

**TAXPAYERS' PERCEPTIONS OF THE
IDEAL TAX ADVISER: PLAYING SAFE
OR SAVING DOLLARS?**

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Abstract

This paper empirically examines Australian taxpayers' perceptions of their tax practitioners and 'ideal' tax practitioners, using a sample of 2040 randomly selected Australian taxpayers who completed the Community Hopes, Fears and Actions Survey (Braithwaite, 2000). This research identifies the basic dimensions that underlie taxpayer judgements of the attributes of their ideal tax practitioner. One kind of tax practitioner sought by certain taxpayers is the 'creative accountant, aggressive tax planning type'. Here the taxpayer is also looking for a practitioner who is well networked and knows what the Australian Taxation Office (Tax Office) is checking at a particular time. This is by far the least popular preference among ordinary individual taxpayers, but clearly one of the greatest concern to tax authorities. A second type of practitioner sought by taxpayers is one who engages in 'cautious minimisation of tax'. Unlike the creative accountants, practitioners of this type avoid conflict, while being sophisticated about identifying opportunity to minimise tax. The most popular type of practitioner with taxpayers is the 'low risk, no fuss' practitioner who is honest and risk averse. The data also show that taxpayers are likely to find tax practitioners who have the attributes they value most highly in a practitioner. Further work is needed to understand the matching process, in particular, how high risk practitioners and high risk taxpayers form their partnerships.

Taxpayers' perceptions of the ideal tax adviser: Playing safe or saving dollars?

Yuka Sakurai and Valerie Braithwaite

Introduction

The self-assessment system for determining income tax liability was introduced by the Australian Taxation Office (Tax Office) in 1986. Apart from increasing administrative efficiency, self-assessment was an expression of confidence by the Australian Government in the Tax Office's move to fostering a voluntary taxpaying culture. The system, however, brought its own costs to taxpayers. The burden of keeping appropriate income/expense records and computing their tax bases and liability has led to considerable numbers of taxpayers seeking advice from tax practitioners.¹ Taxpayers may seek professional assistance to reduce perceptions of complexity and legal uncertainty, save time, or even exploit 'grey areas' of the law. Thus, depending upon the motivations of taxpayers, the technical knowledge and professional experience of tax practitioners can be used to improve compliance, or undermine it. Tax agents for high wealth individuals directly claim to influence compliance (Braithwaite, 2001). The general question arising is how important is the role played by tax practitioners in tax compliance overall among the general population; and more specifically, how does the game of 'aggressive' tax reporting come into play. Is it led by taxpayers or tax practitioners?²

A brief review of the literature

Past research on the compliance behaviour of taxpayers and/or tax practitioners has produced conflicting results. Some studies indicate that tax practitioners view their clients as initiators of aggressive tax reporting (Attwell & Sawyer, 2001; Klepper & Nagin, 1989; Schisler, 1994; Tooley, 1992). There is some evidence that taxpayers intentionally understate income or overstate deductions (Hasseldine & Kaplan, 1990). Other studies show that the primary reason taxpayers use tax practitioners is to file an

¹ In 1980, approximately 20% of taxpayers sought professional assistance to prepare returns. The figure rose to 72% in 1992 (Boreham, 1994; Marshall, Smith & Armstrong, 1997).

² In this paper, tax practitioners include certified public accountants, tax lawyers and tax agents. A tax agent is defined as a person who prepares income tax returns and transacts business on behalf of taxpayers in income tax matters, and who is registered with the relevant Tax Agent's Board (*Income Tax Assessment Act 1936*, Sec 251 JA).

accurate tax return (Collins, Milliron & Toy, 1990; Tan, 1999), and that taxpayers prefer conservative advice to aggressive advice from their tax practitioners (Hite & McGill, 1992). Whatever taxpayers' reasons are for using tax practitioners, the partnership of taxpayer and tax practitioner is an influential one: past research shows that paid-prepared tax returns tend to be more aggressive than taxpayer-prepared returns (Erard, 1993; Hite & Sawyer, 1998; Klepper & Nagin, 1989)

Tan's study (1999) further indicates that taxpayers tend to accept the recommendation of their tax advisers, irrespective of the type of advice (aggressive or conservative). Moreover, taxpayers' decisions to terminate or retain the services of their tax practitioners do not depend upon the type of advice the tax practitioners provide, but rather on their working relationship. This suggests that taxpayers' compliance behaviour may be strongly influenced by their advisers, particularly in situations where reliance on advisers is high.

The extent to which tax practitioners meet the special needs of taxpayers depends on a number of factors. First, tax practitioners have their own codes of practice that may shape their responsiveness to taxpayer needs (Cruz, Shafer & Strawser, 2000; Marshall, Smith & Armstrong, 1997). Second, tax practitioners are operating in a competitive market. Their survival may depend on their capacity to do what taxpayers ask of them, be it legal, illegal or on the margins. Some studies suggest that tax practitioners choose the type of advice (aggressive or conservative) they give to their clients on the basis of the characteristics of the clients, such as client risk preferences (Duncan, LaRue & Reckers, 1989).

