

UNDERSTANDING TAXPAYER  
ATTITUDES THROUGH UNDERSTANDING  
TAXPAYER IDENTITIES

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The Australian National University  
Australian Taxation Office  
Centre for Tax System Integrity



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*Series Editor:*  
*Tina Murphy*

## **Abstract**

For tax systems which rely on voluntary self-reporting of tax obligations, the need to understand what drives taxpayer attitudes and behaviour is important in ensuring that taxes owed are declared and collected. An understanding of the motivations underlying taxpayer attitudes and behaviour is also beneficial to tax authorities through informing them of which strategies might be most appropriate and effective in achieving greater compliance. Inappropriate strategies are not only costly and ineffective, but may also be counterproductive. Contrary to the understanding of taxpayers as being motivated purely by personal self-interest, this paper argues that how taxpayers perceive themselves in relation to other taxpayers and tax revenue authorities is fundamental to understanding the motivations which underlie taxpayer behaviour. This paper illustrates, both theoretically and empirically, that taxpayers can think of themselves as members of broader social categories (for example, Pay as You Go (PAYG) versus non-PAYG) and that this qualitatively changes how they think about themselves and what drives their attitudes and behaviour. This has strong implications for compliance strategies currently employed by tax revenue authorities and these implications are discussed.

# **Understanding taxpayer attitudes through understanding taxpayer identities**

*Natalie Taylor*

## **Introduction**

Understanding why taxpayers do or do not comply with tax regulation has been the focus of much research over the past three decades. Quite naturally, it is assumed that if we were able to acquire a good understanding of why taxpayers do or do not comply, we would be in a much better position to obtain greater levels of compliance with tax reporting, and bridge the 'tax-gap' (Internal Revenue Service, 1997) more effectively. However, despite the wealth of research conducted on this question, a concrete explanation remains elusive. Apart from the fact that defining what constitutes compliance is in itself difficult, and the subtleties which surround evasion, avoidance, mere error and intention often make them indistinguishable (see Long & Swingen, 1991; Roth, Scholze & Witte, 1989), our ability to pinpoint underlying motivations for compliant or non-compliant behaviour remains weak.

Researchers from various disciplines have investigated the effects of variables such as legal sanctions (Grasmick & Scott, 1982), stigmatisation (for example, Porcano & Price, 1993), probability of audit (Webley, 1987), conscience appeals (Schwartz & Orleans, 1967), self-interest (McGraw & Scholz, 1991), opportunity (Klepper & Nagin, 1989), omission and commission (for example, Christensen & Hite, 1997), message framing (Schisler, 1994), perceptions of fairness (for example, Roberts & Hite, 1994) and, of course, demographic features (for example, Baldry, 1987). Investigation of these variables has made use of a) self-reports of actual behaviour, attitudes or intentions (see Kinsey, 1984), b) analytical models of tax evasion which rely heavily on economic deterrence theory (for example, Allingham & Sandmo, 1972), c) actual data obtained from tax agencies (for example, McGraw & Scholz, 1991), and d) experimental studies which explicitly manipulate variables of interest (for example, Beck, Davis & Jung, 1991).

While each of these variables appears to have some causal or correlational connection with compliance, there is often difficulty replicating the finding, and links between the variables have not been established (see Andreoni, Erard & Feinstein, 1998). Further, it has become clear that techniques to improve compliance based on surveillance and sanctions are inadequate (James & Nobes, 2000; Kirchler, 1998; Tyler, 1998) or counterproductive

(Blumenthal, Christian & Slemrod, 1998; Schwartz & Orleans, 1967), and do not explain the voluntary compliance that occurs in the absence of surveillance (Alm, 1991) or changes in attitude as a result of an appeal to conscience (for example, Mason & Mason, 1992; McGraw & Scholz, 1991). Our understanding of the processes underlying compliance is poor, and yet for tax systems which rely on voluntary self-reporting of tax obligations, the need to understand them is increasingly urgent.

The purpose of this paper is to argue for a different approach to understanding the motivations underlying taxpaying behaviour. This approach is social-psychological in nature and aims to show that attitudes towards paying tax are not stable, but are fluid and are an outcome of how one defines oneself in relation to the tax system, the tax authorities and other groups of taxpayers. It will be argued that which of the above variables will be important in motivating behaviour will be an outcome of this self-definition.

The paper begins with a brief explanation of why current approaches (in particular, self-interest approaches) are inadequate to explain taxpayer motivations and why a self-definitional approach is useful. It will be shown, by analysing spontaneous taxpayer comments written at the end of a tax questionnaire, that how one defines oneself in relation to tax authorities and other groups of taxpayers affects attitudes to paying tax, the strength of objection to or acceptance of paying tax, the perceived fairness of tax, and the degree to which self-interest versus 'civic duty' is likely to be a motivating factor. It is concluded that understanding how taxpayers perceive *themselves* in the tax system is fundamental to understanding the motivations which underlie taxpaying behaviour.

### **Self-interest models of (non)compliance**

A dominant approach to research on taxpayer compliance is a financial self-interest model (Fischer, Wartick & Mark, 1992). This approach assumes that individuals are intrinsically motivated to maximise their own outcomes by weighing up the risks of detection and punishment for non-compliance against the probabilities of successfully evading paying tax. Individuals essentially engage in a cost-benefit analysis. They are rational actors who are interested only in their own financial well-being and their taxpaying behaviour depends upon their beliefs about the probability of detection and legal sanctions. If the probability of being caught and/or punished is deemed too high, compliance will result. While there is support for this general approach (for example, Allingham & Sandmo, 1972; Beck & Jung, 1989), self-

interest models would suggest that when income is not subject to third party reporting, individuals should evade their tax obligations (Alm, 1991). This, however, does not always appear to be the case.

Grasmick and Scott (1982) found that while the relationship between the threat of legal punishment (detection probability) and intention to evade taxes in the future was statistically significant, anticipated feelings of guilt and possible social stigma attached to tax evasion were more strongly associated with deterrence. They stated that their data suggest that policies increasing the public's sense of moral duty to comply should be the most effective strategy for improving compliance. In a similar vein, Mason and Mason (1992) draw on the moral development literature to argue that an appeal to conscience or civic virtue, if correctly targeted, should improve tax compliance over and above a fear of sanction or threat. Schwartz and Orleans (1967) found that when questions were asked in a way which emphasised conscience rather than sanctions, a stronger effect was found for increasing reported income. This emphasis on conscience is consistent also with the 'co-operative citizen approach' being adopted by James and Nobes (2000) in their research on compliance. Clearly, it would seem that factors other than pure self-interest must be involved in compliance (Alm, 1991).

