

**PRINCIPLES OF PROCEDURAL
FAIRNESS IN REMINDER LETTERS:
A FIELD-EXPERIMENT**

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



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A FIELD-EXPERIMENT**

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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.

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Abstract

This study tested the effectiveness of different styles of reminder letters that reminded taxpayers of their requirement to lodge Activity Statements (AS) to report about tax instalments and withholding obligations, Goods and Services Tax or other business-related taxes. Specifically, it tested whether reminder letters that were based on principles of procedural fairness would yield more positive reactions from taxpayers and greater rates of compliance compared to the standard letter used by the Australian Taxation Office (Tax Office). Overall, the evidence was weak and inconsistent, however there were some promising results that indicate the usefulness of a procedural justice approach and encourage further work.

The alternative styles of reminder letters tested in this study were based on the assumption that taxpayers are concerned about the procedural fairness of their treatment by tax authorities. More specifically, one letter was designed to correspond to the principle of informational fairness (transparency and justifications of decisions); another letter was meant to realise interpersonal fairness (consideration and respect); a third letter was the Tax Office standard letter. In addition, letters referred to the *Taxpayers' Charter* and either explicitly to the Tax Offices' commitment to taxpayers' right to informational fairness, their right to interpersonal fairness, or to no specific right. Combining the three letter versions and the three different references to the *Taxpayers' Charter*, nine different letters were compared altogether. It was predicted that fair letters and the commitment to fairness rights would each contribute to compliance; but a letter matching a corresponding right was predicted to have most positive effects.

Each letter was sent to a random sample of 500 taxpayers (excluding large companies and clients registered with a tax agent for AS purposes), who failed to lodge their quarterly AS for December 2001 on time. Subsequent client phone calls relating to the reminder letter were documented and categorised by Tax Office staff in terms of their prominent issues. Four to five weeks after issuing the reminder letter, tax records were accessed for taxpayers' status as to their lodgment of the AS and, if relevant, payment of taxes owed.

The results were not very consistent. However, both the informational and interpersonal letter yielded greater lodgment compliance of individuals compared to the standard letter. Granting an interpersonal right yielded somewhat greater lodgment compliance of non-individual entities. Moreover, an informational letter matching an informational right yielded fewer accusations and blaming in phone calls and more payment compliance of individuals. However, it yielded somewhat less lodgment compliance of non-individual entities.

Principles of procedural fairness in reminder letters: A field-experiment

Michael Wenzel

Introduction

Dealing with a huge number of clients, the Australian Taxation Office (Tax Office) often needs to resort to automated actions to inform taxpayers about their tax obligations and to encourage them to comply with the laws. Thus, like many other regulatory institutions, the Tax Office uses standardised letters, such as reminder letters where taxpayers fail to fulfil their tax obligations by a certain deadline. The sheer volume of these letters renders their effectiveness and design important issues.

Usually the explicit or implicit principles for the design of reminder letters appear to be (1) brevity and conciseness, and (2) firmness and pressure. The former are based on the assumptions that taxpayers do not properly read, understand or act upon longer letters, and, taxpayers value, and have indeed a right to, have their compliance costs (which includes the reading of letters) kept to a minimum (Tax Office, 1997). The latter principles are based on the assumption that the Tax Office needs to take a firm stand and point to possible negative consequences, so as to deter from continued non-compliance.

While these assumptions may be valid to some extent, they might not be the only, nor even the most important, concerns that taxpayers have in their dealings with the Tax Office. In fact, regarding deterrence as a regulatory strategy, in a recent study by Slemrod, Blumenthal and Christian (2001) a threatening letter announcing an audit program only had positive effects on tax reporting for some taxpayer groups while it backfired for others. Likewise, in a survey study (Wenzel, in press), I found that, under certain conditions, taxpayers did not seem concerned about negative consequences and perceived deterrence, but were more concerned about the fairness of their treatment. This is consistent with Tyler's view (2001) that experiences of fairness in interactions with authorities increase perceptions of legitimacy of the authorities; and when authorities are considered legitimate, people are more likely to comply with them. Reminder letters are a form of treatment by an

authority and, hence, taxpayers might be concerned about the procedural fairness of the letters.

In an earlier paper (Wenzel, 2001), I argued that two principles of procedural fairness in particular might be relevant to reminder letters. First, a principle of informational justice (Greenberg, 1993) refers to the transparency of, and the provision of information and explanations about, decision procedures and decisions (for example, the decision to send out a reminder letter). This principle implies that the authority is accountable to taxpayers and does not wield arbitrary or despotic, but rather informed, neutral and well-considered decisions. The principle also acknowledges the status of taxpayers as emancipated citizens who are not servants to, but rather served by, their democratic institutions. Second, a principle of interpersonal justice (Greenberg, 1993) refers to politeness and respect, sensitivity to people's feelings and consideration of their circumstances. The principle thus implies that the authority owes to all people respect of their worth and rights, independent of any substantive conflicts. The principle again acknowledges the standing of taxpayers as equal citizens and their worth as human beings (Tyler, 1989).

If people are indeed concerned about the fairness of their treatment, as we predict, (H1) taxpayers will respond more favourably to a reminder letter message that corresponds to either informational or interpersonal principles of fairness compared with a standard reminder letter.

Similarly, it is possible that taxpayers already respond favourably to the Tax Office explicitly granting taxpayers the entitlement to these two forms of procedural fairness. In 1997, the Tax Office introduced a *Taxpayers' Charter* that outlines 'the legal rights and standards taxpayers can expect from the Tax Office' (Tax Office, 1997, p. 8). These reflect, next to others, the two principles of informational justice ('explaining our decisions to you', p. 13) and interpersonal justice ('treat you with courtesy, consideration and respect', p. 8). The charter is an acknowledgement of taxpayer rights that in itself could induce trust in the Tax Office's commitment to these rights. Hence, we predict that (H2) taxpayers will respond more favourably to a reminder letter that contains a reference to

either informational or interpersonal principles of fairness as outlined in the *Taxpayers' Charter*.

However, such an assertion of a commitment to taxpayer rights may sound hollow if is not actually realised in the same communication, that is, if the message of the reminder letter does not correspond to the taxpayer right referred to. Conversely, a letter message that realises a certain principle of procedural fairness may be considered even fairer, if taxpayers are made aware of the respective principle and their entitlement to such treatment (see Heuer Blumenthal, Douglas, & Weinblatt, 1999). For these reasons, we further predict that the procedural fairness of the letter message and the self-stated commitment to principles of procedural fairness will interact in their effects on taxpayers' responses to the letter (H3): if the justice principles realised in the letter message correspond to the procedural right to which the Tax Office expresses its commitment, then taxpayers will respond to the reminder letter most favourably.

Indeed, in an earlier scenario study (Wenzel, 2001), university students evaluated a reminder letter that realised principles of *informational justice* as being fairer when the right to *informational justice* had been made salient; and they evaluated a reminder letter that realised principles of *interpersonal justice* as being fairer when the right to *interpersonal justice* had been made salient. The present study builds on these findings and investigates whether these perceptions of greater fairness actually translate into greater rates of taxpayer compliance. Specifically, we will investigate whether reminder letters that embody principles of procedural fairness, in interaction with the explicit granting of corresponding procedural rights, lead to greater levels of compliance with the letter.

