tax practitioners, tax agents, tax accountants, tax lawyers, CPA and non-CPA.

<sup>2</sup> Jonathan Baldry and Kylie McKinstry, 'Explaining the Growth in Usage of Tax Agents by Australian Personal Income Taxpayers' (Paper presented at the ATO Compliance Research Conference, Canberra, 7-8 December 1995). Approximately 75 per cent of Australian individual taxpayers lodge through a tax agent or accountant. See also, <[www.abs.gov.au/AUSSTATS/abs@nsf](http://www.abs.gov.au/AUSSTATS/abs@nsf)>.

<sup>3</sup> Maryann Richardson and Adrian J Sawyer, 'A Taxonomy of the Tax Compliance Literature: Further Findings, Problems and Prospects' (2001) 16 *Australian Tax Forum* 137, 208.

behaviour. Studies in this specific area have also produced conflicting results due to a number of reasons which will be discussed later.

This present study addresses this potential research gap by examining the relationship, if any, between the advice provided by tax professionals and tax compliance behaviour, taken from the perspective of both compliant and non-compliant Australian individual taxpayers. In addition, issues regarding related tax compliance variables, such as demographics and tax morale will also be addressed within this study. Finally this study provides some recent Australian empirical evidence to answer the call of previous tax compliance literature reviews<sup>4</sup> to expand upon the number of cross cultural studies conducted in this area.

### **Aim and overview of this study**

Specifically the aim of this study is to investigate whether or not there is a relationship between the advice offered by tax professionals and the compliance attitudes and behaviour of Australian individual taxpayers (compliant and non-compliant). An examination of the tax compliance literature reveals there is a lack of research attention regarding the impact of tax professionals upon compliance behaviour. Given that tax professionals act as intermediaries between the Australian Taxation Office (ATO) and the majority of Australian individual taxpayers' further research is warranted. The results of this study will reveal how and why the advice provided by tax professionals either directly or indirectly influences the ethical climate and level of compliance amongst individual taxpayers. Ultimately the research has the potential to further elicit the reasons for taxpayer compliance/non-compliance in order to improve the ATO's collections thereby improving the provision of goods and services to members of the community.

The remainder of this article is structured in the following manner. Section two defines taxpayer compliance in terms of this analysis and briefly summarises the main theories regarding taxpayer compliance. As an extension to the general compliance theory, section three specifically examines past studies which have looked at the influence of tax professionals on tax compliance from both the tax professionals and taxpayers' perspective. Section four outlines the specific research questions and hypotheses to be tested in this study derived from the literature review. This is followed by a description of the research methodology and participant demographics in section five. A discussion and analysis of the research findings including statistical significance, is provided in section six. Finally, section seven summarises and concludes this study by providing some tax policy considerations identifies limitations and makes some 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 relevant jurisdiction's statutory prescription or internal revenue code, regulations and court decisions applicable at the time the return is filed.<sup>5</sup> An alternative definition has been offered by James and Alley<sup>6</sup> that considers tax

---

<sup>4</sup> Ibid 212.

<sup>5</sup> Jeffrey A Roth, John T Scholz and Ann Dryden Witte (eds), *Taxpayer Compliance an Agenda for Research* (University of Pennsylvania Press, 1989) vol 1, 21. See also, Betty R Jackson and Valerie C Milliron, 'Tax Compliance Research: Findings Problems and Prospects' (1986) 5 *Journal of Accounting Literature* 125-165;

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 as adopted in the literature cited is employed.

## Development of the Tax Compliance Literature

There are two broad schools of thought regarding taxpayer compliance which emerge from the literature. The first refers to the studies based around the theory of economics that explain the change in taxpayer compliance behaviour.<sup>7</sup> The second is concerned with the studies based on theories of psychology and sociology that explain the varying levels of taxpayer compliance. Models developed by proponents of the second school fall into a number of sub-categories.

During the 1980s structured research into tax evasion and non-compliance became widespread following the political concerns in the United States of an increasing “tax gap”.<sup>8</sup> Initially, the literature which emerged from the United States had a strong focus on economic theory. Utility theory, developed by Allingham and Sandmo,<sup>9</sup> assumed taxpayers to be utility maximisers in decisions of tax reporting and compliance, that is, taxpayers viewed tax evasion as worthwhile if the financial gains purely outweighed the financial costs (penalties). Likewise the taxpayer was likely to break the law unless anticipated legal penalties (deterrence) exceeded the additional earnings that could be made by evading tax.<sup>10</sup>

The main limitation with the deterrence theory model is that it failed to explain the high levels of observed compliance. For example Smith and Kinsey<sup>11</sup> found that the majority of American taxpayers were compliant despite the low probability of detection and punishment. Similarly previous Australian studies have indicated that taxpayers are compliant despite the failure of the audit process to act as a deterrent factor.<sup>12</sup> In this regard it was found that taxpayers’ morals and ethics were important variables which also impacted upon compliance.

Consequently, traditional economic deterrence models which draw upon expected utility theory and deterrence, mainly in the form of sanctions, have been found wanting. Little empirical evidence to

---

Richardson and Sawyer, above n 3, 137-320; Lin Mei Tan and Adrian J Sawyer, ‘A Synopsis of Taxpayer Compliance Studies – Overview Vis-à-Vis New Zealand’ (2003) 9(4) *New Zealand Journal of Taxation Law and Policy* 431.

<sup>6</sup> Simon James and Clinton Alley, ‘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, 11.

<sup>7</sup> Andrew D Cuccia, ‘The Economics of Tax Compliance: What Do We Know and Where Do We Go?’ (1994) 13 *Journal of Accounting Literature* 81.

<sup>8</sup> Vito Tanzi and Parthasarathi Shome, ‘A Primer on Tax Evasion’ (1994) 48 *Bulletin for International Fiscal Documentation* 328.

<sup>9</sup> Michael G Allingham and Agnar Sandmo, ‘Income Tax Evasion: A Theoretical Analysis’ (1972) 1 *Journal of Public Economics* 323.

<sup>10</sup> Kristina Murphy, ‘Aggressive tax planning: Differentiating those playing the game from those who don’t’ (2004) 25 *Journal of Economic Psychology* 307, 308. See also, Harold G Grasmick and Donald E Green, ‘Legal Punishment Social Disapproval and Internationalisation as Inhibitors of Illegal Behaviour’ (1980) 71 *Journal of Criminal Law and Criminology* 325.

<sup>11</sup> Kent W Smith and Karyl A Kinsey, ‘Understanding Taxpaying Behavior: A Conceptual Framework with Implications for Research’ (1987) 21(4) *Law & Society Review* 639.

<sup>12</sup> Catherine Pilkington, ‘Taxation and Ethical Issues’, cited in Catherine Gowthorpe and John Blake (eds), *Ethical Issues in Accounting* (Routledge, 1998).

support the predictions of economic deterrence models as a whole has surfaced. Researchers<sup>13</sup> in this field have therefore summarised the effect of factors that determine the monetary cost of compliance as including; the tax rate, detection probability, the level of income and the penalty structure, but suggest that, for all of them, existing empirical evidence provides no firm conclusions.<sup>14</sup>

Recently, however, tax compliance studies<sup>15</sup> have been based on fiscal and social psychological theories. Research studies in this field have argued that the human element plays a vital role in individual taxpayer compliance decisions. Specifically, Smith and Kinsey<sup>16</sup> found that peoples' social networks and associations help shape their perceptions, norms and attitudes which then influence their responses to perceived and actual sanctions.

During the 1990s and early 2000s other variables appeared in fiscal psychology models which were also absent from the pure economic deterrence model. In particular, a study by Alm, Jackson and McKee<sup>17</sup> employed the variable of exchange equity, where taxpayers assess the benefits they receive from the government in exchange for taxes paid. The study by Alm et al. involved an experiment - a tax reporting exercise measuring the effect on compliance of the presence or absence of public goods.<sup>18</sup> The findings were significant and indicated that when uncertainty was introduced compliance increased, despite the absence of public goods. The authors undertook a number of other studies with respect to tax fairness issues during the 1990s which also produced significant results.<sup>19</sup>

Further studies on the tax morale variable mentioned previously, found that higher legitimacy for political institutions also led to higher tax morale.<sup>20</sup> This was further evidenced in a study of 30 developed and developing countries (although primarily non-African) that tax morale and compliance is highest in the countries characterised by high control of corruption and low size of bureaucracy.<sup>21</sup> A recommendation was also made by Kornhauser<sup>22</sup> to the IRS (Internal Revenue

<sup>13</sup> Jeffrey A Roth and John T Scholz, *Taxpayer Compliance: Social Science Perspectives* (University of Pennsylvania Press, 1989) vol 2.

<sup>14</sup> John Hasseldine, 'Linkages between Compliance Costs and Taxpayer Compliance' (2000) 54 *Bulletin for International Fiscal Documentation* 299.

