

## Taxpayers' Perceptions of Practitioners: Finding One Who is Effective and Does the Right Thing?

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**ABSTRACT.** This paper examines Australian taxpayers' perceptions of their idealized tax practitioner as well as their perceptions of their current tax preparer. The analysis was based on survey responses from 2,040 randomly selected Australian taxpayers who completed the "Community Hopes, Fears and Actions Survey" (author, 2000). Three dimensions were identified as underlying taxpayer judgements of their idealized practitioner. A minority of the sample indicated that their ideal was a *creative, aggressive tax planning type*, a person who was well networked and familiar with tax office intelligence and enforcement priorities. A second type of idealized practitioner engaged in the *cautious minimisation of tax*. Unlike creative accountants, practitioners of this type avoided conflict, while being sophisticated about identifying opportunities to minimise tax. The most popular idealized type was the *low risk, no fuss* practitioner who was honest and risk averse. The data revealed that taxpayers are likely to find tax practitioners who have the attributes that they value most highly, but that when taxpayers' perceptions of their tax practitioner are combined with their ideals, only two substantive dimensions emerge, *tax avoidance* and *doing the right thing*. Our inability to distinguish tax practitioners who are seen to provide cautious and aggressive advice in practice has important implications for the growth of aggressive tax planning markets in the community.

**KEY WORDS:** ideal tax preparer, moral obligation, tax minimization, taxpayer-tax practitioner relationship

Tax compliance is becoming a voluntary activity for substantial segments of the population. Increasing complexity in taxation has led tax administrations to rely on individuals and companies to self-assess their tax liability (James and Alley, 1999). At the same time, increased ambiguity in tax law has allowed individuals and companies to make decisions about how much risk they wish to take in interpreting the law to suit their purposes; as well as how much ethical responsibility they feel toward interpreting the law in the spirit in which it was intended (James and Alley, 1999; McBarnet and Whelan, 1999).

In contexts where choice is exercised in relation to taxpaying behaviour, moral obligation plays an important part in explaining who complies fully with the wishes of a tax authority (Richardson and Sawyer, 2001; Smith and Stalins, 1991). This poses two questions for those interested in tax ethics. The first is a normative question and one that is fundamental to the future of tax systems: Should people feel obligated to pay their tax, and do governments have a right to educate and persuade them to feel such an obligation? The second question is an explanatory question: How is a sense of moral obligation promoted and nurtured in the community, who are the key players, and what roles do they play in influencing taxpayer behaviour?

This paper addresses the second of these questions and focuses attention on tax practitioners (sometimes referred to as tax preparers or tax agents depending on the tax jurisdiction). Internationally, tax practitioners are important gatekeepers to the tax system for taxpayers (Hite and McGill, 1992; Newberry et al., 1993; Tan,

1999). As tax systems grow in their complexity, taxpayers look to professionals conversant in tax law for expert advice. Research has highlighted not only taxpayer reliance on tax practitioners, but also the influence tax practitioners exert over the compliance behaviour of taxpayers (Marshall et al., 1998; Schisler, 1996; Tan, 1999). Some research has pointed to lower compliance and more aggressive avoidance strategies among taxpayers who use a tax preparer (Erard, 1993; Hite and Sawyer, 1998; Klepper and Nagin, 1989), a finding that has fuelled debate about the role that tax professionals play "as government agents [collecting tax] or client advocates" (Hansen et al., 1992; Jackson and Milliron, 1989; compare Rosen, 1999 with Grbich, 2002). Further fuel has been added to this fire by the recent spate of corporate collapses such as Enron that have called into question more broadly the ethical practices found in some quarters of the accountancy profession. Locally, in Australia, a government enquiry into mass marketed schemes has raised questions about taxpayer vulnerability when taxpayers are exposed to the aggressive promotion of tax avoidance schemes that have elite endorsement (Commonwealth Ombudsman, 1999).

The idea that tax preparers lead taxpayers into greater non-compliance has not gone unchallenged (Finn et al., 1988; Marshall et al., 1997). The counter argument has been that tax practitioners provide the services that are demanded of them by their clients (see Attwell and Sawyer, 2001; Schisler, 1994). In other words, if clients with tax preparers are less compliant with tax authorities, it is because the taxpayers themselves are expecting and paying their preparer to minimize their tax. Practitioners are operating in a competitive market, and while tax law is sufficiently ambiguous to allow them to use the law to suit their client's purpose of tax avoidance, practitioners will direct their professional skills to exploiting legal loopholes to serve their clients' interests (Klepper and Nagin, 1989; Klepper et al., 1991).

