

**THE 'OTHER NATION'? UNDERSTANDING  
RURAL TAXPAYERS' ATTITUDES TOWARDS  
THE AUSTRALIAN TAX SYSTEM**

*Steve Morgan and Kristina Murphy*



The Australian National University  
Australian Taxation Office

**Centre for Tax System Integrity**



**WORKING PAPER No 26**  
*December 2001*

**THE ‘OTHER NATION’? UNDERSTANDING  
RURAL TAXPAYERS’ ATTITUDES TOWARDS  
THE AUSTRALIAN TAX SYSTEM**

*Steve Morgan and Kristina Murphy*

SERIES EDITOR

*Tina Murphy*

Centre for Tax System Integrity  
Research School of Social Sciences  
Australian National University  
Canberra, ACT, 0200

ISBN 0 642 76826 9

ISSN 1444-8211

**WORKING PAPER No 26**

*December 2001*

© *Centre for Tax System Integrity, Research School of Social Sciences,  
Australian National University 2001*

© *Commonwealth of Australia 2001*

*National Library of Australia*  
Cataloguing-in-Publication data:

Morgan, S., 1957-.  
The 'Other Nation'? Understanding rural taxpayers' attitudes  
towards the Australian tax system.

Bibliography  
ISBN 0 642 76826 9

1. Australian Taxation Office - Public opinion.
2. Taxation - Australia. I. Murphy, Kristina, 1973- .
- II. Centre for Tax System Integrity. III. Title. (Series :  
Working paper (Centre for Tax System Integrity); no. 26).

336.200994

*If you would like to make any comments on this working paper please contact the author  
directly within 90 days of publication.*

## **Disclaimer**

This article has been written as part of a series of publications issued from the Centre for Tax System Integrity. The views contained in this article are representative of the author only. The publishing of this article does not constitute an endorsement of or any other expression of opinion by the Australian National University or the Commissioner of Taxation of the author's opinion. The Australian National University and the Commissioner of Taxation do not accept any loss, damage or injury howsoever arising that may result from this article. This article does not constitute a public or private ruling within the meaning of the *Taxation Administration Act 1953*, nor is it an advance opinion of the Commissioner of Taxation.

## **THE CENTRE FOR TAX SYSTEM INTEGRITY WORKING PAPERS**

The Centre for Tax System Integrity (CTSI) is a specialized research unit set up as a partnership between the Australian National University (ANU) and the Australian Taxation Office (Tax Office) to extend our understanding of how and why cooperation and contestation occur within the tax system.

This series of working papers is designed to bring the research of the Centre for Tax System Integrity to as wide an audience as possible and to promote discussion among researchers, academics and practitioners both nationally and internationally on taxation compliance.

The working papers are selected with three criteria in mind: (1) to share knowledge, experience and preliminary findings from research projects; (2) to provide an outlet for policy focused research and discussion papers; and (3) to give ready access to previews of papers destined for publication in academic journals, edited collections, or research monographs.

*Series Editor:*  
*Tina Murphy*

## **Abstract**

The study reported in this paper examined rural taxpayers' attitudes towards both the Australian Taxation Office (Tax Office) and the tax system. Data were taken from the *Community Hopes, Fears and Actions Survey* (Braithwaite, 2000), completed by a random sample of 2040 Australian taxpayers. Results from a series of independent sample t-tests revealed that rural and urban taxpayers differ on a number of dimensions. A logistic regression analysis was used to determine which variables most effectively differentiated rural taxpayers from other taxpayers. The best predictive model obtained from this analysis indicated that taxpayers who live in rural communities are less educated, less status-oriented and more security-conscious than taxpayers who live in metropolitan centres. They are more likely to question the legitimacy of the Tax Office as a fair institution, and as a result have distanced themselves from the Tax Office and their obligation towards paying tax. In addition, rural taxpayers are more likely to fear being caught for avoiding their taxes. In this paper these findings are discussed in the regulatory context, and possible solutions for how tax authorities might deal with non-compliance among this group of taxpayers are suggested. While the results reveal markers that significantly differentiate rural and urban taxpayers, findings suggest that rural and urban taxpayers may actually have more in common than they have differences. This common ground will also be investigated and implications for the Tax Office discussed.

## **The ‘Other Nation’? Understanding rural taxpayers’ attitudes towards the Australian tax system**

*Steve Morgan<sup>1</sup> and Kristina Murphy<sup>2</sup>*

Rural commentators regularly report that ‘the bush’ is doing it tough socially, financially, and environmentally. These reports fuel perceptions of a rural/urban dichotomy that is manifested by hardship and decline. Government agencies publish findings that support these reports and perceptions, while also highlighting areas of improvement, growth and diversity. The question of interest in the present study is whether these conditions have a negative or positive effect on taxpayer compliance within the Australian tax system?

In January 2001, the Australian Bureau of Agricultural and Resource Economics (ABARE) released a report which stated ‘perceptions that rural and regional Australia has fared poorly compared with the big cities have played a large part in public discussions in Australia in recent years’.

These perceptions have been used by lobby groups, councils and voters pushing for government help to encourage businesses and workers to stay in country areas (Cuthbertson, 2001). In an interview with Kathleen Cuthbertson of the Melbourne Herald, Hindmarsh shire councillor, Rob Gersh stated that ‘We used to have Telstra, the railways, the SEC those things are all gone’. An independent candidate for the November 2001 federal election also called for tax concessions to stop rural decline, and to fund better roads and water policy. Also reported was Victorian Farmers Federation president, Peter Walsh’s plea for a fairer deal for landholders forced to foot the bill for conservation work on their properties.

The voice of rural Australia is characterised by these appeals for a fairer deal from services rapidly being privatised and subjected to efficiency gains in competition for global investment (Wahlquist, 2000). Other commentators agree that ‘it is time the bush got its fair share of the regulatory budget’ (Braithwaite, J, 2001) with sections of the rural sector laying the blame directly at the National Competition Policy for their woes. The purpose of this paper is to juxtapose these popular perceptions against data gathered by various agencies as a backdrop for an analysis of data from the *Community Hopes, Fears and Action Survey*

---

<sup>1</sup> Australian Taxation Office

<sup>2</sup> Centre for Tax System Integrity

(Braithwaite, 2000). Of specific interest in the present study was whether rural taxpayers' attitudes towards the Australian tax system differed from the attitudes of urban taxpayers, and further, what this may mean for the Australian Tax Office.

## **Background**

In 1984 it was predicted that Australia's farming population would fall from 135,000 to 70,000 by the year 2000 (Summons, 1984; cited in Lawrence, 1996, p334).<sup>3</sup> While the actual decline in the number of farmers in Australia has not been as dramatic as that predicted by Summons, there has been a substantial drop in the number of people living in rural communities - from 16.9% of the total population in 1966, to 14.4% in 1984, and down to 10% in 2000 (Australian Bureau of Statistics, 1992; 2001). While ABARE (2001) agree that the number of farm businesses, and farm employment, have continued to decline, the number of businesses and employment in manufacturing in non-metropolitan areas have increased markedly against the trend in capital cities. Employment and population have declined in some areas while in others both have grown. Manufacturing, tourism and several service industries were the major source of employment growth in inland and remote locations between 1986 and 1996, while agriculture was the major source of decline (ABARE, 2001, p1).