In considering the ethical behaviour of the tax adviser, Myers (1990: 80) asserts that tax lawyers' ethical responsibility 'is to uphold the law and to discharge his duty to his client according to the best of his knowledge and ability. It is not dictated by changes in public opinion about perceived evils of tax avoidance or the morality of organising one's affairs to minimise tax.' In a similar fashion, it has been argued that the ultimate goal of tax practitioners is to minimise tax for their clients. This goal is achieved through tax practitioners acting upon a good faith belief that 'the position to be taken has a realistic possibility of being sustained administratively or judicially on its merits' (Hansen, Crosser & Laufer, 1992: 679). The above argument implies that it

is acceptable for tax practitioners to make the most of the grey areas of the law. A problem arises for tax practitioners when technical compliance to use the law to minimise tax conflicts with individual moral ethics about the desirability of paying tax in accordance with the spirit of the law. Research indicates that satisfying a professional code and a personal code, meeting the expectations of clients, and achieving financial success may not always be compatible drivers of tax practitioners' behaviour (Cruz et al., 2000; Marshall, et al., 1997; Newberry, Reckers & Wyndelts, 1993).

Tax practitioners, however, are not entirely at the mercy of taxpayer demands, and they are not passive players in the market. As members of an elite profession, tax practitioners are in a privileged position for setting standards and even creating needs (Gordon, 1988). Marshall, Armstrong and Smith (1998) reported that among 472 tax practitioners who were registered with the Taxation Board of Western Australia, 51% considered there to be many opportunities for practitioners to engage in unethical practices, but only 22% were aware that their peer practitioners actually engaged in unethical practices. Furthermore, these tax practitioners did not believe that unethical behaviour was necessary for success in tax practice, nor that tax practitioners had to compromise their personal ethics to be successful. This suggests that tax practitioners in Australia are confident about their capacity to manage inappropriate demands from their clients. By the same token, Marshall et al. (1998) have observed notable diversity in the attitudes and experiences of tax practitioners in Australia. This raises the question: What is driving diversity in the profession?

Klepper, Mazur and Nagin (1991) suggest that tax practitioners play 'dual roles' depending on the ambiguity of the tax law, that is, being enforcers of the tax law in unambiguous situations and being exploiters of tax law in ambiguous situations. In addition, past research indicates that the professional status of tax practitioners may influence the role they play; that is, certified practising accountants (CPAs) are more aggressive than non-CPAs in their interpretations of the law (Ayers, Jackson & Hite, 1989). Tomasic and Pentony (1991) reported that Australian tax practitioners are in general critical of 'tax avoidance schemes' or 'artificial paper schemes' for minimising tax. However, they are not so critical of making use of 'tax shelters' such

as off-shore transactions and tax havens. Tax practitioners, it seems, are likely to use loopholes of the law, but most are unlikely to engage in illegal schemes.

The role of tax practitioners has expanded to include advising on financial management, planning the timing of tax incidences, and liaising with lawyers on the interpretation and application of tax laws (Marshall et al., 1997). As large accounting firms have transformed themselves into multidisciplinary practices, tax practitioners in these firms have begun to market 'products' or 'devices' for tax savings to their clients (Rosen, 1999). Through media and promotional campaigns, the image of a steady, honest and reliable 'numbers person' now exists alongside the image of a sharp and clever financial player. Tax practitioners seem to be seeking niche markets, cultivating different images and skills for different clients. But how successful has the marketing of tax practitioners been? Do taxpayers identify and differentiate the skills that tax practitioners have to offer? Do they seek out tax practitioners who deliver the kinds of skills they want?

This paper uses data from the Community Hopes, Fears and Actions Survey (Braithwaite, 2000) to examine: 1) taxpayers' perceptions of their own understanding of and competence in completing their income tax returns; 2) the sources of support they most commonly use; and 3) the qualities they are most likely to look for in their ideal tax practitioner. Finally, we ask the question: 4) do taxpayers find the tax practitioners who meet their needs?

Method

Between May and October of 2000, the names and addresses of 7754 Australians were chosen at random from the Australian public electoral rolls. The population comprised all Australian citizens over 18 who were eligible to vote in elections and enrolled as of February 2000. Each person was mailed the Community Hopes, Fears and Actions Survey as well as a pre-paid reply envelope for its return upon completion. Two thousand and forty completed questionnaires (29% of those

respondents who could be contacted) were received.³ Of these completed questionnaires, 47% were from men and 53% were from women. The average age of the respondents was 48 years. Seventy per cent were married, and 14% were divorced or separated. Twenty-four per cent had a tertiary qualification, 70% had some secondary education, and 6% had no more than a primary school education. The average personal income for the respondents was \$27,830 (see Appendix 1).

Analyses and results

Question 1: How do taxpayers judge their competence and diligence in preparing their income tax returns?

1-1: Understanding Tax Office expectations of taxpayers

Taxpayers were asked: ‘When you were preparing for the lodgement of your 1998–1999 income tax return, how well did you understand what the Tax Office expected of you? Would you say your understanding was ‘extremely good’ (1), ‘good’ (2), ‘reasonable’ (3), ‘partial’ (4), or ‘poor’ (5)?’ On average, respondents had a fairly good understanding of Tax Office expectations (M = 2.72, SD = 1.05). As shown in Table 1, approximately 42% of respondents said they had an extremely good or good understanding, and a further 40% had a reasonable understanding. The remaining 18% had a partial (11%) or poor understanding (8%).

Table 1: ‘When you were preparing for the lodgement of your 1998–1999 income tax return, how well did you understand what the Tax Office expected of you? Would you say your understanding was...’ (n = 1615)⁴

Response categories	Percentage
Extremely good	11.5
Good	30.7
Reasonable	39.7
Partial	10.5
Poor	7.7

³ Excluded from the sample base were respondents who were deceased, too ill to take part in the survey, or no longer at the address.