A quasi-replication of the Schwartz and Orleans study (McGraw & Scholz, 1991) looked at the effects of a 'normative' appeal in contrast to a 'personal consequences' appeal on compliance. The former appeal invokes the question 'What am I obligated to do?' while the latter appeal invokes the question 'What will make me better off?' McGraw and Scholz (1991) found that a normative appeal resulted in an increased perception that the tax system and their own personal tax situation were fair, and that respondents adopted an impersonal, rather than self-interested, standard to evaluate the fairness of the tax system. In contrast, those who were exposed to a personal consequences appeal showed the strongest self-interest bias in evaluating the fairness of the tax system. While these attitudinal differences, however, did not translate into actual differences in compliance behaviour, this is possibly because the appeal manipulation occurred over three months before the tax filing behaviour. That is, the induced attitude change may have decayed over time, resulting in regression to the mean. The observed differences in attitude immediately following the manipulation, however, suggest that tax-related attitudes can be affected by how an appeal is directed and, moreover, that such attitudes are not simply determined by reference to personal self-interest but can also be

determined by reference to civic virtue or obligation. It would seem that there are also psychological and situational factors associated with tax behaviour (Kirchler, 1998).

But what does appealing to civic virtue actually mean? An appeal to self-interest is clearly in line with the cost-benefit approach outlined earlier. Unsurprisingly, emphasising how one can maximise one's income through evading tax leads to a desire to do precisely that. Why? Because the issue of tax is reframed so as to emphasise that everyone is in it for themselves, which motivates a desire to maximise what one can get out of the system. As Spicer (1975) has noted, the perception that cheating is widespread tends to undermine the resolve of honest taxpayers. It is likely that it is against this backdrop that self-interest motivates behaviour. However, an appeal to civic virtue is less clear to interpret. While McGraw and Scholz (1991, p. 472) themselves note that this perspective 'emphasizes moral reasoning and the processes of socialization and internalization of norms' and that both approaches 'are important for understanding citizen responses to legal obligations', the implication is that these two approaches are essentially pitted against each other. That is, self-interest ('what will make me better off?') is pitted against obligation ('what am I obligated to do?'). There is an implicit underlying assumption that self-interest is the dominant motivation and that obligation is a means to try and deflect that motivation.

While it is agreed that these two approaches *are* important for a fuller understanding of the processes underlying compliance, it is argued that investigating them as if they involved an individual cost-benefit analysis reduces our focus, once again, to an expected utility approach. This is inadequate, and ignores the fundamental point that the 'socialization and internalization of norms' associated with appeals to civic virtue may lead to qualitative differences in self-perception and not just quantitative differences in attitudes.

### **A social identity approach to understanding compliance**

As mentioned earlier, the focus of this paper is to present a different approach to understanding the motivations underlying taxpaying behaviour. This approach is based on an understanding of processes of social identity (Tajfel & Turner, 1986; Turner, 1985; Turner, Hogg, Oakes, Reicher & Wetherell, 1987) and is a central perspective in social psychology. Turner (1985) developed a theory of self-categorisation, in which he argued that self can be perceived as unique and individual, and different in comparison with others ('me' in contrast to 'you/him/her'). At other times, however, self can be perceived as belonging to some social

category (ingroup), and relatively interchangeable with members of it, in contrast to another category to which self does not belong (outgroup). This involves a psychological transformation from 'me' to 'we', and 'him/her' to 'them', and occurs as a result of changes in perceiver factors (knowledge, goals and motivations) and situational context. As the context changes (that is, the issue, those involved, the frame of reference), so does self-perception. It is when self-perception is at the level of social identity, where greater similarity to ingroup others and greater dissimilarity to outgroup others is perceived, that attitudes and behaviour become more aligned with ingroup norms. Influence is argued to be an outcome of self-categorisation and is specific to ingroups. Outgroups possess no ability to influence. That is, attitudes, behaviour, perceptions of fairness, what is right and what is wrong are outcomes of, and vary with, self-categorisation.

It is important to note that, from this perspective, both personal and social identities are psychologically valid and meaningful expressions of self. One is not regarded as more real or important than the other; rather, they are contextually-dependent and hence valid self-definitions, driving attitudes and behaviour, given a particular context. Perception 'varies not only with the perceiver but also with the salient self-category for a given perceiver – different people see the same thing differently, and the same perceiver sees the same thing differently as the varying self changes' (Turner & Oakes, 1997, p. 367).

This analysis implies that self-interest and civic virtue are not in direct competition with each other; rather, self-interest (that is personal self-interest) is likely to motivate behaviour when people see themselves as individuals (in contrast with other individuals), while civic virtue (what is good for the group collectively) is likely to motivate behaviour when people see themselves as being members of (positively valued) social categories, in contrast to other (negatively valued) social categories. An appeal to civic virtue changes the psychological situation by situating the recipient in a wider, more inclusive category in a different social context.

For example, in the McGraw and Scholz (1991) study, the appeal referred to the importance Americans place on the norms of social responsibility and patriotism, emphasising how these norms related to tax compliance. That is, the context was manipulated to include *all good Americans who believe in social responsibility and patriotism* (ingroup), which implied that not taking social responsibility seriously (that is, not complying with tax rules) was essentially bad and un-American (outgroup). On the assumption that most of the recipients

would have regarded themselves as good Americans (or at least would not have liked to think of themselves as bad Americans), this would have led to a self-categorisation of 'good American', which meant adopting more closely the attitudinal and behavioural norms associated with that category. At this superordinate level of identity, all Americans would then have the potential to be influential. This stems from the fact that those who are seen as similar to self are also perceived as more legitimate, fair, accurate and trustworthy (Haslam, 2001; Tyler & Lind, 1992).

Hence, the appeal to civic virtue is associated with a qualitative shift in self-perception from 'me' to 'us', a corresponding shift in who is included in the frame of reference, and a corresponding decrease in personal self-interest and more concern about outcomes for all good Americans. It is due to the fact that attitudes, behaviours, and motivations are outcomes of the self-categorisation process that self-interest and civic virtue are not competing in a cost-benefit analysis. Whether self-interest or civic virtue will motivate behaviour will depend on whether personal or social identity is salient, and whether the salient social identity is one which includes a majority of people and groups within the self-concept (a superordinate identity, such as 'American'), or one which includes only a subset of people within the self-concept (a subordinate identity, such as 'the rich' or 'the poor').

