

# The Multiplicity of Taxpayer Identities and Their Implications for Tax Ethics

MICHAEL WENZEL

*It is argued that many social factors (ethics, norms, legitimacy) affecting tax compliance derive their meaning and potency from taxpayers' identities—the way they position themselves socially, relative to other taxpayers and the tax authority. Based on survey data from 965 Australians, the present study investigates taxpayers' identities at three different levels of inclusiveness (personal, subgroup, and national identity) and their implications for tax-ethical attitudes. An inclusive identity in terms of one's nation was related to attitudes most conducive to tax compliance. It is concluded that the concept of identity is key to responsive regulation.*

## I. INTRODUCTION

Tax evasion and avoidance are a burden for modern societies, a strain on government revenue, and a threat to social justice (see V. Braithwaite 2003a; Roth, Scholz & Witte 1989). For tax administrations, the challenge is to maintain or increase compliance of a vast number of taxpayers, with a great diversity in their objective tax situations as well as in the many social and psychological factors that impinge on their taxpaying behavior. Taxpayers are not a homogenous collective but vary greatly in terms of their backgrounds, demographics, and group memberships. In fact, taxpayers are members of many different groups and social categories, whose impact on tax morale and behavior is likely to depend on the way taxpayers position themselves in different groups, categorize themselves, and define their identity in a given situation (Taylor 2003). Taxpayers' identities affect their commitments and solidarities, their endorsement of certain values and goals, their internalization of social norms, and their emotions and motivations.

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Address correspondence to Michael Wenzel, School of Psychology, Flinders University, GPO Box 2100, Adelaide SA 5001, Australia. Telephone: 00 61 8 820 12274; e-mail: Michael.Wenzel@flinders.edu.au.

Therefore, an understanding of taxpayer identities could be essential for effective tax administration, specifically in terms of responsive regulation (Ayres & Braithwaite 1992; J. Braithwaite 2002). The notion of responsive regulation can be characterized by three elements: tactical, meta-strategic, and democratic responsiveness. First, the model of responsive regulation proposes that regulators use a plurality of regulatory techniques and styles from which they tactically select the one that responds best to the regulatees' motivations and circumstances (Sparrow 2000). Second, responsive regulation entails the meta-strategy of always encouraging voluntary compliance and self-regulation, through persuasion and/or "big guns" that loom in the background (Ayres & Braithwaite 1992). Third, responsive regulation embraces democratic principles of seriously engaging with regulatees, listening to their views and concerns, and working towards a shared understanding of principles and values in the regulatory domain (V. Braithwaite 2003c).

I contend that regulatees' identities, in relation to other regulatees and to the regulator, are key to responsive regulation in each of its three meanings, because: (1) they affect people's motivations and attitudes and, thus, the appropriateness of regulatory tactics; (2) they affect people's willingness to comply voluntarily and, thus, the strategies to yield their cooperation; and (3) they affect people's commitment to goals and values and, thus, the effectiveness of processes to reach consensus. Regulators, therefore, need to understand how these identities come into effect, impact on regulatees' behavior, and can be managed toward greater levels of compliance. The present article contributes to an understanding of identity processes in taxpaying behavior by empirically investigating the relations between variously inclusive self-definitions in the tax context and several tax attitudes and tax ethics that are key social factors in tax compliance.

#### A. SOCIAL FACTORS IN TAX COMPLIANCE

Traditionally the decision to comply or not comply with tax laws has been understood as an individual's rational pursuit of material outcome maximization, weighing expected costs of detection and fines against the expected benefit of not paying the tax (Allingham & Sandmo 1972). Accordingly, deterrence has been considered the regulatory strategy of choice, as it attempts, through detection and punishment, to reduce the expected outcomes from tax evasion and to make tax compliance a relatively more attractive option (Fischer, Wartick & Mark 1992).