Study

In July 2000, Tax Reform in Australia introduced wide-ranging changes to the Australian tax system, including a Goods and Services Tax (GST), a new system for tax instalments and changes in withholding tax on behalf of others (Pay As You Go, PAYG). With these changes came a new reporting system in the form of Activity Statements (AS), which have to be lodged monthly, quarterly or yearly, depending on the circumstances. Business

Activity Statements (BAS) have to be used by businesses to report on, among other things, GST and/or PAYG instalments payable to the Tax Office. Instalment Activity Statements (IAS) are required for PAYG instalments only. With the lodgment of AS, taxpayers are required to make their payments (if necessary).

The first year after the introduction of Tax Reform was considered a transitional period where the Tax Office was lenient with regard to the on-time lodgment of AS. However, because AS should have become more routine practice since then, the Tax Office has started to use regulatory measures to ensure the timely and correct lodgment of AS. Specifically, the Tax Office uses reminder letters to remind taxpayers of their obligations and to encourage them to lodge their AS. The standard AS reminder letter is rather straightforward, brief and firm. There appeared to be considerable scope to design alternative letters that use and refer to principles of procedural fairness and, thus, to test our hypotheses in this context.

The effects of the different reminder letters will be evaluated, first, on the basis of the number and quality of phone calls from clients. A lower number of phone calls could indicate that taxpayers are more satisfied with their treatment, feel less resentment and are less inclined to protest. Moreover, phone calls are a cost factor for the Tax Office, requiring staff, time and resources, and from this perspective letters that reduce the number of return calls are more efficient. However, the meaning of the mere number of calls might be ambiguous, because a fairer letter (in particular one that refers to the Tax Office's commitment to provide explanations) could also encourage taxpayers to call the Tax Office. The fact, that clients call up could indicate that they think positively of the Tax Office, as an organisation one can talk to. Moreover, if there were any complaints it would be better for the Tax Office to know about them, rather than being subject to silent non-compliance. Hence, the quality of the phone calls should be a more meaningful indicator of the quality of reminder letters. A reduction in the number of angry phone calls, where taxpayers complain or blame the Tax Office, would indicate greater client satisfaction with the letter.

Second, the effects of the reminder letters will be evaluated on the basis of lodgment and payment records. Reminder letters are more effective when they produce a higher rate of compliance; that is, when clients lodge their AS without much further delay and when they pay the taxes they owe.

It is likely that letters appealing to fairness are only effective when the responsible taxpayers themselves receive the letter, rather than their professional preparers. Professional preparers who deal with tax matters on behalf of their clients (1) are not personally addressed in the letters and the fair treatment demonstrated in the letters would not apply to them. Also, (2) their professional attitude may make them less susceptible to fairness appeals and, instead, (3) they may feel a professional obligation to look after the material interests of their clients, rather than their feelings of fairness or esteem. For these reasons, the present study focused on taxpayers who were not registered with a tax agent or accountant.

Moreover, various taxpayer entities have to lodge AS: individuals, partnerships, trusts, companies and superannuation funds. While the present study uses a random sample of clients across these different entities, where the records indicate an obligation to lodge an AS, it is plausible that reminder letters appealing to fairness will be particularly effective with individual clients. This is so, again, because non-individual entities might be employing tax experts who are professional and mainly accountable (to others) for securing the financial interests of the entity. In contrast, individuals (who are not registered with a tax accountant) are more likely to deal with their tax matters themselves.

Method

Participants

For the present study, 4500 cases were randomly selected from the population of taxpayers who, according to Tax Office records, were expected to lodge, but had not lodged, a quarterly AS for the third quarter of 2001. These clients had not yet been contacted by the Tax Office regarding their outstanding AS. We expected the style of reminder letters to matter more when taxpayers themselves, rather than professional preparers, were the

recipients of the letter. Hence, the present study focused on taxpayers who were not registered with a tax agent or accountant for the handling of their AS. Note, however, that taxpayers may be registered with tax agents or accountants for other tax purposes (for example, their income tax returns). Moreover, large business clients usually use the services of external accountants or internal tax departments, and for this reason we excluded the Large Enterprises segment from our sampling population and focused on Micro-Business, Small/Medium Enterprises and Not-for-Profit Organisations. Further sampling restrictions were meant to avoid confusions as to the obligation to which the reminder letter referred: (a) clients had only ever had quarterly obligations; (b) clients had no other AS outstanding; (c) clients had only one known concurrent AS obligation. Finally, clients from Western Australia were excluded from the experiment.

The data showed that 27 reminder letters were returned to sender unclaimed. Also, 365 taxpayers lodged their AS before they received the reminder letters, due to a natural delay between sampling and issuing the letters. Because the reminder letters obviously could not have any effect in these situations, the number of valid cases was reduced to 4108. Four further cases were excluded from analyses because of their unusual status: three cases had yet outstanding AS from the previous quarter, and one case was an overseas company (valid $N = 4104$).

Design and Procedure

The 4500 taxpayers sampled were randomly assigned to the nine groups of a 3x3 design with the factors *letter* (informational/interpersonal/standard) and salient *right* (informational/interpersonal/none salient). The factor *letter* referred to three different letter bodies that either incorporated principles of informational or interpersonal justice or no such principles. The factor *right* referred to an additional message at the bottom of the letter that highlighted the taxpayers right to informational or interpersonal justice, or no such reference was included in the letter.

The taxpayers sampled for our study were due to receive a reminder letter encouraging them to lodge their third quarter AS and make respective payments if necessary. However,

instead of the standard Tax Office reminder letter, they were sent one of the nine letter versions designed for the purpose of this study. To reduce strain on Tax Office staff, due to taxpayers calling and making requests, the 4500 letters were sent out in two batches. A first random half of the letters were sent out about six weeks after the lodgment deadline, the second half was sent out a week later. Tax Office staff answering the incoming phone calls recorded the content of the calls in a category system. About five and four weeks after issuing the reminder letters, respectively, Tax Office records were accessed again for lodgment status and other relevant taxpaying data.

Independent Variables

The factor *letter* referred to three different bodies of the reminder letters (see Appendix). One version attempted to realise informational justice by restructuring and expanding on the standard letter text under three headings. These headings were given in the form of questions: (1) ‘Why are we sending you this letter?’; (2) ‘Why can’t we be more specific in this letter?’; and (3) ‘Why do we impose penalties?’ These were considered to be three relevant issues on which taxpayers might desire more information, transparency and explanation. The provision of respective details should increase perceptions of informational fairness, as shown in a pre-study (Wenzel, 2001). A second version attempted to realise interpersonal justice, again, by restructuring and expanding on the text of the standard letter under three headings. The headings this time summed up the message of the respective paragraphs: (1) ‘We believe in your honesty’; (2) ‘We acknowledge that times can be difficult’; and (3) ‘We do not want to make things more difficult for you’. These were meant to address taxpayers’ concern for respectful treatment; namely by assuring taxpayers of the Tax Office’s trust in their honesty, showing consideration for the taxpayers’ situation and emphasising the Tax Office’s benevolence or lack of malevolence (Wenzel, 2001). A third letter version (standard) was basically identical to the Tax Office standard letter (except for some minor changes for the purposes of the study, such as the inclusion of special contact phone numbers).

The factor *right* was realised by the inclusion of an additional message, at the bottom of the letter, that referred to the *Taxpayers’ Charter*. It provided a short definition of what the

Taxpayers' Charter was as well as some information on how it could be obtained and where it could be accessed on the Internet. In addition, in the informational justice condition, the message highlighted one particular right from the *Taxpayers' Charter* ('You have a right to have Tax Office decisions about your tax affairs explained to you') that corresponds to the definition of informational justice. In the interpersonal justice condition, the message highlighted a right from the *Taxpayers' Charter* ('You have a right to be treated by the ATO with courtesy, consideration and respect') that corresponds to the definition of interpersonal justice. In the no salient right condition, no particular right was mentioned and only the general definition and information was provided (as is the case in the Tax Office standard letter). The Appendix gives three examples of the nine letters used: informational letter/informational right, interpersonal letter/interpersonal right and standard letter/no salient right.