Most compliance with tax laws is to be expected at a more superordinate level of identity, because that is the level at which most people are included in one's self-definition and few people are excluded. Hence, if I perceive myself as American, then I care about America and all Americans, and want what is best for Americans. Least compliance with tax laws is to be expected at a more subordinate level of identity, because this level includes fewer people and is more likely to be situated in conflict with other subordinate groups (for example, 'us poor versus them rich'), focusing the concern on distributive outcomes and maximising the ingroup's interests.

### **Perceived representativeness of authorities**

Approaching compliance from a social identity perspective, we can see that attitudes and behaviour in relation to compliance are outcomes of the self-categorisation process. It has been argued that compliance with tax laws is much more likely to occur when a superordinate identity is salient than when a subgroup identity is salient. Further, it has been argued (Smith & Tyler, 1996) that compliance should be most likely when the authority in

question is included in that superordinate identity. The degree to which authorities are perceived to be representative of those over whom they have power has important implications for attitudes and behaviour. Research into procedural justice has shown that when authorities are perceived to behave fairly and respectfully, greater compliance results (Tyler, 2001; Worsham, 1996). When authorities are perceived as representative, their decisions are seen as legitimate because they are acting in the collective interests of 'us' (Ellemers, Van Rijswijk, Bruins & de Gilder, 1998; Haslam, 2001). Legitimacy, in turn, leads to acceptance of decisions which authorities make and obedience to rules, regardless of whether people agree with them or dislike the outcomes (Tyler, 1998). Further, representative authorities confer a sense of pride in being a member of groups over which those authorities reign (Tyler & Degoey, 1996).

The implications in relation to tax authorities, then, are clear. Tax revenue authorities are designated by governments to collect revenue on behalf of governments. If governments are perceived as representative, then the role of tax authorities should be perceived as legitimate. If authorities are included within one's self-categorisation, they will be perceived to be legitimate, fair, accurate and trustworthy because they are perceived as *representative* of self, leading to greater compliance with rules and regulations (Smith & Tyler 1996). Unrepresentative authorities, then, face greater difficulty obtaining compliance because they are more likely to be perceived as illegitimate, unjust, wrong and untrustworthy. What is important about this latter point is that if self-perception is located at a subgroup level (for example, rich versus poor), the tax authority may be perceived as being part of, or representing the interests of, the outgroup, in which case the authority's ability to influence is dramatically reduced and even rejected outright.

While we can attempt to manipulate experimentally superordinate identities so that the tax authority is included in them (along similar lines to civic virtue), it is important to know how and why particular identities spontaneously become salient in the context of tax, and what those spontaneous identities are. After all, it is these spontaneously generated identities which, it is argued, drive actual taxpayer attitudes and behaviour. Their existence needs to be established and their implications explored, both in terms of demonstrating the nature and importance of social identity, and in terms of obtaining a deeper understanding of the processes involved in taxpayer behaviour. For this reason, the study outlined in this paper analysed unsolicited, spontaneously written comments made by taxpayers at the end of a tax survey (that is, when they were thinking about paying tax). It was predicted that identities

(both personal and social) would be discernible from what taxpayers wrote (Hypothesis 1), and that there would be a positive correlation between perceived representativeness of government and the tax revenue authority (Hypothesis 2).

### **Social identity, justice and compliance**

Perhaps one of the distinguishing features of the Australian tax system is that it is purportedly about achieving justice and fairness, and turning inequality into equality. That is, everyone who earns above a certain amount of income is required to pay a certain amount of tax. Further, those who earn more are often required to pay a higher level of tax than those who earn less. This is deemed to be a fair process as it essentially relies on the ability to pay. Apart from providing essential services from which everyone benefits, tax revenue is also used to provide a 'safety net' for those in need.

Justice, fairness and equality, however, are not objective standards (Tyler, Boeckmann, Smith & Huo, 1997). Perceptions of them vary with self-categorisations (Wenzel, 2000). What might be perceived as being fair at the superordinate level (for example, paying more tax than others) could be perceived as being highly unfair at the subordinate level. As Smith and Tyler (1996, p. 175) note:

Distinguishing between levels of inclusiveness suggests that when a superordinate category is more important to people, inequities between different groups represent an intragroup situation with implications for collective cooperation and harmony. In contrast, if a particular group is more important to people, inequities between different groups represent an intergroup situation with different groups competing for resources and power.

This suggests that when a subgroup identity is salient, what is perceived as fair or just is determined with reference to what *other* groups on similar dimensions have. This is similar to the notion of 'horizontal inequity' (Moser, Evans & Kim, 1995), except that the perceived inequity relates to comparison with other groups rather than individuals. If other groups of taxpayers are perceived to be doing better than one's own, and this is deemed to be illegitimate and unfair (that is, no obvious reason why 'they' should be getting a better deal than 'us'), this can lead to collective relative deprivation (see Walker & Mann, 1987). That

is, a subjective sense of collective, group-based injustice ('we' have been treated unfairly), generating anger and resentment and a strong desire to remedy the situation.

However, perceptions of injustice are not simply related to inequality in outcomes (distributive justice), but can also be related to the perceived unfairness of the methods and procedures used to determine the outcomes (procedural justice). If the methods by which outcomes are distributed are perceived to be fair, then discrepancies in outcomes may also be judged to be fair (Tyler, 2001). Song and Yarbrough (1978) noted that the taxpayers' complaint is not that too many citizens cheat the government and get away with it, but that the government provides unequal opportunities to different income groups.