With both sides presenting persuasive arguments to support their case, new questions have been raised about the relationship between the taxpayer and the tax practitioner (Tan, 1999). A considerable body of research has documented

the way in which individual and contextual factors affect the behaviour of the tax preparer (for example, Duncan et al., 1989). Of importance has been the work of Klepper et al. (1991) showing that tax preparers play a dual role of enforcer and exploiter in the tax system. They play the enforcer role when tax laws are clear and unequivocal, but the role of exploiter when tax laws are ambiguous. The degree to which this pattern of behaviour is moderated by the situation or by the preferences of the tax preparer, however, is far from clear.

One possibility is that tax preparer behaviour is not totally responsive to situational cues, but rather varies within a band of personally acceptable behaviour that is defined by the tax preparer's own ethical standards and world views. If tax preparers have their own style, and practice this style with some consistency, another approach to understanding the tax preparer and taxpayer relationship is through the notion of market segmentation, that is, tax preparers signal their approach to tax compliance in the market place and they attract clients who suit their style of operation.

A number of pieces of research support the market segmentation argument (Bankman, 2001). While some have proposed that personal ethics have no place in the business of tax advice (Myers, 1990), others have documented individual differences in the way in which tax preparers make ethical judgements about tax matters and practice their craft (Cruz et al., 2000; Marshall et al., 1998). Differences have also been documented among tax preparers with allegiances to different professional associations. Specifically, those who are members of the American Institute of Certified Public Accountants differ in their practices from those who are not (Ayers et al., 1989; see also Cruz et al., 2000), suggesting that tax preparers are embedded in different tax preparer subcultures that frame their approaches to giving tax advice.

Further support for different tax practitioners adopting different ethical standards comes from an Australian study in which tax practitioners' awareness of opportunities to circumvent or break the law did not translate directly into action. Marshall et al. (1998) reported that

among 472 tax practitioners who were registered with the Taxation Board of Western Australia, 51% considered there to be many opportunities for practitioners to engage in unethical practices, but only 22% were aware that their peer practitioners actually engaged in unethical practices. Furthermore, while notable diversity in attitudes and experiences emerged in the sample, most rejected the idea that unethical behaviour was necessary for success in tax practice and that tax practitioners had to compromise their personal ethics to be successful. This suggests that tax practitioners, to a considerable extent, choose how they conduct their business in Australia.

Mapping diversity in the styles of tax practitioners can be addressed in two ways. The first involves mapping the diversity that actually exists among tax practitioners. The second involves mapping the diversity that taxpayers perceive exists and that they experience as users of tax advisory services. This study follows the second tradition. While understanding both perspectives is important, perceptions or the meaning that individuals give to a situation are likely to be more closely linked to taxpayer behaviour (Thomas and Znaniecki, 1918).

A national random survey of Australian citizens conducted in 2000 provided the opportunity to explore the question of how taxpayers differentiate the styles of tax practitioners, what they would prefer in their ideal practitioner, and what they have opted for in real life. An important advantage of approaching the segmentation argument from the perspective of perceptions is that generally speaking, one would expect taxpayers to perceive the segmentation, if they were to act on it. The issue of whether taxpayers' perceptions of tax preparers match tax preparers' views of themselves is a separate question not addressed here.

This paper addresses four questions using data from the "Community Hopes, Fears and Actions Survey". First, survey data are presented to show the degree to which Australian taxpayers are open to influence by others, by virtue of their own uncertainty and lack of confidence in tax matters. The second question examined is who are the influential others for Australian taxpayers, or rather, whose advice is sought when the

income tax return is due? The third question addresses taxpayer perceptions of the ideal tax practitioner. Two dimensions that are particularly salient in the literature on the role of tax preparers are competence and willingness to take risk. Thus, the descriptors of the ideal tax practitioner used in the questionnaire were framed around these two dimensions. Finally, the fourth question addressed is the market segmentation hypothesis that taxpayers are not only aware of systematic differences in the styles of different tax practitioners, but that they are able to find a practitioner who suits their needs.