Phone Calls

The reminder letters used in the present study all included a specifically designated phone number that taxpayers could call for enquiries, clarification or comment. Each of the nine letters also contained a reference number that identified the kind of letter taxpayers had received. Thus, Tax Office staff receiving phone calls from taxpayers referring to the reminder letter were instructed to ask taxpayers for the reference number and to record it together with other information about the phone call. Specifically, Tax Office staff categorised the content of the call in one or more of six categories: (1) penalties or Tax Office actions, (2) excuse or assurance of lodgment, (3) accusation or blame on Tax Office, (4) request for information or assistance, (5) request for delay (of lodgment or payment), and (6) other issues (in an open format for further specification).¹ In addition, Tax Office staff were instructed to rate the caller's *aggressiveness* or friendliness on four five-point rating scales: aggressive, angry, polite and cooperative (1 = *not at all*, 5 = *very*). The four items were highly correlated; thus, the two positive items were reverse-scored and the four items averaged to obtain scale scores ($\alpha = 0.89$).

¹ A seventh category was meant to indicate whether or not taxpayers commented positively or negatively on the tone of the letter they had received. However, Tax Office staff mistakenly used this category to indicate the tone that the caller displayed. Hence, this category was dropped from further analyses.

Tax Data

Tax records were accessed four/five weeks after issuing the reminder letters (our self-set deadline). Of primary interest was the taxpayers' degree of compliance with the reminder letters. There were two aspects of compliance.

Lodgment. The first measure of compliance, which applied to all cases, referred to the lodgment of the AS. The tax records distinguished between seven different outcomes that were categorised into a binary variable of lodgment compliance. We defined as *non-compliant* a taxpayer who did not lodge their AS by the deadline, either their original AS or a replacement AS (for example, when the original AS was reported lost). We defined as *compliant* all taxpayers (1) who lodged their (original or replacement) AS by the deadline, regardless of it being already fully processed or received but not yet fully processed; or (2) whose AS was discontinued (for example, taxpayers informed the Tax Office that their business had ceased).

Payment. A second measure of compliance referred to cases where an AS had been lodged and processed, and the net value of the AS showed a debit amount. We defined taxpayers who did not pay by the deadline the tax they owed as *non-compliant*, and taxpayers who paid the amount owed as *compliant*. Cases where taxpayers had made payments before they received the reminder letter were excluded from the analysis. (Some taxpayers made their payments before the reminder letters were issued but did not lodge their AS, either because they forgot or they thought they were not required to do so.)

Other variables were of interest because controlling for them would increase the statistical power of the analyses. In particular, taxpayers' lodgment history should be relevant in this context, as it should account for a considerable amount of the variance in lodgment compliance.

Lodgment history. Taxpayers' history of compliance in lodging AS was captured in four categorical variables for the four preceding lodgment quarters since the introduction of Tax Reform: *Sep2000*, *Dec2000*, *Mar2001* and *Jun2001*. The variables contained four

categories: (1) the client had *no obligation* to lodge for that period; (2) the client lodged *on time* (on or before the due date); (3) the client lodged *within seven days* after the due date; or (4) the client lodged *late* (eight or more days after the due date). Three cases where the June 2001 AS was still outstanding were excluded from the analysis, because of potential biases due to this underrepresented category.

Entity type. Tax records distinguished between five categories of client entities, which were represented in the present analyses as follows: 2052 individuals, 774 partnerships, 223 trusts, 970 companies and 85 superannuation funds. Following our reasoning that the reminder letters might be more effective with individuals, the entity type was defined as a binary variable with the categories *individuals* ($N = 2052$) and *non-individuals* (including partnerships, trusts, companies and superannuation funds; $N = 2052$).

Batch. As described earlier, for practical reasons, the reminder letters were sent out in two random batches one week apart. This meant that for the second batch of taxpayers the time of data access (which was the same for all cases) was one week earlier than for the first batch, relative to the date of issue of reminder letters. Hence, compliance was somewhat more strictly defined for the second than the first batch, and this could have implications for levels of compliance.

Tax agent for AS purposes. Although cases were sampled from the population of taxpayers who, according to previous records, were not registered with a tax agent or accountant for purposes of their AS preparation, 43 taxpayers changed their status and became registered for the quarter in question.

Tax agent for income tax purposes. Most clients not only have AS obligations but also income tax obligations, for which however they could have an extra ‘role’ in the Tax Office’s records. Most taxpayers, namely 3370, were registered with a tax agent or accountant for the purpose of income taxation, while 734 were not, partly because they did not have an income tax role ($n = 88$).

Gender. For individuals only, the client's gender was included as a background variable. There were 77.6% male and 22.4% female individual clients.

Age. Again, for individuals only, the client's age was included as a background variable, ranging from 16 to 88, with a median age of 40.

Business age. For non-individuals, the age of the business was included as a background variable. Due to the nature of Tax Office records, it was not possible to have a valid age for all businesses that were older than 10 years. As a consequence, businesses that were 10 or more years old were all given a value of 10.

Other. Other variables were inspected for their possible influences on levels of compliance, such as the type of AS (BAS vs. IAS), the turnover of the business, and the location (urban vs. rural vs. remote). However, these variables did not play any role in the analyses and will be ignored in the remainder of the paper.

Results

Phone Calls

The phone records showed that 1094 calls were received (four further calls lacked details on the experimental condition and had to be ignored). Table 1 shows the distribution of phone calls across the nine letter conditions. Chi-square tests indicated no significant interactive pattern of the two factors letter and right, $\chi^2(4) = 5.17$, *ns*. However, there was a close to significant main effect of letter, $\chi^2(2) = 5.68$, $p = 0.058$, while right had no significant effect, $\chi^2(2) = 0.30$, *ns*. As the marginal sums in Table 1 show, there were fewer calls following the informational letter ($n = 337$) than the interpersonal letter ($n = 400$), with the standard letter falling in between ($n = 357$).

Table 1: Frequencies of phone calls

	Letter						Total <i>n</i> (column%)
	informational		interpersonal		standard		
	<i>n</i>	(row%)	<i>n</i>	(row%)	<i>n</i>	(row%)	
	(column%)		(column%)		(column%)		
Right							
informational	99	(26.5)	141	(37.8)	133	(35.7)	373
	(29.4)		(35.3)		(37.3)		(34.1)
interpersonal	120	(33.1)	130	(35.9)	112	(30.9)	362
	(35.6)		(32.5)		(31.4)		(33.1)
none salient	118	(32.9)	129	(35.9)	112	(31.2)	359
	(35.0)		(32.3)		(31.4)		(32.8)
Total	337	(30.8)	400	(36.6)	357	(32.6)	1094

Note. For the complete cross-tabulation, $\chi^2(4) = 5.17$, *ns*; for letter, $\chi^2(2) = 5.68$, $p = 0.058$; for right, $\chi^2(2) = 0.30$, *ns*.

Out of 1094 calls, 43 referred to penalties or Tax Office actions, 644 contained excuses or assurances, 70 made accusations or blamed the Tax Office, 91 requested information and 69 requested a delay. The 621 entries under ‘other issues’ were mainly elaborations of these five specific categories, but included also a number of calls that claimed the AS had already been lodged or that provided reasons for non-lodgment (for example, business had been sold).

