

CENTRE FOR TAX SYSTEM INTEGRITY



Procedural justice, shame and
tax compliance

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THE CENTRE FOR TAX SYSTEM INTEGRITY WORKING PAPERS

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

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

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

Abstract

In the present paper, an individual's emotional reactions to punishment are found to play an important role in determining whether or not they will subsequently comply with their obligations under the law. Survey data collected from 2292 taxpayers who have been accused of tax avoidance demonstrate that perceptions of procedural injustice can indirectly affect future tax compliance through a set of mediating variables that represent emotions of shame. Based on the findings, it will be proposed that procedural justice research may benefit by further considering research into emotions. Implications for how regulators might be able to more effectively and more decently enforce the law will also be discussed.

Procedural justice, shame and tax compliance

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Introduction

Rules make up a part of any civilized society. When well designed they reflect the social norms of the society in which they are developed and they are used as a way to ensure that citizens do not unfairly disadvantage others. For those who develop and police these laws, it is hoped that compliance can be elicited voluntarily. If not, then there are most often procedures that can be used to coerce people back into compliance. Compliance research has shown, however, that harsh sanctions and punishments, and the way in which they can be administered, can sometimes lead to overt opposition or defiance to laws in the future—a situation that can be extremely costly to a regulator (see Brehm & Brehm, 1981; Murphy, in press). Understanding why people voluntarily comply with laws or why they sometimes defy or resist an authority's rules and decisions is therefore an important field of study and will be the focus of the present article.

Procedural justice and compliance

Procedural justice concerns the perceived fairness of the procedures involved in decision-making and the perceived treatment one receives from a decision maker¹. Research into procedural justice has been one field of study that has put a significant amount of research effort into trying to explain why people obey the law and comply voluntarily with an authority's rules and decisions. Most prominent among this research is Tyler's (1990) major study of compliance. Tyler (1990) argues that people's reactions to their personal experiences with authorities are rooted in their evaluations of the fairness of procedures those agencies use to exercise their authority (see also Lind & Tyler, 1988; Tyler, 2000, 2001; Tyler & Blader, 2000). Tyler (1990) goes on to cite empirical evidence which shows that people who feel they have been treated fairly by an organization will be more inclined to accept its decisions and comply with its rules (see also Lind & Tyler, 1988; Tyler, 1997;

¹ More specifically, the normative perspective on procedural justice suggests that people are just as concerned about their experience, as with the outcomes they receive. Normative aspects of experience include neutrality, lack of bias, honesty, efforts to be fair, politeness, and respect for citizens' rights. All of these features of a procedure are conceptually distinct from its outcome, and therefore represent the values that may be used to define procedural fairness (Tyler, 1990, p. 7).

Tyler & Degoe, 1996), and this has been shown to be regardless of the favourability of outcomes they may have received.

In one study, for example, Tyler (1987, cited in Lind & Tyler, 1988, pp. 65-83) interviewed a random sample of citizens living in Chicago about their encounters with police and the courts. Of the 652 citizens who had had encounters with these authorities, Tyler found that the procedural justice features of their encounter had substantial effects on their evaluations of the authorities involved and their views about the legitimacy of the authorities involved. It was found that these variables in turn went on to affect citizens' compliance with laws (see also Tyler & Huo, 2002).

Some empirical evidence also suggests that perceptions of procedural injustice can lead to long-term non-compliance with the law. For example, Braithwaite and Makkai (1994) examined whether perceived poor treatment by authorities affected manager's compliance in the nursing home industry. Over a 20-month period, 410 nursing homes were inspected with the aim of determining whether or not they complied with 31 nursing home standards. During an initial inspection, each nursing home was given a compliance rating against each of these 31 standards. Eighteen months later, a follow-up inspection was conducted and the compliance score given at the second inspection was of interest. Braithwaite and Makkai found that if inspectors were initially seen to be treating nursing home managers with trust and respect, compliance was more likely to improve in the two years following the initial inspection.

When examining the effects of procedural injustice on citizen's level of compliance in the field of taxation, a similar pattern of results to those discussed above have been found (for example, Murphy, 2003a; Murphy, in press; Wenzel, 2002). For example, Wenzel (2002) studied the impact of justice perceptions on self-reported tax compliance behaviour. Using a survey methodology, Wenzel found that Australian taxpayers reported being more compliant when they thought they had been treated fairly and respectfully by the Australian Taxation Office (Tax Office). Wenzel (2003) also studied the effects of procedural justice on actual tax compliance behaviour. His field study tested the effectiveness of different letter styles on business owners' tendency to file their business

activity statements with the Tax Office (letters in this study were sent to taxpayers who had not filed their statements on time; hence the letters were reminder letters). The study tested whether reminder letters that were based on principles of procedural fairness would yield more positive reactions from taxpayers and yield greater rates of compliance compared to the standard letter used by the Tax Office (that made penalties salient). Although the effects were weak, it was found that the procedural justice letters yielded greater subsequent filing compliance compared to the standard letter.

Research conducted in the Australian taxation context has also shown that perceptions of procedural injustice can lead to disputes between authorities and those they regulate. For example, Murphy (in press) examined the possible reasons behind why a large group of Australian taxpayers actively resisted a decision made by the Tax Office that they pay back taxes for 'illegitimate' tax deductions. Many believed that the source of the conflict between the two sides concerned material interests. However, Murphy (in press; see also 2003a) found that perceptions of procedural injustice significantly predicted taxpayers' levels of resistance against the Tax Office. Those who were more resistant to the Tax Office's decision to disallow tax deductions were more likely to have perceived the Tax Office's handling of their case as procedurally unfair. It was also found that these perceptions outweighed the role played by economic self-interest factors.

While all of the studies discussed above have shown that perceptions of procedural injustice can go on to affect present and long-term compliance behaviour in a multitude of different areas, the psychological mechanisms underlying why this occurs are not so clear. For example, why is it the case that some people are more likely to have perceptions of procedural injustice than others, why is it that some people respond in a more negative way to procedural injustice than do others, and why is it that some people go on to defy authority while others in the same situation do not? Questions such as these cannot be answered by theories of procedural justice alone. This is because procedural justice theory on its own fails to explain the emotional reactions behind defiance and resistance to authority (Sherman, 1993; 2003).

While some research has examined the role of *emotions* in reactions to perceived injustice (Mikula, Scherer & Athenstaedt, 1998; Weiss, Suckow & Cropanzano, 1999), unfortunately, empirical research has been limited in regard to *procedural justice*. Research into procedural justice and its effects on compliance may therefore benefit by considering, and integrating into it, theoretical approaches focused on obtaining emotionally intelligent justice (see Sherman, 2003). Here, the specific role that *shame* plays in predicting compliance with an authority's rules and decisions will be emphasized.

Shame, shame management, and compliance

Very few studies have discussed the role of emotion in people's decisions to comply or not (Scheff & Retzinger, 1991), and those that have seldom mention shame. Instead, they have focused on anxiety, fear, or anger. Suggesting that shame plays a significant role in producing conflict and non-compliance has therefore received limited attention to date (see Braithwaite, 1989; Scheff, 1994; Scheff & Retzinger, 1991). Suggesting that shame plays a role in people's reactions to procedural injustice has received even less attention (see Krehbiel & Cropanzano, 2000; Sherman, 1993). The aim of the next few sections of this paper, therefore, will be to try to provide an argument for why research into procedural justice, and its effects on compliance, would benefit by considering research into shame.

