

## Abstract

This paper details the design and findings of a study commissioned by the Australian Board of Taxation. The study tried to test empirically the claim, made in the Review of Business Taxation, that the proposed Tax Value Method (TVM) of defining the tax base would increase ‘certainty’ for taxpayers and administrators.

The study investigated this proposition under controlled experimental conditions, covering a number of possible meanings of the concept of certainty. University students were chosen as participants as they had presumably little experience with, and little prior knowledge about, either the current legislation or the proposed legislation following TVM. The participants were instructed in TVM or, as a control group, in the current legislation. They then were asked to solve twenty tax problems and rate their confidence in their answers.

Overall, the findings suggest that:

- TVM will lead to *less* consistency or consensus on the answers to tax problems, particularly in some areas of tax law;
- TVM will lead to *less* confidence in the correctness of answers taxpayers reach to their tax problems,
- TVM will lead to *less* confidence that taxpayers are correctly following the steps which the law requires to determine answers to their tax problems, and
- TVM will lead taxpayers to reach *less* accurate answers to their tax problems, at least in some areas of tax law.

The study thus does not support the claim that TVM would lead to greater certainty in the tax system. On the contrary, the empirical evidence suggests TVM could lead to less certainty, less confidence and less accuracy. Limitations of the study are discussed in detail.