## Background

A self-assessment system was introduced for those paying income tax in Australia in 1986. Most Australians 18 years of age and older lodge an income tax return each year (a conservative estimate is 69% based on statistics provided by the Australian Taxation Office, 2002 and the Australian Bureau of Statistics, 2001). As the due tax date approaches, the Australian Taxation Office distributes Tax Pack to explain the tax paying obligations of citizens and how their tax returns should be completed. Individual taxpayers are held responsible for the accuracy of their tax return under the self-assessment system. It is therefore interesting to note that a high proportion of the population (77%) submit their tax return through a tax agent or tax practitioner (Australian Taxation Office, 2002). A high proportion receive a tax refund (around 75% based on statistics provided by the Australian Taxation Office, 2002).

Most Australians have been exposed to ideas about how they can arrange their finances and make claims to reduce the amount of tax they have to pay. Resulting community interest has given rise to conflict with the tax authority on occasion. Most notable has been the aggressive promotion of mass marketed tax avoidance schemes among ordinary working Australians, a move that has been opposed by the tax office, resulting in thousands of dollars of tax debt for many Australians and a public enquiry (Senate Economics References Committee, 2001). In this

climate, most Australians are aware of income tax evasion and avoidance, and of the role that tax practitioners may play in concealing evasion or facilitating avoidance.

## Method

The data presented in this paper represent the views of a random sample of Australian citizens expressed through an omnibus tax survey called the "Community Hopes, Fears and Actions Survey".

Between May and October of 2000, the names and addresses of 7,754 Australians were chosen at random from the Australian public electoral rolls. The population comprised all Australian citizens over 18 who were eligible to vote in elections and enrolled as of February 2000. Each person was mailed the "Community Hopes, Fears and Actions Survey" as well as a pre-paid reply envelope for its return upon completion. Two thousand and forty completed questionnaires (29% of those respondents who could be contacted) were received.<sup>1</sup> Of these questionnaires, 47% were from men and 53% were from women. Ages ranged from 18 to 93 years, the average being 48. Seventy percent were married, and 14% were divorced or separated. Twenty-four percent had a tertiary qualification, 25% had a trade qualification or a diploma, 70% had some secondary education, and 6% had no more than a primary school education. The average personal income for the respondents was AUSS\$27,830, family income AUSS\$48,690. Forty-three percent of the sample was working full-time, 18% part-time. Twenty-three percent of the sample was born overseas.

## Research findings

*Question 1: How do taxpayers judge their competence and diligence in preparing their income tax returns?*

This question was addressed through drawing on five questions in the "Community Hopes, Fears and Actions Survey" in which respondents were asked to assess their confidence and competence

on tax matters, their self-reliance, and the priority they placed on doing their tax properly. The first four questions and the community's responses to them are represented in Table I.

From Question 1, respondents generally had a fairly good understanding of the Tax Office's expectations with only 18% feeling that they had a poor or at best partial grasp of what was required. Yet responses to Question 2 suggest that taxpayers were not overly confident about their capacity to perform the task of completing a tax return on their own. It is of note that more than one third of taxpayers stated that they did not feel at all competent (36%) to do their income tax return (See Table I). At the other end of the scale, 12% identified themselves as being very much in the competent category.

Despite the relatively small percentage of respondents who described themselves as fully competent, most respondents (85%) were absolutely confident about the legitimacy of the deductions they claimed (see Question 3, Table I). Some 7% claimed that they did not have a clue about the legitimacy of the deductions and rebates because someone else did it for them, an interesting finding given that responsibility for correct lodgment lies with the taxpayer in a self-assessment system.

To understand these responses further, a fourth question asked taxpayers to indicate the degree to which they were the kind of taxpayer who relied on someone else to look after their tax matters for them (see Question 4, Table I). Almost 40% of taxpayers stated they did not have anyone else to do it for them. On the other hand, 48% expressed the view that getting someone else to look after their tax described their way of operating fairly or very well.

If taxpayers were relatively knowledgeable about the process of lodging a tax return, willing to find help when necessary, and confident about the outcome, were they also showing diligence in relation to their tax obligations. In other words, did taxpayers take their taxpaying responsibilities seriously or did they pass the responsibility on to someone else? In order to answer this question, measures were taken of the priority taxpayers placed on being organized themselves in relation to tax matters.