<sup>15</sup> Murphy, above n 10; Benno Torgler and Kristina Murphy, 'Tax Morale in Australia: What Shapes it and has it changed over time?' (2004) 7(2) *Journal of Australian Taxation* 298; Margaret A McKerchar and Chris Evans, 'Sustaining Growth in Developing Economies through Taxpayer Compliance: Challenges for Policy Makers and Revenue Authorities' (2009) 7(2) *eJournal of Tax Research* 171-201; Cynthia Coleman and Lynne Freeman, 'Cultural Foundations of Taxpayer Attitudes to Voluntary Compliance' (1997) 13(3) *Australian Tax Forum* 311-336; Margaret McKerchar, 'Effects of Complexity on Unintentional Non-Compliance for Personal Taxpayers in Australia' (2002) 17(1) *Australian Tax Forum* 3-26; Robin Woellner et al, 'Can Simplified Legal Drafting Reduce the Psychological Costs of Compliance: An Australian Perspective' (2007) (6) *British Tax Review* 717-734; Ern Chen Loo, 'Tax Knowledge, Tax Structure and Compliance: A report on a Quasi Experiment' (Paper presented at the 18<sup>th</sup> Australasian Tax Teachers Association Annual Conference, Melbourne University, 30-31 January 2006) 1-21; Michael J Graetz, Jennifer F Reinganum and Louis L Wilde, 'The Tax Compliance Game: Towards an Interactive Theory of Law Enforcement' (1986) 2(1) *Journal of Law, Economics and Organisation* 1-32.

<sup>16</sup> Smith and Kinsey, above n 11, 642.

<sup>17</sup> James Alm, Betty R Jackson and Michael McKee, 'Institutional Uncertainty and Taxpayer Compliance' (1992) 82(4) *American Economic Review* 1018.

<sup>18</sup> Ibid 1022.

<sup>19</sup> See also, James Alm, Betty R Jackson and Michael McKee, 'Deterrence and Beyond: Toward a Kinder Gentler IRS', cited in Joel Slemrod (ed), *Why People Pay Taxes: Tax Compliance and Enforcement* (University of Michigan Press, 1992) 311; James Alm, Betty R Jackson and Michael McKee, 'Fiscal Exchange, Collective Decision Institutions, and Tax Compliance' (1993) 22(3) *Journal of Economic Behaviour and Organisation* 285.

<sup>20</sup> Benno Torgler and Friedrich Schneider, 'What Shapes Attitudes Toward Paying Taxes? Evidence From Multicultural European Countries' (2007) 88(2) *Social Science Quarterly* 443.

<sup>21</sup> Ronald D Picur and Ahmed Riahi-Belkaoui, 'The Impact of Bureaucracy Corruption and Tax Compliance' (2006) 5(2) *Review of Accounting and Finance* 174.

Service) that they endorse a tax morale approach to compliance that recognised the varying attitudes and behaviours of taxpayers.

It was also discovered that demographic variables, such as age, gender, marital status, education, culture and occupation, have an effect on fairness perceptions which ultimately affects compliance behaviour.<sup>23</sup> Although tax fairness is but one factor in the maze that is taxpayer compliance, it has been a predominant factor for most governments and is claimed to be the main indicator of a successful tax system.<sup>24</sup> Evidence of this was found in a study by Tan<sup>25</sup> who indicated that the New Zealand Government, for example, continuously placed great emphasis on this criterion.<sup>26</sup> Consequently, fiscal psychologists<sup>27</sup> maintain that a taxpayer's belief in the tax system rather than the penalty structure is more salient in generating compliance.

However, while the tax compliance literature has emerged from a wide variety of disciplines, there has been a lack of consensus and agreement as to why people do or do not pay their taxes.<sup>28</sup> Although it is acknowledged that taxpayer behaviour is influenced by a number of factors (both economic and non-economic) a variable that has lacked research attention in Australia is the influence of "tax professionals" and their role in individual taxpayer compliance. The following section briefly outlines a selection of past studies that have examined this variable from both the tax professionals and taxpayers' perspective in Australia and overseas.

## THE INFLUENCE OF TAX PROFESSIONALS UPON INDIVIDUAL TAXPAYER COMPLIANCE

### Definition of Tax Professionals

The concept of a single "tax practitioner" is difficult to comprehend. In practice the term "tax practitioner" covers a diverse group of individuals, business structures and professional groups who provide a range of tax services for their clients. Self-employed and in-house accountants, tax advisers and registered tax agents, tax agent franchises and legal practitioners in the tax area are all embraced by the term "tax practitioner."<sup>29</sup> For the purposes of this study a broad definition is adopted of the term "tax professional" to include, tax practitioners, tax preparers, tax agents, tax accountants and tax lawyers and the terms are used interchangeably.

---

<sup>22</sup> Majorie E Kornhauser, 'A Tax Morale Approach to Compliance: Recommendations for the IRS' (2007) 8(6) *Florida Tax Review* 599.

<sup>23</sup> See, eg, Peggy A Hite, 'Identifying and Mitigating Taxpayer Non-Compliance' (1997) 13 *Australian Tax Forum* 155; John Hasseldine et al, 'Persuasive Communications: Tax Compliance Enforcement Strategies for Sole Proprietors' (2007) 24(1) *Contemporary Accounting Research* 171-194.

<sup>24</sup> Slemrod, above n 19, 322.

<sup>25</sup> Lin Mei Tan, 'Taxpayers' Perceptions of the Fairness of the Tax System – A Preliminary Study' (1998) 4 *New Zealand Journal of Taxation Law and Policy* 59.

<sup>26</sup> See, eg, the NZ government has introduced several tax simplification measures, particularly since the beginning of the 1990s for small business, and is continuing to look for ways to alleviate the burden of tax for them, cited in Tan and Sawyer, above n 5, 446.

<sup>27</sup> Tan and Sawyer, above n 5, 431.

<sup>28</sup> See above n 5 for extensive reviews of the literature.

<sup>29</sup> Rex Marshall, Malcolm Smith and Robert Armstrong, 'The Impact of Audit Risk, Materiality and Severity on Ethical Decision Making: An Analysis of the Perceptions of Tax Agents in Australia' (2006) 21(5) *Managerial Auditing Journal* 499.

The following comprises a review of specific studies which have examined the role and influence of tax professionals taken from the perspective of both tax professionals' themselves and taxpayers generally.

### **The Influence of Tax Professionals upon Taxpayer Compliance based on their Views.**

Tax professionals have generally viewed their role as one of both taxpayer and government representative. That is, tax professionals believe that they are there to service their clients but also to act as agents for the revenue authority in promoting compliance. On the other hand, some overseas studies, mostly originating from the United States of America (USA) reviewed by Jackson and Milliron,<sup>30</sup> suggest that tax professionals do not act as agents for the government, but nevertheless admitted that the accounting profession can take a proactive stance in defining its role in the tax system and assert itself as part of the solution to tax compliance.

An Australian empirical study undertaken by Tomasic and Pentony<sup>31</sup> went further in defining the role of tax professionals. Their study found that the roles of tax practitioners can be categorised into six main parts. That is, first as independent advisors of their clients, second, as unpaid employees of the ATO, third, as intermediaries between the ATO and the taxpayer, fourth as tax advisors, fifth as protectors of their practice and finally as influences on the tax system. Importantly it was concluded that tax practitioners play a major role in increasing the level of taxpayer compliance. However, it was inconclusive as to whether this included a moral obligation on behalf of tax practitioners, with the result that rather than adopting a confrontational approach with the ATO, practitioners were happier to engage in negotiated settlements.

A more recent Australian study of the role of tax agents as a preparer of tax returns and provider of professional advice was undertaken by Marshall, Smith and Armstrong.<sup>32</sup> A mail survey of some 2000 tax agents in Western Australia was undertaken presenting respondents with realistic tax return scenarios in which demands of clients varied according to audit risk, the severity of tax law and the materiality of dollar amounts involved. The findings from the multi-variant analysis indicated that only the severity of tax law violations was an important factor in the tax professionals' ethical decision making. The implications of this result were that perceptions of tax law were stronger than perceptions of enforcement activities and the probability of detection as directed by the ATO.

A later study by Marshall, Smith and Armstrong<sup>33</sup> investigated whether there were significant differences in the ethical perceptions amongst different tax professionals namely, tax agents and Big 4 practitioners. The findings revealed that both groups rated highly the need to maintain technical competence and to continue to act for a client even when it was not appropriate to do so. However, there was a significant difference in the two groups with respect to loophole seeking (potential tax avoidance). This has implications for client expectations of alternative tax professional roles, where the Big 4 practitioners were labelled as "tax exploiters" while tax agents were labelled as "tax enforcers".

---

<sup>30</sup> Betty R Jackson and Valerie C Milliron, 'Tax preparers: Government agents or client advocates? A response to the IRS's survey on tax preparers' attitudes' (1989) 167(5) *Journal of Accountancy* 76.

<sup>31</sup> Roman Tomasic and Brendan Pentony, 'Taxation Law Compliance and the Role of Professional Tax Advisers' (1991) 24 *Australian and New Zealand Journal of Criminology* 241.

<sup>32</sup> Marshall, Smith and Armstrong, above n 29, 497.

<sup>33</sup> Rex Marshall, Malcolm Smith and Robert Armstrong, 'Ethical issues facing tax professionals: A comparative survey of tax agents and practitioners in Australia' (2010) 18(3) *Asian Review of Accounting* 197.