⁴ Note that the large number of missing cases is due to the fact that the sample included individuals who were not required to lodge an income tax return.

1-2: Competency to complete an income tax return

Respondents were asked about their perceptions of themselves as taxpayers. They were asked how much they identified with the statement: ‘I feel competent to do my own income tax return’. The response scale ranged from 1 to 4 (1 = not at all, 2 = a little bit, 3 = a fair bit, and 4 = very much). The mean score ($M = 2.13$, $SD = 1.05$) suggests that taxpayers were not overly confident about their capacity to perform the task of completing a tax return on their own. It is of note that more than one-third of taxpayers stated that they did not feel at all competent (36%) to do their income tax return under the self-assessment system. At the other end of the scale, 12% identified themselves as being very much in the competent category. Of those expressing in-between answers, about a quarter said ‘a little bit competent’ (26%), and another quarter said ‘a fair bit’ (see Table 2).

Table 2: ‘How much is the following like you: I feel competent to do my own income tax return’ (n = 1953)

Response categories	Percentage
Not at all	36.4
A little bit	26.3
A fair bit	24.9
Very much	12.4

1-3: Confidence in the legitimacy of deductions and rebates

Competence in preparing a tax return might be expected to be related to feeling confident that one has done the right thing. Table 3 shows the percentage of respondents who expressed different levels of confidence in the legitimacy of the deductions and rebates in their 1998–1999 income tax return. The response categories ranged from 1 to 4 (1 = absolutely confident, 2 = a bit unsure, 3 = pretty unsure, 4 = haven’t got a clue). The majority of respondents (85%) stated that they were absolutely confident about the legitimacy of the deductions they claimed, despite the relatively small percentage of respondents in Table 2 who described themselves as fully competent to do their own income tax return. Interestingly, 7% claimed that they did not have a clue about the legitimacy of the deductions and rebates because someone else did it for them.

Table 3: ‘Think of the deductions and rebates you claimed in your 1998–1999 income tax return. Would you say you were...’ (n = 1625)⁵

Response categories	Percentage
Absolutely confident that they were all legitimate	84.7
A bit unsure about some of them	7.9
Pretty unsure about quite a lot	0.7
Haven’t got a clue, someone else did it for me	6.6

Overall, most taxpayers seem to be coping well with the self-assessment system, although it also appears that a substantial proportion are not entirely comfortable with the image of themselves as self-sufficient in their knowledge of what they should be doing. A significant proportion lack certainty about their competence and Tax Office expectations. Yet they express confidence that they have done no wrong, at least with regard to their deductions. The next section looks to the sources of such confidence.

1-4: Dependency on someone else to complete a tax return

Taxpayers were asked to indicate the degree to which they were the kind of taxpayer who relied on someone else to look after their tax matters for them (see Table 4). Almost 40% of taxpayers stated that they did not have anyone else to do it for them. On the other hand, 48% expressed the view that getting someone else to look after their tax described their way of operating fairly well or very well.

Table 4: ‘How much is the following like you: I have someone else who looks after my tax matters for me’ (n = 1937)

Response categories	Percentage
Not at all	39.8
A little bit	12.2
A fair bit	18.7
Very much	29.4

1-5: Low priority in preparing a tax return

Achievement and effort are terms commonly used to distinguish achieving a required standard and directing time and energy toward achieving the standard. Within the

⁵ Note that the large number of missing cases is due to the fact that the sample included individuals who were not required to lodge an income tax return.

context of taxation, a distinction can be drawn between competency to comply with a self-assessment return and the priority given to directing competency towards the achievement of a goal. With a view to measuring the dimension of effort or priority, respondents were asked how well each of the following statements described their tax behaviour:

- a) I tend to put my income tax return off until the last minute;
- b) Preparing an income tax return is a low priority in my life; and
- c) Other things always seem to get in the way of doing my tax.

Respondents were required to choose one of categories 1 to 4 for each item (1 = not at all, 2 = a little bit, 3 = a fair bit, and 4 = very much like me). The percentage breakdown of responses to each question appears in Table 5. These data show that most taxpayers reject the suggestion that they assign a low priority to attending to tax matters.

Table 5: Percentage breakdown of responses to the low priority on tax questions (n = 1910–1933)

Response categories	Item (a)	Item (b)	Item (c)	Tax-is-Not-a-Priority Scale
Not at all	50.7	41.5	48.7	53.6
A little bit	23.3	28.5	28.1	30.1
A fair bit	15.4	18.0	15.3	12.1
Very much	10.6	12.1	7.9	4.2

Because the above three items were strongly intercorrelated, responses were summed and divided by the number of items (3 items) in the scale to form a ‘Tax-is-Not-a-Priority’ Scale. The alpha reliability coefficient of the scale was 0.82, with item-total correlations ranging from 0.62 to 0.72. As expected from the data in Table 5, the mean of the scale was quite low (1.89), with a standard deviation of 0.87. When the scale scores were rounded off and forced into the four categories used in the original scoring system (see the last column in Table 5), 54% were closest to outright rejection of the suggestion that they placed a low priority on tax matters. For the remaining 46%, however, there was a glimmer of self-truth in the depiction of the taxpayer who did not put sufficient time into putting their tax affairs in order.