In fact, evaluations of procedural justice have been linked to voluntary acceptance of decisions made by authorities, obedience to laws and legitimacy of authorities (for example, Tyler, 1990; Tyler & Lind, 1992). This strongly implies that if inequities in outcome (for example, paying more tax than others) are perceived to result from unfair procedures in the tax system, then perceptions of group deprivation should increase, subgroup identities should become stronger, intergroup hostility should increase, and attitudes towards paying tax should become very negative. In particular, Smith and Tyler (1996) have argued that procedural justice concerns should be greater at the superordinate level, due to the facts that a) distributive injustice concerns are associated with subgroup differentiation which does not exist at a superordinate level, and b) being treated in a procedurally fair manner conveys that one is valued and respected by other group members, and is important for self-esteem and determining one's behaviour towards other group members. At the subgroup level, however, the distinctions between subgroups, which are not so apparent at the superordinate level, are highly apparent, focusing concerns on distributive outcomes (what 'they' are getting in relation to what 'we' are getting). Hence, in the study being presented, it was predicted that taxpayer comments would relate both to distributive and procedural justice concerns (Hypothesis 3). Further, in line with Smith and Tyler (1996), it was predicted that concerns about distributive justice would be greater at a subgroup than at a superordinate level of identity (Hypothesis 4).

### **Attitudes and motivational postures towards tax**

Based on research conducted by Braithwaite and Braithwaite (2000; Braithwaite et al., 1994), four motivational postures of taxpayers have been identified. These postures reflect

underlying values, attitudes and beliefs and are the result of the dynamic interplay between taxpayers and tax authorities. The motivational postures are referred to as 'commitment', 'capture', 'resistance' and 'disengagement', and these embody psychological and behavioural orientations of taxpayers.

Commitment reflects a high level of internalised acceptance of the rules and regulations associated with the tax system (meaning that surveillance is unnecessary), while capture reflects an explicit and conscious decision to comply, in the knowledge that the tax authority has power and will use it if necessary. These motivational postures then are both compliant ones. Resistance and disengagement reflect a psychological increase in social distance between taxpayers and the regulatory system. Those who adopt these postures do not wish to be part of the tax system, are motivated to avoid it and are more likely to engage in conflictual behaviour in relation to it. Essentially, then, these postures describe an escalating process of non-compliance, accompanied by escalations in the degree to which surveillance and punishment are necessary to produce compliance with tax regulation.

Importantly, however, it is explicitly acknowledged that these motivational postures are not stable individual traits, but reflect the dynamic context in which the taxpayer is situated. This means that the motivational postures are not stable, but fluid, and taxpayers can shift between them. However, the specific processes which might lead to taxpayers adopting one motivational posture over another are not specified. It is proposed in this paper that levels of inclusiveness of self-categorisation and the perceived representativeness of authorities may be two factors affecting the shift from one posture to another. Specifically, it was predicted that the less representative the government and Tax Office were perceived to be, the less compliant and more resistant taxpayers would be in their motivational postures (Hypothesis 5).

### **Overview of research design**

As previously stated, the primary purpose of this paper is to demonstrate that how people spontaneously perceive themselves in relation to the tax system and other taxpayers is fundamentally important in understanding taxpayer attitudes and behaviour. It has been argued that social identity is central in this process, and that how people categorise themselves and others affects their perceptions of the fairness of the tax system and their attitudes towards tax in general. Studies which manipulate variables and then attempt to

measure their effect on actual taxpaying behaviour, while rare, tend to find reduced or no effect in actual taxpaying behaviour (for example, Blumenthal, Christian & Slemrod, 2001; McGraw & Scholz, 1991). From the perspective being advocated in this paper, this is because the context in which taxpayers are situated at tax filing time may bear no relation to the context they were situated in when the variables were being manipulated (often some time earlier). If this is so, then it is important to investigate how taxpayers might spontaneously perceive themselves and others when they are thinking about tax.

This was done in the present study by analysing unsolicited comments written by taxpayers at the end of a questionnaire investigating tax-related attitudes. This was deemed appropriate as these taxpayers were in a situation in which they had been thinking about tax before writing their comments. Analysis of what is expressed in words is important because ‘the various aspects of context and self-categorization are actively constructed and contested through language. This means that we need to treat text seriously, examining the precise words that are used, analyzing what categorical definitions are offered, how they are warranted or else challenged.’ (Reicher & Hopkins, 1996, p. 301).

## **The study**

As part of a larger research project, in May 2000 a questionnaire titled ‘Community Hopes, Fears and Actions’ (Braithwaite, 2000) was mailed out to 7754 Australian taxpayers, selected randomly from the publicly available Australian electoral roll. After allowing for out-of-scope responses (for example, return to sender, recipient deceased), the response rate was 29% (see Mearns & Braithwaite, 2001, for more details of the design and methodology). Approximately 500 questions covered a wide range of tax-related issues and took about one and a half hours to complete. As a goods and services tax (GST) was being introduced in Australia from 1 July 2000, this date was used as a cut-off for inclusion of returned responses in the present study in order to eliminate extra variability in responses due to the introduction of the GST. This yielded 1044 usable questionnaires. Although the survey contained a large number of questions about various matters, the focus in this paper will be on those directly relating to the issues being investigated here.

## **Self-categorisation**

Self-categorisation was investigated by analysing comments written spontaneously at the end of the questionnaire. At the top of a blank page were the words ‘If you have any comments

which you would like to add, please write them below'. Comments written on this page were therefore unsolicited, allowing spontaneously generated self-categorisations to emerge. As the questions of interest in this paper revolve around self-definition, only those who wrote comments at the end of the questionnaire in relation to tax were included in the analyses. The number of respondents who wrote comments relating to tax was 155 (15% of the sample). Ages ranged from 19 to 80, with a median age of 46. Fifty-two per cent of these respondents were male, while 48% were female. Thirty-seven per cent of respondents wrote half a page, 21% wrote a whole page, and 8% wrote two pages.

To investigate whether social identities could be detected in the comments respondents wrote, three different coders (two of whom were familiar with the concept of self-categorisation) classified each respondent as reflecting personal, social or unclear identities. A social identity was coded as existing if the respondent referred to him/herself in a way which clearly indicated social group membership (for example, 'we wage and salary earners', 'us taxpayers'). When a social identity was detected, the coders were required to identify which social (in)group the respondent belonged to. The groups identified were: 'average Australian', 'pay-as-you-earn', 'homemaker', 'single parents', 'single income families', 'families with children', 'welfare recipients', 'retired', 'working singles or couples', 'rural Australians', 'Australian', 'low income', 'hardworking Australian', or 'small business owners'. A consensus code (cf. Lupfer, Weeks, Doan & Houston, 2000) was established if two or three of the coders agreed in their codings. Consensus codes were established for 96% of the coding decisions. Of the 155 respondents, 40 were unable to be classified.