Duncan, La Rue and Reckers,<sup>34</sup> found that the client's risk orientation was significantly related to the position adopted by the tax consultant but in a surprisingly counterintuitive fashion. That is, the more timid the taxpayer the more aggressive the consultant and the more aggressive the taxpayer, the less strong the position recommended by the consultant. If this result is confirmed, it suggests that tax professionals may serve to moderate taxpayer behaviour. However, this may or may not be desirable from a compliance view depending on whether most taxpayers are risk adverse or risk seeking and on whether these biases systematically vary with avoidance opportunities.<sup>35</sup>

Klepper, Mazuar and Nagin<sup>36</sup> developed an econometric model to empirically test the influence of tax professionals upon the compliance behaviour of taxpayers. The findings revealed that the model predicts that an expert's participation will discourage non-compliance on legally unambiguous income sources but encourage non-compliance on ambiguous sources. The model further indicated that the size of the enforcer/ambiguity-exploiter influence will be directly related to the quality of the evasion opportunity. The warning that comes with this result is that imposing severe penalties to counter this may well increase the price of tax professionals who need to recover that additional cost, thereby impacting upon the positive compliance effect of tax professionals who become more expensive.

A further econometric model of tax preparation mode and tax compliance that distinguishes amongst different tax preparer types was developed by Erard.<sup>37</sup> The results of this study found that the use of tax practitioners, particularly CPA's and tax lawyers was associated with increased levels of non-compliance. In particular, substantial differences in compliance characteristics were reported amongst the three categories of tax preparers. (CPA and Lawyer, Non-CPA and Lawyer and self -prepared). The non-compliance on returns prepared by CPA and lawyers tended to be larger in frequency, average level, and variance as opposed to the returns from the other two categories. It is noted however, that the mixed findings may also be the result of differences in observed taxpayer characteristics across the three categories of tax returns (i.e. high income earners associated with CPA's and lawyers) as indicated in prior econometric studies.

The results of Erard's study were also used to predict the change in non-compliance if there was a change in tax preparer. It was discovered that non-compliance by taxpayers was 4 ½ times larger with CPA's and lawyers than it would have been if they had self- prepared whereas, with non-CPAs and lawyers it would have been only 15 per cent higher.<sup>38</sup> Clearly CPA's and lawyers were much more aggressive with their reporting practices than other types of preparers. From a tax policy perspective, this outcome can have negative consequences for both tax equity and efficiency and suggests that certain tax preparers should perhaps be targeted from an audit perspective.

A micro-economic analysis of the decision to seek tax assistance and its implications for compliance was conducted in a later study by Erard.<sup>39</sup> The results indicated that deliberate reporting violations are more likely when taxpayers choose to prepare their own returns. However, when such violations

---

<sup>34</sup> William A Duncan, David W LaRue and Philip M J Reckers, 'An Empirical Examination of the Influence of Selected Economic and Non-Economic Variables on Decision Making By Tax Professionals' (1989) 2 *Advances In Taxation* 91.

<sup>35</sup> Ibid 102.

<sup>36</sup> Steven Klepper, Mark Mazur and Daniel Nagin, 'Expert Intermediaries and Legal Compliance: The Case of Tax Preparers' (1991) 34(1) *The Journal of Law and Economics* 205.

<sup>37</sup> Brian Erard, 'Taxation with Representation: An Analysis of the Role of Tax Practitioners in Tax Compliance' (1993) 52 *Journal of Public Economics* 163.

<sup>38</sup> Ibid 191.

<sup>39</sup> Brian Erard, 'Self-selection with measurement errors. A microeconomic analysis of the decision to seek assistance and its implications for tax compliance' (1997) 81 *Journal of Economics* 319, 355.

are present their magnitude tends to be larger when paid assistance has been employed. The findings were consistent with the prevailing view at the IRS during the 1980s that not all tax practitioners were doing their part to ensure compliance with the tax laws. Importantly, it was also concluded that the high degree of legal ambiguity tends to reduce the effectiveness of penalties and makes the system more vulnerable to exploitation.

In a review and synthesis of the literature relating to tax accountants judgement/decision making (JDM) up to the late 1990s' in the US, Roberts<sup>40</sup> indicated that five categories of factors affected tax accountants JDM. These included; cognitive and effective psychological factors, economic risks and rewards in the external environment, task inputs, cognitive processing and task outputs. The findings indicated that amongst other factors, tax accountants' personal factors, economic and environmental risk of audit and penalties and client risk preference were all significant. These results confirmed that tax accountants were subject to both internal and external factors which ultimately impacted upon their compliance attitudes and decisions.

A further review of the literature, by Roberts<sup>41</sup> revealed important findings with regard to client risk preference in a number of studies. For example, three other studies of tax accountants decisions Cloyd (1995),<sup>42</sup> Cuccia et al (1995)<sup>43</sup> and Schisler (1994)<sup>44</sup> all indicated a tendency to recommend more aggressive positions when taxpayers are described as more aggressive (risk seeking). In contrast Duncan et al (1989)<sup>45</sup> indicated that tax accountants encourage aggressive positions more for clients who have a tax minimization goal but are described as conservative (risk averse/neutral) than for clients that do not need persuading. Accordingly, the results suggest that the risk attitudes of taxpayers themselves will be critical in determining what type of advice is ultimately provided by tax professionals.

Further to the above factors impacting upon tax compliance has been some evidence on the issue of precise verses ambiguous tax rules. An empirical study conducted by Spilker, Worsham and Prawitt<sup>46</sup> looked into the issue of tax agents' advice provided both at the planning stage and the compliance stage of tax transactions. Three main findings were made. Firstly, when ambiguity was manipulated tax professionals will interpret tax law to the benefit of the client. Secondly, tax professionals are more sensitive to the level of aggressiveness involved in recommending client preferred positions in the planning context as opposed to the compliance context. Thirdly, tax professionals utilize tax law precision to support aggressive client preferred positions in the tax planning context. Consequently, to the extent policy makers write ambiguous tax rules they may be successful at frustrating tax planning opportunities but it may also have the undesirable effect of increasing aggressive reporting positions regarding tax compliance.

---

<sup>40</sup> Michael L Roberts, 'Tax Accountants' Judgment/Decision-Making Research: A Review and Synthesis' (1998) 20(1) *The Journal of the American Taxation Association* 78.

<sup>41</sup> Ibid 96.

<sup>42</sup> C Bryan Cloyd, 'The Effects of Financial Accounting Conformity on Recommendations of Tax Preparers' (1995) 17(2) *The Journal of the American Taxation Association* 50.

<sup>43</sup> Andrew D Cuccia, Karl Hackenbrack and Mark W Nelson, 'The Ability of Professional Standards to Mitigate Aggressive Reporting' (1995) 70(2) *The Accounting Review* 227.

<sup>44</sup> Dan L Schisler, 'An experimental examination of the factors effective tax preparers aggressiveness - A prospect theory approach' (1994) 16(2) *The Journal of the American Taxation Association* 124.

<sup>45</sup> Duncan, LaRue and Reckers, above n 34, 93.

<sup>46</sup> Brian C Spilker, Ronald G Worsham Jr and Douglas F Prawitt, 'Tax Professionals' Interpretations of Ambiguity in Compliance and Planning Decision Contexts' (1999) 21(2) *The Journal of the American Taxation Association* 75.

Bobek et al<sup>47</sup> specifically focused on the issue of tax ethics and how this impacted upon compliance. In an examination of both tax partners and non-partner tax practitioners, the findings indicated that tax partners rated their ethical environment as stronger than non-tax partner practitioners. The evidence also indicated that non-partner tax practitioners perceived certain ethical dilemmas at a higher rate. The results confirm a divide between practitioner types and importantly the impact of tax practitioner ethics upon compliance behaviour. A further study by Bobek et al<sup>48</sup> examined how the role of client advocacy influenced tax professionals' decision processes and outcomes. The empirical results revealed that client characteristics influence tax professionals' advocacy attitudes. In particular, tax professionals may be unintentionally influenced by client attributes when making judgements and may have difficulty in separating their advocacy and evidence evaluation roles. Clearly this has serious implications for compliance in that tax professionals could be swayed by taxpayers in regards to how taxpayers want to be represented.

Overall, prior studies have highlighted that the role of tax professionals in the tax system is a vital one. Luscombe<sup>49</sup> supports this notion and indicated that in the US, tax professionals should be expected to provide services beyond compliance. Luscombe notes that as enforcers of the tax law, tax professionals should not feel pressure to do things against their better judgement. Luscombe also points out that, tax professionals would probably welcome a few new rules that assist them in taking a stance against transactions in which they were uncomfortable but which they also had trouble showing the client the clear dangers that lurked should the transaction be undertaken. By the same token, tax professionals should be able to think creatively to help solve business problems that happen to have favourable tax ramifications and be utilised effectively in assisting both individuals and businesses carry out their tax obligations.<sup>50</sup>

### **The Influence of Tax Professionals on Taxpayer Compliance based on Taxpayers' Views**

In contrast, to studies conducted on tax professionals themselves are those studies that have been based on the views of taxpayers. For example, a study by Reinganum and Wilde<sup>51</sup> investigated both the positive and negative effects of engaging a tax practitioner. There was evidence in 1979, based on IRS data, that 44.2 per cent of individual returns were self-prepared and that these returns accounted for 22.8 per cent of detected non-compliance. Whereas returns prepared with third party assistance accounted for 55.8 per cent of filings and 77.2 per cent of detected non-compliance. The authors developed an econometric model (formulas listing a number of assumptions) that aimed to characterise the equilibrium reporting behaviour of taxpayers (with and without a tax practitioner) and the enforcement behaviour of the tax agency (with respect to taxpayer filed and tax practitioner filed returns).