TABLE I  
Community responses reflecting taxpayer confidence and competence

Questions and response categories	%
1. When preparing your 1998–1999 income tax return, how well did you understand what the Tax Office expected? Was your understanding . . .	
extremely good	11.5
good	30.7
reasonable	39.7
partial	10.5
poor	7.7
2. How much is the following like you?	
I feel competent to do my own income tax return.	
not at all	36.4
a little bit	26.3
a fair bit	24.9
very much	12.4
3. Think of the deductions and rebates you claimed in your 1998–1999 income tax return. Would you say you were . . .	
Absolutely confident	84.7
A bit unsure about some	7.9
Pretty unsure about quite a lot	0.7
Haven't got a clue, someone else did it	6.6
4. How much is the following like you?	
I have someone else who looks after my tax matters.	
not at all	39.8
a little bit	12.2
a fair bit	18.7
very much	29.4

Respondents used a four-point scale to rate the following three statements in terms of how well they described their behaviour: (a) I tend to put my income tax return off until the last minute; (b) Preparing an income tax return is a low priority in my life; and (c) Other things always seem to get in the way of doing my tax. The percentage breakdown of responses to each question appears in Table II. These data show that most taxpayers reject the suggestion that they assign a low priority to attending to tax matters.

Because the above three items were strongly intercorrelated, responses were summed and divided by the number of items (3 items) in the scale to form a "Tax-is-Not-a-Priority" Scale. The alpha reliability coefficient of the scale was 0.82, with item-total correlations ranging from 0.62 to 0.72. The mean of the scale was quite

low (1.89), with a standard deviation of 0.87. When the scale scores were rounded off and forced into the four categories used in the original scoring system (see the last column in Table II), 54% were closest to outright rejection of the suggestion that they placed a low priority on tax matters. For the remaining 46%, however, there was a glimmer of self-truth in the depiction of the taxpayer who did not put sufficient time into putting his/her tax affairs in order.

In answer to the first issue addressed in this paper, how do taxpayers judge their competence and diligence in preparing their income tax returns, these data show that the majority of taxpayers take care with their tax return, are reasonably knowledgeable, are aware of perhaps not knowing all they need to know, and have someone they can turn to for help. Interestingly,

TABLE II  
Community responses reflecting taxpayer diligence

Response categories	%			
	Item (a)	Item (b)	Item (c)	Tax-is-Not-a-Priority scale
Not at all	50.7	41.5	48.7	53.6
A little bit	23.3	28.5	28.1	30.1
A fair bit	15.4	18.0	15.3	12.1
Very much	10.6	12.1	7.9	4.2

in spite of some general doubts about their competence, the vast majority reported confidence in the legitimacy of the deductions they claimed. This confidence may be explained by their relatively high dependence on others to look after their tax return. In the next section, we examine who this person is most likely to be.

*Question 2: On whom do taxpayers rely when preparing their income tax returns?*

Taxpayers were asked whether or not they relied on each of the following: (a) family members/close friends; (b) tax agent/adviser; (c) business partner; (d) someone from the Tax Office; (e) industry association; and (f) an employee. The frequency of use of each possible source is summarised in Table III. Results are consistent with other research (Marshall et al., 1997) in showing taxpayers' heavy reliance upon tax agents (77%) in the Australian context. Over 20% of respondents relied upon family members or close friends. Notably less involved in the helping process were the ATO (6.5%), business

TABLE III

"Did you rely on the following people in preparing your 1998–1999 income tax return?"

Response options	%
Family members/close friends	21.3
Tax agent/adviser	77.1
Business partner	3.7
ATO staff	6.5
Industry Association	3.2
An employee	1.0

partners (3.7%), industry associations (3.2%) and employees (1%). Further analysis revealed that in general, taxpayers had used only one source of support (69%).

*Question 3: What are the attributes that taxpayers are looking for in tax agents?*

Respondents were presented with a set of nine attributes (see Table IV) that had been identified in a pre-pilot study as ways in which people described their ideal tax practitioner. Respondents were asked to indicate the priority (1 = low priority, 2 = medium priority, 3 = high priority, and 4 = top priority) they would place on each attribute if they were in a situation where they had to choose a tax agent or adviser. Responses were given on a 4-point scale.

The responses were factor analysed to find out if respondents discriminated among the various qualities that tax practitioners might bring to the job. Do taxpayers make the distinction between tax practitioners who need to make money, who do the right thing, who avoid impropriety, or who like to test the limits of the tax system? A factoring procedure was considered useful for revealing the dimensions along which individuals made judgements about what they valued most in a tax practitioner.

A principal components analysis produced a set of eigenvalues that were examined for their significance and importance using the scree test. Three factors were extracted for further analysis. Together they accounted for 64% of the variance in the item set. The factors were rotated using the varimax procedure. The results appear in Table IV.