To establish *level* of inclusiveness, these social groups were collapsed into two categories: superordinate (comprising 'Australian', 'average Australian' and 'hardworking Australian') and subgroup (comprising the remainder of the groups). These categories reflected the degree to which others were included in one's self-concept, and hence provided the means for investigating how self-categorisation affects attitudes.

### **Motivational postures**

Based on previous research (Braithwaite et al., 1994), a priori scales were constructed from the questionnaire for each of the four postures. Each item was rated on a 5-point scale from 1 (strongly disagree) to 5 (strongly agree), and each scale was computed by averaging responses across items. Disengagement comprised four items ( $\alpha = .56$ ). These were: 'I don't

care if I am not doing the right thing by the Tax Office', 'I personally don't think that there is much the Tax Office can do to me to make me pay tax if I don't want to', 'I don't really know what the Tax Office expects of me and I'm not about to ask', and 'If I find out that I am not doing what the Tax Office wants, I'm not going to lose any sleep over it'. Resistance comprised six items ( $\alpha = .70$ ). These were: 'It's impossible to satisfy the requirements of the Tax Office completely', 'The Tax Office is more interested in catching you for doing the wrong thing, than helping you do the right thing', 'It's important not to let the Tax Office push you around', 'Once the Tax Office has you branded as a non-compliant taxpayer, they will never change their mind', 'As a society, we need more people willing to take a stand against the Tax Office', and 'If you don't cooperate with the Tax Office, they will get tough with you'.

Capture comprised five items ( $\alpha = .64$ ). These were: 'The Tax Office is encouraging to those who have difficulty meeting their obligations through no fault of their own', 'If you cooperate with the Tax Office, they are likely to be cooperative with you', 'Even if the Tax Office finds that I am doing something wrong, they will respect me in the long run as long as I admit my mistakes', 'The tax system may not be perfect, but it works well enough for most of us', and 'No matter how cooperative or uncooperative the Tax Office is, the best policy is to always be cooperative with them'. Commitment comprised eight items ( $\alpha = .83$ ). These were: 'I feel a moral obligation to pay my tax', 'Overall, I pay my tax with good will', 'I resent paying tax' (reverse scored), 'I accept responsibility for paying my fair share of tax', 'I think of taxpaying as helping the government do worthwhile things', 'Paying tax is the right thing to do', 'Paying tax is a responsibility that should be willingly accepted by all Australians', and 'Paying my tax ultimately advantages everyone'.

### **Perceived representativeness of authorities**

Scales were constructed from the questionnaire to reflect the degree to which government was perceived as representative of self ('Govrep') and the degree to which the Tax Office was perceived as representative of self ('Taxrep'). Each item was rated on a 5-point scale from 1 (strongly disagree) to 5 (strongly agree), and each scale was computed by averaging responses across items. Those items followed by a <sup>+</sup> indicate that they were reverse scored. *Govrep* comprised six items ( $\alpha = .75$ ). These were: 'Our government is attempting to mould our society to the needs of a profit-oriented market' <sup>+</sup>, 'There's a dollar democracy that runs through our supposed democracy' <sup>+</sup>, 'I don't think we have enough input into legislation and

the decisions that are important' +, 'I'm always cynical about government processes' +, 'All political parties seem to be appalling' +, and 'Overall, how dissatisfied or satisfied are you with the way the government spends taxpayers' money?' + This latter question was responded to on a scale where 1 = dissatisfied and 5 = satisfied.

*Taxrep* comprised eight items ( $\alpha = .84$ ). These were: 'The Tax Office listens to powerful interest groups, not to ordinary Australians' +, 'The Tax Office can be trusted to administer the tax system so that it is right for the country as a whole', 'The Tax Office's decisions are too influenced by political pressures' +, 'The Tax Office has acted in the interests of all Australians', 'The Tax Office has turned its back on its responsibility to Australians' +, 'The Tax Office has caved in to pressure from special interest groups' +, 'The Tax Office is trusted by you to administer the tax system fairly', and 'The Tax Office takes advantage of people who are vulnerable' +.

### **Perceptions of injustice**

Taxpayer comments were coded for perceptions of distributive and procedural (in)justice. The coding procedure was similar to that developed and used by Lupfer et al. (2000). However, four procedural justice categories were created, rather than just one. This reflected the fact that the procedural justice criteria as identified by Lupfer et al. did not adequately capture other criteria specifically related to the nature of the issues raised in the taxpayer comments. Distributive injustice comprised three criteria: 'received inequitable outcome', 'received unequal outcome' or 'need was not considered in outcome'. Procedural injustice comprised four categories.

*Procedural waste* referred to any reference that politicians waste money, taxes are generally wasted, taxes are wasted while health, superannuation, education or public transport suffer. *Procedural inequity* referred to any reference that the tax system was wrong, tax system was inequitable, system does not consider need, system benefits wealthy, welfare recipients or big business. *Procedural violation* referred to explicit promises and agreements broken, rules applied inconsistently, too many loopholes in system, no disclosure of where taxes go. *Procedural illegitimacy* referred to the Tax Office or politicians being disrespectful, incompetent, untrustworthy, or where the taxpayer had no confidence in the system. This resulted in 24 different criteria against which each taxpayer's comments were to be coded.

Following Lupfer et al. (2000), the coder's task was to decide whether or not each criterion was reflected in the comments, and to assign a code of 0 (not reflected) or 1 (reflected) to each criterion. In the event that coders felt the coding categories were incomplete or unclearly defined, they were asked to note down extra categories they felt were applicable. Three coders coded each of the taxpayer comments in terms of the justice criteria. A consensus code was established if two or three of the coders agreed in their codings. Consensus codes were established for 93% of the justice coding decisions.

## **Results**

Those taxpayers who wrote comments relating to tax at the end of the questionnaire ( $n = 155$ ) referred to various issues. Comments were coded by two independent raters into categories of issues raised (Cohen's kappa coefficient = .67, which Fleiss (1981) regards as an acceptable level of intercoder reliability). The issues raised in the comments, and the proportion of respondents who referred to each issue, are shown in Table 1. Perhaps unsurprisingly, it can be seen that almost all the comments referred to perceptions of injustice. The most dominant complaint was that the tax system was inequitable (51% of those who wrote comments referred to this). It was hypothesised that identities of taxpayers would be discernible from their comments, and this was so for the majority of those who wrote comments (74%). Further, it was possible to determine the level of inclusiveness of social identities. Sixty-seven per cent comprised a superordinate level of identity and 48% comprised a subordinate level.