The recent downturn of the Australian rural economy has implications for the quality of rural life (Best, Cummins & Lo, 2000). While many think that living in the country offers a healthy lifestyle, research suggests that the general health of rural people is very poor (for example, Cullen, Dunn & Lawrence, 1990; Humphreys, 1993; Metherell, 2001). Rural populations have above-average rates of depression and premature death through heart disease, cancer, suicide and tuberculosis. The Australian Institute of Health and Welfare (AIHW) discusses these general health problems in a 1998 report on rural health. In this report the authors regard the deficiency in general practitioner services as the major cause of concern to rural communities. According to the Institute, efforts to rectify the inequalities in health status and access to health care services in Australia's rural and remote communities

---

<sup>3</sup> These predictions were based on price movements in agriculture.

need to be addressed. Commenting on the AIHW report, an expert on the practice of medicine in rural Australia said this widespread unwellness 'could be partly explained by their relation to poorer socio-economic status' (Metherell, 2001).

Poverty is a major problem faced by many in rural communities and the associated family problems that go with poverty are higher in rural than in urban areas (see discussion in Lawrence, 1987). In fact, 33 of the 37 poorest electorates in Australia are in rural regions (Commonwealth Electoral Division, 1988). In ABARE's 2001 report, agriculture was the major source of decline in rural areas. Reduced farm incomes and limited demand for farm labour have resulted in many people of working age leaving inland and remote areas.

The substantial decline in the farming population and incomes also poses a number of serious problems for both rural communities and the Australian economy in general. 'Expenditure by farm families in country towns across Australia is an important source of income for many non-farm businesses' (ABARE, 2000a). The economies of small rural towns in Australia are highly dependent on farm expenditure that represents more than a third of economic activity. This highlights the importance of farming to employment in these towns. Australian Bureau of Agricultural and Resource Economics figures have shown also that the contribution of the rural sector to the nation's export earnings has decreased from just under 50% in 1979 to 21% in 1999 (ABARE, 2000). The problem for Australia's rural communities is that they have 'poor access to overseas markets and a trading environment that is corrupted by subsidies and surpluses' (see Lawrence, 1996, p334; National Farmers Federation, 2001). Europe's rural populations are sustained through subsidisation from taxpayers and the United States provides its international customers with bonuses and its producers with incentives (Lawrence, 1996, p334). In contrast, Australia's policies, notably the recent introduction of Australia's National Competition Policy (NCP) aims to develop a more open and integrated Australian market that limits anti-competitive conduct within Australia. The National Farmers Federation is actively working to eliminate protectionism overseas. If successful, it was estimated in 1999 by the Department of Foreign Affairs and Trade that Australian producers and their rural communities stood to gain billions of dollars a year in sales by the removal of global agricultural protection, easing economic pressures already faced by this sector.

Problems like salinity, soil degradation, river degradation and pollution pose additional pressures for rural communities. Land affected by salinity, for example (already 2.5 million hectares), is projected to increase to more than 15.5 million hectares unless preventative measures are taken now (Madden, Hayes & Duggan, 2000; see Australian Conservation Foundation website). A rough estimate of the costs of degradation to rural landscapes has been placed at more than \$2 billion – about half the net annual value of farm production (Madden, Hayes & Duggan, 2000). In addition to a variety of social and economic factors, natural disasters such as drought and flooding, ‘have caused the face of farming in Australia to be changed from one of traditional prosperity to one of dogged subsistence’ (Best, Cummins & Kai Lo, 2000, p69). It is little wonder why rural communities have been shrinking over the years.

Tax reform has been the most recent change that has placed added pressure on many rural businesses (Blondell, 2000). According to Blondell (2000), ‘the onerous compliance and education issues that go with tax reform could be the straw that broke the camel’s back’. People living in the country will now have to look to their accountants and advisers (which is an additional financial burden) to provide them with assistance and education to comply with the range of tax changes that have come into effect. The Commissioner of Taxation has acknowledged the need to support the taxpayer during tax reform by recognising the value of Tax Office field staff visiting rural areas during the transition period. The increasing pressures that rural communities have had to face over the past few decades, and the reporting requirements of the new tax system, have helped to sustain talk of crisis among Australia’s rural community (Sorensen & Epps, 1993). ‘Severe deterioration in international markets has coincided with significant socioeconomic restructuring within the rural sector’ (Sorensen & Epps, 1993, p51). Nowhere could this be demonstrated more clearly than with the decline in rural support for Australia’s major political parties in the late 1990s. The rural-based National Party, in spite of its coalition with the ruling Liberal Party, struggled with open discontent being expressed by rural voters (Donnan, 2001). In contrast to the findings of the 1998 federal election, the results of the 2001 Federal Election failed to find evidence for a lack of support for the major parties nor a rural/urban split in terms of the swing to the Coalition (The Australian, 12/11/01).

Understanding rural attitudes towards tax reform may therefore assist government in relieving some of the pressure faced by people in country Australia. This study therefore examines rural taxpayers' attitudes towards both the Australian Tax Office and the tax system. Data are taken from the *Community Hopes, Fears and Actions Survey* (Braithwaite, 2000), completed by a random sample of 2040 Australian taxpayers. Of specific interest was whether the attitudes of rural taxpayers differed from urban taxpayers. While some similarities between the two groups will be discussed, the main focus of this paper will be to highlight important differences between rural and urban communities, a logistic regression analysis will be used to identify which variables are the most important for differentiating the two groups. These findings will be discussed in the regulatory context and possible solutions for how tax authorities might deal with this high-risk group of taxpayers will then be discussed.

### **The Present Study**

The study reported in this paper aimed to further explore perceptions of unfair treatment held by rural taxpayers compared with urban taxpayers. Data from the *Community Hopes, Fears and Actions Survey* (Braithwaite, 2000) were used to explore whether the views of rural taxpayers differ from those of urban taxpayers. In the environmental regulatory context, previous research has argued that people who live on the land (specifically farmers) are a group characterised by regulatory officers as particularly troublesome (Hawkins, 1984:114). For Hawkins, characterisations are largely subjective, developed through enforcement officer's own personal interactions with the rural sector over a period of time, or may be lodged in the institutional memory of the regulatory agency and communicated to those with no prior dealings with the rural sector (Hawkins & Hutter 1993). Coleman and Freeman (1997) have also reported that people living in rural sectors are more hostile towards government. The aim of their research was to obtain insights into the relevance of culture as a factor in affecting taxpayers' attitudes towards voluntary compliance (Coleman & Freeman, 1997, p333). They found that people in the rural sector 'are often more aware of tax earlier in life, are hostile to government authorities, and feel the government does not acknowledge their self sufficiency and their lack of usage of public goods and services' (Coleman & Freeman, 1997, p335). Given their recalcitrant behaviour towards other regulatory bodies,

such as environmental agencies (Hawkins, 1984), it was expected that rural taxpayers' attitudes and beliefs about the Australian Tax Office and the tax system in general would be more negative than those of urban taxpayers.

## **Method**

*The Community Hopes, Fears and Actions Survey* was mailed to 7754 Australians between June and October 2000. Participants were randomly selected from publicly available electoral rolls. Completed questionnaires were received from 2040 respondents, yielding a response rate of 29%. While 29% seems somewhat low, such a response rate is not unusual, with some arguing (for example, Wallschutzky, 1984) that tax surveys of the general population cannot be expected to yield a response rate higher than 30% to 40%. More importantly, however, the survey respondents were a representative sample of the general population. They were found to match the social demographic profile of the Australian population reasonably well (for details see Mearns & Braithwaite, 2001).

