

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's 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.