

Centre for Tax System Integrity

Working Paper 77 – Turning resistance into compliance: Evidence from a longitudinal study of tax scheme investors

Why do some people actively resist government authority and decisions?
What situations are more likely to encourage this sort of behaviour?
And how can authorities turn resistance into compliance using the limited resources they have available to them?

The aim of this paper is to try to shed some light on these questions by using longitudinal survey data collected in 2002 and 2004 to examine the attitudes of 659 taxpayers who have been involved in a long-standing dispute with the Australian Taxation Office.

The paper shows that taxpayers who perceive enforcement action taken against them to be procedurally unjust will be more likely to be resistant towards the Tax Office. It also shows that actual compliance behaviour can be affected by enforcement action that is perceived to be procedurally unfair.

The author suggests that regulators should try to prevent sparking resistance towards their decisions and rules. The implications of the study suggest that a regulatory enforcement strategy that is based on principles of procedural justice is likely to be helpful (p 26.). The discussion is intended to have direct relevance for those administrators who work with both compliant and seriously noncompliant individuals.

In making these suggestions, however, it should be noted that such an approach does not preclude deterrence and punishment. Deterrence is important and clearly regulators need to have a reputation for being able to catch and punish those who deserve to be punished. For example, someone who deliberately makes false claims on their tax returns or who shifts their money offshore to avoid tax should be reprimanded and punished. However, the manner in which the punishment process is handled should still be done in a way that is both respectful and fair.

If regulators can learn to better manage the way their laws are administered, as well as learning to better manage public reactions to their laws, they will be able to turn some resisters into long-term compliers.