For the purposes of this study, two groups of taxpayer were of interest: rural ( $n = 584$ ) versus urban ( $n = 1357$ ) taxpayers. Here, urban taxpayers were defined as those who lived in major metropolitan cities. Rural taxpayers were defined as those who lived outside of the major metropolitan cities. Inclusion in each of these two groups was determined by comparing survey postcode data with postcodes used in the Rural, Remote and Metropolitan Areas classification (RRMA). See Appendix for more detail on how each of these two groups were constructed.

## **Results**

The data consisted of taxpayers' responses to a variety of variables designed to measure their socio-demographic profile, their worldviews, their motivational postures and their evaluation of the Tax Office and the Australian tax system (see Braithwaite, V., 2001, for a detailed description of these variables). Of specific interest was whether rural taxpayers differed significantly from urban taxpayers.

### *Demographic differences*

The data presented in Table 1 show that rural taxpayers can be differentiated from urban taxpayers on three demographic variables: personal income; family income and education.

**Table 1: A comparison of demographic variables for rural and urban taxpayers (standard deviations are given in brackets)**

| <b>Variable</b>         | <b>Rural</b>  | <b>Urban</b>  | <b>t value</b> |
|-------------------------|---------------|---------------|----------------|
| Personal income ('000s) | 23.56 (24.94) | 29.85 (28.44) | 4.66***        |
| Family income ('000s)   | 41.55 (28.60) | 51.50 (38.55) | 5.90***        |
| Education               | 2.46 (1.52)   | 2.99 (1.70)   | 6.77***        |
| Age                     | 48.92 (15.47) | 48.37 (15.70) | ns             |

\*\*\*p<0.001

Consistent with previous research, the findings of the present study show that rural taxpayers earn significantly less than urban taxpayers in terms of both personal and family income. Furthermore, people who live in rural communities tend to be less educated than people who live in metropolitan areas<sup>4</sup>. It was interesting to note the average age of rural and urban taxpayers. Reports of many young people leaving rural communities in search of employment in metropolitan areas suggest that we might see an ageing of the rural population. This was not evident in the results of this study. One possible explanation is that young people were slightly under-represented across the board (Mearns & Braithwaite 2001), making it more difficult to detect differences at the lower extreme of the distribution through a comparison of mean age scores.

### *Worldviews*

Worldviews are a person's underlying beliefs about the world they live in and want to live in. *The Community Hopes, Fears and Actions Survey* operationalised this construct by measuring taxpayers' social and personal values in general, their evaluation of Australian democracy, appropriateness of government expenditure, and their priorities for tax reform.

---

<sup>4</sup> Education in this context refers to the number of years of formal schooling (for example, secondary, trade, tertiary, post-graduate study).

Table 2 compares the mean scores of rural and urban taxpayers on a number of variables were designed to measure their worldviews measured on a 5/7 point scale.

**Table 2: A comparison of rural and urban taxpayers on a number of variables designed to measure a person's worldviews (standard deviations are given in brackets)**

| Variable                                  | Rural       | Urban       | t value |
|---|-------------|-------------|---------|
| <i>Social and personal values</i>         |             |             |         |
| Status                                    | 4.43 (0.96) | 4.53 (1.02) | 2.03*   |
| Inner harmony                             | 5.63 (0.84) | 5.71 (0.81) | 1.96*   |
| Security                                  | 5.72 (0.91) | 5.61 (0.99) | -2.12*  |
| <i>Evaluation of Australian democracy</i> |             |             |         |
| Opposition to minorities                  | 3.77 (0.72) | 3.65 (0.79) | -3.12** |
| Disillusionment                           | 3.77 (0.57) | 3.69 (0.60) | -2.77** |
| <i>Government expenditure</i>             |             |             |         |
| Support for free-markets                  | 3.17 (0.79) | 3.12 (0.81) | ns      |
| Govt. expenditure on security             | 3.80 (0.72) | 3.68 (0.73) | -3.40** |
| Govt. expenditure on arts/science         | 3.27 (0.70) | 3.35 (0.68) | 2.19*   |
| Satisfaction with govt. expenditure       | 2.41 (1.03) | 2.51 (1.01) | 1.90*   |
| <i>Priorities for tax reform</i>          |             |             |         |
| Making the rich pay                       | 4.06 (0.81) | 3.97 (0.88) | -2.15*  |

\*p<0.05, \*\*p<0.01

Social and personal values. As can be seen in Table 2, urban taxpayers score significantly higher on the status variable when compared to rural taxpayers. The status variable measured the importance people place on economic prosperity, power and having high standing in their community. The results show that urban taxpayers are more status oriented, in that they are more likely to view these attributes as important. Inner harmony was designed to measure constructs such as one's well-being, wisdom, pursuit of knowledge, and one's desire for self-improvement. Rural taxpayers were found to score significantly lower than urban taxpayers on this variable. Finally, rural taxpayers were found to be significantly more security focused than urban taxpayers, in that they were more likely to highlight the importance of national greatness and national security, were more rule-based, and valued economic prosperity and progress more than did urban taxpayers.

Evaluation of Australian democracy. Table 2 also shows that rural taxpayers were more disillusioned with democracy than were urban taxpayers. Specifically, rural taxpayers believed that placing more emphasis on the rights of minorities weakens the concept of democracy and the rights of the majority. This finding is not surprising when one considers that rural communities have often felt ignored by government (Bolton, 1978).

A somewhat surprising finding, however, was that rural and urban taxpayers did not differ in terms of their support for a free-market democracy. Given the negativity towards the recently introduced National Competition Policy (see earlier discussion in background), it is surprising that rural taxpayers did not express more sympathetic views towards government's involvement in trade and commerce.

Government expenditure. Satisfaction with how the government spends taxpayers' money was measured through one general satisfaction question and through evaluations of whether more or less money should be spent in 11 areas of government responsibility. To simplify the analyses, these 11 areas were collapsed down to three areas—support for security institutions (that is, defence, policing, preventing illegal immigration), support for enabling institutions (that is, education, health care, law courts and legal aid, welfare, employment) and support for arts and science (that is, research, film, music). As can be seen in Table 2, compared to urban taxpayers, rural taxpayers were significantly more likely to express the view that government should spend more money on security, but less money on the arts and science. In addition, rural taxpayers were less satisfied with how the government spent taxpayer's money in general. Given that people who live in rural communities have faced a decrease in the amount of government programs and services they receive, it was not unexpected to find that they would be less satisfied with government expenditure than people who live in urban communities.

Priorities for tax reform. A number of scales were developed from the *Community Hopes, Fears and Actions Survey* to measure taxpayers' priorities for tax reform. Compared to urban taxpayers, people living in rural communities thought it was more important that wealthy people and large corporations pay more tax.

### *Motivational postures*

Motivational postures represent the ways in which individuals position themselves in relation to a regulatory authority, and are predispositions to compliant or non-compliant conduct (Braithwaite, 1995). Using items adapted from previous work, five different motivational postures have been measured in the taxation context (Braithwaite, Reinhart, Mearns & Graham, 2001). In the *Community Hopes, Fears and Actions Survey*, the posture that received the strongest endorsement was commitment, followed by capitulation, resistance, game-playing and disengagement. Table 3 compares the mean scores of rural and urban taxpayers on each of these motivational postures measured on a 5/7 point scale.