TABLE IV  
A rotated principal components solution describing respondents' perceptions of the ideal tax practitioner

Desired attributes	Factor 1 <i>Creative accounting, aggressive tax planning</i>	Factor 2 <i>Low risk with no fuss</i>	Factor 3 <i>Cautious minimising with conflict avoidance</i>
A creative accountant	0.82	0.01	0.22
Someone who can deliver on aggressive tax planning	0.76	0.00	0.33
Someone who is well networked and knows what the Tax Office is checking on at any particular time	0.66	0.17	0.32
Someone who just does it and doesn't bother me with it	0.48	0.02	-0.27
Someone who will do it honestly and with minimum fuss	0.02	0.88	0.08
Someone who does not take risks and only claims for things that are clearly legitimate	0.06	0.85	-0.15
Someone who knows their way around the system to minimise the tax I have to pay	0.16	0.00	0.83
Someone who will take advantage of grey areas of the law on my behalf	0.42	-0.20	0.65
Someone who is able to deal with any problems that arise	0.04	0.54	0.59
Eigenvalue before rotation	2.95	1.82	1.02

The first factor was defined primarily by three items: having a creative accountant; having someone who can deliver on aggressive tax planning; and having someone who is well networked and knows what the Tax Office is checking. Lower loadings appeared for taking advantage of the grey areas of the law and not involving the taxpayer in the process. The factor corresponds to a style of financial advising that is not peculiar to tax and that has been described in detail by McBarnet and Whelan (1999). The factor is therefore given the broader label of *creative accounting, aggressive tax planning*.

The second factor is defined by high loadings on: having someone to do one's tax honestly and without fuss; and having someone who does not take risks, only claiming for things that are clearly legitimate. A moderate loading appears for the

item, being able to deal with any problems that arise. The factor is called *low risk with no fuss*.

The third factor was best represented by: someone who can minimise the tax paid; someone who can take advantage of grey areas of the law; and to a lesser extent, someone who can deal with any problems that might arise. Factor 3 represents the gentle face of Factor 1 and is therefore called *cautious minimising with conflict avoidance*.

On the basis of this analysis, three scales were formed to represent: (a) *the low risk with no fuss approach*; (b) *cautious minimising with conflict avoidance*; and (c) *creative accounting, aggressive tax planning*. These scales were formed through summing responses to the items that loaded above 0.6 on the factor of the same name listed in Table IV. The summed scores were divided

by the number of items comprising each scale, so that summed scores would correspond to the original metric to aid interpretation. A score close to 4 means top priority when choosing a tax practitioner, while a score close to 1 means low priority. The means ( $M$ ), standard deviations ( $SD$ ), and alpha reliability coefficients ( $\alpha$ ) for each scale are shown in Table V.

From the mean scores in Table V, respondents assign the highest priority to having a tax practitioner who offers the *low risk with no fuss approach*. Next most sought after is *cautious minimising with conflict avoidance*. Least salient in the minds of taxpayers when they are asked to imagine themselves finding a new practitioner is someone who offers *creative accounting, aggressive tax planning*. From Table V, it is noteworthy that the correlation between *cautious minimisation with conflict avoidance and creative accounting, aggressive tax planning* is positive and moderately high ( $r = 0.49, p < 0.001$ ). This means that those who are looking for a tax practitioner who minimises tax without conflict are also open to considering a tax practitioner who does the job more aggressively. Interestingly, neither scale is correlated to any notable extent with having a tax practitioner who does the job honestly without fuss. In other words, knowing that a person is interested in having a tax practitioner who will minimise tax, even if they go to the edge to do so, tells us nothing about whether that person cares if the tax practitioner is honest, gets the job done without fuss, and stays on the right side of the law. This means that while some taxpayers trade off honesty for tax minimisation, others do not. For some taxpayers at least, finding a tax practitioner who is cautious, honest, and clever at minimising tax is the ideal. These expectations are

not necessarily incompatible in the minds of taxpayers.

*Question 4: Do taxpayers find the practitioner who suits their needs?*

Taxpayers who were currently using a tax practitioner were asked to describe the characteristics of the person they were using. Five statements were selected as representative of the way in which taxpayers perceived and discussed their tax agents, the final selection being based on what came out of the pre-pilot study interviews with taxpayers: (a) My tax agent is a very honest person; (b) My tax agent helps me interpret ambiguous or grey areas of the tax law in my favour; (c) I have a tax agent who is clever in the way she/he arranges my affairs to minimise tax; (d) My tax agent has warned me against getting involved in tax planning schemes; and (e) My tax agent has suggested complicated schemes I could get into to avoid tax. Survey respondents indicated how strongly they disagreed or agreed (1 = strongly disagree, 5 = strongly agree) with each statement about their current tax practitioner.