According to Braithwaite's (1989) theory of reintegrative shaming, the way in which disapproval is expressed by authorities can have drastic effects on the shame emotions felt by individuals. Braithwaite also suggests that the effect of disapproval on an individual's ability to *manage* their emotions (in this case shame) is dependent upon whether disapproval is *reintegrative* or *stigmatic* in nature. Disapproval that is reintegrative is carried out in a respectful and healing manner. Here, the authority communicates disapproval of an *act* with respect and understanding, and special effort is given to avert outcast identities and to terminate disapproval with rituals of forgiveness or reconciliation. Further, a recipient of a reintegrative form of regulation is given an opportunity to have their say and share their views. As a result, this form of regulation is more likely to be perceived as procedurally fair. In contrast, regulation that is stigmatic in nature is disrespectful, degrading and outcasting. Stigmatisation involves communicating

disapproval of a *person* with disrespect, where offenders are labelled with outcast identities (for example, thief, tax cheat), and there are no rituals to terminate disapproval. This form of regulation is therefore more likely to be perceived as procedurally unfair (see also Sherman, 1993; 2003).

Research into shame has shown that the way an individual *manages* a shameful event (for example, disapproval or punishment) can have serious ramifications for how they subsequently behave towards others (Ahmed, Harris, Braithwaite & Braithwaite, 2001). For example, it has been suggested that an individual can manage a shameful event in either an adaptive way by acknowledging their shame, or in a maladaptive way by displacing their shame onto others (that is, unacknowledged shame). According to Ahmed (2001), if an individual acknowledges their shame they believe that the way they behaved in a particular circumstance was either morally wrong or socially undesirable. Consequently, acceptance of personal responsibility for the unacceptable behaviour is likely to emerge, along with a desire for reparation. Acknowledging shame therefore involves admission of feelings of shame over wrongdoing, willingness to take responsibility for wrongdoing, and a desire to make amends for what happened (Ahmed, 2001). Acknowledging shame therefore provides an opportunity for wrongdoers to put the shameful event behind them (that is, to discharge shame), to mend relationships and to be restored to a state of psychological well-being.

In contrast, when shame is managed in a maladaptive manner it goes unacknowledged (that is, is displaced). Here, the individual rejects the idea that they have done anything to be ashamed of. As a result, they are likely to resist taking personal responsibility for their actions or to make amends. In the absence of these internal sanctioning mechanisms, individuals with unacknowledged shame have no options for discharging their feelings of shame. Instead, when in a state of unacknowledged shame, individuals are likely to externalise blame for what has happened and are likely to direct anger towards others. Further, they will attempt to protect their sense of self 'by finding or creating a 'scapegoat' in the external environment' (Ahmed, 2001, p. 237).

It should be noted that these two shame management styles are considered to be experiential in nature and are therefore thought to change across contexts and across experiences (Ahmed, 2001). In other words, a person with generally good shame management skills may find themselves displacing their shame in a particular context.

There is some empirical evidence that has been collected in the area of drink driving that shows that reintegrative and stigmatising forms of disapproval can go on to influence the way shame is subsequently managed by an offender (Harris, 2001). Harris interviewed a total of 720 individuals who had been caught driving while under the influence of alcohol. Harris found that the feelings of stigmatisation and reintegration felt by these individuals significantly predicted the amount of unacknowledged and acknowledged shame expressed by individuals. Those who felt more stigmatised by their ordeal were more likely to manage their shame in a maladaptive manner. In this situation they were more likely to displace their shame and were less likely to acknowledge their shame. In contrast, those who felt disapproval was reintegrative in nature were more likely to manage their shame feelings in an adaptive way. Here, they were more likely to acknowledge their shame and were less likely to displace their shame. While these findings yield important insights into when acknowledged shame and unacknowledged shame are likely to be elicited, Harris did not examine whether these shame emotions subsequently led to future compliance or non-compliance with the law.

In a study that did attempt to examine whether shame directly affected compliance, Grasmick and Bursik (1990) found that the expectation of feeling shame for committing an offence was a predictor of the intention to offend in the future. Grasmick and Bursik interviewed a random sample of 360 people. They were interested in respondents' present inclinations to commit three offences: tax cheating, petty theft, and drunken driving. Respondents were first asked whether they thought they would commit each of these three offences in the future (yes or no). Respondents were then asked (a) if they would feel shame if they committed each of these offences, and (b) if they did feel shame would it be a big problem for them. For all three offences, Grasmick and Bursik found strong evidence of a deterrent effect of shame. For tax cheating and drunk driving in particular, anticipated feelings of shame were found to have a large deterrent effect on intention to offend in the

future. It should be noted, however, that the dependent measure in this study was *intention* to commit an offence. Behavioural intention and subsequent behaviour are not synonymous. It is therefore unclear whether these intentions to offend became actual acts of non-compliance in the future.

In a study that was conducted in New Zealand, Morris and Maxwell (2001; see also Maxwell & Morris, 1999) were interested in examining what factors predicted criminal behaviour six and a half years after an individual had been punished for an offence. In this case, each offender had been involved in a family group conference. Family group conferences are a meeting of those people who have been affected by an offence. This usually includes the offender, their supporters, the victim, their supporters and a facilitator (Ahmed et al., 2001). Typically in a conference situation, the offender begins discussions by explaining what happened and how they think their actions affected others. The victims then describe their experience and the harm that resulted. The victim's supporters then speak followed by the offender's supporters. Together the group then decides what the offender needs to do to repair the harm (that is, the punishment). Offenders were asked a number of questions about the situation surrounding their conference and punishment. These questions included whether they agreed with the decisions that were made at the conference, whether they felt involved in the process, and whether or not remorse or shame were felt. It was found that the second most important factor for predicting re-offending was offenders recalling being made to feel bad about themselves when punished (that is, felt stigmatised); stigmatised offenders were more likely to become persistent offenders.

Taken together, the findings of these shaming studies suggest that the manner in which an individual is treated or punished can have a major effect on the shame emotions they experience and on the way they manage these emotions. There is also some indication that these shame emotions can go on to play a role in subsequent non-compliant behaviour. In particular, these studies suggest that those who feel stigmatised by an event are more likely to displace their shame, which in turn is more likely to result in greater levels of recidivism in the future.

The present study

Upon examining the research conducted in the reintegrative shaming literature, one can immediately draw comparisons with procedural justice research. In both literatures there is a call for authorities to treat offenders with respect, fairness, and understanding if they wish to prevent widespread defiance to their decisions and rules. Unlike in the reintegrative shaming literature, however, the procedural justice work has largely ignored the role of emotions (in particular shame) when attempting to explain subsequent non-compliant behaviour.