1-6: Data summary

This section examined how taxpayers judge their competence and diligence in preparing their income tax returns. Results suggest that the majority of taxpayers take care with their tax return, are aware of perhaps not knowing all they need to know, and have someone they can turn to for help. Interestingly, in spite of some general doubts under the self-assessment system, the vast majority of respondents reported confidence in the legitimacy of the deductions they claimed. This confidence may be explained by their relatively high dependence on others to look after their tax return, presumably tax practitioners. This presumption is tested in the next section.

Question 2: Who do taxpayers rely on when preparing their income tax returns?

Taxpayers were asked whether or not they relied on the following people in preparing their 1998–1999 income tax return: a) family members/close friends; b) tax agent/adviser; c) business partner; d) someone from the Tax Office; e) industry associations; and f) one of their employees. In general, taxpayers relied on only one other source (69%). The frequency of use of each possible source is summarised in Table 6. Results are consistent with other research (Marshall et al., 1997) in showing taxpayers' heavy reliance upon tax agents (77%) in the Australian context. Over 20% of respondents relied upon family members or close friends. Notably less involved in the helping process were the Tax Office (6.5%), business partners (3.7%), industry associations (3.2%) and employees (1.0%).

Table 6: 'Did you rely on the following people in preparing your 1998–1999 income tax return?' (n = 1311–1604)⁶

People respondents relied on	Percentages
a) Family members/ close friends	21.3
b) Tax agent/adviser	77.1
c) Business partner	3.7
d) Tax Office staff	6.5
e) Industry association	3.2
f) One of your employees	1.0

⁶ Note that the large number of missing cases is due to the fact that the sample included individuals who were not required to lodge an income tax return. Missing data increased when taxpayers were asked about help from their industry association and employees. These questions are not relevant to all taxpayers.

Question 3: What are the attributes that taxpayers are looking for in tax agents?

Respondents were presented with a set of attributes that could describe their preferred tax practitioner. They were asked to indicate the priority they would place on each attribute if they were in a situation where they had to choose a tax agent or adviser (see list of attributes in Table 7). Responses were given on a scale of 1 to 4 (1 = low priority, 2 = medium priority, 3 = high priority, and 4 = top priority).

The responses were factor analysed to find out if respondents discriminated between the various qualities that tax practitioners might bring to the job. Can taxpayers make the distinction between the need to make money, to do the right thing, and to avoid impropriety in the same way as tax practitioners do?

Three factors were extracted using a principal components analysis. Together they accounted for 64% of the variance in the item set. The factors were rotated using the varimax procedure. The results appear in Table 7.

The first factor is defined primarily by three items: having a creative accountant; having someone who can deliver on aggressive tax planning; and having someone who is well networked and knows what the Tax Office is checking. Lower loadings appear for taking advantage of the grey areas of the law and not involving the taxpayer in the process. The factor corresponds to a style of financial advising not peculiar to tax that is described by McBarnet (2000). The factor is therefore given the broader label of ‘creative accounting, aggressive tax planning’.

The second factor is defined by high loadings on having someone to do one’s tax honestly and without fuss; and having someone who does not take risks and only claims for things that are clearly legitimate. A moderate loading appears for the item, being able to deal with any problems that arise. The factor is called ‘low risk with no fuss’.

The third factor is defined by the items: someone who can minimise the tax paid; someone who can take advantage of grey areas of the law; and to a lesser extent, someone who can deal with any problems that might arise. Factor 3 represents the

gentle face of Factor 1 and is therefore called ‘cautious minimising with conflict avoidance’.

Table 7: Rotated factor loadings for ratings of the attributes of a good tax practitioner

Desired attributes	<u>Factor 1</u> Creative accounting, aggressive tax planning	<u>Factor 2</u> Low risk with no fuss	<u>Factor 3</u> Cautious minimising with conflict avoidance
a) A creative accountant	0.82	0.01	0.22
b) Someone who can deliver on aggressive tax planning	0.76	-0.00	0.33
c) Someone who is well networked and knows what the Tax Office is checking on at any particular time	0.66	0.17	0.32
d) Someone who just does it and doesn't bother me with it	0.48	0.02	-0.27
e) Someone who will do it honestly and with minimum fuss	0.02	0.88	0.08
f) Someone who does not take risks and only claims for things that are clearly legitimate	0.06	0.85	-0.15
g) Someone who knows their way around the system to minimise the tax I have to pay	0.16	0.00	0.83
h) Someone who will take advantage of grey areas of the law on my behalf	0.42	-0.20	0.65
i) Someone who is able to deal with any problems that arise	0.04	0.54	0.59
j) Eigenvalue before rotation	2.95	1.82	1.02

On the basis of this analysis, three scales were formed to represent: 1) the low risk with no fuss approach; 2) cautious minimising with conflict avoidance; and 3) creative accounting, aggressive tax planning. These scales were formed through summing responses to the items that loaded above 0.6 on the factor of the same name listed in Table 7. The summed scores were divided by the number of items comprising each scale, so that summed scores would correspond to the original metric to aid interpretation. A score close to 4 means top priority when choosing a tax practitioner, while a score close to 1 means low priority. The means (M), standard deviations (SD), and alpha reliability coefficients (α) for each scale are shown in Table 8.