The findings revealed that the effect of tax practitioners on the voluntary reporting behaviour of taxpayers and on the enforcement behaviour and expected net revenues of the reporting agency can be quite complex. For the tax agency the use of tax practitioners results in greater efforts at detection by the tax authority. However, depending on the variety of the parameters, the use of tax practitioners can result in more or less compliance in equilibrium and higher or lower expected net revenue to the tax agency. It was concluded that the tax agency generally preferred taxpayers to

<sup>47</sup> Donna D Bobek, Amy M Hageman and Robin R Radtke, 'The Ethical Environment of Tax Professionals: Partner and Non-Partner Perceptions and Experiences' (2010) 92 *Journal of Business Ethics* 637.

<sup>48</sup> Donna D Bobek, Amy M Hageman and Richard C Hatfield, 'The Role of Client Advocacy in the Development of Tax Professionals Advice' (2010) 32(1) *Journal of the American Accounting Association* 25.

<sup>49</sup> Mark A Luscombe, 'Can Tax Professionals Be Creative without Being Abusive?' (2004) 82(9) *Taxes* 3.

<sup>50</sup> Ibid 4.

<sup>51</sup> Jennifer F Reinganum and Louis L Wilde, 'Equilibrium Enforcement and Compliance in the Presence of Tax Practitioners' (1991) 7(1) *The Journal of Law, Economics and Organisation* 163.

prepare their own returns but where tax practitioner efficiencies were sufficiently large, taxpayers would engage a tax practitioner instead.<sup>52</sup>

A further US empirical study examining taxpayer preference for tax advice was conducted by Hite and McGill.<sup>53</sup> Employing a national survey of US taxpayers the experiment investigated whether taxpayers agreed with tax preparers advice in ambiguous situations, that varied the type of tax preparer recommendation (i.e. aggressive or conservative), probability of audit (i.e. high or low) and whether there would be a severe penalty. The findings revealed that taxpayers on average do not have a preference for aggressive tax advice. Instead, most taxpayers expressed a desire for the filing of an accurate return. In particular, the taxpayers tended to disagree with aggressive advice and agree with conservative advice. Overall the literature positing cautious taxpayer behaviour under uncertainty was supported and no evidence was found supporting a general taxpayer demand for aggressive tax advice.

This particular issue of aggressive tax planning/advice was also the focus of a more recent Australian empirical study conducted by Murphy.<sup>54</sup> Murphy's study investigated how high risk taxpayers and high risk tax practitioners form their partnerships, by examining aggressive taxpayers' attitudes and perceptions of the Australian tax system. The results of a series of independent t-tests indicated that there were a number of important differences between the distinct groups of aggressive and non-aggressive taxpayers. Further analysis revealed the variables which most effectively differentiated aggressive taxpayers from non-aggressive taxpayers. One of the major suggestions put forward from the study for dealing with the issue of aggressive tax planning, was the development of formal guidelines and accreditation and registration procedures for the professional conduct of tax advisors and practitioners.<sup>55</sup> Since this study the government has introduced professional and ethical standards for tax practitioners in Australia as set out in the Code of Professional Conduct in the *Tax Agents Services Act 2009*.<sup>56</sup> However, the effectiveness of this legislation upon the behaviour of tax practitioners is yet to be evaluated.

## THE RESEARCH QUESTIONS AND HYPOTHESIS DEVELOPMENT

Based on the literature reviewed it is noted that there are a limited number of Australian empirical studies which have gauged individual taxpayers' perceptions regarding the influence of tax professionals upon their compliance behaviour.<sup>57</sup> The literature also indicates that both tax morale/ethics are an important variable when it comes to following tax professionals' advice.<sup>58</sup> Consequently, this study aims to fill this need and explore whether or not a relationship exists between the type of advice (including aggressive and conservative tax advice) provided by tax professionals and the compliance behaviour of Australian individual taxpayers. Uniquely, this study

---

<sup>52</sup> Ibid 180.

<sup>53</sup> Peggy A Hite and Gary A McGill, 'An Examination for Taxpayer Preference for Aggressive Tax Advice' (1992) 45(4) *National Tax Journal* 389.

<sup>54</sup> Murphy, above n 10, 307.

<sup>55</sup> Ibid 324.

<sup>56</sup> See *Tax Agents Services Act 2009* (Cth) pt 3 div 30 ('*The Code of Professional Conduct*').

<sup>57</sup> Richardson and Sawyer, above n 3, 212. The authors indicated that only three studies have originated outside of the US since 1985: Tomasic and Pentony (Australia, 1991); Brooks and Doob (Canada, 1990); Hassledine, Kaplan and Fuller (New Zealand, 1994). It is noted more studies have come out of the US since then: see, eg, Bobek, Hageman and Radtke, above n 47. A recent Australian study considered the views of tax professionals: Marshall, Smith and Armstrong, above n 33.

<sup>58</sup> See Torgler and Schneider, above n 20; Kornhauser, above n 22; Juan Molero and Francesc Pujol, 'Walking Inside the Potential Tax Evader's Mind: Tax Morale Does Matter' (2012) 105(2) *Journal of Business Ethics* 151-162; Michael Wenzel, 'Motivation or rationalisation? Causal relations between ethics, norms and tax compliance' (2005) 26(4) *Journal of Economic Psychology* 491-508.

will examine whether the behaviour of a sample of both compliant (generally high tax morale/ethics) and non-compliant (generally low tax morale/ethics) individual taxpayers' were influenced by the choice of, advice from and relationship with their tax professionals.

### **Specific Research Questions and Hypothesis**

In ascertaining the influence of tax professionals upon individual taxpayers' compliance behaviour there were three specific relationships to be tested where compliance/non-compliance per se, was the dependent variable. The independent variables included; first, the reasons for tax professional representation, second, the preference for aggressive or conservative tax advice when faced with an ambiguous tax law issue and third, the preference to retain or terminate tax professional representation if unsatisfied with their advice.

The testing of these relationships can be phrased as the main research questions (RQ) or hypotheses (H). The possible relationship between these variables and taxpayers' compliance attitudes and behaviours was considered in the context of three main research questions (RQ) and their related hypotheses (H) arising from a review of the literature.

The specific research questions (RQ) and hypothesis (H) to be addressed in this study are:

- RQ 1 Is there a relationship between the reasons taxpayers engage tax professionals and their own compliance behaviour? (Survey Q7 and Q20)  
*H1 There is a relationship between the reasons taxpayers engage tax professionals and their own compliance behaviour.*
- RQ 2 Is there a relationship between taxpayers' preference for aggressive or conservative tax advice from their tax professionals when faced with ambiguous tax law and their own compliance behaviour? (Survey Q7 and Q 21a, Q7 and Q22a)  
*H2 There is a relationship between taxpayers' preference for aggressive or conservative tax advice from their tax professionals when faced with ambiguous tax law and their own compliance behaviour.*
- RQ 3 Is there a relationship between taxpayers retaining/terminating their client/advisor relationship based on the tax advice they receive from their tax professionals and their own compliance behaviour? (Survey Q7 and Q 21b, Q7 and Q22b)  
*H3 There is a relationship between taxpayers retaining/terminating their client/advisor relationship based on the tax advice they receive from their tax professionals and their own compliance behaviour.*

### **RESEARCH METHODOLOGY**

In order to address the research questions and hypothesis posed above, a survey instrument was developed and four questions relating specifically to tax professionals (see Appendix) that formed the thrust of this study were extracted for analysis. The details of the survey instrument, the evader and non-evader samples and the statistical test subsequently employed in the data analysis, follows.

## The Survey Instrument

The entire survey instrument comprised six sections including 30 questions,<sup>59</sup> of which there were many parts to most questions and space provided at the end for comments. As indicated, for the purposes of this study only four of the thirty questions that specifically related to tax professionals (Q19-Q22) were investigated. A five point likert scale was employed with scales ranging from definitely not (1) to definitely yes (5) and moderate scores found in between the two extremes. Ajzen and Fishbein<sup>60</sup> argued that a number of studies administered on different occasions provide evidence that the standard attitude scales are highly reliable in measuring the strength of beliefs and intentions. In particular Ajzen and Fishbein have cited other studies, such as, Czaja and Blair<sup>61</sup> which have reported test-retest reliability greater than 0.95 for the “likely –unlikely scale.”

## The Survey Sample - Evader Group

A mail-out version of the survey was conducted for a random selection of individual taxpayers labelled the evader group (i.e. non-compliant taxpayers). The sample frame was to be those individual taxpayers that, according to ATO records, had lodged tax returns for three previous income tax years, including 2004, 2005 and 2006 and had been audited and subjected to a penalty. In accordance with the researcher’s specifications, tax evaders were randomly selected based on the following criteria; age, gender, marital status, agent prepared or not, location, (which Australian state/territory) occupation and the level of income, all of which could be determined from their tax returns. The other important demographic variables relevant to a wider study which were indirectly identified were the educational level of those taxpayers given their occupational groups, nationality based on residence and also that they had lodged tax returns for the years in question.