Separate hierarchical log-linear models were calculated for the five specific categories of call content, involving the factors letter, right and the respective content category (see Table 2). First, there were no significant associations between letter, right and the fact that a phone call referred to *penalties and Tax Office actions*.

Second, there was a marginally significant association between right and the fact that a phone call contained *excuses or assurances*, partial $\chi^2(2) = 5.63$, $p = 0.060$. There was a lower proportion of excuses and assurances in the informational right condition (54.7%) compared to the no salient right condition (63.2%), with the interpersonal right letter being in between (58.8%). Similarly, there was a significant association between right and

request for delay, partial $\chi^2(2) = 7.06$, $p = 0.029$. There were fewer requests for delays when the reminder letter highlighted an informational right (3.8%) compared to the no salient right condition (8.4%); the interpersonal right condition fell again in between (6.9%).

Table 2: Log-linear models for the five specified categories of phone call content

	Phone Call Content Category									
	penalties/ ATO actions		excuses/ assurances		accusations/ blame		request for information		request for delay	
	χ^2	p	χ^2	p	χ^2	p	χ^2	p	χ^2	p
BY...										
letter by right (df = 4)	2.19	<i>ns</i>	1.95	<i>ns</i>	8.05	0.09	10.98	0.027	2.01	<i>ns</i>
letter (df = 2)	2.08	<i>ns</i>	0.53	<i>ns</i>	1.00	<i>ns</i>	4.61	0.10	0.88	<i>ns</i>
right (df = 2)	2.36	<i>ns</i>	5.63	0.060	2.77	<i>ns</i>	3.02	<i>ns</i>	7.06	0.029

Note. Only the relevant results referring to the 3-way association (category by letter by right) and the two 2-way associations (category by letter; category by right) are reported here.

Third, the log-linear model for *accusations or blame* yielded a marginally significant three-way effect, L.R. $\chi^2(4) = 8.05$, $p = 0.090$. To further explore this result, chi-square tests were used to test for effects of letter within the different levels of right. The results are shown in Table 3. Only in the informational right condition was there a significant effect of letter, $\chi^2(2) = 5.99$, $p = 0.050$. Namely, accusations and blame were lower when the letter was informationally fair and thus matched the right made salient in the letter, compared to the standard letter (the interpersonal letter being in between). However, matching the interpersonal right with an interpersonal letter did not produce an equivalent effect.

Table 3: Frequencies of accusations or blame in phone calls

			Letter					
			informational		interpersonal		standard	
			n	(%)	n	(%)	n	(%)
Right								
informational	<i>acc./blame – no</i>		97	(98.0)	133	(94.3)	120	(90.2)
	<i>yes</i>		2	(2.0)	8	(5.7)	13	(9.8)
interpersonal	<i>acc./blame – no</i>		111	(92.5)	118	(90.8)	104	(92.9)
	<i>yes</i>		9	(7.5)	12	(9.2)	8	(7.1)
none salient	<i>acc./blame – no</i>		111	(94.1)	121	(93.8)	109	(97.3)
	<i>yes</i>		7	(5.9)	8	(6.2)	3	(2.7)

Note. Effect of letter within informational right, $\chi^2(2) = 5.99$, $p = 0.050$; effect of letter within interpersonal right, $\chi^2(2) = 0.42$, *ns*; effect of letter within no salient right, $\chi^2(2) = 1.87$, *ns*.

The analysis for *requests for information* also yielded a significant three-way effect, L.R. $\chi^2(4) = 10.98$, $p = 0.027$. Again, to illustrate the finding, the effects of letter were tested by chi-square tests for the different levels of right. The results are shown in Table 4. Only in the informational right condition was there a significant effect of letter, $\chi^2(2) = 10.15$, $p = 0.006$. The proportion of requests for information was higher with the informational letter that matched the informational right, compared to the interpersonal and standard letters.

Finally, the ratings of the caller's *aggressiveness* showed a grand mean rating of 1.09 on a scale from 1 to 5. The vast majority of calls were thus very friendly, cooperative and without resentment. It is therefore not surprising that an analysis of variance for this variable did not reveal any significant effects of the experimental factors, $F_s < 2.31$, *ns*.

Table 4: Frequencies of requests for information in phone calls

		Letter					
		informational		interpersonal		standard	
		n	(%)	n	(%)	n	(%)
Right							
informational	<i>req. for info – no</i>	86	(86.9)	136	(96.5)	127	(95.5)
	<i>yes</i>	13	(13.1)	5	(3.5)	6	(4.5)
interpersonal	<i>req. for info – no</i>	112	(93.3)	118	(90.8)	101	(90.2)
	<i>yes</i>	8	(6.7)	12	(9.2)	11	(9.8)
none salient	<i>req. for info – no</i>	105	(89.0)	122	(94.6)	96	(85.7)
	<i>yes</i>	13	(11.0)	7	(5.4)	16	(14.3)

Note. Effect of letter within informational right, $\chi^2(2) = 10.15$, $p = 0.006$; effect of letter within interpersonal right, $\chi^2(2) = 0.85$, ns ; effect of letter within no salient right, $\chi^2(2) = 5.41$, $p = 0.067$.

Summary. The data on return phone calls indicated some advantages of reminder letters that adopted principles of informational fairness. There tended to be fewer return calls overall when the letter message was informationally fair; fewer excuses and fewer requests for delayed lodgment when an informational right was granted; and fewer accusations when an informational letter matched an informational right. However, the effects were not completely clear and rather suggestive.

Lodgment Compliance

A second and important evaluation of the different reminder letter was based on objective tax records and actual taxpayer compliance. We investigated whether the letters were effective in encouraging clients to lodge their AS without much further delay. First, a hierarchical log-linear model was used to test our reasoning that the letter style could have a greater impact on compliance for individual clients. We thus tested for associations between the binary variable lodgment compliance (no/yes), the experimental factors letter and right, and the binary variable entity type (individuals/non-individuals). The results showed a marginally significant four-way interaction between all four variables, L.R. $\chi^2(4) = 8.06$, $p = 0.089$. All other effects and partial associations were not significant. Because this result indicated that entity type indeed moderated the effects of the letters,

further analyses were conducted separately for individuals and non-individual entities. The following separate analyses also allowed for the inclusion of background variables that were specific to the entity types, enabling more powerful analyses.

Individuals. A logistic regression was run to test for the effects of letter and right as well as, in a second step, their interactive effects. The analysis also included the following background and control variables: the four categorical variables of lodgment history (Sep2000, Dec2000, Mar2001 and Jun2001), registration with a tax agent for AS purposes (AgentAS), registration with a tax agent for income tax purposes (AgentIT), gender, age and batch (that is, time of issuing the letters). The results revealed that the interaction between letter and right was not significant, $Wald(4) = 2.25$, *ns*, so that we can focus on the first step of the analysis.

The findings are presented in Table 5. All the control and background variables had significant effects. First, *lodgment history* proved to be a significant predictor of lodgment compliance; in particular the more recent variables, Jun2001 and Mar2001, had significant overall effects. Specifically, clients who lodged their previous AS *on time*, Jun2001(2), complied more with the reminder letter, relative to the comparison category of *late* lodgers of the June quarter. Similar positive effects can be seen for a history of lodgment compliance in the March 2001 quarter and even the September 2000 quarter. Likewise, clients who were marginally compliant in March 2001 and lodged then *within seven days*, Mar2001(3), complied more with the reminder letter than late lodgers of the same quarter. The equivalent effect was, however, not significant for the more recent June quarter. Another inconsistency between March 2001 and June 2001 quarters referred to the category of those who had no lodgment obligations for these quarters. While clients who had no obligations in March, Mar2001(1), tended to be more compliant with the reminder letter, clients with no obligations in June, Jun2001(1), were significantly less compliant compared to the late lodgers of the same quarter. This might indicate that inexperience is one factor contributing to lack of compliance. Overall, however, the effects of lodgment history demonstrate that compliance problems are, for whatever reasons, partly chronic.