**Table 1: Percentages of respondents in subsample (N = 155) who referred to each issue in their comments**

<b>Issue referred to</b>	<b>Percentage of subsample</b>
Tax system is inequitable	51.0
Introduction of GST is unfair	23.9
System benefits wealthy	22.6
Taxes generally wasted	18.1
System does not consider need	14.8
Politicians waste money	14.2
Tax system is wrong	14.2
Too many loopholes in the system	11.6
Little people pay while rich don't	11.0
Rules applied inconsistently	9.0
Government is untrustworthy	8.4
System benefits welfare recipients	7.7
Problems with health insurance	7.7
Explicit promises and agreements broken	7.1
Tax system removes incentive to work	7.1
Taxes are unequal	5.8
Taxes are too high	5.8
Tax is unfair because not everyone pays	5.8
Reference to Kerry Packer	5.8
Government, not Tax Office, responsible	5.8
Problems with superannuation	5.2
Tax forms difficult/costly to complete	5.2
No confidence in system	5.2
System benefits big business	3.9
Problems with education	3.9
Tax Office is incompetent	3.9
Government is incompetent	3.9

### **Perceived representativeness of authorities and motivational postures**

It was hypothesised that the more representative the government was perceived to be, the more representative the Tax Office would be perceived to be. This correlation (see Table 2) was moderately strong,  $r(153) = .59$ ,  $p < .001$ , implying that perceived legitimacy of government is related to perceived legitimacy of the Tax Office. It was further hypothesised that the more unrepresentative authorities were perceived to be, the more resistant and less compliant taxpayers would be in their motivational postures. This was also found to be so. The means, standard deviations and intercorrelations for the motivational postures, Govrep and Taxrep, are given in Table 2. It can be seen that the more representative the government and Tax Office were perceived to be, the less disengaged ( $r_s = -.34$  and  $-.27$ , respectively)

and resistant ( $r_s = -.41$  and  $-.57$ ) taxpayers were, and the more captured ( $r_s = .32$  and  $.60$ ) and committed ( $r_s = .30$  and  $.39$ ) they were.

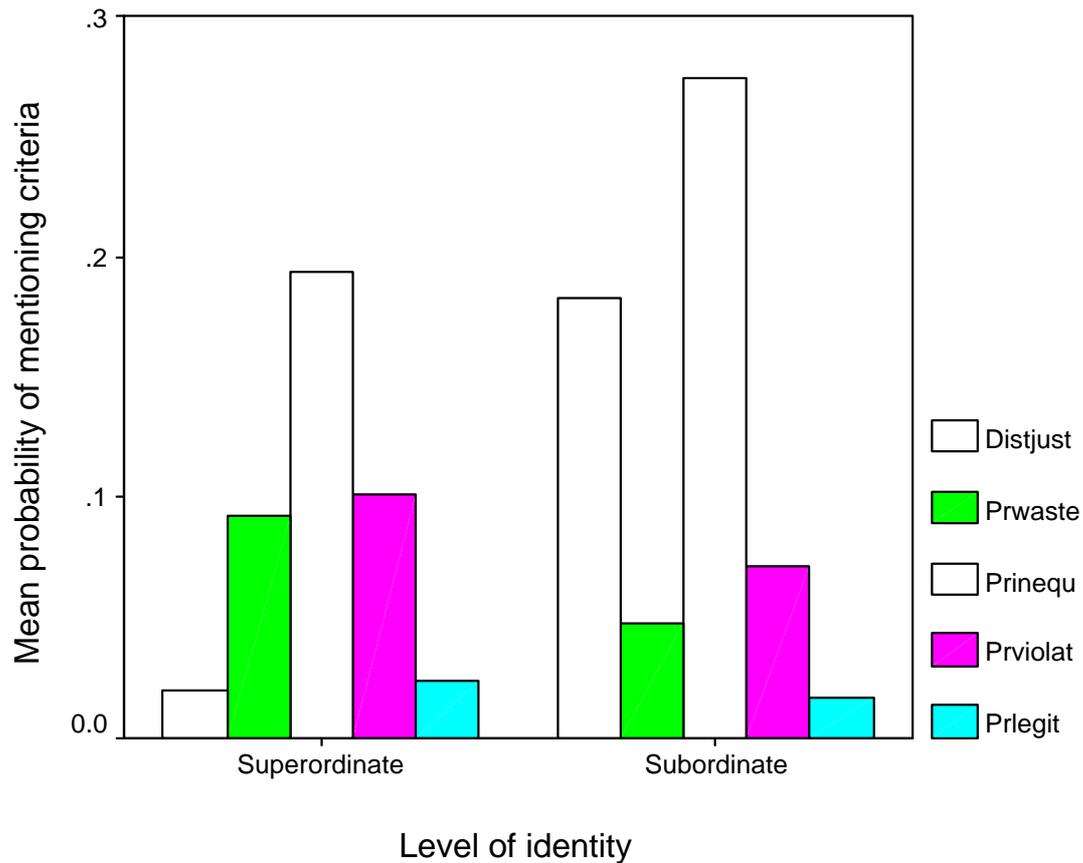
**Table 2: Intercorrelations and summary statistics for Govrep, Taxrep, and the motivational postures**

Variable	M	SD	N	Govrep	Taxrep	Diseng	Resist	Capture	Commit
Govrep	3.92	.66	151	–					
Taxrep	3.33	.70	150	.59***	–				
Disengagement	2.27	.54	154	-.34***	-.27**	–			
Resistance	3.30	.61	155	-.41***	-.57***	.32***	–		
Capture	3.27	.60	154	.32***	.60***	-.16	-.35***	–	
Commitment	3.86	.65	155	.30***	.39***	-.39***	-.42***	.38***	–

Note: \* $p < .05$  \*\* $p < .01$  \*\*\* $p < .001$

### Perceptions of injustice

The mean probabilities of each of distributive (in)justice, procedural waste, procedural inequity, procedural violation and procedural illegitimacy being mentioned in the comments are graphically depicted in Figure 1. Consistent with Smith and Tyler’s (1996) argument, the probability of distributive justice concerns being mentioned was significantly higher at the subgroup level ( $M = .18$ ,  $SD = .27$ ) than at the superordinate level ( $M = .02$ ,  $SD = .27$ ),  $t(107) = 4.67$ ,  $p = .000$ . While procedural waste, procedural violation and procedural legitimacy did not differ between levels of inclusiveness, procedural inequity was also mentioned significantly more often at the subgroup level ( $M = .27$ ,  $SD = .15$ ) than at the superordinate level ( $M = .19$ ,  $SD = .18$ ),  $t(107) = 2.43$ ,  $p = .017$ . That is, those at the subordinate level were more concerned about unfair outcomes *and* more concerned about the unfair procedures which produced those unfair outcomes than those at the superordinate level.