The sample population was 700 records for this evader group. Given an expected response rate of 25–30 per cent, this number would result in a sample size of at least 150–200 respondents which would be sufficient in terms of the credibility of the results.<sup>62</sup> Names and addresses of those selected were only known to the (ATO). Understandably due to the privacy provisions, the ATO was not willing to allow the researcher direct access to taxpayers’ details. To satisfy this condition the surveys were supplied by the researcher to the ATO who conducted the distribution of the surveys to the evader sample. The survey responses were then received by the researcher directly at the University. Such an approach maintained taxpayers’ privacy in that neither the researcher, nor the ATO, could match taxpayers’ details to completed surveys. As the study was conducted in conjunction with the ATO, it was considered that this approach would also improve response rates. The actual response rate received for this study was (174/636 effective distributions = 27.4%). Other previous tax

---

<sup>59</sup> Some of the questions in the survey were adopted from a study into tax scheme investors: Kristina Murphy, ‘Regulating more effectively: The relationship between procedural justice, legitimacy and tax non-compliance’ (Paper presented at the Centre for Tax System Integrity, Australian National University, July 2003).

<sup>60</sup> Icek Ajzen and Martin Fishbein, *Understanding Attitudes and Predicting Social Behaviour*, Prentice-Hall, Englewood Cliffs New Jersey, (1980).

<sup>61</sup> Ronald Czaja and Johnny Blair, *Designing Surveys: A Guide to Decisions and Procedures* (Pine Forge Press, 1996).

<sup>62</sup> In terms of representativeness of samples to population, a sample of 150 people would describe a population of 15000 or 15 million with virtually the same degree of accuracy. On this basis, it was determined that somewhere between 150-300 usable responses for each group (evader and non-evader) would be desirable for this study given the taxpaying population in Australia: Floyd J Fowler Jr, *Survey Research Methods* (Sage Publications, 2<sup>nd</sup> ed, 1993).

compliance studies indicate that a response rate of anything between 25%- 30% is acceptable in tax surveys.<sup>63</sup>

### The Survey Sample – Non-evader Group

With respect to drawing a sample from the general population, in the absence of ATO support, it was considered that a market research company could be approached to perform this task. The particular market research company which had access to a large database of people from the general population identified via demographical details was able to distribute an electronic version of the survey instrument to potential participants. Given the required selection criteria (i.e. specific demographics that were representative of the Australian taxpaying population) the market research company was able to select a sample of 300 individual taxpayers labelled as non-evaders (i.e. compliant taxpayers). That is, it was assumed that there were few if any, tax evaders in this group, given the likelihood of this occurring being small. Every person on the data base of the market research company also had the same probability of being selected given the cross section of taxpayers required for the sample. This sample was generally representative of the Australian population according to figures released by the Australian Bureau of Statistics (ABS).<sup>64</sup> Taxpayer privacy was maintained at all times, as no names or address were released to the researcher given it was an anonymous survey.

### Selected Statistical tests

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 various categorical variables (e.g. taxpayers' compliance behaviour against taxpayers' preference for aggressive/conservative tax advice from their advisors). 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>65</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>66</sup> For the purpose of this analysis the chi-square statistical test was chosen to investigate the relationship between selected compliance variables and the compliance behaviour of both the evader and non-evader groups.

The independent variables investigated in this study included; survey Q19 was a tax agent engaged?, survey Q20 what was the main reason for engaging a tax agent?, survey Q21 tax agents advice of *not* to claim an ambiguous deduction and subsequent retention of tax agent and Q22 tax agents advice to claim an ambiguous deduction and subsequent retention of tax agent, were statistically analysed against Q7 compliance behaviour (i.e. compliant/non-compliant). These questions represented the thrust of this study. The variables employed were tested for statistical significance at the 5 per cent level.

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

<sup>63</sup> See, eg, above n 57, for response rates of 30 per cent (Murphy), 22 per cent (Hasseldine) and 29 per cent (Oxley).

<sup>64</sup> See <[www.abs.gov.au/AUSSTATS/abs@nsf](http://www.abs.gov.au/AUSSTATS/abs@nsf)>.

<sup>65</sup> Julie Pallant, *SPSS Survival Manual: A step by step guide to data analysis using SPSS* (Allen and Unwin Publishers, 2<sup>nd</sup> ed, 2005).

<sup>66</sup> *Ibid* 286.

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 per cent of the expected frequencies are smaller than five or when any expected frequency is less than one.<sup>67</sup> Cross tabulation (SPSS output) of the chi - square results was examined to determine the relationship between the dependent and independent variables while the frequencies and percentage breakdown (including mean and standard deviations) of responses to selected questions were also examined to enable comparisons with other studies.<sup>68</sup>

The following section comprises the descriptive statistics and demographic details of both the evader and non-evader samples (See Table 1 below).

### Descriptive Statistics - Demographics (Survey Questions 23-30).

**Table1: The Demographics of the Evaders and Non-evaders**

Survey Question	Evader	Non-Evader
	Number (%)	Number (%)
<b>Q23 Gender</b>		
Male	116 (67)	157 (52)
Female	57 (33)	143 (48)
<b>Total</b>	<b>n=173 (100)</b>	<b>n=300 (100)</b>
<b>Q24 Age</b>		
18-19	4 (2)	8 (3)
20-29	23 (13)	78 (26)
30-39	31 (18)	49 (17)
40-49	43 (26)	79 (26)
50-59	50 (29)	73 (24)
60 and over	20 (12)	13 (4)
<b>Total</b>	<b>n=171 (100)</b>	<b>n=300 (100)</b>
<b>Q25 Ethnicity</b>		
European Origin	34 (20)	40 (14)
British Origin	24 (14)	29 (10)
Asian Origin	18 (10)	15 (5)
Australian	86 (49)	206 (68)
Other	12 (7)	10 (3)
<b>Total</b>	<b>n=174 (100)</b>	<b>n=300 (100)</b>

<sup>67</sup> Donald R Cooper and Pamela S Schindler, *Business Research Methods* (McGraw-Hill, 8<sup>th</sup> ed, 2003) 537.

<sup>68</sup> See, eg, A Birch, T Peters and Adrian J Sawyer, 'New Zealanders Attitude to Tax Evasion: A Demographic Analysis' (2003) 9 *New Zealand Journal of Taxation Law and Policy* 65-109; George Gilligan and Grant Richardson, 'Perceptions of tax fairness and tax compliance in Australia and Hong Kong - a preliminary study' (2005) 12(4) *Journal of Financial Crime* 1-13; Ian G Wallschultzky, 'Possible Causes of Tax Evasion' (1984) 5(4) *Journal of Economic Psychology* 371-384; Lin Mei Tan, '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.



<b>Q26 Highest level of Education</b>		
Year 10 (or below)	12 (7)	48 (16)
Year 11	6 (3)	24 (8)
Year 12	12 (7)	36 (12)
Certificate	16 (9)	71 (24)
Advanced Diploma/Diploma	25 (15)	33 (11)
Bachelor Degree	76 (45)	59 (20)
Post Graduate Degree	24 (14)	29 (9)
<b>Total</b>	<b>n=171 (100)</b>	<b>n=300 (100)</b>
<b>Q27 Occupational Group</b>		
Manager	31 (18)	31 (10)
Professional	48 (28)	56 (19)
Associate Professional/Education	21 (12)	39 (13)
Tradesperson	10 (6)	30 (10)
Clerical sales and service	24 (14)	96 (32)
Production and Transport	16 (9)	20 (7)
Labourer	13 (8)	21 (7)
Not working	8 (5)	7 (2)
<b>Total</b>	<b>n= 171 (100)</b>	<b>n=300 (100)</b>
<b>Q28 Income level</b>		
Less than \$10,000	2 (1)	12 (4)
\$10,000	0 (0)	11 (4)
\$20,000	8 (5)	33 (11)
\$30,000	5 (3)	44 (15)
\$40,000	13 (7)	68 (23)
\$50,000	14 (8)	39 (13)
\$60,000	13 (7)	26 (8)
\$70,000	13 (7)	28 (9)
\$80,000	14 (8)	11 (4)
\$90,000	17(10)	13 (4)
\$100,000	16 (9)	6 (2)
\$110,000	16 (9)	1 (0.3)
\$120,000	15 (8)	6 (2)
\$130,000	3 (4)	0 (0)
\$140,000+	25 (14)	2 (0.7)
<b>Total</b>	<b>n =174 (100)</b>	<b>n=300 (100)</b>
<b>Q29 Location</b>		
NSW	56 (32)	96 (32)
VIC	49 (28)	77 (26)
QLD	33 (19)	57 (19)
WA	14 (8)	25 (8)
SA	15 (9)	30 (10)
TAS	3 (2)	6 (2)
NT	0 (0)	3 (1)
ACT	3 (2)	6 (2)

<b>Total</b>	<b>n=173 (100)</b>	<b>n=300 (100)</b>
<b>Q30 Last Tax Return Lodged</b>		
2005/06 year	162 (96)	269 (90)
2004/05 year	6 (4)	23 (7)
2003/04 year	0 (0)	2 (0.7)
2002/03 year	0 (0)	0 (0)
2001/02 year	0 (0)	1 (0.3)
Not lodged in these last five years	0 (0)	5 (2)
<b>Total</b>	<b>n =168 (100)</b>	<b>n=300 (100)</b>

### Demographic Profile of the Evader Sample

The demographic profile of the evader sample of 174 was not totally representative of the Australian population as expected, given that evaders are a minority group; yet it produced useful data to assist in the analysis of the research questions posed. In Table 1 above, Question 26 regarding education level indicated that a large number of those surveyed had obtained an advanced diploma 25 (15 per cent) or had completed a bachelor degree 76 (45 per cent). This is higher than the average educational level of the Australian population which is more like year 12 level. Question 27 of the survey, categorised occupational groupings according to figures derived from the Australian Bureau of Statistics (ABS).<sup>69</sup> The figures reveal that 24 (14 per cent) fell into the clerical, sales and service industry. Interestingly, a further 48 (28 per cent) 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 21 (12 per cent) included the likes of teachers, academics and social workers. Question 23 of the survey indicated that the gender breakdown of the sample was also unrepresentative of the Australian population with males 116 (67 per cent) and females 57 (33 per cent) of respondents. Survey Question 29 revealed where evaders respondents were located in Australia and not surprisingly, the majority came from the more populated states of NSW 56 (32 per cent) and Victoria 49 (28 per cent).