Table 5: Logistic regression for lodgment compliance of individuals

		<i>B</i>	<i>S.E.</i>	<i>Wald</i>	<i>df</i>	<i>p</i>
Step1	Sep00			6.179	3	0.103
	Sep00(1)	0.211	0.272	0.599	1	<i>ns</i>
	Sep00(2)	0.292	0.135	4.681	1	0.030
	Sep00(3)	-0.076	0.271	0.080	1	<i>ns</i>
	Dec00			5.815	3	<i>ns</i>
	Dec00(1)	-0.636	0.423	2.263	1	<i>ns</i>
	Dec00(2)	0.143	0.134	1.144	1	<i>ns</i>
	Dec00(3)	-0.121	0.227	0.281	1	<i>ns</i>
	Mar01			18.267	3	0.000
	Mar01(1)	0.754	0.392	3.696	1	0.055
	Mar01(2)	0.417	0.114	13.332	1	0.000
	Mar01(3)	0.601	0.194	9.641	1	0.002
	Jun01			20.595	3	0.002
	Jun01(1)	-1.739	0.857	4.121	1	0.042
	Jun01(2)	0.397	0.104	14.684	1	0.000
	Jun01(3)	0.176	0.179	0.967	1	<i>ns</i>
	AgentAS	0.922	0.530	3.024	1	0.082
	AgentIT	0.318	0.144	4.851	1	0.028
	Gender	-0.279	0.111	6.338	1	0.012
	Age	0.016	0.004	16.518	1	0.000
	Batch	0.358	0.092	15.135	1	0.000
	Letter			4.653	2	0.098
	Letter(1)	0.207	0.113	3.359	1	0.067
	Letter(2)	0.215	0.113	3.641	1	0.056
	Right			0.164	2	<i>ns</i>
	Right(1)	0.041	0.113	0.130	1	<i>ns</i>
	Right(2)	0.003	0.112	0.001	1	<i>ns</i>
	Constant	-1.901	0.284	44.895	1	0.000
Step 2	...					
	Letter * Right			2.245	4	<i>ns</i>
	Letter(1) by Right(1)	0.082	0.278	0.086	1	<i>ns</i>
	Letter(1) by Right(2)	0.186	0.277	0.452	1	<i>ns</i>
	Letter(2) by Right(1)	-0.223	0.277	0.647	1	<i>ns</i>
	Letter(2) by Right(2)	-0.197	0.277	0.506	1	<i>ns</i>
	Constant	-1.925	0.296	42.176	1	0.000

Second, registration with a tax agent or accountant for AS purposes had a marginally significant effect (remember, however, that the number of clients who, following their previous AS, decided to employ a preparer was rather small). This indicated that clients registered with an agent or accountant were more compliant with the reminder letter.

Likewise, registration with a tax agent or accountant for income tax purposes had a significant effect. Again, clients registered with an agent or accountant were more compliant.

Third, gender and age were each significantly related to lodgment compliance. Female clients were more compliant than males; and clients were more compliant, the older they were. Not surprisingly, whether clients received a reminder letter of the first or the second batch impacted on lodgment results. Clients of the first batch, who had more time to comply with the letter, had a greater lodgment rate.

Controlling for all these background differences, did the experimental variation of reminder letters affect lodgment compliance? The results showed that the factor *right* did not have a significant effect, while the factor *letter* had, overall, a marginally significant effect, $Wald(2) = 4.65, p = 0.098$. Single comparisons between letters based on principles of procedural fairness with the standard letter showed for both the informational ($B = 0.21, p = 0.067$) and the interpersonal justice letter ($B = 0.22, p = 0.056$) marginally significant effects. Compared to the standard letter, each of the ‘procedurally fair’ letters led to greater lodgment compliance.

The cross-tabulation of lodgment compliance and ‘fair’ versus control letters may illustrate the practical meaning of these effects; however, note that the background variables are here no longer accounted for. In the two ‘fair’ letter conditions, 50.5% of clients complied with the reminder letter and lodged their AS, while only 45.8% of clients complied who received the standard letter. A chi-square test indicated that the difference between the two procedurally fair letters together and the standard letter was statistically significant, $\chi^2(1) = 4.13, p = 0.042$.

Non-individuals. For non-individual entities, again, a logistic regression was run to test for the effects of letter and right as well as, in a second step, their interactive effects. The following background variables were controlled for in the analysis: the four categorical variables of lodgment history (Sep2000, Dec2000, Mar2001 and Jun2001), registration with a tax agent for AS purposes (AgentAS), registration with a tax agent for income tax

purposes (AgentIT), entity (partnership/trust/company/superannuation fund), business age and batch. The results showed a significant main effect of right in the first step, $Wald(2) = 6.25, p = 0.044$, and a marginally significant overall interaction effect of right and letter in the second step, $Wald(4) = 8.23, p = 0.083$. The results of both steps were therefore inspected.

The findings are presented in Table 6. The results for the control and background variables did not differ substantially between the two steps (only step 1 results are displayed in Table 6). First, *lodgment history* had very similar effects as in the equivalent analysis for individuals, except even stronger and more consistent. For all four previous lodgment quarters the effect held that clients who lodged previously on-time (2) were more compliant with the reminder letter. In addition, clients who lodged their March AS within seven days, and thus marginally on time (3), also complied better with the reminder letter. No other effects were significant across both steps. So, again, the results indicate that lodgment compliance, or the conditions that bring it about, are relatively stable.

Second, registration with a tax agent or accountant for AS purposes had no effect (remember, however, the small number), while registration with a tax agent or accountant for income tax purposes had a significant effect. Clients registered with an agent or accountant were more compliant. Third, entity had an overall significant effect, $Wald(3) = 8.68, p = 0.034$, which was mainly due to partnerships and trusts tending to comply better with the reminder letter, relative to the comparison category, superannuation funds. Fourth, business age did not have a significant relationship to lodgment compliance. Fifth, naturally, clients of the first batch of the letter mail-out, who had more time to comply with the letter, had a greater lodgment rate.