However, more recent research has argued and shown that such a perspective is too limited and that more social factors also influence taxpaying behavior. Specifically, taxpayers' *personal ethics* in the sense of a felt moral obligation to pay taxes honestly have been shown to affect tax compliance (e.g., Bosco & Mittone 1997; Schwartz & Orleans 1967). Likewise, it has been argued that *social norms*, that is, the perceived practice or endorsement of evasion among reference others, impact on tax compliance (e.g., Webley,

Cole & Eidjar 2001; Wenzel 2004a). Personal tax ethics and social norms have been understood as implying other forms of costs, such as guilt and self-concept dissonance, or shame and reputation loss, which can deter taxpayers from evading tax (Grasmick & Bursik 1990). However, ethics and norms may not only add other deterrents to the equation but also moderate the effectiveness of formal sanctions. First, strong personal ethics can make deterrence superfluous, because taxpayers driven by strong tax ethics are motivated to comply irrespective of personal costs or benefits (Wenzel 2004b). Second, perceived social norms against tax evasion can increase the effects of formal sanctions, because they imply additional, socially mediated costs (loss of opportunities, severance of relationships, etc.) when tax evasion is detected and/or punished (Wenzel 2004b). Third, formal sanctions can be counterproductive because they undermine ethics and/or reduce trust in other people's cooperative behavior (Frey 2002; see also Mulder et al. 2006).

A second set of social factors relevant to compliance behavior, but likely to be related to cognitions about personal ethics and social norms, are the moral emotions of *shame* and *guilt*. According to Tangney and Dearing (2002), shame implies a negative evaluation of the self and/or the fear of negative evaluation from others; in contrast, guilt implies a negative evaluation of one's actions with concerns about their effects on others. It could be argued that the experience of shame would therefore mainly be related to one's belief that social norms condemn the behavior in question, whereas guilt would be related to one's own ethical standards (i.e., internalized social norms) that proscribe the behavior in question. However, research has often failed to distinguish empirically between the two emotions, and some authors suggest that they are more a matter of conversational emphasis (Sabini & Silver 1997). In any case, there is empirical evidence that anticipated guilt, shame, and embarrassment are effective deterrents to law violations including tax evasion, indeed often more effective than legal sanctions per se (Grasmick & Bursik 1990).

Another category of social factors that has been shown to affect taxpaying attitudes and behavior is that of perceptions of fairness. Taxation involves numerous considerations of justice and fairness, including the perceived fairness of outcomes (e.g., tax burdens and tax-funded benefits), fairness of procedures and treatment (e.g., rights and respectful treatment), and fairness of sanctions (e.g., punishment and amnesties; Wenzel 2003). It has been argued that perceptions of fairness can affect tax attitudes and behavior because, through tax evasion, taxpayers may want to compensate or adjust for the unfairness of their tax burdens and benefits. Perceptions of unfairness may also reduce satisfaction with, or the perceived legitimacy of, the tax system; and this leads to resentment, resistance, and a reduced sense of moral obligation to comply with tax laws (e.g., Cowell 1992; Kinsey, Grasmick & Smith 1991; Murphy 2003; Wenzel 2002; see also Tyler 1990).

Lastly, issues of ethics and legitimacy may not only apply to compliant, but also to non-compliant behavior. That is, people sometimes hold personal

ethics and believe in social norms that they think justify or legitimize acts of tax minimization or evasion. Such oppositional ethical views have not been studied to a great deal in the tax context, except, for instance, from the perspective of neutralization strategies (Thurman, St. John & Riggs 1981). Neutralization is understood as the justification of guilt-inducing behavior (Sykes & Matza 1957) and thus implies a sense of ethical ambiguity: people anticipate guilt because they are generally opposed to such behavior, and they therefore attempt to justify it to reduce the guilt. However, oppositional ethical views can also be more unambiguous in implying a clear duty to resist and oppose the authority and the regulatory system. Valerie Braithwaite (2003b) studied such a position of resistance and protest as one of several motivational postures that taxpayers can hold vis-à-vis the tax system. She found a posture of resistance to be significantly related to both tax evasion and avoidance. Alternatively, taxpayers may hold the view that they are players in a competitive system where the rules are that the tax authority tries to collect as much tax as it can while taxpayers try to get away with paying as little tax as they can. Lerner (1977) calls this a fairness principle of justified self-interest. Braithwaite (2003b) refers to it as a game-playing posture, and found it also to be related positively to tax evasion and, in particular, to tax avoidance.