Table 8: Means (M), standard deviations (SD), alpha reliability coefficients (diagonal), and intercorrelations for the preferred tax practitioner scales (n = 1918–1930)

Scales	M	(SD)	1	2	3
1. Low risk with no fuss approach	3.27	(0.63)	0.76		
2. Cautious minimising with conflict avoidance	2.33	(0.78)	0.079	0.70	
3. Creative accounting, aggressive tax planning	2.22	(0.79)	0.077	0.487	0.79

Mean scores indicate that the highest priority is given to the low risk with no fuss approach, followed by cautious minimising with conflict avoidance and, finally, creative accounting, aggressive tax planning. From Table 8, it is noteworthy that the correlation between cautious minimisation with conflict avoidance and creative accounting, aggressive tax planning is positive and moderately high ($r = 0.49$, $p < .001$). This means that those who are looking for a tax practitioner who minimises tax without conflict are also open to considering a tax practitioner who does the job more aggressively. Interestingly, both scales are independent of having a tax practitioner who does the job honestly without fuss. In other words, knowing that a person is interested in having a tax practitioner who will minimise tax, even if they go to the edge to do so, tells us nothing about whether that person cares if the tax practitioner is honest, gets the job done without fuss, and stays on the right side of the law. This means that while some taxpayers trade off honesty for tax minimisation, others do not. For some taxpayers at least, finding a tax practitioner who is cautious, honest, and clever at minimising tax is the ideal. These expectations are not

necessarily incompatible in the minds of taxpayers. Figures 1 to 3 show the percentage breakdown of responses to desired attributes of a tax practitioner.

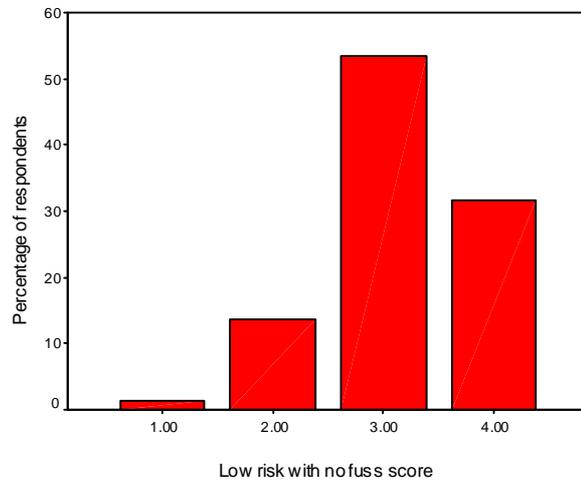


Figure 1. Desired attribute of tax agent

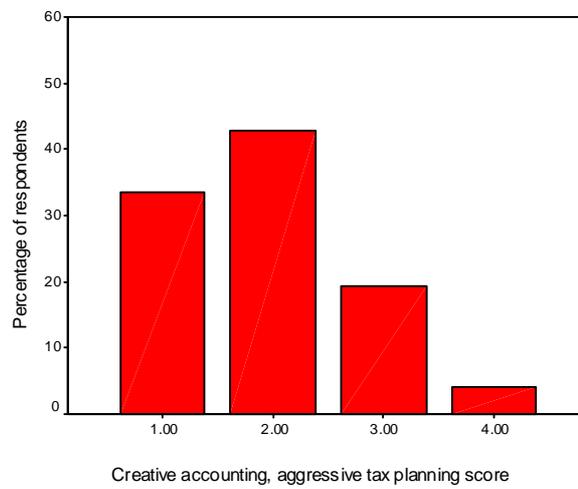


Figure 2. Desired attribute of tax agent

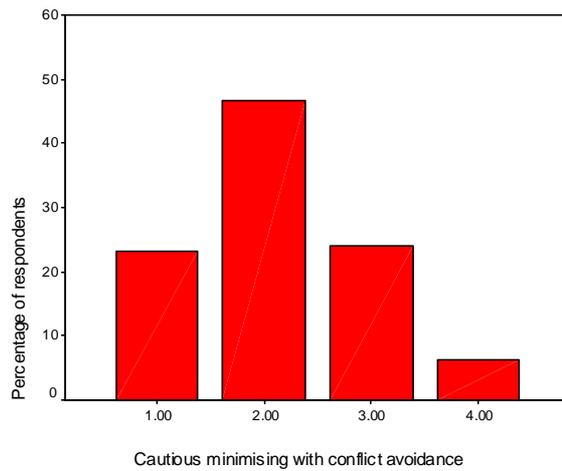


Figure 3. Desired attribute of tax agent

Question 4: Who are the tax practitioners that this sample of taxpayers uses?

4-1: What are the attributes of the tax practitioners that taxpayers actually have engaged?

Taxpayers were asked to indicate how strongly they disagreed or agreed (1 = strongly disagree, 5 = strongly agree) with each of the following five statements about their current tax practitioner. The means and standard deviations of responses on a 1 to 5 scale are shown alongside each statement in Figure 4. The mean scores reflect how closely the statement describes the tax practitioners this sample is currently using.