The attribute that is most strongly associated by taxpayers with their tax practitioner is being *a very honest person* ( $M = 4.22, SD = 0.69$ ). The vast majority (90%) described their tax practitioner in these terms. Also popular were the descriptions of the tax practitioner as *helping interpret ambiguous or grey areas of the tax law* ( $M = 3.33, SD = 0.91$ ), endorsed by 46% of the sample, and *clever in the way she/he arranges affairs to minimize tax* ( $M = 3.13, SD = 0.90$ ), endorsed by 36% of the sample. Being *warned against getting involved in tax planning schemes* ( $M = 3.05, SD = 0.91$ ) and having *an agent who*

TABLE V  
Means ( $M$ ), standard deviations ( $SD$ ), alpha reliability coefficients (diagonal), and intercorrelations for the ideal tax practitioner scales

Ideal tax practitioner scales	$M$ ( $SD$ )	1	2	3
Low risk with no fuss approach	3.27 (0.63)	0.76		
Cautious minimising with conflict avoidance	2.33 (0.78)	0.079	0.70	
Creative accounting, aggressive tax planning	2.22 (0.79)	0.077	0.487	0.79



suggested complicated schemes ( $M = 1.69$ ,  $SD = 0.85$ ) were least commonly experienced by the taxpayers in this sample. On receiving warnings, 27% had a tax practitioner who had done this, while only 5% had a tax practitioner who had actually suggested complicated schemes to them.

In order to find out if there was any correspondence between what taxpayers ideally wanted and what they actually had in terms of tax advice, a principal components factor analysis was performed on the three ideal tax practitioner scales and the five statements describing the actual practitioner currently providing advice. Using the scree test to derive the number of significant factors for interpretation, three factors were rotated using the varimax procedure. The solution, which accounted for 59% of the variance, appears in Table VI.

The solution in Table VI provides clear definition of Factors 1 and 2, but not of Factor 3. With only one item loading substantially on Factor 3 (being warned about getting involved in tax planning schemes), less attention will be given

to this specific factor than the other two more general factors.

Table VI shows clear segmentation between those taxpayer-tax practitioner partnerships that are based on a perceived shared understanding of doing the right thing and not taking risks (Factor 2) and those based on a perceived shared interest in testing the limits of tax law and finding smart and innovative ways of minimizing tax (Factor 1). It is of note that cautious minimizing and aggressive avoidance are not easily pulled apart when perceptions of what really happens are combined with perceptions of what one would like to happen. One dimension that appears to be at the heart of taxpayer-tax practitioner partnerships is capacity or ability to avoid tax. Factor 1 is called *tax avoidance*.

Factor 2 is called *doing the right thing*. This dimension identifies those taxpayer-tax practitioner relationships in which the objective is to do the job honestly, efficiently and responsibly. It is well to recall at this point that taxpayers in this sample signed on to the dimension of doing the right thing more readily than they signed on

TABLE VI

A rotated principal components solution describing respondents' perceptions of their ideal and actual tax practitioner

Ideal factors and actual attributes	Factor 1	Factor 2	Factor 3
<i>Ideal</i>			
Creative accounting, aggressive tax planning	0.75	0.04	-0.07
Low risk with no fuss approach	0.02	0.76	-0.02
Cautious minimising with conflict avoidance	0.76	-0.05	-0.24
<i>Actual</i>			
My tax agent is a very honest person	0.11	0.74	0.26
I have a tax agent who is clever in the way she/he arranges my affairs to minimise tax	0.68	-0.03	0.19
My tax agent helps me interpret ambiguous or grey areas of the tax law in my favour	0.64	0.03	0.32
My tax agent has warned me against getting involved in tax planning schemes	0.01	0.07	0.88
My tax agent has suggested complicated schemes I could get into to avoid tax	0.40	-0.54	0.29
Eigenvalue before rotation	2.25	1.46	1.03

to the dimension of tax avoidance (compare means of highest loading variables reported in this paper).