The remaining demographic questions posed in the survey provided interesting results. In particular, question 24 revealed that the majority 147 (86 per cent) of evader respondents fell between the 20-59 year old age-bracket generally indicating a stronger commitment to compliance in more senior citizens. Question 25 indicated that the sample was fairly representative of the Australian population with 86 (49 per cent) 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>70</sup> On the other hand, in question 28 the majority of respondents 106 (62 per cent) earned \$80,000 or more per annum with a large number 25 (14 per cent) earning more than \$140,000 a year. This salary range is unrepresentative of the Australian population and clearly indicated that evaders tended to be in the higher income bracket. However, given that the sample incorporated high income taxpayers' selected for audit activity, there was likely to be an indirect income bias. Question 30 indicated that the majority of respondents 162 (96 per cent) lodged their latest (2005-06) tax return.

### Demographic Profile of the Non-evader Sample

Overall the demographic profile of the non-evader sample was fairly representative of the Australian population and consequently the results could be more easily extrapolated. The sample revealed that

<sup>69</sup> See <[www.abs.gov.au/AUSSTATS/abs@nsf](http://www.abs.gov.au/AUSSTATS/abs@nsf)>.

<sup>70</sup> See <[www.abs.gov.au/AUSSTATS/abs@nsf/web+pages/statistics](http://www.abs.gov.au/AUSSTATS/abs@nsf/web+pages/statistics)>.

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 the \$6,000 tax-free threshold were also included. In Table 1 above, Question 26 regarding education level indicated that a large number of those surveyed had obtained a leaving certificate 71 (24 per cent) or had completed a bachelor degree 59 (20 per cent). However, this is higher than the average educational level of the Australian population which as indicated, is more like year 12 level. Question 27 revealed that the majority 96 (32 per cent) fell into the clerical, sales and service industry, a further 56 (19 per cent) indicated they were in the professional category. The sub-group of associate professionals/education indicated 39 (13 per cent) while question 29 revealed that the majority of respondents were located in the more populated states of NSW 96 (32 per cent) and Victoria 77 (26 per cent). Finally, question 23 gave the gender breakdown of the sample which was representative at males 157 (52 per cent) and females 143 (48 per cent) of respondents.

Of the remaining demographic questions, question 24 revealed that the majority 279 (93 per cent) of non-evader 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 (including completing a survey on-line). Question 25 also indicated that the sample was representative of the Australian population with 206 (68 per cent) of respondents indicating that they were born in Australia. Likewise, in question 28 the majority of respondents 184 (62 per cent) earned between \$20,000 and \$50,000 per annum. This salary range was more representative of the majority of the Australian population during the time period examined. Finally, question 30 indicated that the majority of respondents 269 (90 per cent) lodged their latest (2005-06) tax return as expected.

## DISCUSSION AND ANALYSIS OF RESERCH FINDINGS

An analysis of the research findings began with a breakdown of the frequencies and percentages (with Mean and Standard Deviation provided) of the four survey questions examined. Initially this included, the *dependent variable*, survey question 7 (penalty imposed/penalty not imposed), which indicates whether respondents were consequently classified as compliant or not compliant. This was followed by the *independent variables* including; tax agent representation Q19, main reason for using a tax agent Q20, tax agents conservative advice on ambiguous expense item Q21a, retention of tax agent based on conservative advice Q21b, tax agents aggressive advice on ambiguous expense item Q22a, and retention of tax agent based on aggressive advice Q22b. The combined results for both the evader and non-evader samples are provided in Tables 2-8 below.

**Table 2: Q7 Personal Penalty/Offence**

Respondents Reasons	Evaders Penalty imposed (Yes)	Evaders Penalty not imposed (No)	Non- Evaders Penalty Imposed (Yes)	Non- Evaders 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>	150(87%)	24 (13%)	26 (9%)	274(91%)
1 By overstating deductions, rebates, tax offsets etc	31		1	
2. By understating income	42		10	
3. Defrauding or deceiving the Commonwealth	8		3	
4. Failing to withhold and remit tax	13		0	
5.Other	57		12	

In Table 2 above, survey question 7 asked respondents whether they had been fined or penalised in some way by the ATO, and admitted evasion (i.e. non-compliant) was confirmed in 150 cases (87 per cent) in the evader sample. For the majority of 42 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 also high with 31 cases, however there were 57 cases in the “other” category which accounted for nearly one third of all cases. Interestingly, there were 8 cases of criminal offences of defrauding or deceiving the Commonwealth while in 24 cases (13 per cent) of respondents falsely denied that they were penalised by the ATO (i.e. stated compliant).<sup>71</sup> However, the fact that there was evidence of admitted evasion by the majority of participants (87 per cent in this case) further supports the claim that evaders are prepared to reveal details of their non-compliance if they feel comfortable with the anonymity of the survey instrument.<sup>72</sup>

According to Table 2 in the non-evader sample positive responses were received in 26 cases (9 per cent). For the majority of 10 cases, the main type of evasion was also under-stating income. Overstating deductions, rebates and offsets was minimal with only 1 case, but 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 the majority of cases (274, 91 per cent) were not penalised by the ATO. There was evidence of admitted evasion, which was probably a little higher than expected for this sample at (26, 9 per cent). In the data analysis which follows Q7 - exposure to penalty was used as the dependent variable when determining whether taxpayers were either compliant or non-compliant. Consequently, 274 of the 300 taxpayers in the general population sample were confirmed as compliant, while there were 26 cases of non-compliance for the purposes of this analysis. Other researchers<sup>73</sup> have also found that some compliers admitted to non-complaint behaviour whereas some non-compliers deny underreporting their income. However, Neuman<sup>74</sup> found that self-administered mail or web-based surveys receive more truthful responses as opposed to telephone or personal interviews. Overall on this basis, the responses were taken as valid.

**Table 3: Q19 Tax agent or advisor representation**

Respondents Opinion	Evader Number (%)		Non-Evader Number (%)	
	Yes	No	Yes	No
Q19 /Did you rely on a tax agent or advisor in preparing your tax return?	160 (92)	14 (8)	192 (64)	108(36)

It is evident from Table 3 above that a very high percentage (92 per cent) of evaders, were represented by tax professionals which is above the national average of 75 per cent.<sup>75</sup> This may have been due to the fact that many evaders were also high income earners and worked in managerial or professional occupations and could afford professional tax representation. It is also likely that this group of

<sup>71</sup> The ATO had confirmed that all taxpayers in the evader sample had been audited and penalised.

<sup>72</sup> Karyl A Kinsey, ‘Theories and Models of Tax Cheating’ (Working Paper No 8717, American Bar Foundation, 1988).

<sup>73</sup> Henk Elffers, Henry S J Robben and Dick J Hessing, ‘On measuring tax evasion’ (1992) 13 *Journal of Economic Psychology* 545.

<sup>74</sup> W Lawrence Neuman, *Social Research Methods: Qualitative and Quantitative Approaches* (Pearson Education, 2006).

<sup>75</sup> See above n 2; <[www.abs.gov.au/AUSSTATS/abs@nsf](http://www.abs.gov.au/AUSSTATS/abs@nsf)>.

taxpayers possessed more complex tax returns which required professional advice. It is also interesting to compare this to the 55 per cent of US taxpayers who are represented and which accounted for approximately 77 per cent of detected non-compliance in 1979.<sup>76</sup>

The tax professional representation of non-evaders was less than the national average at 64 per cent but given that more taxpayers in this group were on middle incomes and mostly worked in the clerical, sales and services sectors may have been a contributing factor to his result. It is also noted that as the sample size of the non-evaders who were professionally represented is less than expected any conclusions drawn in the final analysis may need to be appropriately qualified.

**Table 4: Q20/ The main reason for using a tax agent or advisor**

<b>Respondents Opinion</b>	<b>Evader Number (%)</b>	<b>Non-Evader Number (%)</b>
Q20/ What is your main reason for using a tax agent?		
1. Fear of making a mistake	35 (22)	48 (25)
2. The tax system is too complex	61 (38)	68 (35)
3. Insufficient time to prepare my own return	9 (6)	10 (5)
4. To legitimately minimise the tax I had to pay	54 (33.99)	62 (33)
5. To get a faster tax refund	1 (0.11)	4 (2)
<b>Total</b>	<b>160 (100)</b>	<b>192 (100)</b>

Table 4 above, reveals that the main reasons tax evaders had for using a tax agent were the complexity of the tax system, legally reducing the tax they had to pay and to a slightly less degree, the fear of making a mistake. Given that the Australian tax system is one of the most complex in the world,<sup>77</sup> this result is not surprising. As indicated previously, it is only human nature that a person who earns a high income in Australia and pays a lot in tax would try and reduce the amount they were paying the best way they could, the issue is whether they do it legally. The figures show that over half of the evaders indicated this intention albeit their actions were discovered to be deviant. However, the results also indicated that evaders and non-evaders were generally keen to lodge an accurate return and were concerned about errors. This finding is similar to Hite and McGill,<sup>78</sup> who found that most US taxpayers expressed a desire for filing an accurate return. Similarly in the non-evader sample, the main reasons for using a tax agent were complexity and tax minimisation with return accuracy also being important. These preliminary findings suggest that the reasons for tax agent use, does not necessarily dictate or differentiate actual compliance behaviour.