As shown above, emotions of shame and the way individuals manage these emotions have been shown to play a critical role in predicting subsequent non-compliant behaviour (for example, Morris & Maxwell, 2001; Braithwaite, 1989). It would seem, therefore, that when explaining non-compliant behaviour, the procedural justice literature might benefit by considering, and incorporating into it, people's emotional reactions to perceived injustice (see also Sherman, 2003). In order to test this proposal, the present study will examine empirically whether one's shame emotions can be affected by punishment that is considered to be *procedurally* unjust. If so, it will be interesting to explore whether these emotions go on to play a role in predicting subsequent compliance behaviour. The study will specifically aim to do this in the field of tax non-compliance².

Method

Participants

The 2292 Australian taxpayers in this study had been accused four years earlier of engaging in tax avoidance. They were accused of tax avoidance by the Tax Office because they had all 'invested' in mass marketed tax effective schemes (that is, tax shelters). This group of taxpayers was of particular interest because for many years they actively resisted

² While there have now been a number of studies that have examined the role of procedural justice in predicting tax compliance (for example, Wenzel, 2002; 2003; Murphy, 2003a; in press), none have explored whether procedural injustice affects tax non-compliance through emotions of shame. Unpublished research conducted by Ahmed and Braithwaite (2003) has shown that in university graduates, perceptions of personal injustice at not having received an adequate education indirectly affected tax non-compliance through feelings of shame. Unlike in the present study, however, Ahmed & Braithwaite's study did not assess graduates' perceptions of procedural injustice.

the Tax Office's attempts to recover their tax debts (see Appendix A for a brief description of tax schemes and the dispute).

The respondents in the final sample were between 24 and 81 years of age ($M = 46.50$, $SD = 9.30$), 82% were male, 17% were female (1% did not disclose their gender). Their average personal income level for the previous financial year was approximately \$73 000 (currently about \$51 100 USD) and their average family income was approximately \$93 000 (currently about \$65 100 USD)³. Using the limited amount of demographic data available from the Tax Office's case files, it was found that the sample of tax scheme investors who completed the survey was representative of the overall scheme investor population (for detailed information on the survey's methodology see Murphy & Byng, 2002a).

Procedure

The names and addresses of 32 493 tax scheme investors were available for selection from the Tax Office's case files. Between January and June 2002—four years after the Tax Office had initially sought to recover tax owing from scheme investors—a 27-page survey (Murphy, 2002a) was sent to a random sample of 6000 of these investors. The sample was stratified by Australian State/Territory jurisdiction (that is, 42% of all investors resided in the state of Western Australia, so 2549 West Australian investors were sampled).

Non-respondents were followed up over time using a procedure based on the Dillman Total Design Method (Dillman, 1978). Follow-up was accomplished using an identification number attached to each questionnaire, which was in turn linked to the sample name at the Tax Office. In order to protect investors' privacy, the Tax Office was responsible for all mailings of the survey and reminder letters. Investors who agreed to participate were asked to return their completed questionnaires in a reply-paid envelope to the Australian National University (ANU) for analysis. This procedure ensured that researchers at the ANU did not have access to the names or addresses of sampled investors. It also ensured that the Tax Office did not have access to any individual taxpayers' survey

³ This compared to \$28 000 (currently about \$19 600 USD) and \$49 000 (currently about \$34 300 USD) in the general Australian population (Braithwaite, Reinhart, Mearns, & Graham, 2001).

responses. A total of six mailings were made and by the end of July 2002, a total of 2292 useable surveys had been received. When adjusted for out-of-scope taxpayers who had died or moved address (N = 677), a response rate of 43% was obtained⁴.

Many of the questions contained in the survey had previously been tested on a sample of Australian taxpayers from the general population, and that survey yielded reliable results (see Mearns & Braithwaite, 2001). The reliability of the scales used in the survey of scheme investors was also found to be very good (see Murphy & Byng, 2002a).

Questionnaire

The survey of scheme investors contained a total of 270 questions designed to test respondents' attitudes towards the Australian tax system, the Tax Office and of paying tax. A number of questions were also designed with the aim of assessing investors' self-reported tax compliance behaviour (for an overview of the Survey's findings see Murphy & Byng, 2002b). For the purposes of the present study, however, only those questions relevant to four categories of variables were used: procedural justice variables, shame management variables (shame acknowledgment vs. shame displacement), tax non-compliance variables, and demographic control variables. The exact wording and formats of all the items used to construct the scales used in the present study are given in Appendix B.

Procedural justice variables. The procedural justice variables were taken from previous research conducted by Tyler (1997). They were adapted for use in the taxation context and were designed to test Tyler's sub-concepts of trustworthiness, neutrality, and respect. The trustworthiness scale was designed to test whether the Tax Office was seen to be treating taxpayers in a fair way when it made its decisions. The measure of neutrality included assessments of the Tax Office's honesty, impartiality, and the use of fact, not personal opinions, in decision-making. Finally, the respect scale assessed whether the Tax Office was seen to have genuine respect for taxpayers' rights. An overall procedural justice scale

⁴ This response rate compares very well with experiences from other recent tax surveys conducted in Australia (Mearns & Braithwaite, 2001; Wallschutzky, 1996; Wenzel, Murphy, Ahmed & Mearns, in press).

(Chronbach's $\alpha = 0.87$) was constructed by combining responses to all three individual scales (see factor analysis in the following section).

Shame management variables. Scheme investors' ability to manage their shame in either an adaptive or maladaptive manner in response to punishment was assessed via two scales (shame acknowledgment vs. shame displacement). These two scales were originally designed by Ahmed (2001) for use in the context of school bullying. However, like the procedural justice variables, they were adapted here for use in the taxation context. Respondents were asked 12 questions about how they would feel having to pay a substantial fine or penalty for claiming an illegitimate tax deduction (this is similar to the situation faced by all scheme investors regarding their scheme related tax debt). Responses to nine of these questions were combined to form the shame acknowledgment scale (Chronbach's $\alpha = 0.92$). These nine questions assessed whether the respondent could acknowledge wrongdoing, would feel guilty and would want to make amends for their wrongdoing. Responses to the other three questions were combined to form the shame displacement scale (that is, unacknowledged shame; Chronbach's $\alpha = 0.80$). These questions measured whether taxpayers would be unable to manage their shame without hitting out or blaming others.

Tax non-compliance variables. In *Taxing Democracy*, Braithwaite (2003) argued that both taxpayers' *attitudes* towards the tax system and paying tax, and their taxpaying *behaviour* should be considered when investigating overall levels of tax non-compliance. The present study therefore used three measures of tax non-compliance: two attitudinal measures of compliance and one behavioural measure of compliance.

For the attitudinal measures of non-compliance, respondents were presented with a range of questions. Four questions were designed to measure whether respondents condoned tax non-compliance; specifically, whether they believed they should honestly declare all cash earnings and not overstate deductions on their tax returns. This four-item measure was called the 'ethics towards taxpaying' scale (Chronbach's $\alpha = 0.67$). An additional four questions were designed to measure respondents' degree of psychological disengagement

from the tax system. Taxpayers scoring high on this ‘disengagement’ scale (Chronbach’s $\alpha = 0.55$) do not care if they are not doing the right thing by the tax authority, and they believe that the tax authority cannot do anything to them if they choose not to pay their taxes (Braithwaite, 2003). Here the main objective of a taxpayer is to keep psychological distance between themselves and the tax authority; to them, disengaging from a system is a way of stepping outside it. Braithwaite (2003) found that those taxpayers who were more likely to evade taxes were also more likely to be disengaged from the system.