Whether they are of oppositional or conforming nature, among moral factors, personal ethics and legitimacy can be considered the most proximal predictors of tax compliance, with personal ethics being attributable to the person (i.e., oneself) and legitimacy being attributable to the system or authority. Personal ethics depend on one's socialization, the perceived social norms of one's reference groups, and one's trust in other people (which may then also extend to the tax authority and thus to legitimacy; Job & Reinhart 2003). Perceptions of legitimacy depend on the perceived justice of the tax system, trust in the tax authority based on the perceived fairness of its procedures and conduct (see Tyler & Huo 2002), and the institution's perceived representativeness of oneself or one's relevant social group and its goals and values (see Turner & Haslam 2001). Essentially, both personal ethics and perceptions of legitimacy are therefore socially determined by the way in which taxpayers position themselves toward other people and the tax authority. Specifically, taxpayers' social positioning in the tax context determines: (1) whether they let themselves be influenced and socialized, or by whom; (2) whose outcomes and treatment they are concerned about (in terms of fairness or favorability); and (3) what goals and values they are committed to and use to judge the representativeness of the tax authority. Such positioning relative to others and the institution is reflected in one's self-categorization and identity in the given social context, as I will now explain.

## B. IDENTITY AND SELF-CATEGORIZATION

People structure their environment and derive meaning from their social world through a process of categorization (see McGarty 1999). Through

categorization, they attribute relative similarity to objects or people grouped together as elements of one category in contrast to other categories, which in turn they consider as relatively different from the former category. Categorization thus involves the attribution and accentuation of intra-category similarities and inter-category differences. If perceivers are themselves involved and considered as members of a category, the process is one of self-categorization (Turner 1987). Self-categorization can be regarded as the cognitive foundation of social identity, which has comprehensive effects on people's social behavior (see Haslam 2004). Importantly, self-categorization leads to self-stereotyping: the ascription of traits, norms, and goals of one's social group to oneself (Turner 1987). People who categorize themselves as members of a certain social group are likely to adopt their group's positions as their own position and internalize its norms; and they are likely to regard their group's objectives as their own objectives and be committed to these group goals.

Which self-categorization is psychologically relevant, or salient, in a given context is an interactive function of situation and perceiver factors (Haslam 2004). First, a categorization is more likely to be salient if it fits a pattern of similarities and differences in a given context, and if it does so consistent with expectations, theories, or ideologies about the categories involved. Second, perceivers may be differently prepared to use one rather than another category, for instance, depending on how well the categorization serves their goals and needs. For example, if a tax authority decides to take action against the emergent wide-spread use of tax shelters among what are seen as ordinary taxpayers, after it is perceived to have tolerated the use of similar tax shelters among wealthy taxpayers (see Murphy 2003), the categorization between ordinary and wealthy taxpayers fits the apparently differential treatment by the tax authority. Furthermore, this categorization may be consistent with the perceivers' preconceptions about government institutions favoring the wealthy and big business. The ordinary/wealthy taxpayer categorization may be beneficial to the perceivers' goals in this context, as it supports their claim of inconsistent application of the law and thus illegitimacy of the tax authority's actions. Another perceiver factor determining the salience of self-categories is the centrality for one's self-concept or the level of identification with the respective group (Haslam 2004). To continue the example, taxpayers who identify strongly with their blue-collar heritage, or who take pride in their tendency to fight for causes of the disadvantaged, may be more inclined to adopt an ordinary/wealthy categorization and brand the tax authority's actions as discriminatory in this respect.