<sup>76</sup> Reinganum and Wilde, above n 51.

<sup>77</sup> See OECD Report that ranked the Australian tax system as the second most complex in the world: OECD, *Revenue Statistics 2007* (OECD Publishing, 2007).

<sup>78</sup> Hite and McGill, above n 53.

**Table 5: Q21a Tax Agents conservative advice regarding an ambiguous expense item**

Respondents Opinion	Evader Number (%)	Non-Evader Number (%)
<p><b>21.</b> Assuming you use a tax agent, you find he or she is unsure about whether one of your expenses is deductible on your tax return, as the tax law relating to this expense is unclear. Your tax agent tells you that if you claim the deduction there is a low probability that your tax return will be audited, and that if you are audited, the taxpayer penalty would be mild. After thinking about the situation, your agent advises you NOT TO CLAIM the deduction on your return.</p> <p>a. Would you agree with the advice your tax agent has given you?</p>		
1. Definitely not	5 (2.9)	10 (3.3)
2. Probably not	14 (8)	27 (9)
3. Don't know	14 (8)	60 (20)
4. Probably yes	67 (38.5)	109 (36.3)
5. Definitely yes	74 (42.5)	94 (31.3)
<b>Total</b>	<b>174 (100)</b>	<b>300 (100)</b>
Mean	4.10	3.83
Standard Deviation	1.041	1.072

The findings from Table 5 above indicate that both evaders and non-evaders alike would most probably or definitely follow the conservative advice of their tax agent with regards to claiming the ambiguous expense item. Approximately (80 per cent) of evaders would generally follow the tax agents' advice as opposed to (67 per cent) of non-evaders. Previous studies have also found that taxpayers tended to generally agree with the conservative advice of tax professionals.<sup>79</sup> However, non-evaders also expressed greater uncertainty (20 per cent) as to the advice provided when compared to evaders (8 per cent) which may not be reflective of their respective risk attitudes. Consequently, it was interesting that this particular sample of evaders were more inclined to follow the conservative advice of tax agents than the non-evaders. A possible reason for this discrepancy could be the specific deterrent effect of the audit and penalty experienced by the evaders curbed their future compliance behaviour. Certainly the preference for conservative tax advice by the non-evader sample was present albeit somewhat qualified. Nevertheless, these preliminary results reveal that there is a dependency on and trust in tax agents from taxpayers to follow a conservative position when there is uncertainty in the tax law.

**Table 6: Q21b Retention of the Tax Agent based on the conservative advice**

Respondents Opinion	Evader Number (%)	Non-Evader Number (%)
<p><b>21. b.</b> Based on your tax agent's advice NOT TO CLAIM the suspect deduction, would you continue to use this agent?</p>		
1. Definitely not	3 (1.7)	4 (0.04)
2. Probably not	17 (9.8)	30 (10)

---

<sup>79</sup> Ibid.

3. Don't know	13 (7.5)	53 (17.66)
4. Probably yes	71 (40.8)	121 (40.33)
5. Definitely yes	70 (40.2)	92 (30.66)
<b>Total</b>	<b>174 (100)</b>	<b>300 (100)</b>
Mean	4.08	3.89
Standard Deviation	1.011	0.997

The results in Table 6 above indicate that over (80 per cent) of evaders and (70 per cent) of non-evaders would retain the services of the tax agent who adopted a conservative position. Again the findings illustrate the trust placed in tax agents particularly by tax evaders. It is difficult to categorically state whether there was a (specific) deterrent effect of audit and penalty which influenced the evaders' future compliance behaviour. What is evident is that there was greater uncertainty (17.66 per cent) displayed by non-evaders in retaining the tax agent as opposed to evaders (7.5 per cent) which suggests that evaders had a greater allegiance to their particular tax agent. Generally, both categories of taxpayers indicated that they would retain the hypothetical tax professional. This supports the notion that the users of tax professionals tend to be loyal to preparers regardless of the conservative advice received as discovered in previous studies.<sup>80</sup>

**Table 7: Q22a Tax Agents aggressive advice regarding an ambiguous expense item**

<b>Respondents Opinion</b>	<b>Evader Number (%)</b>	<b>Non-Evader Number (%)</b>
<b>22. Now assume that your tax agent advises you to CLAIM the suspect deduction on your return.</b>		
a. Would you agree with the advice your tax agent has given you?		
1. Definitely not	6 (3.4)	16 (5.33)
2. Probably not	22 (12.6)	54 (18)
3. Don't know	30 (17.2)	67 (22.33)
4. Probably yes	68 (39.1)	140 (46.67)
5. Definitely yes	48 (27.6)	23 (7.67)
<b>Total</b>	<b>174 (100)</b>	<b>300 (100)</b>
Mean	3.75	3.33
Standard Deviation	1.099	1.029

Table 7 above indicates that there is a slight divergence in results in taking an aggressive tax position when advised by a tax agent for both evaders and non-evaders. While over (67 per cent) of evaders would probably or definitely still agree with the tax agents' advice only (54 per cent) of non-evaders would do so. Nearly half of all non-evaders would either probably or definitely not agree with the advice or were unsure. This finding indicates that there was support for aggressive tax advice from tax agents based on ambiguous tax rules, despite evaders' opinion of conservative advice (80 per cent; see Table 5 above) dropping to (67 per cent in Table 7). The evidence also shows that the tax morale<sup>81</sup> and ethics of evaders can come into play when presented with the opportunity for evasion, in that they were more willing to "push the boundaries" and take a risk. This also supports the notion that ambiguous tax rules may still have the undesirable effect of increasing aggressive reporting positions as found in other studies.<sup>82</sup>

<sup>80</sup> Hite and McGill, above n 53, 393.

<sup>81</sup> See, eg, Pilkington, above n 12; Torgler and Schneider, above n 20.

<sup>82</sup> Spilker, Worsham and Prawitt, above n 46, 75.

**Table 8: Q22b Retention of the Tax Agent based on the aggressive advice**

Respondents Opinion	Evader Number (%)	Non-Evader Number (%)
22. b. Based on your tax agent's advice to CLAIM the suspect deduction, would you continue to use this agent?		
1. Definitely not	9 (5.2)	12 (4)
2. Probably not	23 (13.2)	53 (17.66)
3. Don't know	24 (13.8)	63 (21)
4. Probably yes	71 (40.8)	138 (46)
5. Definitely yes	47 (27.0)	34 (11.34)
<b>Total</b>	<b>174 (100)</b>	<b>300 (100)</b>
Mean	3.71	3.43
Standard Deviation	1.152	1.034

The results in Table 8 above indicate that over (67 per cent) of evaders and (57 per cent) of non-evaders would retain the services of a tax agent who adopted an aggressive tax position. While it is evident that there was a slight drop in the number of both evaders and non-evaders definitely using the tax agent, again most would still probably do so, with only a small number of evaders (13 per cent) and non-evaders (21 per cent) being unsure. This finding would be a concern for the tax authority and provides preliminary evidence that tax agents still have a significant influence upon taxpayers' compliance behaviour. Further evidence of this potential relationship is revealed through an analysis of the statistical data which follows.

### Data Analysis

Chi-Square statistical tests, as explained in the research methodology, were employed to investigate the relationship, if any, between taxpayers' compliance behaviour in Q7 and tax professionals' representation, advice and retention Qs19-22.

**Table 9: Q19-22 Test Statistics**

The relationship between Compliance Behaviour Q7 and Q19-22	Pearson Chi-Square Evaders	Pearson Chi-Square Non-evaders
Agent representation Q19 *	( $X^2 = 94.976$ df =24 p = 0.000)	( $X^2 = 5.763$ , df = 4 p = 0.018)
Reason for agent representation Q20*	( $X^2 = 235.639$ df =88 p = 0.000)	( $X^2 = 24.650$ , df =16 p = 0.036)
Conservative tax agent advice Q21(a)	( $X^2 = 43.296$ df =32 p = 0.078)	( $X^2 = 16.747$ , df = 16 p = 0.402)
Retain or terminate agent based on conservative advice Q21(b)	( $X^2 = 35.078$ df =32 p = 0.324)	( $X^2 = 8.653$ df = 16 p = 0.927)
Aggressive tax agent advice Q22(a) *	( $X^2 = 40.701$ df =32 p = 0.139)	( $X^2 = 14.861$ df = 16 p = 0.045)
Retain or terminate agent based on aggressive advice Q22(b)	( $X^2 = 44.137$ df =32 p = 0.075)	( $X^2 = 11.967$ , df =16 p = 0.074)