For the behavioural measure of non-compliance, four questions were used to assess the extent to which respondents admitted to engaging in real acts of tax evasion in the past 12 months. These acts of non-compliance included whether the taxpayer had an outstanding tax debt (yes or no), whether they had worked for cash-in-hand payments for which tax was not paid (yes or no), whether they had exaggerated their deductions or rebates (yes or no) and whether they were unsure that the deductions they made were legitimate (yes or no). A ‘tax evasion’ index was constructed by adding up the number of ‘yes’ responses. The behavioural measure of tax non-compliance can therefore be seen to be a measure of investors’ compliance behaviour four years after they had been initially detected and punished by the Tax Office.

Demographic variables. Survey respondents were asked to indicate their age, sex (1 = male, 2 = female), personal income and family income (each on a scale from 0 to 250+ thousand dollars), and education level (on a scale from 1 (not much formal schooling) to 8 (post-graduate degree)). These demographic variables were used as control variables.

Results and Discussion

Factor analysis

A factor analysis was first conducted to test for the assumed conceptual differentiation among all *attitudinal* categories of variables used in the present study (that is, procedural justice variables, shame management variables, and attitudes to tax non-compliance variables). The items used to construct the tax evasion index and the demographic control

variables were not included in this analysis. As can be seen in Table 1, the analysis yielded a five-factor solution that explained 59% of the variance (see Table 1). With this sample, it can also be seen that all 28 items entered into the factor analysis loaded clearly onto their respective factor. One of these items, however, did not reach the desired cut-off loading of 0.40, and one item appeared to have substantial loadings on two factors (when considering its content, however, this item conceptually seemed to fit Factor 1 better).

As anticipated, the two attitudinal measures of tax non-compliance loaded clearly onto two separate factors, as did the two shame management measures. The three sub-concepts of procedural justice (trustworthiness, neutrality, and respect) were found to load onto only one factor. An overall 'procedural justice' measure was therefore constructed by combining responses to all three of these scales. Thus, Factor 1 comprised nine items that measured shame acknowledgement, Factor 2 had eight items that measured facets of procedural justice, Factor 3 comprised three items that measured shame displacement, Factor 4 with four items measured respondents' ethical views towards taxpaying, and Factor 5 comprised four items that measured respondents' degree of disengagement from the tax system.

Table 1: Factor analysis differentiating categories of variables

Item	Factor				
	1	2	3	4	5
<i>1. Procedural Justice</i>					
ATO tries to be fair		0.77			
ATO concerned about protecting rights		0.76			
ATO cares about position of taxpayers		0.74			
ATO considers average citizens concerns		0.74			
ATO respects individual's rights		0.71			
ATO is generally honest		0.70			
ATO gives equal consideration to all		0.63			
ATO gets the information it needs		0.42			
<i>2. Shame Management</i>					
Feel embarrassed	0.87				
Feel humiliated	0.85				
Feel ashamed of yourself	0.85				
Feel bad about harm caused	0.78				
Feel guilty	0.75				
Feel angry with yourself	0.74				
Feel you let the family down	0.66				
Feel what you did was wrong	0.64		-0.50		
Feel concerned to put things right	0.50				
Feel bothered by unfair treatment			0.87		
Feel angry with ATO			0.83		
Feel you wanted to get even with ATO			0.45		
<i>3. Attitude measures of tax non-compliance</i>					
Should honestly declare cash earnings				0.66	
Government should deal with cash economy				0.66	
Not declaring cash is a trivial offence				0.66	
Acceptable to overstate tax deductions				(0.25)	
I don't care if I'm not doing right by ATO					0.54
If ATO gets tough, so will I					0.54
I won't lose sleep if I'm not doing what ATO wants					0.44
ATO can't make me pay tax					0.40
Eigenvalues (before rotation)	5.97	4.82	2.26	1.98	1.40
Explained variance after rotation (%)	21	17.21	8	7	5

Note. Principle-components analysis, varimax rotation. Only factor loadings ≥ 0.40 are displayed.

Ability to manage shame

Scheme investors' ability to manage their shame in either an adaptive or maladaptive manner in response to being penalized was then analysed. First, it was found that scheme investors' level of shame acknowledgment had a mean above the midpoint ($M = 2.74$, $SD = 0.85$) on the four point rating scale. This finding suggests that scheme investors *are able* to acknowledge their shame in an adaptive way in response to punishment. Second, it was found that scheme investors' level of shame displacement also had a mean above the midpoint ($M = 2.39$, $SD = 0.90$). This suggests that scheme investors are also likely to displace their shame in response to punishment⁵.

In order to ascertain whether scheme investors' level of shame displacement was unusually high, their score on the shame displacement scale was compared to taxpayers in the general population⁶. Only those taxpayers from the general population who had never before been penalized by the Tax Office were used for comparison. It was found that scheme investors were much more likely to displace their shame ($M = 2.39$, $SD = 0.90$) than taxpayers from the general population ($M = 1.76$, $SD = 0.74$), $t(3859) = 23.08$, $p < 0.001$. It was also found that scheme investors' score on the shame acknowledgement scale ($M = 2.74$, $SD = 0.85$) was significantly lower than the score obtained by taxpayers from the general population ($M = 3.11$, $SD = 0.80$), $t(3897) = -13.78$, $p < 0.001$.

Scheme investors are thus much more likely to displace their shame, and are much less likely to acknowledge their shame, than taxpayers from the general population. Why might

⁵ It should be noted that attempts to measure acknowledged and unacknowledged shame have revealed that these two shame management styles can be conceptualized as separate dimensions and not as opposite poles of one dimension. For example, Ahmed's (2001) measure of shame acknowledgment (that is, acknowledged shame) also emerged as an independent factor from shame displacement (that is, unacknowledged shame). This distinction is important as 'it allows for individuals to simultaneously acknowledge and displace shame, to acknowledge shame without displacement, to displace shame without acknowledging it, and to neither acknowledge nor displace shame' (Ahmed, 2001, p. 248).

⁶ Prior to surveying tax scheme investors, a total of 2040 taxpayers from the general population were surveyed by Dr Valerie Braithwaite (2000) from the Centre for Tax System Integrity, The Australian National University. Between June and December 2000, a random sample of 7003 Australian citizens were sent a taxation questionnaire. After repeated appeals for participation, 2040 respondents (that is, 29% of the sample) returned their survey (see Mearns & Braithwaite, 2001 for the methodology of the survey). The sample proved broadly representative of the Australian population, with the exception that people younger than 35 tended to be under-represented, and people between the age of 40 and 65 years and those more educated were over-represented. The general population survey shared many questions in common with the survey of tax scheme investors.

this be the case? Could it be due to investors having had an experience that they considered to be procedurally unjust?