Table 6: Logistic regression for lodgment compliance of non-individual entities

		<i>B</i>	<i>S.E.</i>	<i>Wald</i>	<i>df</i>	<i>p</i>
Step1	Sep00			10.334	3	0.016
	Sep00(1)	0.260	0.309	0.711	1	<i>ns</i>
	Sep00(2)	0.428	0.139	9.532	1	0.002
	Sep00(3)	0.129	0.266	0.236	1	<i>ns</i>
	Dec00			5.800	3	<i>ns</i>
	Dec00(1)	0.669	0.405	2.731	1	0.098
	Dec00(2)	0.268	0.133	4.067	1	0.044
	Dec00(3)	0.300	0.217	1.906	1	<i>ns</i>
	Mar01			27.346	3	0.000
	Mar01(1)	-0.281	0.389	0.524	1	<i>ns</i>
	Mar01(2)	0.574	0.117	24.192	1	0.000
	Mar01(3)	0.441	0.186	5.611	1	0.018
	Jun01			6.771	3	0.080
	Jun01(1)	-0.123	0.949	0.017	1	<i>ns</i>
	Jun01(2)	0.274	0.106	6.679	1	0.010
	Jun01(3)	0.155	0.173	0.807	1	<i>ns</i>
	AgentAS	0.083	0.427	0.038	1	<i>ns</i>
	AgentIT	0.303	0.117	6.695	1	0.010
	Entity			8.675	3	0.034
	Entity(1)	0.401	0.241	2.766	1	0.096
	Entity(2)	0.419	0.268	2.445	1	<i>ns</i>
	Entity(3)	0.148	0.238	0.384	1	<i>ns</i>
	Business age	0.012	0.014	0.755	1	<i>ns</i>
	Batch	0.334	0.092	13.074	1	0.000
	Letter			0.009	2	<i>ns</i>
	Letter(1)	-0.009	0.113	0.007	1	<i>ns</i>
	Letter(2)	0.000	0.113	0.000	1	<i>ns</i>
	Right			6.249	2	0.044
	Right(1)	-0.070	0.112	0.395	1	<i>ns</i>
	Right(2)	0.205	0.114	3.247	1	0.072
	Constant	-1.854	0.306	36.703	1	0.000
Step 2	...					
	Letter * Right			8.234	4	0.083
	Letter(1) by Right(1)	-0.544	0.275	3.917	1	0.048
	Letter(1) by Right(2)	-0.435	0.278	2.456	1	<i>ns</i>
	Letter(2) by Right(1)	0.167	0.275	0.371	1	<i>ns</i>
	Letter(2) by Right(2)	0.134	0.279	0.230	1	<i>ns</i>
	Constant	-1.935	0.321	36.305	1	0.000

Beyond these background variables, as stated before, the experimental factor right had a significant overall effect in the first step. This effect was mainly due to the interpersonal

right letter yielding marginally significantly more compliance ($B = 0.21, p = 0.072$), compared to the letter that made no right salient. The informational right letter did not differ from the no salient right condition. The marginally significant interaction effect of letter and right in the second step was mainly due to the information letter/informational right condition. Contrary to the prediction (H3), the matching of informational entitlement and treatment did not increase compliance, but rather decreased it ($B = -0.54, p = 0.048$).

Cross-tabulations further illustrate the practical meaning of these effects; however, note that background variables are here no longer controlled. First, the compliance rate in the interpersonal right condition was 53.4% compared to 49.5% in the no salient right and 47.4% in the informational right conditions. The simple chi-square test (not controlling for background characteristics) was marginally significant, $\chi^2(2) = 5.00, p = 0.082$. Second, concerning the interaction effect, the compliance rate following an informational letter was 42.8% when a matching informational right was made salient compared to 54.6% when no right was made salient (interpersonal right: 50.9%). The chi-square test of this effect was significant, $\chi^2(2) = 6.79, p = 0.034$.

Summary. Lodgment compliance data indicated that the reminder letters had different effects on individual and non-individual entities. For non-individual entities, the reference to an interpersonal right tended to have a positive impact, but the combination of informational message and an informational right being made salient was counterproductive. In contrast, for individuals, lodgment compliance tended to be greater when the reminder letter messages adopted principles of procedural fairness (either informational or interpersonal). This effect is consistent with expectations and the procedural justice literature. It suggests that procedural fairness has greater appeal and more positive effects on individuals.

Payment Compliance

Taxpayers are supposed to lodge their AS and, at the same time, pay any amount of taxes they owe according to their AS. However, sometimes taxpayers lodge their AS, indicating a debit amount, but fail to pay in time. Thus, taxpayers who lodge their AS may yet

comply or fail to comply in terms of the payment required. We investigated whether this form of compliance was affected by the experimental conditions. However, naturally, the sample for these analyses was strongly reduced, namely to those who lodged their AS and owed taxes according to that statement ($N = 645$).

First, a hierarchical log-linear model for the binary payment compliance variable, right, letter and entity type yielded a non-significant four-way interaction, L.R. $\chi^2(4) = 3.94$, *ns*. Entity type, thus, did not substantially moderate the effect and further analyses were conducted for all valid cases together.

A logistic regression for payment compliance included as background variables the four categorical variables of lodgment history (Sep00, Dec00, Mar01 and Jun01), registration with tax agent for AS purposes (AgentAS), registration with tax agent for income tax purposes (AgentIT) and mail-out batch. In addition, the amount of taxes owed was included as a control (AS Net Tax). Age, gender and business age did not apply to all entities and were not included. The main effects of letter and right were tested in the first step, their interaction in the second step.

Consistent across both steps, lodgment history had little predictive value for payment compliance. While AgentAS had also no significant relationship to payment compliance, AgentIT showed a significant effect (see Table 7). Interestingly, different from the findings for lodgment compliance, clients who were registered with a tax agent were *less* compliant in terms of timely payments. Batch had also a significant effect, as we would expect. Recipients of the first batch of reminder letters had a higher compliance rate. The amount of taxes to be paid was unrelated to the level of compliance. The factors right and letter had overall no significant main or interaction effects. However, a single comparison within the interaction was statistically significant. Namely, consistent with H3, a letter with a match between informational right and informational treatment yielded a relatively higher rate of compliance ($B = 1.37$, $p = 0.014$). However, the corresponding effect for an interpersonal letter matching an interpersonal right was not significant, inconsistent with H3.

Table 7: Logistic regression for payment compliance (individuals and non-individual entities)

		<i>B</i>	<i>S.E.</i>	<i>Wald</i>	<i>df</i>	<i>p</i>
Step1	AgentAS	-0.435	0.545	0.636	1	<i>ns</i>
	AgentIT	-1.115	0.335	11.085	1	0.001
	Batch	0.424	0.182	5.427	1	0.020
	AS Net Tax	0.000	0.000	0.028	1	<i>ns</i>
	Sep00			2.589	3	<i>ns</i>
	Sep00(1)	-0.498	0.541	0.849	1	<i>ns</i>
	Sep00(2)	0.099	0.284	0.122	1	<i>ns</i>
	Sep00(3)	0.509	0.515	0.980	1	<i>ns</i>
	Dec00			5.193	3	<i>ns</i>
	Dec00(1)	1.436	0.965	2.211	1	<i>ns</i>
	Dec00(2)	0.496	0.251	3.905	1	0.048
	Dec00(3)	0.234	0.384	0.372	1	<i>ns</i>
	Mar01			3.258	3	<i>ns</i>
	Mar01(1)	-1.188	0.974	1.487	1	<i>ns</i>
	Mar01(2)	-0.067	0.217	0.096	1	<i>ns</i>
	Mar01(3)	-0.425	0.307	1.910	1	<i>ns</i>
	Jun01			0.076	3	<i>ns</i>
	Jun01(1)	-0.168	1.767	0.009	1	<i>ns</i>
	Jun01(2)	-0.006	0.200	0.001	1	<i>ns</i>
	Jun01(3)	-0.082	0.319	0.066	1	<i>ns</i>
	Letter			0.566	2	<i>ns</i>
	Letter(1)	0.144	0.221	0.423	1	<i>ns</i>
	Letter(2)	0.147	0.226	0.425	1	<i>ns</i>
	Right			0.525	2	<i>ns</i>
	Right(1)	0.159	0.220	0.525	1	<i>ns</i>
	Right(2)	0.070	0.221	0.102	1	<i>ns</i>
	Constant	1.206	0.465	6.733	1	0.009
Step 2	...					
	Letter * Right			6.918	4	<i>ns</i>
	Letter(1) by Right(1)	1.373	0.560	6.001	1	0.014
	Letter(1) by Right(2)	0.301	0.538	0.313	1	<i>ns</i>
	Letter(2) by Right(1)	0.360	0.549	0.430	1	<i>ns</i>
	Letter(2) by Right(2)	-0.025	0.558	0.002	1	<i>ns</i>
	Constant	1.418	0.516	7.542	1	0.006

A cross-tabulation of payment compliance for the experimental conditions illuminates the finding (however, not accounting for background variables). The association between letter and payment compliance was close to significant only when an informational right was made salient, $\chi^2(2) = 5.83$, $p = 0.054$. With an informational right being salient, the

compliance rate for a matching informational letter was 81.9% compared to only 63.5% for the standard letter (interpersonal letter: 72.5%). Or, looked at from a different angle, the association between right and payment compliance was only significant for an informational letter, $\chi^2(2) = 6.82, p = 0.033$. With an informational letter, the compliance rate was 81.9% when an informational right was made salient, but only 62.8% when no right was made salient (interpersonal right: 72.5%).