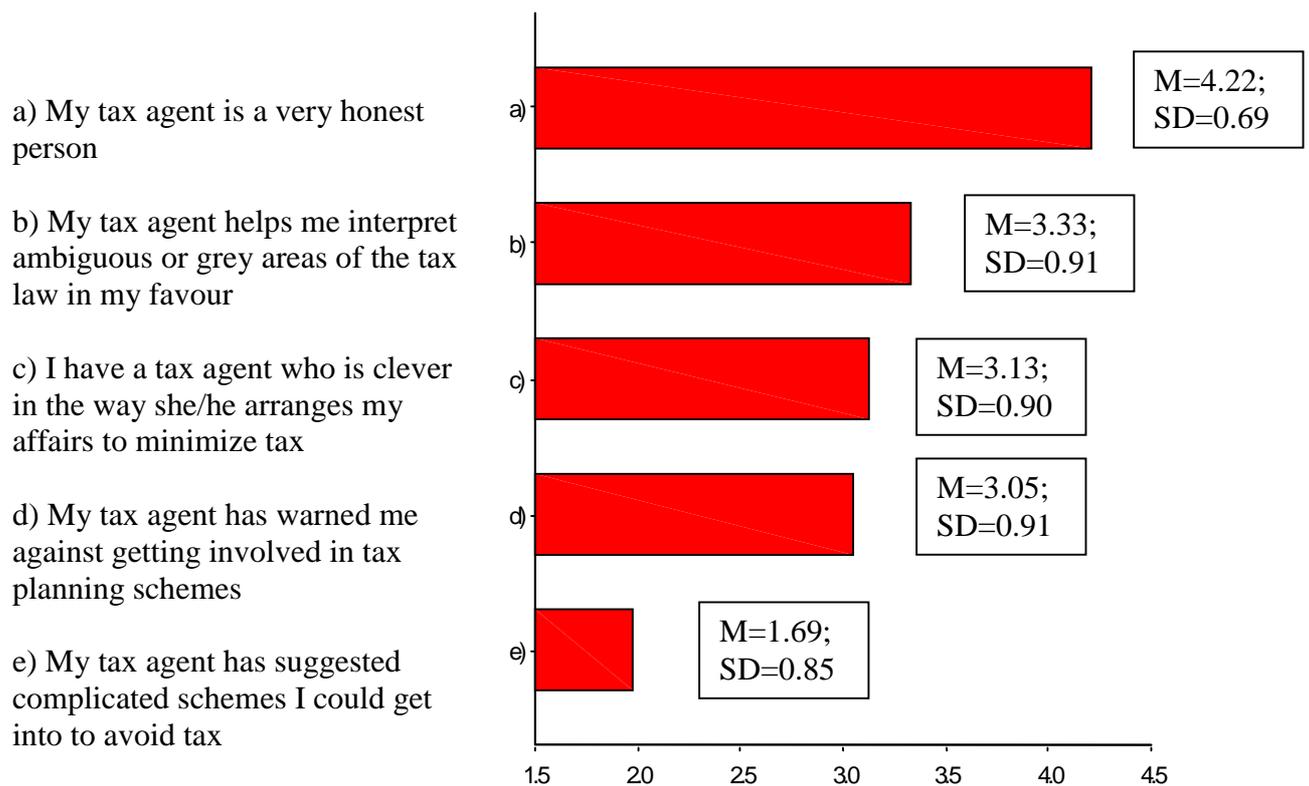


Figure 4. Means and standard deviations for perceived attributes of current tax practitioners

The attribute taxpayers most strongly associate with their tax practitioner is honesty. A little lower, but still above the mid-point of the scale, are the items: ability to interpret grey areas of the tax law; followed by cleverness in minimising tax; and next, providing warnings against tax planning schemes. Few respondents reported that their tax agents suggested complicated schemes to avoid tax.

4-2: Do taxpayers have the tax practitioners who match their ideal?

The scales representing the preferred attributes of tax practitioners – 1) ‘low risk with no fuss approach’; 2) ‘cautious minimising with conflict avoidance’; and 3) ‘creative accounting, aggressive tax planning’ – were correlated with ratings taxpayers had given to the tax practitioners who were currently helping them. These findings are presented in Table 9.

Table 9: Pearson product-moment correlations between the preferred attributes of tax practitioners and the perceived attributes of the tax practitioners taxpayers are currently using (n = 1243–1266)⁷

Perceived attributes of current tax practitioner	Preferred attributes of tax practitioners		
	Low risk with no fuss approach	Cautious minimising with conflict avoidance	Creative accounting, aggressive tax planning
a) My tax agent is a very honest person	0.298***	-0.033	0.039
b) My tax agent helps me interpret ambiguous or grey areas of the tax law in my favour	-0.018	0.329***	0.255***
c) I have a tax agent who is clever in the way she/he arranges my affairs to minimise tax	-0.057	0.313***	0.306***
d) My tax agent has warned me against getting involved in tax planning schemes	0.070	-0.029	0.068
e) My tax agent has suggested complicated schemes I could get into to avoid tax	-0.180***	0.186***	0.349***

*** $p < .001$

Taxpayers whose preference was for a low risk with no fuss approach taken by a tax practitioner were more likely to judge their current tax practitioner as honest. They also reported that their tax agents were less likely to suggest complicated avoidance schemes. A different pattern of correlations emerged for taxpayers who preferred a tax minimising approach, regardless of whether the approach was cautious minimising with conflict avoidance or creative accounting and aggressive tax planning. That is, those who preferred a tax minimising practitioner were more likely to describe the practitioner whom they currently used as helpful in interpreting the grey areas of the law, clever at reducing tax, and as more likely to suggest complicated tax avoidance schemes.

⁷ This analysis was performed on the sub-sample who use a tax practitioner.

It appears from the data that market segmentation is occurring in the operations of tax practitioners. Taxpayers who prefer tax practitioners who can minimise their tax actually find the tax agents who are good at finding loopholes. Taxpayers who prefer tax agents taking low risk and making no fuss find the tax agents who fit that description. Perhaps what is most interesting from these data is that the distinction between tax minimisation that entails little risk and tax minimisation that entails high risk is somewhat blurred in practice. From the factor analysis, the distinction is clear in theory in the minds of taxpayers when they describe the attributes of their preferred tax practitioners. However, when they describe services delivered by the tax practitioners they are currently using, the distinction between the low risk and high risk approach cannot be sustained.