Bivariate correlations

Table 2 presents the bi-variate correlation coefficients between the tax evasion index and all five attitudinal scales that were constructed from the factor analysis (all demographic variables were controlled for). First of all, it can be seen that there was a significant negative correlation between the procedural justice measure and the shame displacement measure ($r = -0.26, p < 0.001$). This finding is important as it suggests that those with greater perceptions of procedural *injustice* were subsequently more likely to displace their shame in response to punishment (that is, blame others, become angry). Surprisingly, however, no significant relationship between the procedural justice and shame acknowledgement measures was found ($r = -0.02, p > 0.45$). No other variables were significantly related to the procedural justice scale.

As expected, the two shame management variables (acknowledged shame and displaced shame) were negatively correlated ($r = -0.18, p < 0.001$), indicating that those who were more likely to displace their shame were significantly less likely to acknowledge their shame. The two shame management variables were also found to have significant relationships with the two attitudinal measures of tax non-compliance and the behavioural measure of self-reported tax evasion. Those who were more likely to acknowledge their shame were more likely to be compliant; they were less likely to disengage from the tax system ($r = -0.28, p < 0.001$), were more likely to see taxpaying as the right thing to do ($r = 0.18, p < 0.001$), and were significantly less likely to have evaded their taxes in the past 12 months ($r = -0.07, p < 0.002$). Those who were more likely to displace their shame, on the other hand, were more likely to report non-compliance; they were more likely to disengage from the tax system ($r = 0.10, p < 0.001$), were less likely to see paying tax as the right thing to do ($r = -0.14, p < 0.001$), and were more likely to have evaded their taxes in the past 12 months ($r = 0.07, p < 0.001$).

Not surprisingly, respondents' attitudes towards tax compliance were significantly correlated with each other and with their self-reported tax compliance behaviour. Those who were more disengaged from the tax system were also less likely to see paying tax as the right thing to do ($r = -0.25, p < 0.001$). Finally, those who reported being more disengaged from the tax system were more likely to report evading their tax ($r = 0.08, p < 0.001$), and those who were more likely to see paying tax as the right thing to do were less likely to evade their tax ($r = -0.19, p < 0.001$).

These findings taken together suggest that compliance with one's tax obligations (both attitudinal and behavioural compliance) can be influenced by how one responds to disapproval. Those who manage their shame emotions in a positive way by acknowledging shame for wrongdoing appear less likely to evade taxes in the future. Those who manage their shame emotions in a maladaptive way by displacing their shame, in contrast, appear less likely to comply with their subsequent tax obligations. The correlational results also suggest that a maladaptive shame management style can be elicited by perceptions of procedural injustice.

Table 2: Correlation coefficients between all variables

Variables	1	2	3	4	5
1. Procedural Justice					
2. Acknowledged shame	-0.02				
3. Shame displacement	-0.26***	-0.18***			
4. Disengagement	0.02	-0.28***	0.10***		
5. Ethics in taxpaying	0.02	0.18***	-0.14***	-0.25***	
6. Tax evasion	-0.03	-0.07**	0.07***	0.08***	-0.19***

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

Correlational findings, however, do not address the mediational hypothesis raised in the introduction that perceptions of poor treatment lead to subsequent non-compliance through the way taxpayers manage their emotions. The aim of the next section, therefore, will be to present a structural equation model showing how all of the variables listed in Table 2 influence one another.

Structural equation model

In order to examine in detail the interconnecting relationships between all the measures presented in Table 2, a structural equation model using Analysis of Moment Structures (AMOS) was constructed. When building this model, it was of particular interest to explore whether the two shame management variables played a mediating role between the procedural justice measure and the tax non-compliance variables⁷. The final model, which provided the best fit to the data, is presented in Figure 1. Although they were included in the analysis as covariates, for clarity purposes, the demographic control variables are not presented in the figure.

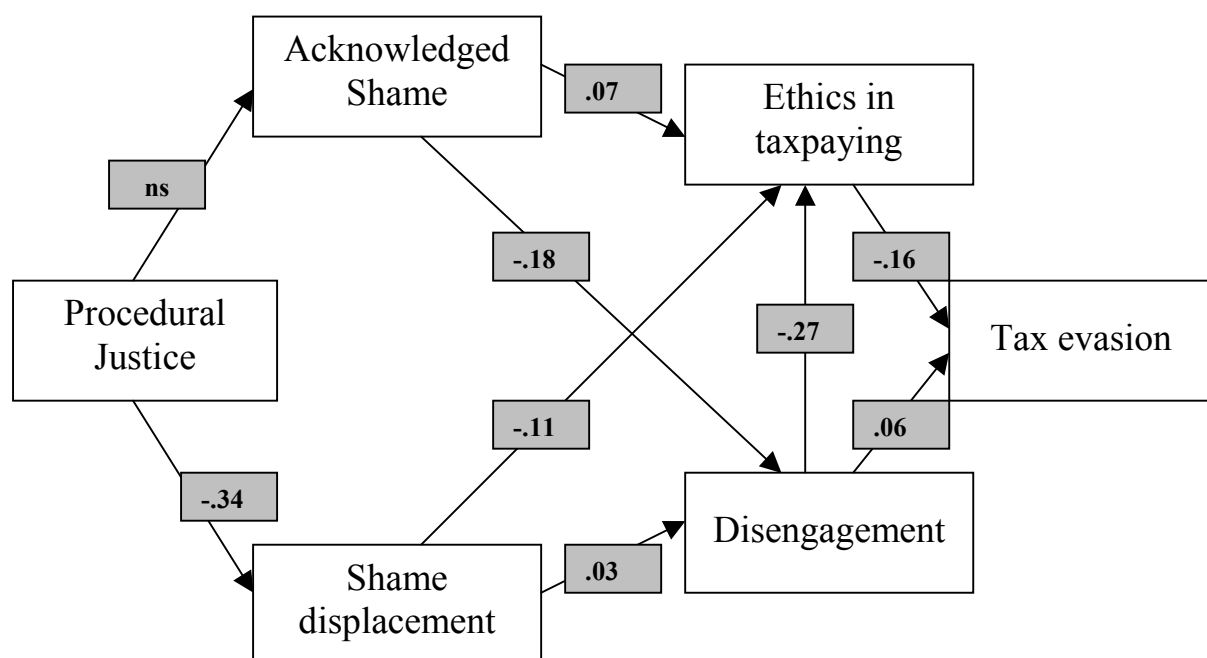


Figure 1: Structural equation model demonstrating the relationship between perceptions of procedural justice, shame management styles and tax compliance

In the final model, empirical support was found for the idea that perceptions of procedural injustice can go on to affect the way a person subsequently manages their shame emotions. As can be seen in Figure 1, the procedural justice measure was negatively related to the

⁷ The two shame management variables were co-varied in the model.

shame displacement variable ($\beta = -0.34, p < 0.001$), indicating that those taxpayers who did not think the Tax Office had treated them in a procedurally fair manner were more likely to displace their shame. This finding confirms the correlational results. As in the correlational analysis, the procedural justice measure was again not related to the shame acknowledgement scale ($\beta = -0.02, p > 0.53$). These findings therefore suggest that maladaptive shame emotions, but not adaptive shame emotions, are likely to be affected directly by perceptions of procedural injustice.