**Table 3: A comparison of motivational postures adopted by rural and urban taxpayers (standard deviations are given in brackets)**

| <i>Variable</i> | <i>Rural</i> | <i>Urban</i> | <i>t value</i> |
|-----------------|--------------|--------------|----------------|
| Commitment      | 3.80(0.55)   | 3.87 (0.53)  | 2.55**         |
| Capitulation    | 3.43 (0.53)  | 3.40 (0.54)  | ns             |
| Resistance      | 3.21 (0.55)  | 3.16 (0.54)  | -1.98*         |
| Game-playing    | 2.45 (0.59)  | 2.42 (0.64)  | ns             |
| Disengagement   | 2.39 (0.56)  | 2.31 (0.53)  | -2.92**        |

\* p<0.05, \*\*p<0.01

To adopt a commitment posture towards the tax system means that a taxpayer feels a sense of moral obligation to pay their taxes and will pay their taxes with good will because they believe paying tax ultimately advantages everyone. As can be seen from Table 3, rural taxpayers were less committed to the tax system than were urban taxpayers.

Capitulation to the tax system means that a taxpayer may not be happy with the Tax Office or tax system, but they acknowledge that it is a part of life and that taxes need to be paid. They also believe that they should cooperate with the Tax Office, even if they feel the Tax Office is treating them poorly. Rural taxpayers did not differ from urban taxpayers on this motivational posture.

While they were neither more nor less willing to capitulate to the Tax Office than city dwellers, rural taxpayers were significantly more resistant toward the tax system than rural taxpayers. Taxpayers who adopt a resistance posture are likely to view the Tax Office with hostility because they feel the Tax Office pushes them around. Further, these taxpayers believe that people should take a stand against the Tax Office.

A particularly interesting motivational posture to examine is the game-playing posture. Taxpayers who adopt a game-playing posture like the game of finding the grey areas of tax law and enjoy the challenge of minimising the tax they have to pay. They believe the Tax Office respects them for being creative in their tax affairs. Findings from the survey showed that rural taxpayers did not differ from urban taxpayers on this motivational posture.

The fifth motivational posture tested in the *Community Hopes, Fears and Actions Survey* was that of disengagement. Taxpayers who are disengaged from the tax system are those who do not care that they are not doing the right thing by the Tax Office and they believe that the Tax Office cannot do anything to them if they choose not to pay their taxes. As can be seen in Table 3, rural taxpayers were more likely to be disengaged from the tax system than urban taxpayers.

### *Sources of influence*

A number of scales were used in the *Community Hopes, Fears and Actions Survey* to measure taxpayers' definitions of themselves in relation to the tax system and also to identify who they use to assist them in their tax affairs. Table 4 compares rural and urban taxpayers on a number of these variables measured on 5/7 point scales.

**Table 4: A comparison of rural and urban taxpayers on their views of themselves and the tax system (standard deviations are given in brackets)**

| <i>Variable</i>                      | <i>Rural</i> | <i>Urban</i> | <i>t value</i> |
|--------------------------------------|--------------|--------------|----------------|
| Material loss                        | 3.20 (0.84)  | 3.03 (0.86)  | -3.73**        |
| Priority of taxes                    | 1.81 (0.82)  | 1.93 (0.88)  | 2.55**         |
| Detection probability                | 3.54 (1.02)  | 3.38 (1.05)  | -3.04**        |
| Ethical norm of honesty in taxpaying | 3.48 (0.73)  | 3.59 (0.67)  | 3.26***        |
| Aggressive agent                     | 2.28 (0.77)  | 2.19 (0.79)  | -2.04*         |

\*p<0.05 \*\*p<0.01 \*\*\*p<0.001

Trevor Sutton's (1997) material loss index was analysed with the aim of finding out how taxpayers felt about paying tax and whether they believed paying tax removes the incentive to earn more income. Compared to urban taxpayers, rural taxpayers were more likely to think they would be better off working less given the rate of tax they had to pay. Rural taxpayers were also more likely than urban taxpayers to put off preparing their tax returns. Thus, preparing tax returns was not as high a priority for rural taxpayers as for urban taxpayers.

According to some deterrence theorists, the perceived probability of getting caught is a major motivating factor for complying with the law (Grasmik & Bursik, 1990). Survey respondents were presented with hypothetical situations designed to test this aspect of deterrence theory. Specifically, respondents were asked what they thought the probability of getting caught would be for not declaring cash income or for overstating work deductions. Results revealed that rural taxpayers were more likely to think they would get caught for avoiding their taxes.

A number of variables were used in the survey in an attempt to gauge the level of tax morality held by a taxpayer. Michael Wenzel of the Centre for Tax System Integrity developed a scale measuring a personal ethical norm of honesty in taxpaying. On this scale, rural taxpayers were less likely than urban taxpayers to think one should honestly declare cash earnings, were more likely to think working for cash without paying tax was a trivial offence and were more likely to think it was acceptable to overstate tax deductions.

Taxpayers were also asked whether they did or did not seek help from a tax agent. Respondents were asked how much of a priority they would place on each of nine qualities when looking for a tax agent (see Sakurai & Braithwaite, 2001 for a discussion of this topic). As can be seen in Table 4, rural taxpayers were more likely than urban taxpayers to value the qualities of a creative and aggressive tax agent. Additional analyses of the data showed that 1525 survey respondents indicated whether or not they were engaged in tax minimisation strategies or not, with 58 respondents saying they were engaged in such strategies. Among these 58 respondents, there was a stronger propensity for rural taxpayers to be involved in tax minimisation than for urban taxpayers (5.3% vs. 3.2% for rural and urban taxpayers respectively). A chi-square analysis showed that this difference was statistically significant,  $\chi^2(1)=4.04$ ,  $p<0.05$ .

#### *Evaluation of the tax system*

The results from a number of scales were analysed with the aim of gauging taxpayers' attitudes towards the tax system and the way in which the Tax Office operates. Table 5 presents the relevant variables that differentiated rural taxpayers from urban taxpayers measured on 5/7 point scales.

**Table 5: A comparison of rural and urban taxpayers on their evaluation of the tax system and Tax Office (standard deviations are given in brackets)**

| <b>Variable</b>                             | <b>Rural</b> | <b>Urban</b> | <b>t value</b> |
|---|--------------|--------------|----------------|
| <i>Perceived fairness of the Tax Office</i> |              |              |                |
| Top of town fairness scale                  | 3.79 (0.81)  | 3.66 (0.84)  | -2.92**        |
| Small business fairness scale               | 2.82 (0.86)  | 2.96 (0.86)  | 3.20**         |
| Workers fairness scale                      | 2.50 (0.65)  | 2.58 (0.67)  | 2.49*          |
| Self fairness scale                         | 2.67 (0.70)  | 2.62 (0.69)  | ns             |
| <i>Trust in the Tax Office</i>              |              |              |                |
| Trust in the Tax Office                     | 3.14 (0.66)  | 3.21 (0.64)  | 2.23*          |
| <i>Perceived power of the Tax Office</i>    |              |              |                |
| Power with small business                   | 4.15 (0.64)  | 4.07 (0.71)  | -2.30*         |
| Power with large business                   | 3.11 (1.22)  | 3.18 (1.21)  | ns             |

\* $p<0.05$ , \*\* $p<0.01$ , Note: The two power scales were reverse scored (higher score means more power).

