

Abstract WP 71

In recent years many OECD countries have been observing an increase in middle-income taxpayers making use of aggressive tax planning strategies to reduce their tax. In many cases it is unclear whether these strategies are designed and used by taxpayers to legally minimise tax or to illegally avoid tax. What is clear, however, is that those that are designed to exploit loopholes in tax law pose a serious problem to the integrity of a tax system and therefore need to be dealt with in a way that restores both faith and equity back into the system. One issue that needs to be considered when doing this, however, is how tax authorities can best regulate taxpayers who may have inadvertently become involved in such illegal tax planning practices. Using cross-sectional survey data collected from 2292 Australian taxpayers in 2002 (Study 1) and longitudinal survey data collected from 659 Australian taxpayers in 2004 (Study 2), it will be demonstrated that regulatory enforcement strategies that first attempt to coerce and threaten taxpayers back into compliance can sometimes result in taxpayers questioning the legitimacy of the Tax Office's authority, which can subsequently lead to active resistance towards that authority. It will also be shown that the imposition of harsh and excessive civil penalties for tax non-compliance can in fact lead to subsequent non-compliance in the future. It will be argued that a responsive regulatory approach that relies on principles of procedural justice may be the only effective enforcement strategy available to tax authorities who wish to prevent both widespread resistance and future non-compliance to their rules and decisions.