On further inspection of Figure 1, it can also be seen that perceptions of procedural unfairness appeared to affect taxpayers' attitudes to tax non-compliance. This effect, however, was not direct, but was mediated through the shame displacement variable. It was found that the shame displacement scale was negatively related to the ethics in taxpaying scale ($\beta = -0.11, p < 0.001$). This finding suggests that those who were more likely to displace their shame in response to punishment, were subsequently less likely to think paying tax was the right thing to do. Although only a modest effect, it was also found that the shame displacement scale was positively related to the disengagement scale ($\beta = 0.03, p < 0.02$), suggesting that those taxpayers who were more likely to displace their shame were also more likely to disengage psychologically from the tax system.

Although perceptions of procedural injustice were not found to affect a taxpayers' ability to acknowledge their shame in a positive way, the structural equation model did show that those taxpayers who were more likely to acknowledge their shame in response to punishment, were less likely to disengage psychologically from the tax system ($\beta = -0.18, p < 0.001$). They were also more likely to see paying tax as the right thing to do ($\beta = 0.07, p < 0.001$).

Unlike in the correlational data presented in Table 2, however, the shame displacement and shame acknowledgement scales no longer had direct effects on tax evasion. Instead, it can be seen from Figure 1 that the attitudes of condoning non-compliance and disengaging from the tax system appear to be the precursors to active involvement in tax evasion (for a similar finding see Ahmed & Braithwaite, 2003). Those taxpayers who reported being

more disengaged from the tax system were more likely to evade tax ($\beta = 0.06, p < 0.03$), and were also less likely to see paying tax as the right thing to do ($\beta = -0.27, p < 0.001$). Those, in turn, who were more likely to see paying tax as the right thing to do were significantly less likely to engage in tax evasion ($\beta = -0.16, p < 0.001$).

The goodness-of-fit indices for the structural equation model are presented in Table 3. They indicate that the final model provided an excellent fit to the data. Also, according to the modification indices for the model, addition or deletion of any further pathways could not improve the model.

Table 3: Chi-square statistics and goodness-of-fit indices for the structural equation model linking perceptions of procedural injustice to emotions of shame and subsequent tax compliance behaviour

Goodness of fit statistics	Structural Equation Model
χ^2	5.05, $p < 0.410$
df	5
Comparative fit index	1.000
Goodness of fit index	1.000
Adjusted goodness of fit index	0.995
Root mean square	0.002

Implications

To date, the procedural justice literature has failed to take into account people's emotional reactions to injustice when attempting to explain compliance. The aim of the present study, therefore, was to examine whether emotions of shame played a role in determining how one would react to a procedural injustice. More specifically, the present study examined whether taxpayers' perceptions of unfair treatment affected their subsequent tax compliance through the way they managed their shame emotions.

To summarize, it was found that scheme investors were significantly more likely to displace their shame, and were significantly less likely to acknowledge their shame, than taxpayers from the general population. Correlational analyses then explored whether

investors' shame management styles may have been affected by their perceptions of procedural injustice. Those who were more likely to perceive the Tax Office's treatment of them to be procedurally unjust were more likely to displace their shame (there was no effect for shame acknowledgement). The findings from the structural equation model suggested that, in the context of tax compliance, (a) perceptions of procedural injustice can affect the way in which one subsequently manages one's shame emotions and (b) perceptions of procedural injustice can contribute to subsequent tax evasion behaviour through mediating variables that represent emotions of shame and attitudes to compliance. Specifically, those taxpayers who reported they were more likely to displace their shame in response to being punished were much more likely to have negative attitudes towards the Tax Office and towards paying tax, and as a result were more likely to report having evaded their taxes in the past 12 months. Those who were more likely to displace their shame, in turn, were more likely to have perceived the Tax Office's treatment of them as procedurally unfair.

If we relate the findings of the present study back to previous research, we can see that they support both findings and claims that have been raised in the shame management literature. Braithwaite's (1989) reintegrative shaming theory places a prominent etiological role on shame in explaining crime and non-compliance. Braithwaite claims that individuals who do not feel shame or who do not manage their shame effectively are more likely to commit crimes than those who do. This claim was supported in the present study, which showed that those taxpayers who were more likely to displace their shame (that is, not acknowledge it), had more negative views towards paying tax, and as a result were also more likely to have reported evading their taxes in the past 12 months. While the findings support those in the reintegrative shaming literature, what implications do they have for procedural justice research?

Implications for procedural justice research

Emotions are thought to be experiential in nature, and as discussed in the Introduction to this paper, there is evidence to suggest that the shame emotions felt by individuals can be affected by the way in which disapproval is expressed by an authority (Ahmed et al.,

2001). It therefore follows logically from this prior research into shame that if a person has an experience with an authority that they consider to be procedurally unjust, then this too is likely to affect their emotions. As noted above, however, research into procedural justice has largely ignored the role of people's emotions, especially when attempting to explain subsequent non-compliant behaviour. While there has been some research that has been conducted that explores the effects of procedural injustice on people's discrete emotional responses (for example, Krehbiel & Cropanzano, 2000; Weiss, Suckow & Cropanzano, 1999), none of these studies have yet tested whether these emotional responses go on to predict subsequent compliant or defiant behaviour.

In recent years, Tyler has suggested that procedural justice provides people with cognitive information about how much they are valued as a member of a particular group (Tyler & Huo, 2002). Tyler argues that these cognitions play an important mediational role between procedural justice and non-compliance⁸. Could it not also be the case that emotional reactions to injustice go on to explain why some people subsequently defy decisions they see to be procedurally unjust?

The present study was able to demonstrate for the first time that emotional reactions (in particular, those of shame) can play an important mediational role between perceptions of procedural justice and subsequent compliance behaviour. These findings are important as they extend Tyler's research into procedural justice by providing some preliminary evidence to suggest that emotions (negative emotions in particular), as well as cognitions, play a role in people's reactions to procedural injustice, and that depending on how these emotions are managed, they can go on to have an effect on subsequent compliance behaviour. These findings are also important because they suggest that procedural justice research might very well benefit in the future by considering people's emotional reactions to perceived injustice.

⁸ It has been argued by some that emotions and cognitions may be the same concept (see Lange, 2002).

Implications for regulatory enforcement strategies

The findings also have implications for regulators trying to ensure voluntary compliance with their rules and decisions. Rational choice models (see Kagan & Scholz, 1984) have dominated public policy in areas as diverse as criminal justice, welfare policy, and taxation. Policy makers in these areas have been influenced by the claims of rational choice theorists that compliance is mainly driven by the severity of sanctions used. If we look at the situation surrounding the mass marketed schemes event, however, it can be seen that the use of harsh sanctions did not appear to be as effective as desired in bringing about compliance with the Tax Office's decisions. Instead of complying, the majority of tax scheme investors actively resisted the Tax Office's attempts to recover taxes. In fact, it was shown here that negative emotional reactions brought on by investors' perceptions of procedural unfairness led to further tax non-compliance behaviour.

These findings indicate that regulatory authorities will need to consider how they express disapproval to those they regulate if they wish to prevent sparking negative emotional reactions and further non-compliance. The findings of the present study specifically suggest that regulators will need to move beyond enforcement strategies linked purely to deterrence. The findings also suggest that regulators will need to acknowledge the specific importance of procedural justice in their dealings with non-compliers, and that they will need to make a commitment to implement and nurture the principles of justice and fairness in their compliance strategies.