Fairness. Six questions adapted from Kinsey and Grasmick (1993) and 12 questions about different occupational groups were used to evaluate the perceived fairness of the Tax Office and tax system. Specifically, the questions measure whether survey respondents think different groups are paying more or less than their fair share of tax.

These individual questions were grouped into four scales to represent ‘top of the town’ occupations, small business occupations, and lower wage and salary earners. The fourth scale represented whether individuals were paying their fair share. Both rural and urban taxpayers thought rich people were paying less than their fair share of tax, but this view was held significantly more strongly by rural taxpayers. Rural taxpayers were also more likely to think that small business owners and working class taxpayers pay more than their fair share of tax. While both rural and urban taxpayers believed they themselves were paying a little more than their fair share of tax, there was no difference between the two groups. These findings taken together suggest that perceptions of vertical unfairness were high, with both rural and urban taxpayers thinking that the rich do not pay what they should, while middle and low income earners pay more tax than they should.

Trust. Taxpayers’ trust in the Tax Office was measured through an eight-item scale developed by Valerie Braithwaite (1997). Taxpayers were asked questions such as whether they thought the Tax Office could be trusted to administer the tax system fairly, whether the Tax Office meets its obligations to Australians and whether the Tax Office takes advantage of people who are vulnerable. Rural taxpayers were found to be less trusting of the Tax Office than urban taxpayers (see Table 5).

Power. The perceived power of the Tax Office was measured through two multi-item scales (Braithwaite, Makkai, Braithwaite & Gibson, 1993). Taxpayers were questioned on whether they thought the Tax Office could do anything if either a small business/wage and salary earner or a large business/wealthy individual decided to defy the Tax Office. Both urban and rural taxpayers thought the Tax Office had a lot of power for dealing with people who decided to defy them. However, compared to urban taxpayers, rural taxpayers were more likely to think that the Tax Office has more power to deal with small business/wage and salary earners who decided to defy the Tax Office (see Table 5). No difference was found between rural and urban taxpayers’ perceptions of the perceived power of the Tax Office to deal with defiant large businesses or wealthy individuals.

## **Summary of results**

This study examined whether rural taxpayers, including farmers, were different demographically, held different worldviews, adopted different motivational postures towards the Tax Office and paying tax, or evaluated the tax system differently.

To summarise, it appears that rural taxpayers are less well-educated and earn less than urban taxpayers. They are less status-oriented, less concerned with inner harmony and are more security-focused. Rural taxpayers are more disillusioned with democracy, are more opposed to minority influence and believe the rich should be paying more tax. They are also less satisfied with government expenditure. In particular, compared to urban taxpayers, rural taxpayers believe more should be spent on the armed forces and policing and less on the arts and sciences.

When examining taxpayers' motivational postures, the study found that rural taxpayers are less committed to the tax system, more resistant and more likely to be disengaged from the tax system than are their urban counterparts. It is therefore not surprising that rural taxpayers express less honesty with regards to paying tax, are more likely to value the services of an aggressive tax agent, place a lower priority on tax matters, and are more likely to feel that paying tax removes the incentive to earn more income. Rural taxpayers are more likely to think they will get caught for avoiding taxes.

Finally in evaluating the tax system in terms of its fairness, trustworthiness and power, the results produced some interesting findings. Compared to urban taxpayers, rural taxpayers are less likely to think the Tax Office treats taxpayers fairly. In particular they believe that taxpayers at the top end of town pay less than their fair share of tax. Rural taxpayers also believe the Tax Office is less trustworthy. Finally, both urban and rural taxpayers believe the Tax Office has a lot of power for dealing with taxpayers who decide to defy them, with rural taxpayers seeing this power as being greatest in dealings with small business.

## Logistic regression analysis

In the previous section, 25 variables were found to discriminate rural taxpayers from urban taxpayers. Stepwise logistic regression analysis was used to determine which of these variables were the most important in discriminating between the two groups of taxpayer. Variables were entered and retained in the regression if they were significant at the 0.05 level or less. Table 6 contains the unstandardised regression coefficients (B), Wald statistics and their level of significance. Only significant variables are presented and discussion is limited to these variables only.

As can be seen in Table 6, eight variables made significant contributions to the logistic regression. A test of the full model with all eight predictors against a constant-only model was statistically significant,  $\chi^2(8) = 83.05$ ,  $p < 0.001$ , indicating that the eight predictors, as a set, reliably distinguished between rural and urban taxpayers.

**Table 6: Unstandardised coefficients (b) and Wald statistics for the stepwise logistic regression analysis for discriminating between rural and urban taxpayers**

| Independent variable     | B      | Wald statistic |
|--------------------------|--------|----------------|
| Education                | -0.168 | 18.89***       |
| Status                   | -0.259 | 13.11***       |
| Top of the town fairness | 0.267  | 11.59***       |
| Small business fairness  | -0.240 | 11.28***       |
| Disengagement            | 0.339  | 8.12**         |
| Security                 | 0.199  | 6.62**         |
| Honesty in taxpaying     | -0.234 | 6.44**         |
| Detection probability    | 0.129  | 4.34*          |
| Constant                 | -1.110 | 2.45           |

\* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$

Education level, honesty in taxpaying, status and small business fairness were negatively related to the dependent variable, suggesting that rural taxpayers tended to be less educated, to have a lower level of honesty towards paying tax, to be less status-oriented than urban taxpayers, and more likely than urban taxpayers to think that small business owners pay more than their fair share of tax.<sup>5</sup> As a group, rural taxpayers were more security-focused, wanting

<sup>5</sup> A lower number on the small business fairness scale indicates a taxpayer thinks this group pays more than their fair share.

their taxes spent on policing, preventing illegal immigration, and providing defence for the nation (see bi-variate results in Table 2). The positive relationships between top of the town fairness, disengagement and detection probability and the dependent variable indicate that rural taxpayers are more likely to think the top of the town does not pay its way, and are more likely to be disengaged from the tax system. Interestingly, rural taxpayers are also more likely to think they will get caught for evading taxes.

A total of 59% of rural taxpayers were correctly classified by the function and 61% of urban taxpayers were accurately classified. The overall correct classification rate was 59%. These results are important to note in two respects. First, it is possible to find markers that significantly differentiate rural and urban taxpayers. The fact that the classification rate does not differ dramatically from the 50% mark, however, suggests that rural and urban taxpayers have more in common than they have differences. In the current political climate of divisiveness between bush and town, this finding should be emphasised.

## **Discussion and implications**

Previous research has shown that people living and working in rural communities tend to be more hostile towards government authorities, and are a group regarded by regulatory officers as particularly troublesome (see Hawkins, 1984; Coleman & Freeman, 1997). The present study attempted to address this claim by profiling a group of rural taxpayers. Specifically, it examined whether their views and attitudes toward the Tax Office, and the tax system in general, differed from the views of urban taxpayers.