Summary of findings

The following four questions were examined in this paper: 1) How do taxpayers judge their own competence and diligence in preparing their income tax returns? 2) Who do taxpayers rely on when preparing their income tax returns? 3) What are the attributes that taxpayers are looking for in tax practitioners? and 4) Do taxpayers find the practitioners who meet their needs? The findings reported in this paper are summarised below.

1) How do taxpayers judge their competence and diligence in preparing their income tax returns?

- Overall, taxpayers were comfortable with the self-assessment system, although they were not complacent about their knowledge.
- The majority of taxpayers reported confidence in the legitimacy of the deductions they claimed.
- Just over a half of the taxpayers denied that they placed a low priority on tax matters.

2) Who do taxpayers rely on when preparing their income tax returns?

- In general, taxpayers relied on only one other external source in preparing their income tax return (69%).

- The tax practitioner was the single most important source of external influence on taxpayers (77%).
- Only a small percentage of taxpayers relied on the Tax Office (6.5%).

3) What are the attributes that taxpayers are looking for in tax practitioners?

- Having a tax agent who was honest and could help taxpayers comply with the law was the highest priority for taxpayers.
- Taxpayers who were currently using a tax practitioner rated honesty as that person's most important identifying feature.
- While honesty may have been the number one issue for taxpayers, cautious minimisation of tax with conflict avoidance was not far behind.

4) Do taxpayers find the practitioners who meet their needs?

- Taxpayers found tax agents who matched their needs.
- Taxpayers who placed a priority on minimising their tax found practitioners who could do the job, in addition to offering clever strategies and suggesting aggressive tax minimisation schemes.
- Taxpayers who wanted to comply with the spirit of the law found tax agents who they believed to be honest and respectful of their position.

Discussion and implication of findings

The literature has documented the divergent pressures that tax practitioners experience. Tax authorities look to tax practitioners for support in law enforcement, taxpayers look to them to minimise the tax they must pay, and professional associations issue ethical guidelines on best practice to safeguard professional reputation.

While acknowledging that these pressures exist, less consensus surrounds the effects these pressures have on the professional integrity of tax practitioners. In part, different views and findings can be explained by national differences. There is no reason to assume that the norms associated with taxpaying are identical across countries, particularly given the fact that tax systems are owned and designed by sovereign

states with different laws and histories. With these considerations in mind, this study was designed to have a national focus. The purpose was to map the ways in which a random sample of taxpayers saw the role of tax practitioners in the tax system in Australia.

The perspective of taxpayers was considered important for two reasons. First, debate often focuses on the issue of whether tax practitioners are encouraging taxpayers to take more risks in the grey areas of tax law, or whether taxpayers are demanding that tax practitioners broach these new areas to better serve their interests. Undoubtedly, evidence can be found for influence of both kinds within any tax system. The question addressed in this paper, however, is whether or not there is a nationwide expectation that tax practitioners will take more risks, and an expectation that they will do so at the expense of their professional integrity.

The second reason for focusing on the taxpayers' perspective arises out of taxpayer need. If taxpayers are confident in operating within a self-assessment system, their reliance on tax practitioners should be based more on convenience than necessity. In this situation, tax practitioners may well feel somewhat vulnerable when confronted with demanding clients. They may feel that their livelihood depends on having clever strategies up their sleeve to hold on to their client base. On the other hand, if taxpayers rely on tax practitioners for guidance in tax matters and look to them to give them confidence and security, one might argue that tax practitioners have a role to play in setting standards and defining acceptable risks in the future. Results of this study show that this is indeed the case.

Being the sole adviser, however, does not guarantee influence. Tax practitioners must be a credible source of information for taxpayers if they are to offer advice and have it accepted (Hansen, Crosser & Laufer, 1992). The importance of influence is suggested in Tan's (1999) finding that taxpayers valued the relationship they had with their tax practitioners above all else. The results reported in this paper support the view that first and foremost, tax practitioners are people who taxpayers can trust to keep them on the right side of the law. Having an honest tax agent or adviser was the highest priority for this sample of Australians. Furthermore, those who were currently using a tax practitioner rated honesty as that person's most important identifying feature.

These data suggest that the core important contribution tax practitioners make to Australian taxpayers as a whole is to give them confidence that their tax matters are under control and that their taxpaying behaviour is within the bounds of the law.

While low risk without fuss may have been the number one issue for taxpayers, cautious minimisation of tax with conflict avoidance was not far behind. The findings in relation to cautious minimisation of tax with conflict avoidance are insightful for a number of reasons. First, when taxpayers were asked about their preferred attributes in tax practitioners, the issue of honesty was separate from tax minimisation. In other words, people could portray their ideal tax practitioner as honest without particular cleverness in tax minimisation, honest with cleverness, or dishonest with cleverness. Most importantly, taxpayers overall did not feel any need to trade off honesty for cleverness.

These data support Klepper, Magin and Zagin's (1991) claim that tax practitioners are both enforcers of the tax law (in unambiguous situations) and exploiters of the tax law (in ambiguous situations). Our cautious minimisers of tax appear to come closest to this 'dual role'. The low risk with no fuss approach fits the profile of those who prioritise the enforcer role over the exploiter role. The creative accountant, aggressive tax planning approach, on the other hand, prioritises the exploiter role over the enforcer role.