In his Presidential address to the American Society of Criminology, Sherman (2003) indicated that modern criminology is now poised for reinventing justice around the emotions of victims, offenders, and society. Sherman argued that justice officials need to be made more aware of the emotional impact of their words on citizens, and he makes a number of important suggestions for creating an emotionally intelligent paradigm of justice. Lange (2002) also notes that regulating is not just about formal law, but also involves the generation, expression, and management of emotions. It is therefore suggested here that a regulatory enforcement strategy that is based on trust and understanding in the

first instance may be one such strategy that regulators can use to contribute positively to such an emotionally intelligent paradigm of justice.

A strategy based on trust in the first instance is likely to be a more effective strategy in gaining voluntary compliance among taxpayers than one based solely on legal coercion (see also Ayres & Braithwaite, 1992; Murphy, in press; Cherney, 1997). The idea is that by initially placing trust in the foreground of a regulatory encounter, regulators should be able to nurture the development of reciprocal trust relationships between themselves and those they regulate. Treating others as trustworthy in the first instance will elicit a more co-operative approach from the regulatee, more information is likely to be forthcoming about their practices and possibly about areas of non-compliance, and it will engage the regulatee in best practice decisions for securing compliance (Black, 2001). A strategy based on trust in the first instance is likely to be particularly effective because it will be seen to be procedurally fair, it will be less likely to spark negative emotions towards the regulator, and those being regulated are likely to feel that their past good faith efforts at compliance have been acknowledged.

While adoption of a regulatory strategy based on trust is more likely to prevent widespread resistance (Murphy, in press), attempts to reintegrate those individuals who have already been hurt by inappropriately harsh regulatory strategies is a more difficult matter to manage. Although there is not the room to contemplate this issue in detail here, consideration of reintegrative shaming techniques may prove worthwhile in (a) changing levels of unacknowledged shame for the better and (b) reintegrating these people back into the system (for a detailed discussion for how this might be done see Braithwaite, 2002).

Limitations of the present study

Although the present study makes some contributions to research into procedural justice, it is not without its limitations. Cross-sectional data were used to draw the conclusions in this paper. One of its limitations, therefore, is that it cannot conclude convincingly that perceived poor treatment led taxpayers to subsequently manage their shame in a maladaptive way (that is, shame displacement), and that maladaptive shame management

was the causal factor that produced further non-compliance with the law. The most obvious alternative model that could explain the results is that those who were more likely to displace their shame in the first place were more likely to perceive the Tax Office's punishment as being procedurally unfair.

Methodologies that might yield clearer evidence for the causal relationships among procedural justice, shame and compliance are ones based on experimental or longitudinal designs. For example, by testing taxpayers' shame management skills prior to a dispute with the Tax Office, as well as after, or by testing taxpayers in a follow-up survey in which measurement of the same concepts at two different points in time could be assessed, the question of whether procedural injustice caused individuals to subsequently displace their shame or whether shame displacement caused one to have perceptions of procedural injustice, could be more effectively answered.

Along with some other procedural justice research (for example, Krehbiel & Cropanzano, 2000), however, the findings of the present study have at least been able to tell us something about the way people may feel and react in response to a procedural injustice. What the present study has been able to show above and beyond previous research is that these emotional reactions to procedural injustice appear to play a role in people's subsequent compliance behaviour. Future research will need to be conducted, however, to replicate these findings in other fields and to further explore the causal links among the variables of interest.

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Appendix A

What is a tax scheme?

Three categories of mass marketed tax schemes operating in the Australian market have been identified by the Tax Office (Commissioner of Taxation, 2000). These include, (1) round-robin schemes, including non-recourse financing, often in agriculture, afforestation and franchises; (2) certain film schemes, with guaranteed returns that are, in effect, a return of part of the invested funds; and (3) employee benefit arrangements that have tax benefits as their main purpose. It is only the first two types of scheme that are of relevance to the present study.

An example of an Australian franchise scheme is 'Oracle'. Oracle offered investors the opportunity to invest in a business that promoted and presented personal development and educational workshops. By making an initial cash outlay of \$10 000 and borrowing \$30 000 from Oracle's financing company, investors could claim an immediate tax deduction of \$40 000. This would therefore lead to some investors, depending on their original income level, to receive a tax refund from the Tax Office of up to \$19 400 (Source: Oracle International Pty Ltd Prospectus, p. 3). From here, \$10 000 of the \$19 400 went into paying the initial \$10 000 set up fee. In some cases, investors were therefore able to pocket the remaining \$9400.

Several aspects of the investment were of concern to the Tax Office. One major concern was that the loan of \$30 000 was repayable only from the proceeds of the business. If the business made no profit investors would not be required to repay the loan. Therefore, unlike many other investments (for example, negative gearing of property), there was no risk to the investor. In addition, some scheme investors made a profit from their tax return (in some cases the profit was as high as \$9400). Another concern for the Tax Office related to the nature of the deduction made. Specifically, only a fraction of the \$40 000 claimed as a tax deduction went into the underlying activity. For many scheme arrangements, the majority of the money raised went into financing the management fees.

The situation surrounding the tax dispute

During the 1990s, the Tax Office observed a dramatic increase in the number of taxpayers becoming involved in mass-marketed tax effective schemes (see Murphy, 2002c). Deductions being claimed for tax schemes grew from about \$54 million in the 1993-94 income year to well over \$1.4 billion in the 1997-98 income year. According to the Tax Office, many participants' investments were largely or almost wholly funded through tax deductions (see above), and as a result little of their private capital is said to have been at risk. In 1998, the Tax Office therefore came to the conclusion that taxpayers who invested in these schemes did so for the 'dominant purpose' of obtaining a tax benefit, and, as a result, the anti-avoidance provisions of Part IVA of the *Australian Income Tax Assessment Act 1936* applied. The Tax Office moved to disallow scheme related tax deductions claimed up to six years earlier and issued amended assessments to approximately 42 000 taxpayers. Scheme participants were told that they had to immediately pay back taxes with interest and appropriate penalties (that is, within two weeks) or they would run the risk of facing the full extent of the law. At the time of initially receiving their tax bills, the average scheme related tax debt was reported to be about \$75 000 (currently about \$52 500 USD; Senate Economics References Committee, 2002).

The majority of the taxpayers involved, however, actively resisted the Tax Office's attempts to recover tax owing. In fact, at the time of conducting the fieldwork for this study in 2002 more than 50% of investors had still refused to pay back their tax debts. A number of explanations were given by investors—some of which will be presented below—for why they resisted the Tax Office's attempts to recover scheme-related tax debts.

