

Centre for Tax System Integrity – Research Note 4

Sanctions: Are citizens who are in conflict with the ATO different?

Monika Reinhart and Jason McCrae

Two consecutive surveys were conducted: the ‘Community Hopes, Fears and Actions’ survey in 2000 (CHFAS), and the follow-up ‘The Australian Tax System: Fair or not?’ survey in 2002 (ATSFS). The sample for this Research Note on conflict comprised respondents who answered both surveys – CHFAS and ATSFS. The sample size was 1161.

The Research Note separates out those people who have had different quantities of conflict with the ATO. Conflict is defined broadly as “receiving an audit by the ATO”, “contesting an assessment given by the ATO” or “being fined or penalized by the ATO”.

- ✗ 54 % were not in conflict at either time – 2000 or 2002
- ✗ 26% were in conflict at both times – 2000 and 2002
- ✗ 9% were in conflict in 2000 but not in 2002
- ✗ 11% were not in conflict in 2000 but were in 2002

The four groups were compared on a range of social demographic, attitudinal and behavioural variables to find out how those who are engaged in conflict with the ATO are different from other taxpayers.

Demographics

As was reported for contact with the ATO (see Research Note 2), conflict with the ATO was more common among the more privileged. Men were more likely to be in conflict with the ATO at both time points, as were those in professional and managerial occupations, those who were more highly educated or those who engaged a tax agent.

Table 1 – Demographic breakdown for two groups defined as being or not being in conflict with the ATO in 2000 and 2002

Items	Category	1	2	Chi-square
		Both '00 and '02 N = 295	Neither '00 nor '02 N = 621	
Sex	Male	41%	59%	32.83**
	Female	23%	77%	
Occupation	Professionals/ Managers	43%	57%	16.47**
	Trade/Clerical Labour/ Elem. Clerical	32%	68%	
		21%	79%	
Education	Year 10	23%	77%	26.80**
	Year12	27%	73%	
	Trade / Nursing	34%	66%	
	Diploma	42%	58%	
	University	36%	64%	
	Post Graduate	53%	47%	
Engage a tax agent	Yes	37%	63%	14.25**
	No	23%	77%	

** $p < .001$

Taxpaying behaviour

Those in conflict with the ATO in both 2000 and 2002 were more likely to be evading or avoiding tax in 2002. They were also more likely to be avoiding tax in 2000.

Evasion covers the following actions: a) over-claiming deductions, b) non-payment of tax debt, c) failure to declare income and d) being active in the cash economy as supplier or purchaser.

Avoidance covers engagement in cautious and/or aggressive tax strategies in order to avoid paying tax (see Braithwaite, V., Schneider, F., Reinhart, M. and Murphy, K. (2003) for further details).

Table 2 - Chi-squares and a breakdown of taxpaying behaviours for two groups defined as being or not being in conflict with the ATO in 2000 and 2002

Items	Category	1	2	Chi-square
		Both '00 and '02 N = 295	Neither '00 nor '02 N = 621	
Outstanding debt to the ATO (2002)	Yes	55%	45%	10.41*
	No	31%	69%	
Consistent Filers over 3 yrs	Yes	32%	68%	10.22*
	No	48%	52%	
Working in the cash economy in (2002)	Yes	53%	47%	8.08*
	No	31%	69%	
Paying others to work in the cash economy (2002)	Yes	49%	51%	18.95**
	No	29%	71%	
Tax evasion (2002)	Yes	44%	56%	22.01**
	No	27%	74%	
Tax avoidance (2000)	Yes	38%	62%	11.42*
	No	25%	75%	
Tax avoidance (2002)	Yes	39%	61%	11.34*
	No	27%	73%	

* $p < .01$

** $p < .001$

Engagement with tax issues (measures taken in 2000)

Those in conflict with the ATO in both 2000 and 2002 were more likely to want tax reform that brought lower and more efficient taxation, they were in more frequent contact with the ATO, they prioritised tax matters in their private life and they had a higher personal income.

Table 3 - Percentages of engagement with tax issues and income broken down by those 'in conflict' with the Tax Office in both 2000 and 2002, in neither 2000 or 2002, in 2000 but not 2002, and not in 2000 but in 2002, for those scoring in the top 40 %

Items	Groups			
	Both '00 and '02 N = 295	Neither '00 nor '02 N = 621	In '00 out '02 N = 100	Out '00 in '02 N = 128
Support tax reform to contain taxation	82%	87%	84%	88%
Contact with the ATO	73%	57%	61%	72%
Tax is a priority	46%	30%	38%	46%
Personal Income ('000)	38%	43%	29%	39%

Table 4 – Mean levels of engagement with tax issues and income broken down by those 'in conflict' with the Tax Office in both 2000 and 2002, in neither 2000 or 2002, in 2000 but not 2002, and not in 2000 but in 2002

Items	Groups				F Value
	Both '00 and '02 N = 295	Neither '00 nor '02 N = 621	In '00 out '02 N = 100	Out '00 in '02 N = 128	
Support tax reform to contain taxation	3.93 ²	3.77 ⁴	3.88	3.94	4.73*
Contact with the ATO	1.67 ²	1.40 ^{3,4}	1.59	1.60	13.65**
Tax is a priority	1.99 ²	1.79 ³	2.03	1.97	4.74*
Personal Income ('000)	35.47 ^{2,4}	25.34 ³	37.60 ⁴	25.69	10.11**

* $p < .01$ ** $p < .001$

Note: Significant differences among the four groups for each item were tested using one way analyses of variance, with between group means tested using the least-significant difference method. A superscript next to a mean score indicates that that particular mean is significantly different from the group defined by the superscript.