The second finding of considerable importance is that taxpayers, in their ideal world, made a distinction between tax minimisation that is unlikely to lead to conflict and tax minimisation that is more risky and likely to fuel conflict with tax authorities. Admittedly, an appreciation for a gentle approach was positively correlated with an appreciation of an aggressive approach. Taxpayers interested in tax minimisation were open to having a tax practitioner who knew both low and high risk strategies. Nevertheless, the emergence of two distinct factors representing tax minimisation with conflict avoidance on the one hand, and tax minimisation with high risk (creative accounting, aggressive tax planning) on the other, indicates that taxpayers are mindful of the question, 'How much risk do they want to engage in?'

When data relating to the ideal tax practitioner were correlated with descriptions of the tax practitioners taxpayers were currently using, evidence emerged of taxpayers finding tax agents who matched their needs. Taxpayers who placed a priority on minimising their tax found practitioners who could offer clever strategies for how this could be done and who could suggest aggressive tax minimisation schemes. On the other hand, taxpayers who liked to ‘do the right thing’ and comply with the spirit of the law’ found tax practitioners who they believed to be honest and respectful of their position.

These data are consistent with those reported by Marshall et al. (1998) who conclude that there is considerable diversity among Australian tax practitioners in the ethical stances they take. Tax practitioners appear to be successful in marketing their skills in a way that is suitable to their clients’ needs, or at least taxpayers have ways of finding the tax practitioners who suit them best. Either way, the income liability of taxpayers is likely to be determined to a considerable degree by the ‘team play’ between taxpayers and their tax agents.

During the process of matching taxpayer with tax practitioner, it is of note that taxpayers who prefer tax minimisation with low risk find themselves with tax practitioners who are not ostensibly different from those serving taxpayers who are open to high risk. The data in Table 9 show that tax practitioners serving both groups include game players who are more likely to propose complicated schemes to avoid tax. In other words, while taxpayers tend to segregate low risk and high risk minimisation schemes in their thinking about tax matters, these data suggest that, in practice, they can find themselves with similar kinds of tax agents, some of whom are likely to support tax avoidance. This highlights the problems posed by legal ambiguity about what is acceptable minimisation behaviour and what is not. Taxpayers appear to rely on their tax agents to make these judgements, and tax agents are more adventurous in their assessment of what ‘has a realistic possibility of being sustained administratively or judicially’ than others (Hansen, Crosser & Laufer, 1992: 76).

It is in this domain at the fringe of tax legitimacy that taxpayers and tax practitioners are probably at greatest risk of pushing each other towards illegality. The answer to

these problems may lie in legal reforms that impose overarching principles to safeguard against use of loopholes (for example, see RMC case, cited in McBarnet & Whelan, 1999: 105–107). But increasing risks of detection of illegality cannot resolve the tensions that undoubtedly characterise a proportion of taxpayer–practitioner relationships where tax minimisation is a priority concern. Without a clear understanding of what it means to be a low risk minimiser or a high risk minimiser, tax agents and taxpayers who want to play this game may be misreading each others’ messages much of the time and failing to deliver on the expectations of the other. On balance, this appears to represent a small group of Australian taxpayer–practitioner relationships. It is a group, however, that is likely to destabilise the nature of the professional relationship between tax practitioners and their clients.

Overall, these findings fit comfortably with those of Marshall et al. (1998) who have shown that while tax practitioners see scope for abuse of the system, they do not feel pressured to take part themselves and they are well in control of their professional relationships with clients. Marshall et al. (1998) paint a picture of professionals who are aware of competing pressures but who are able to manage them. Having to work at finding this kind of professional integrity is a challenge that faces many other professions (for example, lawyers and medical practitioners). There is little doubt that competing pressures from different interest groups not only burden individuals, but also undermine compliance systems. Yet we know from other regulatory contexts that one of the best strategies for restoring compliance in a system is to give professionals the support they need to find a way to balance the competing pressures that threaten compliance (Makkai & Braithwaite, 1993).

This paper suggests that Australian tax practitioners are ideally placed to develop ways in which they can establish their own sense of professional integrity that eases the tensions with their various stakeholders. For the Australian population as a whole, the tensions are not as great as one might expect. Marshall et al. (1998) have demonstrated that most tax practitioners can manage the tensions that exist. Bedding down the best practice of such practitioners will hopefully help all stakeholders converge on strategies that will contain, if not correct, the legal and professional abuses that are pocketed within the community.

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**Appendix I: Social-demographic indicators and their descriptive statistics
(minimum n = 1867)**

Indicators	Descriptive Statistic
Personal income/year in thousands	Mean = 27.83 Standard deviation = 27.31
Age	Mean = 48.39 Standard deviation = 15.55
Sex	
Male	46.9%
Female	53.1%
Marital status	
Never married	15.2%
Now married	71.1%
Widowed	4.7%
Divorced/Separated	9.1%
Number of children	
Zero	54.6%
One	16.3%
Two	18.8%
Three	8.1%
Four or more	2.2%
Country	
Australia, NZ	76.9%
Western Europe	15.6%
Eastern Europe	1.7%
Asia, Subcontinent, Africa	5.8%
Education	
Not much schooling	1.0%
Primary school	5.4%
Junior/Intermediate Form	23.5%
Secondary/Leaving Form	21.7%
Trade Certificate/Nursing Diploma	12.6%
Diploma Course	12.2%
University/Tertiary Degree	17.6%
Postgraduate Degree	5.9%

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