The results of the logistic regression analysis indicated that of the 25 variables that differentiated taxpayers at the bivariate level, only eight were important in a large multivariate analysis. In summary, the multivariate analysis showed that taxpayers who live in rural communities are less educated, are less status-oriented and more security-conscious than taxpayers who live in urban centres. They question the legitimacy of the Tax Office through expressing lower levels of trust in it and believing that taxes are not collected fairly across the population<sup>6</sup>. They have distanced themselves from the Tax Office and their obligation towards paying tax. Finally, rural taxpayers are more likely to fear being caught

---

<sup>6</sup> They believed the rich do not pay their fair share of tax, while average Australians pay more than their fair share.

for avoiding their taxes. The procedure of identifying these eight important variables provides the Tax Office with useful information for understanding the defiance so vocally expressed by this segment of the population.

The finding that rural taxpayers are less educated than other taxpayers is not surprising given that the demand for university-trained graduates is lower in country Australia. Previous research has highlighted education level as an important compliance factor. Less educated people tend to view taxation only in terms of its burden and ignore the benefits and services provided from the revenue (Jackson & Milliron, 1986, p132).

Results also showed that rural taxpayers tend to be less status oriented and more security conscious than taxpayers who live in urban centres. While on the surface it might seem that these particular variables are not directly related to tax compliance, it has been proposed by Valerie Braithwaite (2001) and others (for example, Coleman & Freeman, 1997) that the social and personal values an individual holds are expected to influence the way they see the tax system. Rural taxpayers' views about status and security suggest that they still hold to traditional agrarian values. According to Flinn and Johnson (1974), agrarian values incorporate a number of elements, including the belief that farming is the backbone of society, economic independence is desirable, hard work demonstrates virtue, and family farms are linked with the maintenance of democracy. Part of the success that peak farming organisations (for example, the National Farmers' Federation) have had with rural Australians can be attributed to their representation of these agrarian interests (Halpin & Martin 1996). The Tax Office and other government agencies may find it worthwhile to learn from such organisations in future dealings with the rural sector.

This study not only examined taxpayers' values, but also their views towards the Tax Office and paying tax. The results of the logistic regression analysis showed that the perceived fairness of the Tax Office and the tax system differed significantly between rural and urban taxpayers. While both rural and urban taxpayers believe rich people pay less than their fair share of tax, the perception of inequality is more extreme in the rural taxpayer group. Rural taxpayers are also more likely to think that small business owners and working class taxpayers pay more than their fair share of tax. These findings taken together suggest that

perception of vertical unfairness among rural taxpayers is high (that is, the rich do not pay their fair share of tax while the middle and low income earners pay more than their fair share).

A number of studies in the literature have emphasised the role of perceived fairness of the tax system in taxpayer compliance and have demonstrated that taxpayers are less likely to comply with a tax system they consider to be unfair (for example, Alm, Jackson & McKee, 1992; Kinsey, Grasmick & Smith, 1991; Spicer & Becker, 1980). For example, Spicer and Becker (1980) found that subjects who were presented with hypothetical tax evasion decisions significantly increased the amount of taxes evaded when they perceived themselves to be victims of vertical inequality. In the present study, when compared to urban taxpayers, rural taxpayers' ethical norm of honesty in taxpaying was significantly lower. While not a direct measure of tax evasion, one's ethical norm of honesty in taxpaying provides an indication of one's propensity to evade tax. It was found that rural taxpayers are less likely to think one should honestly declare cash earnings, more likely to think working for cash without paying tax is a trivial offence and more likely to think it acceptable to overstate tax deductions. While it is likely that rural taxpayers' propensity towards dishonesty can be attributed to their perceptions of vertical unfairness, further research that aims to address this specific question will need to be undertaken before any firm conclusions can be drawn.

What is clear from the present study is that rural taxpayers are more likely to be disengaged from the tax system than other taxpayers. As noted earlier, motivational postures represent the ways in which individuals position themselves in relation to a regulatory authority, and are predispositions to compliant or non-compliant conduct (Braithwaite, 1995). The findings of the logistic regression analysis revealed that rural taxpayers are more likely to be disengaged from the Tax Office and tax system than other taxpayers. In other words, they are more likely not to care if they do not do the right thing by the Tax Office and they indicated that they are not about to lose any sleep if they found out they are not doing what the Tax Office wants. This is a particularly interesting finding, as it has implications for the way the Tax Office deals with non-compliance within this group.

It has been argued by some (for example, Black, 1976), that the enforcement approach often adopted by regulatory authorities is a function of the relationship that exists between an individual and the authority. This paper shows that from the taxpayers' perspective, the

relational distance from the Tax Office can be high. It is reasonable to postulate that from the Tax Office's perspective, the relationship is reciprocated, that is, the relational distance is also high. Black's notion of relational distance predicts that the quality of the law will vary directly with relational distance. Specifically, the greater the distance, the more the law will be used in a dispute. If it is correct to suppose that those who are disengaged from the tax system will have higher relational distance from the Tax Office than those who are committed to the tax system, one would expect that rural taxpayers would be targeted by the Tax Office more so than other taxpayers. These data cannot tell us if this is the case or not, but it may explain the finding that rural taxpayers are more likely to fear getting caught for avoiding their tax.

It should be noted, however, that willingness to cooperate with an authority is also represented by the social distance taxpayers place between themselves and that authority. Research has shown that individuals who are resistant or disengaged from an authority are more likely to distance themselves from an authority, and are therefore less likely to comply with their rules and regulations (for example, Braithwaite, Braithwaite, Gibson & Makkai, 1994). Thus, threatening taxpayers who are likely to be disengaged with penalties and fines, especially when perceived as illegitimate, may be ineffective and could lead to higher levels of non-compliance (Brehm & Brehm, 1981). In fact, the results of this study indicate that rural taxpayers are starting to show signs of maximum defiance. It appears that they are beginning to express an interest in adopting a game playing posture. It can be seen from the bivariate analyses of the data that rural taxpayers, in contrast to other taxpayers, are more likely to value the qualities of an aggressive and creative tax agent (that is, someone who can help them play the game). The Tax Office will need to develop an effective strategy that aims to target this impending problem before it is too late.

The following sections discuss some possible approaches to encouraging rural taxpayers to pay their taxes willingly and voluntarily. Moves by the Commissioner of Taxation to provide taxpayers with personalised support during the introduction of the goods and services tax (GST) represents a significant step towards improving the relationship between the Tax Office and the bush (see Savage, forthcoming). Reports from a Centre for Tax System Integrity scholar from Townsville suggest that this personal approach appears to be working in gaining compliance among rural taxpayers. She recently related a story of a field visit to a property 300 kilometres off the beaten track in north Queensland. The farmer who asked for

assistance insisted that the field officer come to his property to discuss his problems and concerns about the GST. His motive for making this request was to test the Commissioner's claim that the Tax Office, through its field staff, would go anywhere at anytime to meet taxpayers concerns. After several unsuccessful attempts by the field officer to make good the appointment (due to bad weather and inappropriate vehicles), the farmer, seemingly satisfied with the officer's genuine attempts to accommodate his requests, conceded to meet the field officer in Townsville. According to this GST field operative, Tax Office field staff who are prepared to make the journey to isolated properties are often well received by rural taxpayers. This story highlights the importance of continuing to develop relationships with taxpayers and recognises the role that Tax Office field staff play in educating rural taxpayers. Previous research has shown that when people believe they are being treated with respect and trust, compliance increases (Braithwaite & Makkai, 1994; Tyler, 1997; 2001a; 2001b). It is therefore recommended that tax administrations continue to invest in their field workers by offering personalised taxation assistance to people living in remote rural communities.

