

Abstract

This paper reports on an experimental study, conducted in collaboration with the Australian Taxation Office (Tax Office), investigating the effects of different letter styles on the rental income reported and rental deductions claimed by 6803 taxpayers with rental property. In June 2000, letters were sent out through the Tax Office to a number of rental property owners. The letters varied in tone (either a 'soft' and cooperative tone or a 'hard' and threatening tone was used) and in content (being informed about completing rental information in the tax return correctly, being sent a *Rental Property Schedule* (a schedule) to complete and return, being sent a schedule to complete and return, together with an information booklet, or being sent a schedule that did not have to be returned to the Tax Office). The letters were sent to two samples of taxpayers: those who had been sent a schedule to complete in previous years (touched sample); and those who had not previously been sent a schedule (untouched sample). It was found that being sent a schedule and having to return it to the Tax Office was paramount in reducing the amount of deductions claimed for rental property compared with a control group, for both those previously touched and previously untouched. Further, for those previously touched, a hard tone resulted in fewer rental deduction claims than did a soft tone when the schedule had to be returned. This pattern, however, was reversed when the schedule did not have to be returned. A hard tone resulted in more rental deduction claims than did a soft tone. It is argued that reactance may have been aroused when taxpayers felt illegitimately threatened, producing an increase in rental deductions claimed when they were not under surveillance. A further study (beginning June 2001) will investigate further the relationship between illegitimate threat and deduction claims relating to rental property.