Moreover, people can categorize themselves as members of variously inclusive categories (Turner 1987; see also Haslam 2004). For example, as we have seen, people may regard themselves as members of a taxpayer subgroup such as ordinary versus wealthy taxpayers, or as employed rather than self-employed taxpayers, and so on. Alternatively, people may not draw

such subcategorizations and regard themselves instead as taxpayers or citizens of their country, which is probably the most abstract and most inclusive category relevant in the tax arena. However, people could also categorize themselves at a less inclusive level, for instance as members of a certain occupation (i.e., a subcategory among the employed taxpayers). They may even perceive themselves as individuals, that is, as not sharing a relevant category with others.

Importantly, whatever the salient level of self-categorization, one's self-stereotyping in terms of that category means self-ascription of similarities with fellow members and differences to other categories. This implies that those similarities are less likely to be seen as differences to fellow members, inhibiting self-categorization at a lower level of inclusiveness; and those differences are less likely to be seen as similarities to members of other groups, inhibiting self-categorization at a more inclusive level (Turner 1987). For example, when self-categorizing as citizens, people may be committed to a perceived social norm of honestly contributing one's lawful share of taxes to the welfare of one's country. This would inhibit the self-categorization as, say, low-income taxpayers if their perceived norm was to use tax evasion to protest against disadvantages in the tax system. (Note, however, that subgroups can also justify such protest behavior exactly through reference to values that they claim are shared within the more inclusive category, such as principles of fairness; Wenzel 2004c.)

In short, taxpayers can define themselves at various levels of inclusiveness: as citizens or members of their nation at the most inclusive level, as members of a particular taxpayer or interest group at an intermediate level, and as individuals, distinct and independent from other individuals (Kampmeier & Simon 2001), at the least inclusive level. In line with self-categorization theory (Turner 1987), it is assumed that the way taxpayers self-categorize and position themselves in the tax system affects their goals and values, their commitment to certain interests and norms, and thus their views about ethics and legitimacy related to tax.

### C. TAXPAYER IDENTITIES AND TAX ETHICS

Consistent with this general argument of the present article, recent research has provided evidence that self-categorizations and social identities can affect taxpaying attitudes and behavior. For example, research by Sigala (1999) showed that different occupational groups have different norms. Cash-in-hand payments and their underreporting are considered normal and more acceptable in some occupations, whereas such practice is considered inconsistent with norms and potentially jeopardizes one's professional reputation in others. However, whether or not people adhere to perceived social norms, whether they internalize them as their own ethics and act upon them, should depend on their degree of identification with the respective reference group (Wenzel 2004a).



Moreover, as discussed, taxpayers can perceive themselves in various ways and define their social place through self-categorizations at various levels of inclusiveness (e.g., as individuals, in terms of occupation or income-level, or in terms of their nation). These self-categorizations and identities determine the norms people adhere to, the goals and values they feel committed to, and the interests they try to maximize. Therefore, they are likely to differentially affect the various tax ethical beliefs and attitudes discussed earlier in this article.

First, regarding an inclusive identity in terms of one's nation, it can be argued that this self-definition implies that taxpayers abstract from their partial self or group-interests and have greater concern for the good of other taxpayers and the nation as a whole (see Brewer 1991); they are more likely to engage in cooperative behavior and to contribute to a public good (see Tyler & Blader 2003); they are more likely to trust other group members to pay their share of taxes (see Kramer et al. 2001); and they are more likely to feel empowered by the power of their representative authorities and attribute legitimacy to them (see Fiske & Dépret 1996). Indeed, there is some evidence that taxpayers who identify strongly with their nation are less inclined to evade tax (Wenzel 2002). That is, identified with the inclusive group that benefits collectively from the tax system represented by the political and public institutions that administer the tax system, they seem more committed to make sacrifices for its welfare and accept the legitimacy of its institutions.

Conversely, an inclusive self-categorization with its commitment to shared collective goals should be largely incompatible with concerns for more partial interests that derive from narrower self-categorizations, for instance, in terms of one's interest group or as individuals. An inclusive taxpayer identity should therefore inhibit oppositional tax ethics that justify tax evasion as a voice of protest or as a legitimate pursuit of one's individual self-interest, where a taxpayer complies with the tax system only when it is to his or her individual advantage. Indeed, findings showed that the perceived favorability of tax decisions was related to tax compliance only when respondents did not strongly identify with their nation (Wenzel 2002).