As noted earlier in this paper, taxation is often viewed only in terms of its burden and taxpayers often ignore the benefits and services provided from revenue. However, given that many services have been withdrawn from the bush, it is often difficult for people living in rural communities to see the benefits of paying tax. The public has done the hard yards in terms of tax reform, and is now entitled to see some of the gains. In a recent article in the Sydney Morning Herald, Doherty (2001) reports that government spending on additional services to the bush has increased by \$28.5 billion since 1996, and is forecast to rise to \$50 billion by 2004. The survey data reported in this paper raises questions about whether many rural taxpayers know this. Sharing information with rural Australia, not only concerning its problems but also its solutions paid for through the tax system, appears to be a high priority. Using popular media (for example, TV or radio) and using the internet (for example, Tax Office website) to deliver an effective advertising campaign could be considered as one method of raising rural taxpayers' awareness of these issues. If rural Australians can identify that their taxes are being spent on services that directly affect them, compliance might be expected to improve.

## **Conclusion**

This paper has attempted to provide the reader with a broader understanding of how rural taxpayers think and operate in the tax system, and how the Tax Office might begin to build a bridge not only between themselves and the bush, but also between the bush and the city. However, dealing with the perceptions of inequality held by so many rural taxpayers demands a whole-of-government approach. Specifically, the Tax Office will be required to work with other government agencies, such as Environment Australia, the Department of Health, the Australian Federal Police, and perhaps organisations such as the National Farmer's Federation, if it hopes to increase rural taxpayers' commitment to the tax system. Whatever these solutions are will depend on a secure tax base and guaranteeing that base is the responsibility of all Australians.

## REFERENCES

- ABARE (2000). *Australian Farm Surveys Report 2000*. Canberra: Australian Government Publishing Service.
- Alm, J., Jackson, B. & McKee, M. (1992). Institutional uncertainty and taxpayer compliance. *The American Economic Review*, 82(4), 1018-1026.
- Australian Bureau of Statistics (1992). *Social Indicators Number 5*. Canberra: Australian Government Publishing Service.
- Australian Bureau of Statistics (2001). *Views on Remoteness*. Canberra: Australian Government Publishing Service.
- Australian Institute of Health and Welfare (1998). *Health in Rural and Remote Australia*. Canberra: Australian Government Publishing Service.
- Best, C. J., Cummins, R. A. & Kai Lo, S. (2000). The Quality of Rural and Metropolitan Life. *Australian Journal of Psychology*, 52(2), 69-75.
- Black, D. (1976). *The Behaviour of Law*. New York: Academic Press.
- Blondell, J. (2000). Down on the farm. *Australian CPAonline*, September 2000.
- Bolton, G. (1978). How we got to here. In T. van Dugteren (ed.) *Rural Australia: The other nation*. Sydney: Hodder and Stoughton.
- Braithwaite, J. (2001). The bush needs policing, not just police. *Sydney Morning Herald*, 15<sup>th</sup> March.
- Braithwaite, J. & Makkai, T. (1994). Trust and Compliance. *Policing and Society*, 4, 1-12.
- Braithwaite, J., Makkai, T., Braithwaite, V. & Gibson, D. (1993). Nursing Home Regulation in Action Project 1987-1992. Canberra: The Australian National University.
- Braithwaite, V. (1995). Games of engagement: Postures within the regulatory community. *Law and Policy*, 17, 225-255.

Braithwaite, V. (1997). Trust in institutions. In J. Kelly, M.D.R. Evans, C. Bean, K. Zagorski & V. Braithwaite (Eds.), *International Social Science Surveys Australia*, (pp. 37–39). Canberra: The International Social Survey Program, Research School of the Social Sciences, The Australian National University.

Braithwaite, V. (2000). *The Community Hopes, Fears and Actions Survey*. Canberra: Centre for Tax System Integrity, Research School of Social Sciences. The Australian National University.

Braithwaite, V. (2001). *The Community Hopes, Fears and Actions Survey: Goals and Measures*. Centre for Tax System Integrity Working Paper No. 2. Canberra: The Australian National University.

Braithwaite, V., Braithwaite, J., Gibson, D. & Makkai, T. (1994). Regulatory styles, motivational postures and nursing home compliance. *Law and Policy*, 16(4), 363-394.

Braithwaite, V., Reinhart, M., Mearns, M., & Graham, R. (2001). *Preliminary findings from the Community Hopes, Fears and Actions Survey*. Centre for Tax System Integrity Working Paper No. 3. Canberra: The Australian National University.

Brehm, S. S. & Brehm, J. W. (1981). *Psychological reactance: A theory of freedom and control*. New York: Academic Press.

Coleman, C. & Freeman, L. (1997). Cultural foundations of taxpayer attitudes to voluntary compliance. *Australian Tax Forum*, 13, 311-336.

Collins, J. H., Milliron, V. C. & Toy, D. R. (1992). Determinants of Tax Compliance: A Contingency Approach. *The Journal of the American Taxation Association*, 14(2), 1-21.

Commonwealth Department of Health and Aged Care (2001). Measuring Remoteness: Accessibility/Remoteness Index of Australia (Revised Edition). *Occasional Papers: New Series Number 14, October*.

Commonwealth Electoral Division (1988). *Comparison of 1986 Census characteristics*. Current Issues Paper No. 11. Legislation Research Services. Canberra: Commonwealth Electoral Division.

Cullen, T., Dunn, P. & Lawrence, G. (1990). *Rural Health and Welfare in Australia*. Wagga Wagga: Centre for Rural Social Research.

Doherty, L. (2001). \$200m plan to halt rural voter revolt. *Sydney Morning Herald*, 28<sup>th</sup> August.

Donnan, S. (2001). One Nation party makes a comeback in the outback. *The Christian Science Monitor*, 14<sup>th</sup> February.

Flinn, W. & Johnson, D. (1974). Agrarianism among Wisconsin farmers. *Rural Sociology*, 39, 187-204.

Halpin, D. and Martin, P. (1996). Agrarianism and farmer representation: Ideology in Australian Agriculture. In G. Lawrence, K. Lyons & S Momtaz (eds.). *Social change in rural Australia*. Rockhampton: Rural Social and Economic Research Centre.

Hawkins, K. (1984). *Environment and enforcement: Regulation and the social definition of pollution*. Oxford: Clarendon Press.

Humphreys, J. (1993). Planning for services in rural Australia. *Regional Journal of Social Issues* No. 27.

Jackson, B. R. & Milliron, V. C. (1986). Tax compliance research,: Findings, problems and prospects. *Journal of Accounting Literature*, 5, 125-165.

Kinsey, K. A. & Grasmick, H. G. (1993). Did the Tax Reform Act of 1986 improve compliance? Three studies of pre- and post-TRA compliance attitudes. *Law and Policy*, 15, 239-325.

Kinsey, K. A., Grasmick, H. G. & Smith, K. W. (1991). Framing justice: Taxpayer evaluations of personal tax burdens. *Law and Society Review*, 25(4), 845-873.

Lawrence, G. (1987). *Capitalism and the countryside: The rural crisis in Australia*. Sydney: Pluto Press.