Scheme investors were extremely vocal in their criticisms towards the Tax Office's handling of the schemes issue. One of their major criticisms was the Tax Office's delay in making a decision to crack down on tax schemes. As discussed by Murphy (2002c), investigations into schemes had started in 1987, yet it was not until 1998 that the Tax Office actively sought to recover lost taxes. In the eyes of investors, this time delay had two important consequences. First, the refund of their initial deductions encouraged them to invest in subsequent schemes, thus serving to increase their overall tax debt. Many had

also seen the tax benefits their friends or relatives had received as a result of investing in tax schemes and subsequently invested themselves; many years later they found that their deductions had been disallowed⁹. Second, the time delay also had the effect of magnifying the interest charge levied on investors' tax debts because the Tax Office applied interest from the date the deduction was initially made.

Many of the investors also expressed anger at the lack of consultation and warning they received before being issued with letters telling them their deductions had been disallowed. Letters that were sent to investors were reported to be too technical and threatening, and many investors felt that the Tax Office letters implied they were tax cheats by stating that their dominant purpose for entering into a scheme arrangement was to avoid tax. Many investors also expressed disdain at the Tax Office's failure to advise them of their settlement provisions, debt recovery policies or hardship relief measures. Finally, investors argued that the schemes they invested in had been sold to them as a way of legally minimizing tax (see Murphy, 2003a). They claimed that the financing structures used in many tax schemes had been utilised by the 'big end of town' for over 20 years, yet had incurred only sporadic application of Part IVA (see Senate Economic References Committee, 2002). A large proportion of scheme investors therefore felt that the 'big end of town' had gained preferential treatment from the Tax Office, and that the law had been applied inconsistently between the two groups (for a detailed discussion of this dispute see Murphy, 2002c; 2003a; Senate Economics References Committee, 2001; 2002).

⁹ Under Australia's self-assessment system of taxation, the Tax Office initially accepts taxpayers' deductions at face value. Part IVA of the *Income Tax Assessment Act 1936* then empowers the Tax Office to deny or cancel an investor's tax benefit up to six years after it has been made if they conclude that the sole or dominant purpose for making the deduction was to obtain a tax benefit.

Appendix B

Below is a complete list of items used to construct measures in the present paper. It also details the original scale formats, the recoding of the data if applicable, reliability coefficients of each scale, the mean score and standard deviation obtained on each scale.

Procedural justice

An overall ‘procedural justice’ scale was constructed by combining responses to all three of Tyler’s (1997) trustworthiness, neutrality and respect scales. All responses given on a 1 to 5 scale (1 = *strongly disagree*, 2 = *disagree*, 3 = *neither*, 4 = *agree*, 5 = *strongly agree*). Chronbach’s $\alpha = 0.87$, $M = 2.34$, $SD = 0.73$.

(a) Trustworthiness.

- The Tax Office considers the concerns of average citizens when making decisions
- The Tax Office cares about the position of taxpayers
- The Tax Office tries to be fair when making their decisions

(b) Neutrality.

- The Tax Office gives equal consideration to the views of all Australians
- The Tax Office gets the kind of information it needs to make informed decisions
- The Tax Office is generally honest in the way it deals with people

(c) Respect.

- The Tax Office respects the individual’s rights as a citizen
- The Tax Office is concerned about protecting the average citizen’s rights

Shame Management

Ahmed’s (2001) two measures of shame management (acknowledged shame and displaced shame), modified for use in the taxation context, were measured through two multi-item scales. All responses given on a 1 to 4 scale (1 = *not likely*, 2 = *may happen*, 3 = *likely*, 4 = *almost certain*).

(a) Shame acknowledgement. Chronbach's $\alpha = 0.92$, $M = 2.74$, $SD = 0.85$.

Assume that you had to pay a substantial fine or penalty. How likely is it that the following would occur?

- Feel that you had let down your family
- Feel ashamed of yourself
- Feel angry with yourself for what you did
- Feel concerned to put matters right and put it behind you
- Feel that what you had done was wrong
- Feel bad about the harm and trouble you'd caused
- Feel humiliated
- Feel embarrassed
- Feel guilty

(b) Shame displacement. Chronbach's $\alpha = 0.80$, $M = 2.27$, $SD = 0.77$.

Assume that you had to pay a substantial fine or penalty. How likely is it that the following would occur?

- Feel angry with the Tax Office
- Feel bothered by thoughts that you were being unfairly treated
- Feel that you wanted to get even with the Tax Office

Attitudinal measures of tax non-compliance

As discussed in the main body of the text, both taxpayers' attitudes towards the tax system and paying tax, and their taxpaying behaviour should be considered when investigating overall levels of tax non-compliance. Taxpayers' attitudes to non-compliance were therefore measured here through two multi-item scales.

(a) 'Ethics in taxpaying' scale. Developed by Braithwaite (2000) for her work on tax compliance. Responses given on a 1 to 5 scale (1 = *No!!*, 2 = *No*, 3 = *??*, 4 = *Yes*, 5 = *Yes!!*). Chronbach's $\alpha = 0.67$, $M = 3.79$, $SD = 0.71$. Items denoted with a * are reverse scored.

- Do you think you should honestly declare cash earnings on your tax return?
- Do you think it is acceptable to overstate tax deductions on your tax return?*
- Do you think working for cash in hand payments without paying tax is a trivial offence?*
- Do you think the government should actively discourage participation in the cash economy?

(b) 'Disengagement from the tax system' scale. Developed by Braithwaite (2003) for her work on tax compliance. Responses given on a 1 to 5 scale (1 = *strongly disagree*, 2 = *disagree*, 3 = *neither*, 4 = *agree*, 5 = *strongly agree*). Chronbach's $\alpha = 0.55$, $M = 1.95$, $SD = 0.56$.

- I don't care if I am not doing the right thing by the Tax Office
- If the Tax Office gets tough with me, I will become uncooperative with them
- I personally don't think that there is much the Tax Office can do to me to make me pay tax if I don't want to
- If I find out that I am not doing what the Tax Office wants, I'm not going to lose any sleep over it

Behavioural measure of tax non-compliance

Tax evasion index. Respondents were asked four questions with the aim of developing a four-item index of tax compliance behaviour. Scores on the overall tax evasion index were calculated by summing the number of 1s given to a question; thus overall scores could range from 0 to 4 ($M = 0.76$, $SD = 0.67$). The higher the number, the more non-compliant the respondent.

- Do you have an outstanding debt with the Tax Office (0 = *no*, 1 = *yes*)
- Have you worked for cash-in-hand payments in the last 12 months? By cash-in-hand we mean cash money that tax is not paid on (0 = *no*, 1 = *yes*)
- As far as you know, did you exaggerate the amount of deductions or rebates in your most recent income tax return (1 = *not at all*, 2 = *a little*, 3 = *somewhat*, 4 = *quite a bit*, 5 = *a lot*. Those responding with 1 were deemed compliant and their score was recoded to a 0, those responding with 2, 3, 4 or 5 were deemed non-compliant and their score was recoded to a 1. Thus, 0 = *no*, 1 = *yes*).
- Think of the deductions and rebates you claimed in your most recent income tax return. Would you say you were....(1 = *absolutely confident they were all legitimate*, 2 = *a bit unsure about some of them*, 3 = *pretty unsure about quite a lot*, 4 = *haven't a clue, someone else did it*. Those responding with 1 were deemed compliant and their scores were recoded to a 0, those responding with 2, 3 or 4 were deemed non-compliant and their scores were recoded to a 1).

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