Overall, statistical tests in Table 9 above revealed that having tax agent (tax professional) representation Q19 in both the evader ( $p = 0.000$ ) and non-evader ( $p = 0.018$ ) samples, produced a significant relationship with compliance behaviour Q7. In some respects, this was expected given the high rate of tax agent representation in Australia. Importantly, the reason for tax agent representation Q 20, also produced a significant relationship with compliance behaviour Q7 for evaders ( $p = 0.000$ ) and non-evaders ( $p = 0.036$ ). That is, issues of tax complexity the legitimate minimisation of tax payable and the fear of making a mistake or desire for a correct return were evident in both samples. It suggests that regardless of the individual taxpayer's risk orientation and tax morale/ethics with respect to compliance, there was nevertheless a clear need to engage tax professionals. Consequently, the reasons for tax agent use can result in different compliance outcomes, similar to that found in the study by Hite and McGill.<sup>83</sup>

However, there was no evidence of a statistically significant relationship reported for Q21(a) conservative tax advice and Q21(b) termination or retention of the tax agent, based on that advice and compliance behaviour Q7. However, there was evidence of a relationship between aggressive tax agent advice Q22 (a) and compliance behaviour Q7 in the non-evader sample ( $p = 0.045$ ). The result indicated that only non-evaders reacted to the aggressive tax advice offered, but both evaders ( $p = 0.075$ ) and non-evaders ( $p = 0.074$ ) alike chose to marginally disassociate themselves from that particular agent (i.e. a marginally significant relationship with compliance behaviour was found for Q22(b)). This finding can be contrasted with Hite and McGill who found that users of tax professionals were generally loyal to them regardless of the conservative or aggressive nature of the advice received. Importantly perhaps, the results also provide evidence that the demand for aggressive tax advice is not always initiated or supported by the taxpayer, as found in Murphy's study.<sup>84</sup>

## SUMMARY AND CONCLUSIONS

### Summary of findings

The aim of this study was to investigate whether or not there was a relationship between the advice offered by tax professionals and the compliance attitudes and behaviour of Australian individual taxpayers (both evaders and non-evaders). In particular, there was an investigation of the reasons for tax professional representation, advice, retention and termination. Overall the findings revealed that there was a statistically significant relationship between the need for engaging tax professionals and compliance behaviour generally. Consequently, the answer to RQ1 was yes and H1 was accepted. There was also evidence of a statistically significant relationship between tax professionals' aggressive advice and compliance behaviour, but only amongst non-evaders. This meant the answer to RQ2 was a qualified yes and H2 was accepted in part. However, only a statistically marginally significant relationship was discovered between tax professionals' aggressive advice and their termination and the compliance behaviour of both groups of taxpayers. Therefore, the answer to RQ3 was also a qualified yes and H3 was accepted in part. These results were found to be both consistent and inconsistent with the results of other studies regarding the impact of tax professionals' advice, retention and termination upon compliance behaviour.<sup>85</sup>

### Tax Policy Implications

Clearly tax professional representation continues to grow in Australia and is accepted largely due to issues of tax complexity and the strong desire to minimize high rates of tax payable. However, this

---

<sup>83</sup> Hite and McGill, above n 53.

<sup>84</sup> Murphy, above n 54.

<sup>85</sup> See, eg, Hite and McGill, above n 53; Murphy, above n 54.

heavy reliance on tax professionals can be unhealthy and puts pressure on the tax profession. In this sense it is important that tax simplification continues and that tax loopholes are closed so that the potential workload on tax professionals may be alleviated. The integrity of overarching principles which aim to bring about compliance with the spirit of the law as opposed to the letter of the law needs to be defended,<sup>86</sup> so as to reduce the amount of resources consumed in providing aggressive tax advice.

To address the issue of potential aggressive tax advice being provided by tax professionals, as partly found in this study, formal guidelines or accreditation procedures regarding professional conduct have been suggested.<sup>87</sup> Although these measures have been adopted in recent years,<sup>88</sup> with the aim of providing a safeguard for both tax professionals and taxpayers alike, they now need to be evaluated for their effectiveness. Likewise the suite of tax professionals' penalties<sup>89</sup> may have had some deterrent effect to curb particular behaviour, but still fails to prevent high risk tax professionals from influencing the compliance landscape.

What was encouraging in this study was some evidence of a disassociation with tax professionals who provided aggressive advice, regardless of the taxpayers' own compliance orientation. The result indicates that taxpayers may tend to be more selective in Australia when it comes to retaining or terminating a particular tax professional. This is in contrast to some overseas studies<sup>90</sup> where taxpayers have tended to trust in and retain the services of particular tax professionals' regardless of the advice given. The policy implication would be the lack of turnover of tax professionals and the risk of staying with a tax professional that becomes incompatible. For example, the dissimilarity of practitioner and taxpayer reports might be a case of mismatched objectives or lack of communication about those objectives. As demonstrated by Hite et al<sup>91</sup> and Christensen<sup>92</sup> tax professionals' and taxpayer expectations are not necessarily consistent.

### Limitations of the Study

First, as with most behavioural studies, the sample of taxpayers (particularly tax evaders) were not totally representative of the wider Australian population which makes it difficult to extrapolate the results. Nevertheless, the ATO had confirmed that the evader sample was representative of the broader adjusted population in the years chosen 2004-06. Second, as this study was only exploratory in nature the data was not subjected to more rigorous statistical analysis which would have been undertaken in a wider study. However, the fact that a very reasonable response rate was achieved in both surveys maintained the validity of the results and allows comparability with similar studies. Third as this study only focused on selected tax professional variables other compliance and demographic variables were not analysed, thereby limiting overall results. Consequently, as the survey questions only focused on "deductions", it is likely that aggressive reporting issues involving "income" may have produced different results. Finally, problems of honesty and misinterpretation in tax surveys are always present and hard to erase.<sup>93</sup>

---

<sup>86</sup> Hite and McGill, above n 51, 393.

<sup>87</sup> Murphy, above n 54, 324.

<sup>88</sup> See, eg, *The Code of Professional Conduct*.

<sup>89</sup> The promoter penalty laws were introduced in 2006: *Tax Administration Act 1953* (Cth) sch 1 div 290.

<sup>90</sup> Hite and McGill, above n 53, 393.

<sup>91</sup> *Ibid*.

<sup>92</sup> Anne L Christensen, 'Evaluation of Tax Services: A Client and Preparer Perspective' (1992) *Journal of the American Taxation Association* 326.

<sup>93</sup> Actual taxpayer behaviour is measured by hypothetical compliance behaviour. However prior research (Hite, 1988; Roberts, 1994; Hanno and Violette, 1996) indicates that hypothetical tax compliance behaviour are

## Contribution of the study and Future Research

This study has answered the call of previous tax compliance literature reviews<sup>94</sup> to conduct much needed empirical research into the impact of tax professionals upon individual tax compliance in Australia. However, as this study gauged the influence of tax professionals upon compliance from the taxpayers' perspective, it is proposed that a similar study could be undertaken from the tax professionals' perspective. In addition some of the limitations could be overcome by expanding the study to incorporate further compliance and demographic variables while focusing on specific ethical issues facing tax professionals. It is envisaged that as further data is gathered and analysed, hopefully the reasons for tax professionals' responses can be more closely explored. This should in turn result in improving the revenue authority's tax compliance strategies with regards to the role tax professionals' play in the tax system.

---

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).

<sup>94</sup> Richardson and Sawyer, above n 3; Jackson and Milliron, above n 5.

**APPENDIX**

Extract of the Tax Agent Questions in the Survey Instrument

19. Did you rely on a tax agent or advisor (tax accountant or lawyer) in preparing your most recent income tax return?

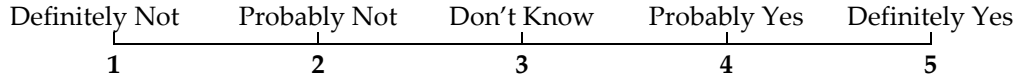
- Yes.....1--continue
- No .....2 skip to 21

20 What is your main reason for using a tax agent?

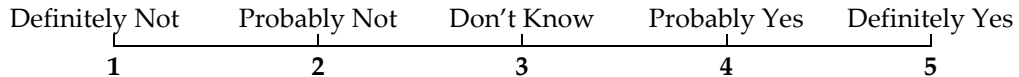
- Fear of making a mistake .....1
- The tax system is too complex.....2
- Insufficient time to prepare my own return.....3
- To legitimately minimise the tax I had to pay .....4
- To get a faster tax refund .....5

21. Assuming you use a tax agent, you find he or she is unsure about whether one of your expenses is deductible on your tax return, as the tax law relating to this expense is unclear. Your tax agent tells you that if you claim the deduction there is a low probability that your tax return will be audited, and that if you are audited, the taxpayer penalty would be mild. After thinking about the situation, your agent advises you NOT TO CLAIM the deduction on your return.

a. Would you agree with the advice your tax agent has given you?

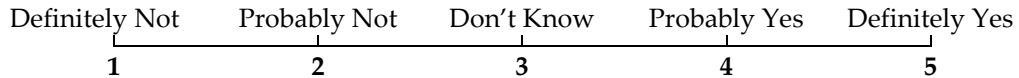


b. Based on your tax agent’s advice NOT TO CLAIM the suspect deduction, would you continue to use this agent?



22. Think again of the scenario presented above. Now assume that your tax agent advises you to CLAIM the suspect deduction on your return.

a. Would you agree with the advice your tax agent has given you?



b. Based on your tax agent’s advice to CLAIM the suspect deduction, would you continue to use this agent?