**Figure 1: Mean probability of each set of criteria being mentioned in comments as a function of level of identity (superordinate or subordinate).**

**Were authorities perceived as more representative at the superordinate level?**

To investigate whether authorities were more likely to be included in the self-concept at the superordinate level of identity, taxpayers at both superordinate and subordinate levels were analysed with respect to the degree to which authorities were perceived as representative of them. Based on a median split of both Govrep and Taxrep, taxpayers were categorised as perceiving high or low representativeness of both authorities. Interestingly, the frequencies were similar in terms of high and low representativeness of government at both the superordinate (45% versus 55%) and subgroup (50% versus 50%) levels. The same pattern emerged for judgements of the Tax Office at the superordinate (43% versus 57%) and subgroup (49% versus 51%) levels. Clearly, authorities were not perceived as more representative at the superordinate level than at the subgroup level, which may help to explain why procedural justice concerns were not stronger at the superordinate level, as would be predicted by Smith and Tyler (1996), than at the subordinate level.

## **Attitudes towards tax**

In order to understand better the role of authorities in attitudes to tax, taxpayers were analysed according to whether they had been categorised as perceiving high or low representativeness of the Tax Office. Those who perceived *low* representativeness of the Tax Office regarded being an honest taxpayer as less important,  $p = .025$ , felt more resentment about paying tax,  $p = .004$ , and felt less obligated to obey the rules of the Tax Office,  $p = .040$ , than those who perceived high representativeness of the Tax Office. Further, those who perceived low representativeness of the Tax Office were also more disengaged,  $p = .001$ , more resistant,  $p = .000$ , less captured,  $p = .000$ , and less committed,  $p = .000$ , in their motivational postures than those who perceived high representativeness.

## **Conclusions from study**

It seems clear that attitudes towards tax are not simply driven by personal self-interest variables but are also affected by how taxpayers perceive themselves, other taxpayers and tax authorities. Clearly, taxpayers can see themselves as relatively interchangeable with other taxpayers, and interchangeable with a subgroup of taxpayers in contrast to another group, or interchangeable with the group of taxpayers as a whole. Self-interest, then, which might drive attitudes and behaviour at a personal level of identity, is transcended by group values and interests. The question of 'what is good/right for me' becomes 'what is good/right for us'. Judgements about fairness reflect the degree to which other taxpayers are perceived as similar to self or not. At a subgroup level, the focus is on distributive (in)justice because the distinction between subgroups and unfair outcomes is more clearly defined than at the superordinate level ('what are they getting that we aren't?').

The role of authorities, however, is also very important in affecting tax-related attitudes. The less representative of taxpayers authorities are perceived to be, the more resistant taxpayers are in their motivational postures and the more negative their attitudes are towards paying tax. This, it is argued, stems from the fact that unrepresentative authorities are perceived as illegitimate because they do not represent 'us' appropriately (Haslam, 2001). Decisions made by an illegitimate authority, then, are seen as invalid, removing the obligation to accept or obey them (Tyler, 1998). The importance of this point in relation to social identity should perhaps be spelt out a little more clearly.

In their argument, Smith and Tyler (1996) noted that procedural justice concerns should be greater at a superordinate level because fair treatment by those included within one's self-concept confers a sense of respect and pride in oneself, which is important for self-worth. This sense of self-respect and pride then leads to acceptance of rules and decisions made by ingroup others, even if the outcomes do not personally benefit oneself. However, these authors also point out that in order for authorities to gain obedience to rules and decisions, those authorities must be included within the superordinate category. If they are excluded, their influence is reduced because their treatment of group members does not affect perceptions of self-worth (Tyler & Smith, 1999). While it might be expected that at a superordinate level of identity (for example, Australian) authorities might normally be included within the self-concept, it seems clear that this was not so in the present study. The degree to which authorities (both the government and Tax Office) were perceived as representative was not greater at the superordinate level than at the subordinate level. Given that the comments expressed by taxpayers were in the form of complaints (that is, negative), this implies that those who perceived themselves as similar to other Australians were defining themselves in contrast to authorities, while those at the subgroup level were defining themselves in contrast to other subgroups as well as in contrast to authorities. After all, if one's subgroup is perceived to be unfairly disadvantaged in comparison to another subgroup, it is presumably natural to also focus on those who have allowed the injustice to occur.

Two issues, however, render perceptions of authorities more problematic when social rather than personal identity is salient. Firstly, perceptions of group-based injustice become stronger when social rather than personal identity is salient (Walker & Mann, 1987). Secondly, authorities not included within one's own category membership run the risk of being perceived as condoning or representing outgroup interests, making the potential for intergroup hostility even stronger.

It is also interesting to note that while procedural waste, procedural violation and procedural illegitimacy were referred to equally often at the superordinate and subordinate levels, procedural inequity was referred to significantly more often at the subordinate level. That is, when distributive outcomes were perceived as unfair, taxpayers focused on the unfair procedures which were directly relevant to producing those outcomes. This, of course, makes sense because judgements about unfair outcomes are not made in a vacuum. To judge an outcome as unfair must mean that the procedures which produced the outcome are also judged as unfair. It is difficult to see that an outcome could be judged as unfair if the

procedures which produced the outcome are judged as fair. This result also shows the interdependence between distributive and procedural justice, a link which is sometimes lacking in justice research (see Tyler, 2001).