Our preference is to interpret these findings as part of a story of taxpayers finding tax practitioners who suit their style of engagement with the tax system. The data are consistent with this interpretation, but more work needs to be done before alternative explanations can be eliminated. One alternative reading of these data is that the basic assumption that taxpayers are making choices is ill conceived. Any segmentation that might occur comes about through opportunity, not decisions about moral obligation.

Upon reviewing the measures available to us in the "Community Hopes, Fears and Actions Survey", we were able to test the hypothesis that the avoidance dimension was only relevant to elite groups who have the money, knowledge and understanding to take advantage of loopholes in tax legislation and the like. First, factor scores were calculated for each individual in the sample and these scores (one score for avoidance and one score for doing the right thing) were correlated with the social demographic variables of age, sex, personal annual income, family annual income, and education. Also included in the correlational analysis were three variables discussed earlier in the paper: understanding tax office expectations, being confident that all one's deductions were accurate, and making tax a low priority.

High scorers on the tax avoidance dimension were slightly more likely to have a tertiary education ( $r = -0.09$ ,  $p < 0.01$ ) and to be unsure that their tax deductions were accurate ( $r = -0.12$ ,  $p < 0.001$ ). These were the only significant relationships. On this basis, it seems reasonable to conclude that establishing a tax avoidance partnership was not an aspiration nor practice that was outside the reach of ordinary Australians.

The dimension of doing the right thing showed a few more significant relationships, although again they were relatively weak. High scorers on doing the right thing tended to be older taxpayers ( $r = 0.19$ ,  $p < 0.001$ ) and to have a lower personal annual income ( $r = -0.09$ ,  $p < 0.01$ ). They placed a high priority on tax matters ( $r = -0.12$ ,  $p < 0.001$ ), had a good understanding

of what the tax office expected ( $r = 0.11$ ,  $p < 0.001$ ), and felt confident that all their deductions were correct ( $r = 0.19$ ,  $p < 0.001$ ).

### Discussion and implication of findings

This paper has shown that Australian taxpayers are relatively comfortable with their knowledge of the tax system, although they are not complacent nor overly confident about this knowledge. Most rely on tax practitioners for guidance. For the majority of taxpayers, tax practitioners were their sole source of support. The literature on the form of support provided by tax agents suggests considerable variation among tax practitioners (Cruz et al., 2000; Marshall et al., 1998) and possibly even within any one practitioner, depending on contextual factors and client characteristics (Duncan et al., 1989; Klepper et al., 1991). The approach taken to understanding this variation in this paper has been to examine the problem through the eyes of taxpayers: Do they see systematic differences among tax practitioners, what is it that they want in a tax practitioner and does the market provide them with what they want?

The results reported in this paper show that taxpayers are discriminating in their ideal tax practitioner and in assessing the tax practitioner whom they are currently using. First and foremost, tax practitioners are people that taxpayers can trust to keep them on the right side of the law. Having an honest tax agent or adviser was the highest priority for this sample of Australians. Furthermore, those who were currently using a tax practitioner rated honesty as that person's most important identifying feature. These data support the work of Tan (1999) in New Zealand in suggesting that the core important contribution that tax practitioners make to taxpayers as a whole is to give them confidence that their tax matters are under control and that their tax paying behaviour is lawful. Collins et al. (1990) and Hite and McGill (1992) came to similar conclusions in their work in the United States.

While low risk without fuss may have been the number one issue for taxpayers, cautious

minimisation of tax with conflict avoidance was not far behind. The findings in relation to cautious minimisation of tax with conflict avoidance are insightful for a number of reasons. First, when taxpayers were asked about their preferred attributes in tax practitioners, the issue of honesty was separate from tax minimisation. This means that people could portray their ideal tax practitioner as honest without particular cleverness in tax minimisation, honest with cleverness, or dishonest with cleverness. Most importantly, taxpayers overall did not feel any need to trade off honesty for cleverness.

These data can be reconciled with Klepper et al.'s (1991) claim that tax practitioners are both enforcers of the tax law (in unambiguous situations) and exploiters of the tax law (in ambiguous situations). Our cautious minimisers of tax appear to come closest to this "dual role". The low risk with no fuss approach fits the profile of those who prioritise the enforcer role over the exploiter role. The creative accountant, aggressive tax planning approach, on the other hand, prioritises the exploiter role over the enforcer role.