Justice (measures taken in 2000)

Those in conflict with the ATO in both 2000 and 2002 were more likely to perceive themselves as receiving unfavourable outcomes in 2000 at the hands of the Tax Office and to view the ATO as behaving in a procedurally unfair way, most notably not behaving in a way that is consistent with the Taxpayers' Charter.

Table 5 – Percentages of perceived justice broken down by those 'in conflict' with the Tax Office in both 2000 and 2002, in neither 2000 or 2002, in 2000 but not 2002, and not in 2000 but in 2002, for those scoring in the top 40 %

Items	Groups			
	Both '00 and '02 N = 295	Neither '00 nor '02 N = 621	In '00 out '02 N = 100	Out '00 in '02 N = 128
Fair outcome	64%	71%	65%	79%
Adherence to the Taxpayers' Charter	59%	74%	70%	65%
Neutrality – the ATO treats all Australians the same	46%	60%	59%	61%
Trust in the ATO (Tyler)	23%	47%	50%	46%
Trust in the ATO (Braithwaite)	23%	60%	52%	54%
Respect– the ATO respects taxpayers	27%	58%	54%	55%
The ATO treats taxpayers as if they are trustworthy	46%	54%	46%	42%
Consultation – the ATO consults with the community about change	18%	28%	25%	22%

Table 6 – Mean levels of perceived justice broken down by those ‘in conflict’ with the Tax Office in both 2000 and 2002, in neither 2000 or 2002, in 2000 but not 2002, and not in 2000 but in 2002

Items	Groups				F Value
	Both '00 and '02 N = 295	Neither '00 nor '02 N = 621	In '00 out '02 N = 100	Out '00 in '02 N = 128	
Fair outcome	3.50 ^{2,4}	3.90 ³	3.54	3.75	10.83**
Adherence to the Taxpayers' Charter	3.40 ^{2,4}	3.70 ³	3.46	3.60	8.60**
Neutrality – the ATO treats all Australians the same	3.14 ^{2,4}	3.36	3.28	3.31	6.67**
Trust in the ATO (Tyler)	2.92 ²	3.15	3.03	3.07	6.19**
Trust in the ATO (Braithwaite)	3.11 ²	3.29	3.23	3.14	5.11*
Respect– the ATO respects taxpayers	3.10 ^{2,4}	3.38	3.21	3.29	7.98**
The ATO treats taxpayers as if they are trustworthy	2.99 ^{2,3,4}	3.34	3.26	3.31	12.54**
Consultation – the ATO consults with the community about change	2.58 ²	2.77	2.63	2.69	4.96*

Note: Significant differences among the four groups for each item were tested using one way analyses of variance, with between group means tested using the least-significant difference method. A superscript next to a mean score indicates that that particular mean is significantly different from the group defined by the superscript.

Motivational postures (measures taken in 2000)

Not surprisingly, those in conflict with the ATO in 2000 and 2002 were less likely to capitulate and more likely to resist the tax authority in 2000.

Table 7 – Percentages of motivational postures broken down by those ‘in conflict’ with the Tax Office in both 2000 and 2002, in neither 2000 or 2002, in 2000 but not 2002, and not in 2000 but in 2002, for those who support each posture strongly or most of the time

Items	Groups			
	Both '00 and '02 N = 295	Neither '00 nor '02 N = 621	In '00 out '02 N = 100	Out '00 in '02 N = 128
Capitulation or capture – taxpayer accepts system	59%	75%	64%	78%
Resist	59%	52%	54%	56%

* $p < .01$ ** $p < .001$

Table 8 – Mean levels of motivational postures broken down by those ‘in conflict’ with the Tax Office in both 2000 and 2002, in neither 2000 or 2002, in 2000 but not 2002, and not in 2000 but in 2002

Items	Groups				F Value
	Both '00 and '02 N = 295	Neither '00 nor '02 N = 621	In '00 out '02 N = 100	Out '00 in '02 N = 128	
Capitulation or capture – taxpayer accepts system	3.30 ^{2,4}	3.47	3.34	3.47	7.66**
Resist	3.26 ²	3.09	3.18	3.18	5.66*

* $p < .01$ ** $p < .001$

Note: Significant differences among the four groups for each item were tested using one way analyses of variance, with between group means tested using the least-significant difference method. A superscript next to a mean score indicates that that particular mean is significantly different from the group defined by the superscript.

Summary

There are significant differences between those who had some conflict with the ATO during the years 2000 and 2002 and the majority of taxpayers who had no conflict

Overall the opinions of the people in conflict are much more negative, although these data do not tell us whether the negative attitude precedes the conflict experience or is a consequence of the conflict. A working paper is in preparation to address this issue.

References:

Braithwaite, V., Schneider, F., Reinhart, M. and Murphy, K. (2003). Charting the Shoals of the Cash Economy. In (Ed.) V. Braithwaite, *Taxing Democracy*, Ashgate, UK.