### **Implications of social identity for understanding attitudes towards tax**

It has been argued in this paper that attitudes towards tax are not simply driven by individual self-interest. The way in which taxpayers categorise themselves, other taxpayers and relevant tax authorities (that is, the degree to which others are included within one's self-category) affects the degree to which personal self-interest dictates attitudes and behaviour. When social category membership is salient, self-interest is transformed into a 'collective we-group interest' (Turner & Haslam, 2001, p. 39). This means that concerns about what is right/good/fair for *all* group members becomes the dominant focus. As previously mentioned, the concept of 'civic virtue' is precisely a collective group interest, resulting from social category membership. It is not a soft or irrational deviation from the true self, something to be appealed to as a means of trying to deflect the true self-interested nature of the individual. Rather, it reflects the perception of self as a member of a valued broader community, the knowledge of which makes salient shared norms, values and expectations associated with such membership. Perceiving self as a member of the community leads to adopting attitudes and behaviour which benefit the community rather than self because the community is reflected in self. Thoughts and actions, then, do not revolve around a conflict between doing what is right for self versus doing what is morally or legally right. Personal self-interest will dominate thinking when personal identity is salient. Group-based concerns (collective self-interest) will dominate thinking when social identity is salient.

The facts that taxpayers can and do think of themselves as members of social categories (shown empirically in this paper), and that social identity leads to group-based rather than personal concerns, have important implications for the use of surveillance and deterrence as instruments for ensuring compliance with tax laws. Firstly, if factors other than self-interest are motivating behaviour, then surveillance and deterrence are unlikely to be effective for the simple reason that the assumptions underlying their usage are questionable (cf. Alm, 1991; James & Nobes, 2000; Tyler, 1998).

Second, power relations between groups become more distinctive when social identity is salient. Psychological ingroup members are perceived as more likeable, honest, trustworthy, accurate, legitimate and fair than psychological outgroup members (for example, Ellemers et al., 1998; Haslam, 2001; Haslam, McGarty & Reynolds, 1999; Hogg, 1993; Turner, 1991). For these reasons, ingroup members are persuasive and produce internalised attitudinal and behavioural change. Outgroup members, however, are not attributed with these characteristics and hence persuasion is not an option. In order to effect change, outgroups must resort to coercion and threat (Turner, 1991). Further, however, the more those trying to change behaviour are perceived to belong to a different social category (outgroup), the more the relationship between self and outgroup others is likely to be characterised by perceptions of coercion (Haslam, 2001; Taylor & McGarty, 1999). This has clear and counterproductive implications for tax authorities who are excluded from self-categories and who use threat and deterrence to obtain compliance.

Third, and quite apart from social identity effects, research into reactance (Brehm & Brehm, 1981) has shown that the use of threat and coercion can lead to the opposite behaviour from that advocated. Essentially, people react against the use of power, particularly when such power use is perceived as unwarranted and illegitimate (Biner, 1988). It is not difficult to see that if social identity increases perceptions of outgroup power, reactance may become more likely the more that an outgroup uses threat and coercion. It is also not difficult to see that the use of threat and coercion can undermine perceptions of the legitimacy of the tax system and tax authorities. In terms of the motivational postures, this is likely to lead to the adoption of non-compliant rather than compliant postures, reflecting increasing distance between self and tax authorities.

In order to improve voluntary compliance with tax laws, it is absolutely essential that tax authorities are included within the self-category (cf. Smith & Tyler, 1996). This means tax authorities must be perceived as representative of taxpayers through embodying the values and ideals of being fair, neutral and trustworthy (Tyler, 1998). As has been shown in this paper, unrepresentative authorities affect attitudes on a range of tax-related dimensions, and are associated with non-compliant motivational postures. The importance of being representative of taxpayers is grounded in the fact that those who are seen as representative of self are also seen as legitimate. Acceptance of, and voluntary compliance with, the rules and regulations laid down by tax authorities are underscored by a belief in the legitimacy of the broader tax system and its objectives. This, of course, is the level reflected by the

motivational posture of commitment and is the level of most benefit to tax authorities, as compliance does not depend upon surveillance or personally favourable outcomes.

Indeed, it could be argued that most taxpayers take for granted the legitimacy of the tax system and its overarching objectives. For example, it has been shown that the majority of people believe themselves to be honest in their tax dealings (see Wenzel, 2001) and clearly they are if the gross individual income tax gap (estimated non-compliance rate of 17%) is a good indicator of individual non-compliance (Internal Revenue Service, 1997). This point is further exemplified by the structuring of the compliance model pyramid (see Braithwaite & Braithwaite, 2000) in which the majority of taxpayers are located at the bottom and middle of the pyramid rather than the top. This point again reinforces the argument that personal self-interest cannot be the major motivation for taxpaying behaviour since a system based totally on personal self-interest would clearly be unworkable. It is argued that the non-compliance from the small minority of resistant or disengaged taxpayers at the top of the pyramid reflects a lack of belief in the legitimacy of the system and a corresponding increase in social distance from those trying to regulate their behaviour.

## **Summary**

The purpose of this paper has been a) to argue that an understanding of social identity processes is fundamental to understanding why particular factors might motivate behaviour in some situations and not others, b) that to treat taxpayers as rational, self-interested, utility-maximising actors *in all situations* is to limit our ability to understanding the processes involved in taxpaying behaviour, and c) to show that taxpayer social identities exist and vary according to the situational and psychological contexts in which taxpayers find themselves. Resulting differences in attitudes and perceptions of fairness are natural outcomes of this self-categorisation process.

The emphasis on the role of (un)representative authorities in this paper is not to downplay the importance of a superordinate identity which incorporates the Tax Office, the government and other taxpayers. As hypothesised earlier in this paper, self-categorisation at this level is where most compliance is to be expected, since all subgroups become incorporated into the self-concept, making better outcomes for everyone an important goal. The focus on self-interest is replaced by a desire to ensure that all category members get a better deal, even if this is not to one's personal advantage. This, as mentioned earlier, is what researchers who

focus on trying to induce 'civic virtue' essentially do. However, the requirement is that the organisations in question (here the tax authorities and government) are included within that superordinate category (Haslam, 2001; Smith & Tyler, 1996). Clearly, this is not an easy task. Perceptions of the Tax Office are affected by perceptions of the government. Illegitimacy of one implies some illegitimacy of the other. Further, it is possible that the context in which taxpayers find themselves may be too well-defined to allow an easy transition to a context in which category membership is more inclusive. While these issues are obviously problematic, acknowledgement of them is a step towards understanding taxpayer attitudes. A next step is to identify ways in which it is possible and feasible for tax authorities to be seen as representing, as far as possible, the interests of *all* taxpayers, rather than just a few.

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