This finding stands in stark contrast with the interaction reported earlier for lodgment compliance of non-individual entities. To clarify the situation, payment compliance was subjected to separate cross-tabulations for individual and non-individual entities, even though the earlier log-linear model did not suggest a significant moderation effect of entity type. In fact, with informational rights being salient, the three letter types did not differ significantly from each other for non-individual entities, $\chi^2(2) = 1.94, ns$; however, they differed significantly for individuals, $\chi^2(2) = 9.18, p = 0.010$, similar to the earlier overall analysis. Namely, with informational rights made salient, the informational letter yielded a compliance rate of 87.8% compared to 57.1% for the standard letter (interpersonal letter: 64.4%). Hence, the interaction effect held in particular for individuals.

Summary. Payment compliance data indicated a positive effect of a reminder letter that realised informational fairness and at the same time referred taxpayers to their right to informational fairness, as granted in the *Taxpayers' Charter*. However, this effect appeared to hold only for individual clients, not for non-individual entities. Thus, again there was a positive effect of procedural fairness on individual clients, but a different combination of letter message and salient right was responsible than was the case for lodgment compliance.

Discussion

The present study investigated the effects of procedural justice principles in lodgment reminder letters on (1) the quantity and quality of client phone calls, (2) compliance in terms of lodging AS without much further delay, and (3) compliance in terms of paying the taxes owed without much further delay. The predictions were that (H1) reminder letters

incorporating principles of informational or interpersonal justice in their messages would make clients react more favourably towards the reminder and increase compliance; (H2) reminder letters referring to taxpayers' entitlements to informational and interpersonal fairness would lead to more favourable responses and greater compliance; and (H3) justice principles in the letter message matching salient entitlements would elicit the most positive responses and greatest levels of compliance.

Overall, the evidence for these hypotheses was rather mixed, as the following brief summary discussion for each hypothesis shows. Regarding hypothesis H1, the quantity of phone calls showed fewer phone calls for the informational letter, but more phone calls for the interpersonal letter, compared to the standard letter. The evidence is thus inconsistent. However, not only is the mere number of phone calls ambiguous in its meaning (as discussed earlier), but the (marginal significant) effect also applies only to the comparison between the two fair letters, while the standard letter fell in between. So, each procedurally fair letter did not attract a significantly different number of phone calls than the standard letter. The quality of phone calls did not provide any evidence in favour of H1. Data of lodgment compliance of individuals, in contrast, yielded empirical support, with the two fair letters producing greater levels of compliance than the standard letter. The same, however, was not true for non-individual entities. Also, the data for payment compliance provided no evidence.

For hypothesis H2, the phone call data yielded partly supportive evidence, insofar as letters that referred to informational rights yielded a somewhat lower number of excuses/assurances and a lower number of requests for delays. However, the outcome of letters that referred to the right to interpersonally fair treatment fell in between the other two conditions and was not different from the no salient right condition. Further, it may be argued that these two categories of phone calls are also ambiguous in their meaning. Certainly, excuses or requests for delay indicate a sub-optimal level of compliance. Then again, it would be preferable for the Tax Office to be contacted by their clients who are courteous or cooperative enough to make excuses, assurances or requests for delays, rather than simply not lodging or paying their taxes.

For individuals, the lodgment compliance data did not yield any evidence for H2; however, for non-individual entities there was a main effect partly consistent with the hypothesis. That is, the letter referring to a right to interpersonally fair treatment yielded greater compliance than the other two right conditions. The informational right condition, however, did not produce more compliance than the no right condition. Moreover, there was no support for a main effect of granting rights to fair treatment in the payment compliance data.

As to hypothesis H3, which, if valid, would in fact supersede the two earlier hypotheses, the phone data yielded partial evidence for the category of accusations or blame. When an informational right was made salient, a matching informational letter led to fewer calls that accused or blamed the Tax Office. This finding is of particular interest, because accusations and blame are clearly negative outcomes for the Tax Office, reflecting dissatisfaction and the questioning of the performance and legitimacy of the Tax Office. However, an interpersonal letter matching an interpersonal right was no better than the standard letter, inconsistent with H3. While requests for information were more frequent when informational letter and informational right coincided, this result is again ambiguous in its meaning. As with the mere number of phone calls, a higher number of information requests need not be a bad outcome, because it might signal that clients perceive the Tax Office as a point of contact, a source of advice and a cooperative partner. Or, in our specific case, it could signal that clients indeed took the Tax Office's commitment to informational justice seriously.

The findings for the payment lodgment data mirrored the positive phone call evidence. When an informational right was made salient, an informational letter yielded a significantly greater level of compliance than the other two letters. An informational letter that matched the salient informational right exceeded the standard letter by close to 20% compliance. However, this effect held only for individual entities; and here the letter matching informational treatment with the salient right yielded a compliance rate about 30 percentage points higher than for the standard letter. In contrast to this finding, the same condition of matching informational letter and right *decreased* lodgment compliance of

non-individual entities; the compliance rate here was about 10 percentage points lower than for the standard letter.

On the whole, the supportive evidence was rather scattered across the different outcome measures, and sometimes weak and only marginally significant. All three hypotheses received some empirical support, even though the evidence was far from conclusive. Importantly, however, there was only one finding that clearly contradicted the predictions; namely, for non-individual entities, the combination of informational right and corresponding letter was associated with lower lodgment compliance. It might be the case that more professional or experienced tax clients had higher standards as to the information and explanations the Tax Office should provide in their communications. Therefore they might have been dissatisfied with the Tax Office's realisation of its expressed commitment to informational rights.

It is thus important to note that the alternative letters evaluated in this study, different or unusual as they may appear to tax administrators, did *not* produce a backlash in terms of bewildered phone calls or other negative reactions. If anything, the evidence rather suggests that they tended to reduce negative phone calls and non-compliance. Overall, however, procedurally fair letter messages seemed to have greater impact on individual clients, with fair letters leading to greater lodgment compliance and, when informational treatment corresponded to the salient right, to greater payment compliance.

The findings for the control variables are also worth a brief discussion. First, the level of previous lodgment compliance was a strong predictor for lodgment compliance of individual as well as non-individual entities. In other words, part of the variance in lodgment compliance was stable over time. However, it remains unclear from the present study why this was the case. It could be that taxpayers have enduring tax schemas that determine taxpaying decisions (Roth, Scholz & Witte, 1989); a set of attitudes and beliefs as to ethics, risks, the tax system, the government, and so on, that are learnt, socialised and generalised from experience, and thus stable across situations. Alternatively, taxpayers may simply have bad or good habits (of record-keeping and so on) or more or less skills in dealing with their finances and taxes that cannot be easily unlearned or learnt, respectively.