The second finding that is of considerable importance is that taxpayers, in their ideal world, made a distinction between tax minimisation that is unlikely to lead to conflict and tax minimisation that is more risky and likely to fuel conflict with tax authorities. Admittedly, an appreciation for a gentle approach was positively correlated with an appreciation of an aggressive approach. Taxpayers interested in tax minimising were open to having a tax practitioner who knew both low and high risk strategies. Nevertheless, the emergence of two distinct factors representing tax minimising with conflict avoidance on the one hand, and tax minimising with high risk (creative accounting and aggressive tax planning) on the other, indicates that taxpayers are mindful of the question, "How much risk do they want to engage in"?

When data relating to the ideal tax practitioner were analysed in conjunction with descriptions of the tax practitioners that taxpayers were currently using, evidence emerged of taxpayers finding tax agents who matched their needs. Taxpayers who placed a priority on minimising

their tax found practitioners who could offer clever strategies for how this could be done and who could suggest aggressive tax minimisation schemes. On the other hand, taxpayers who liked to "do the right thing" and comply with the spirit of the law found tax practitioners who they believed to be honest and respectful of their position.

These data are consistent with those reported by Marshall et al. (1998) who conclude that there is considerable diversity among Australian tax practitioners in the ethical stances that they take. Tax practitioners appear to be successful in marketing their skills in a way that is suitable to their clients' needs, or at least taxpayers have ways of finding the tax practitioners who suit them best. Either way, the income liability of taxpayers is likely to be determined to a considerable degree by the "team play" between taxpayers and their tax agents.

During the matching process of taxpayer with tax practitioner, it is of note that taxpayers who prefer tax minimisation with low risk find themselves with tax practitioners who are not ostensibly different from those serving taxpayers who are open to high risk. In other words, while taxpayers tend to segregate low risk and high risk minimisation schemes in their thinking about tax matters, in practice, they can find themselves with similar kinds of tax agents, some of whom are likely to err on the side of possible evasion. This highlights the problems posed by legal ambiguity about what is acceptable minimisation behaviour and what is not. Taxpayers appear to rely on their tax agents to make these judgments, and on the basis of previous research, it can be expected that some tax agents will be more adventurous than others in their assessment of what "has a realistic possibility of being sustained administratively or judicially" (Hansen et al., 1992, p. 76).

It is in this domain at the fringe of tax legitimacy that taxpayers and tax practitioners are probably at greatest risk of pushing each other toward illegality. The answer to these problems may lie in legal reforms that impose overarching principles to safeguard against loophole avoidance (for example, see RMC case, cited in McBarnet and Whelan, 1999, pp. 105–107). But increasing

risks of detection of illegality cannot resolve the tensions that undoubtedly characterise a proportion of taxpayer-tax practitioner relationships where tax minimisation is a priority concern. Without a clear understanding of what it means to be a low risk minimiser or a high risk minimiser, tax agents and taxpayers who want to play this game may be misreading each others' messages much of the time and failing to deliver on the expectations of the other. A similar conclusion has been drawn by Tan (1999) and Hite and McGill (1992) on the basis of their research with taxpayers in New Zealand and the United States respectively. On balance this appears to represent a small group of Australian taxpayer-practitioner relationships. It is a group, however, that is likely to destabilise the nature of the professional relationship between tax practitioners and their clients.

The way forward for tax authorities and tax practitioners brings us back to the normative question raised about citizens' moral obligation to pay tax. While there are differences of opinion in the community around this issue, tax practitioners will continue to be pulled in different directions by different constituencies. One approach to the dilemma facing tax authorities and tax practitioners is to address the issue head on and bring stake-holders together to discuss the fundamental question of what is our moral obligation to pay tax and what does a fair and just tax system look like, if there is such a thing. There are a number of frameworks for initiating such debates and ensuring that agreements in principle turn into agreements in practice. Deliberative democracy research offers a model for debate that is inclusive of citizens and guards against the domination of elites (Fishkin, 1997), social contracts theory offers an approach that allows communities to develop and commit to a macrosocial contract concerning tax ethics (Donaldson and Dunfee, 1999), and reintegrative shaming theory (Braithwaite, 2002) provides a means for dealing with breaches in the macrosocial contract once all parties have agreed to its implementation. In this way, it should be possible in the future to bed down best practice for tax practitioners and help all stakeholders converge on strategies that will contain, if not correct, the

legal and professional abuses that are pocketed within the community.

## Note

<sup>1</sup> Excluded from the sample base were respondents who were deceased, too ill to take part in the survey, or no longer at the address.

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