Lawrence, G. (1996). Rural Australia: Insights and issues from contemporary political economy. In G. Lawrence, K. Lyons & S Momtaz (eds.). *Social change in rural Australia*. Rockhampton: Rural Social and Economic Research Centre.

Madden, B., Hayes, G. & Duggan, K. (2000). *National investment in rural landscapes*. Fitzroy: Australian Conservation Foundation.

Mearns, M. & Braithwaite, V. (2001). The Community Hopes, Fears and Actions Survey: Survey method, sample representativeness and data quality. *Centre for Tax System Integrity Working Paper No. 4*. Canberra: The Australian National University.

Metherell, M. (2001). Gloom in the Bush, GPs report rising depression. *Sydney Morning Herald*, 6<sup>th</sup> March.

Sakurai, Y. & Braithwaite, V. (2001). *Taxpayers' perceptions of the ideal tax adviser: Playing safe or saving dollars?* Centre for Tax System Integrity Working Paper No. 5. Canberra: The Australian National University.

Savage, M. (forthcoming). Doing business in the bush: Taxpayers and tax agents in a rural setting since July 2000. Centre for Tax System Integrity Working Paper. Canberra: The Australian National University.

Spicer, M. & Becker, L. (1980). Fiscal inequity and tax evasion: An experimental approach. *National Tax Journal* (June), 171-175.

Summons, M. (1984). The big battalions take over: Rural review. *The Australian*, 6<sup>th</sup> February.

Sutton, T. (1997). *Child Support Questionnaire: National Telephone Survey April-May 1997*. Canberra: Child Support Agency.

Tyler, T.R. (1997). The psychology of legitimacy: A relational perspective on voluntary deference to authorities. *Personality and Social Psychology Review*, 1, 323–345.

Tyler, T. R. (2001a). Trust and law abidingness: A proactive model of social regulation. *Boston University Law Review*, 81(2), 361-406.

Tyler, T. R. (2001b). *Trust and law abidingness: A proactive model of social regulation*. Centre for Tax System Integrity Working Paper No. 16. Canberra: The Australian National University.

Wallschutzky, I. G. (1984). Possible causes of tax evasion. *Journal of Economic Psychology*, 5, 371-384.

## Appendix A

Two groups of taxpayer were of interest for the present paper.

- Taxpayers living in rural areas, and
- Taxpayers living in metropolitan or urban areas.

As mentioned in the main body of this paper, inclusion in each of these two groups was determined by comparing survey postcode data with postcodes used in the Rural, Remote and Metropolitan Areas classification (RRMA). The RRMA was produced in 1994 by the Department of Health and Aged Care and the Department of Primary Industry and Energy as a way of generating an index of remoteness (Commonwealth Department of Health & Aged Care, 2001). The RRMA can be used to assign each statistical local area (based on 1991 boundaries) to one of seven categories that can be further aggregated into three basic zones (Metropolitan, Rural, and Remote). The seven RRMA categories are:

- 1) Capital cities (Metropolitan zone, for example Sydney, Canberra);
- 2) Other metropolitan centres (Metropolitan zone, for example Geelong);
- 3) Large rural centres (Rural zone, for example Orange, Port Macquarie);
- 4) Small rural centres (Rural zone, for example Broken Hill);
- 5) Other rural areas (Rural zone, for example Myrtleford, VIC; Adaminaby, NSW);
- 6) Remote centres (Remote zone, for example Port Hedland, WA); and
- 7) Other Remote areas (Remote zone, for example Laverton, WA; Lord Howe Island).

For the purposes of this paper, taxpayers who were found to reside in the first two postcode categories (capital and other metropolitan) were grouped together as 'urban' taxpayers (n = 1357). Taxpayers in the remaining five postcode categories were grouped together as 'rural' taxpayers (n=584).

**THE CENTRE FOR TAX SYSTEM INTEGRITY  
WORKING PAPERS**

- No. 1. Braithwaite, V. & Reinhart, M. *The Taxpayers' Charter: Does the Australian Taxation Office comply and who benefits?* December 2000.
- No. 2. Braithwaite, V. *The Community Hopes, Fears and Actions Survey: Goals and Measures.* March 2001.
- No. 3. Braithwaite, V., Reinhart, M., Mearns, M. & Graham, R. *Preliminary findings from the Community Hopes, Fears and Actions Survey.* April 2001.
- No. 4. Mearns, M., & Braithwaite, V. *The Community Hopes, Fears and Actions Survey: Survey method, sample representativeness and data quality.* April 2001.
- No. 5. Sakurai, Y., & Braithwaite, V. *Taxpayers' perceptions of the ideal tax adviser: Playing safe or saving dollars?* May 2001.
- No. 6. Wenzel, M. *The impact of outcome orientation and justice concerns on tax compliance: The role of taxpayers' identity.* June 2001.
- No. 7. Wenzel, M. *Misperceptions of social norms about tax compliance (1): A prestudy.* June 2001.
- No. 8. Wenzel, M. *Misperceptions of social norms about tax compliance (2): A field-experiment.* June 2001.
- No. 9. Taylor, N. *Taxpayers who complain about paying tax: What differentiates those who complain from those who don't?* June 2001.
- No. 10. Wenzel, M. *Principles of procedural fairness in reminder letters and awareness of entitlements: A prestudy.* June 2001.
- No. 11. Taylor, N. & Wenzel, M. *The effects of different letter styles on reported rental income and rental deductions: An experimental approach.* July 2001.
- No. 12. Williams, R. *Prosecuting non-lodgers: To persuade or punish?* July 2001.
- No. 13. Braithwaite, V. *Tensions between the citizen taxpaying role and compliance practices.* Forthcoming.
- No. 14. Taylor, N. *Understanding taxpayer attitudes through understanding taxpayer identities.* July 2001.
- No. 15. Shover, N., Job, J. & Carroll, A. *Organisational capacity for responsive regulation.* August 2001.

- No. 16. Tyler, T.R. *Trust and law-abidingness: A proactive model of social regulation*. August 2001.
- No. 17. Genser, B. *Corporate income taxation in the European Union: Current state and perspectives*. August 2001.
- No. 18. McBarnet, D. *When compliance is not the solution but the problem: From changes in law to changes in attitude*. August 2001.
- No. 19. Schneider, F., Braithwaite, V. & Reinhart, M. *Individual behaviour in Australia's shadow economy: Facts, empirical findings and some mysteries*. September 2001.
- No. 20. Taylor, N. & Wenzel, M. *Comparing rental income and rental deductions for electronic versus paper lodgers: A follow-up investigation*. Forthcoming.
- No. 21. Braithwaite, J. *Through the eyes of the advisers: A fresh look at tax compliance of high wealth individuals*. September 2001.
- No. 22. Braithwaite, J., Pittelkow, Y. & Williams, R. *Tax Compliance by the very wealthy: Red flags of risk*. September 2001.
- No. 23. Braithwaite, J. & Williams, R. *Meta risk management and tax system integrity*. October 2001.
- No. 24. Braithwaite, J. & Wirth, A. *Towards a framework for large business tax compliance*. November 2001.
- No. 25. Murphy, K. & Sakurai, Y. *Aggressive Tax Planning: Differentiating those playing the game from those who don't*. October 2001.
- No. 26. Morgan, S. & Murphy, K. *The 'Other Nation'? Understanding rural taxpayers' attitudes towards the Australian tax system*. December 2001.