Or, it might be the case that the objective circumstances differ between taxpayers, making compliance easy for some but hard and complex for others. In any case, the apparent level of stability in compliance levels implies that one-shot approaches, such as the intervention tested in the present study has been one so far, would be unlikely to achieve major changes in compliance levels. The present study could at best provide some limited indications for the general effectiveness of the approach, but to have a major impact more concerted actions would be required, involving a consistent set of actions pulling in the same direction.

Second, lodgment compliance and payment compliance seemed to be qualitatively different from each other. Results showed that people's history of lodgment compliance was unrelated to their payment compliance. Likewise, the effects of being registered with a tax agent for income tax purposes was diametrically opposed for the two forms of compliance; tax agent cases were more compliant in terms of lodgment than self-preparers, but less compliant in terms of payment. Also, the effects of the experimental manipulations differed between the two forms of compliance. It is unclear, however, what the crucial difference between lodgment and payment compliance is. While lodgment compliance showed some stability over time, any account of it in terms of more general tax schemas does not seem to extend to payment compliance. If attitudes, habits or objective circumstances played a role, these would seem to be specific to different forms of compliance. The opposite effects on lodgment and payment compliance of being registered with a tax agent are difficult to explain, in particular as these tax agents were not supposed to help with the preparation of the AS. Nonetheless, it could be the case that tax agents provide multiple services that could affect levels of compliance differently (Roth et al., 1989). For instance, their help in collecting all the necessary information and completing the forms could be conducive to lodgment compliance, while their advice on the (low) risks of not paying taxes instantly could be detrimental to payment compliance. This, however, remains speculation, considering also the fact that taxpayers' decision to seek help from tax agents might itself be influenced by, and thus confounded with, factors that could account for the observed effects.

Third, the effects of age and gender on individuals' lodgment compliance are consistent with much earlier research showing that women tend to be more compliant than men, and older people more compliant than younger people (Roth et al., 1989; Tittle, 1980; Wenzel, in press).

Conclusions

The present study yielded some, but largely patchy, evidence for the assumption that procedural justice principles in reminder letters improve levels of compliance with the reminders. The two procedurally fair letters increased lodgment compliance of individuals; the granting of a right to interpersonal fairness led to greater lodgment compliance of non-individual entities; and providing informational justice while expressly granting taxpayers the right to informational justice was beneficial to payment compliance of individuals. There was only one negative effect, namely of the latter combination of informational right and treatment on lodgment compliance of non-individuals. At the same time, the phone data did not suggest any adverse effects of the approach. On the contrary, if anything, the combination of granting and actually providing informational justice decreased accusations and blame taxpayers voiced towards the Tax Office. Even though the research did not provide conclusive evidence, it certainly encourages further attempts in this direction; attempts that could be generally bolder, involving stronger messages and repeated communications signalling the Tax Office's commitment to procedural fairness.

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Appendix

Informational Justice Letter / Informational Right Salient

Your activity statement is now overdue

Our records show that you have not lodged your completed activity statement for the period:

1 July 2001 to 30 September 2001

By now you should have completed and returned your activity statement by the due date (shown on the top right-hand corner of your activity statement) and paid any amount owing.

There are penalties for not lodging on time, and you may be liable for interest charges if you have payments outstanding. The *Activity Statement Instructions* booklet explains the different ways to pay any amounts due.

If you have lodged and paid in the last five working days, or made alternative arrangements with us, please disregard this letter.

Why are we sending you this letter?

It is our responsibility to collect tax payable under the law. Taxes fund community services and support for all Australians. We have to ensure that everyone meets their obligations under the tax laws so that those who correctly lodge their returns and pay their taxes are not disadvantaged by those who do not.

Why can't we be more specific in this letter?

We do not know why you have not lodged your activity statement so we cannot give you more specific information in this letter. However if you:

- need to make alternative arrangements to pay any amount owing,
 - lodged and paid more than five working days ago, or
 - think you do not need to complete the activity statement and do not owe any amount,
- please call us on **1300 139 028**, and have your tax file number and activity statement handy.

Why do we impose penalties?

Without taxes, our society could not afford essential services such as roads, health and education. While most people readily comply with the tax laws, a penalty system needs to be in place for cases where a willingness to comply is missing.

If you have any questions or need help completing your activity statement:

- refer to the *Activity Statement Instructions* (phone **1300 720 092** for a copy),
- visit **www.taxreform.ato.gov.au**, or
- phone **13 24 78**.

E Holland
DEPUTY COMMISSIONER OF TAXATION AND
DELEGATE OF THE COMMISSIONER OF TAXATION

***You have a right to have ATO decisions
about your tax affairs explained to you.***

This is one of your rights and obligations as outlined in the Taxpayers' Charter. You can obtain a copy of the Taxpayers' Charter by visiting www.ato.gov.au or by calling 1300 720 092.

Your activity statement is now overdue

Our records show that you have not lodged your completed activity statement for the period:

1 July 2001 to 30 September 2001

By now you should have completed and returned your activity statement by the due date (shown on the top right-hand corner of your activity statement) and paid any amount owing.

There are penalties for not lodging on time, and you may be liable for interest charges if you have payments outstanding. The Activity Statement Instructions booklet explains the different ways to pay any amounts due.

If you have lodged and paid in the last five working days, or made alternative arrangements with us, please disregard this letter.

We believe in your honesty

We assume you try to deal honestly with your tax affairs, and understand that you may have good reasons for not lodging your activity statement. However, if you:

- need to make alternative arrangements to pay any amount owing,
 - lodged and paid more than five working days ago, or
 - think you do not need to complete the activity statement and do not owe any amount,
- please call us on **1300 139 028**, and have your tax file number and activity statement handy.

We acknowledge that times can be difficult

We realise that it is not always easy to fulfil your tax obligations, and there may be some reason why this is a difficult time for you. We also understand that you may have simply forgotten to complete or lodge your activity statement. However, we need to ensure that everyone meets their obligations under the tax laws, and would like to remind you that you lodge your activity statement as soon as possible.

We do not want to make things more difficult for you

There are penalties for not lodging on time, and you may be liable for interest charges if you have payments outstanding. We are sorry if penalties add to any difficulties you may already be experiencing, but we trust you will understand the need for such a penalty system.

If you have any questions or need help completing your activity statement:

- check the *Activity Statement Instructions* (phone **1300 720 092** for a copy),
- visit the tax reform website at **www.taxreform.ato.gov.au**, or
- phone **13 24 78** for more information.

E Holland
DEPUTY COMMISSIONER OF TAXATION AND
DELEGATE OF THE COMMISSIONER OF TAXATION

***You have a right to be treated by the ATO
with courtesy, consideration and respect.***

This is one of your rights and obligations as outlined in the Taxpayers' Charter. You can obtain a copy of the Taxpayers' Charter by visiting www.ato.gov.au or by calling 1300 720 092.

Your activity statement is now overdue

Our records show that you have not lodged your completed activity statement for the period:

1 July 2001 to 30 September 2001

By now you should have completed and returned your activity statement by the due date (shown on the top right-hand corner of your activity statement) and paid any amount owing.

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If you have any questions, or need help completing your activity statement:

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- visit **www.taxreform.ato.gov.au**, or
- phone **13 24 78**.

E Holland
DEPUTY COMMISSIONER OF TAXATION AND
DELEGATE OF THE COMMISSIONER OF TAXATION

The Taxpayers' Charter outlines your rights and obligations under the law as well as the service and standards you can expect when dealing with the ATO. You can obtain a copy of the Taxpayers' Charter by visiting www.ato.gov.au or by calling 1300 720 092.

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