Overall, it can be predicted that an inclusive identity in terms of their nation will have positive implications for tax ethics and attitudes towards the tax system. It will be positively related to favorable personal tax ethics, the perception of favorable norms, and—we can extrapolate—anticipated feelings of shame and guilt if one were to cheat on taxes. It will also be positively related to attributions of legitimacy, but negatively related to oppositional ethics such as resistance and justified self-interest.

In contrast, taxpayers who define themselves as members of a specific taxpayer group (e.g., in terms of income or occupation), thus self-categorizing at an intermediate subgroup level, should be more strongly committed to the particular goals, norms, and values of their subgroup. Inasmuch as these are at odds with goals, norms, and values of the inclusive category, subgroup identity should reduce commitment to overarching goals such as the welfare

of the nation and the integrity of the tax system (see Turner 1987). Likewise, identified in terms of their sublevel ingroup, taxpayers are more likely to construe their relationship to other groups as a competitive one; they are more likely to engage in competitive behavior that advances their own groups' outcomes at the cost of other groups and the larger good (Kramer & Brewer 1984). They are more likely to perceive ingroup normative support for the pursuit of their subgroups interests rather than for the tax system overall. Identified with their subgroup, taxpayers may not perceive the tax authority as representative of themselves; in fact, they may define their subgroup in opposition to the tax authority, regarding it as an outgroup. As a consequence of such a them-and-us mindset, they would be less likely to attribute legitimacy to the tax authority (Taylor 2003). More likely, they would see tax evasion and tax avoidance as legitimate resistance against the tax system.

It can therefore be predicted that a subgroup identity in terms of one's specific taxpayer or interest group will generally have negative implications for tax ethics and attitudes towards the tax system. It will be negatively related to personal tax ethics, perceived social norms, anticipated feelings of shame and guilt if one were to cheat on taxes, as well as attributions of legitimacy. In contrast, it will be positively related to the view that tax evasion can be a legitimate form of resistance.

Lastly, the implications of an individual or personal identity are likely to be more mixed. Kampmeier and Simon (2001) argue that individual identity is defined by two factors: distinctiveness and independence. On the one hand, equivalent to the argument that applied to subgroup identities, individual identity implies that people conceive of themselves as different from others and that they pursue their own personal goals and self-interests; they are less likely to sacrifice their own outcomes for the benefit of the collective good. Hence, defining themselves as individuals, taxpayers are less likely to have strong personal tax ethics. They are less likely to feel shame or guilt, as they feel more independent and less accountable to other people. They are more likely to see themselves and others as individual actors whose legitimate right it is to pursue their self-interests. Their sense of independence could indeed motivate them to resist any form of capture (see V. Braithwaite 1995) or capitulation (V. Braithwaite 2003b) that a blanket attribution of legitimacy to authorities might suggest. On the other hand, as independent individuals they are less likely to see themselves in a negatively interdependent, antagonistic relationship with other taxpayers or the tax authority; they are less likely to protest through their taxpaying behavior.

To summarize these predictions, an individual identity will be unrelated to personal tax ethics, perceived tax social norms, anticipated feelings of shame and guilt as well as antagonistic motivations to evade tax out of resistance. However, it will be negatively related to attributions of legitimacy and positively related to the view that taxpayers may legitimately attempt to minimize the amounts of tax they pay through whatever means the tax system allows (or does not allow).



## II. METHOD

## A. DATA

The data were taken from a survey of Australian citizens (Wenzel, Ahmed & Murphy 2002). A self-completion questionnaire was sent to a sample of 3,284 Australian citizens randomly selected from the Australian electoral roll (not counting out-of-scope cases). After repeated appeals to participate, 965 respondents, or 29 percent, returned their questionnaire. In the following analyses, deviations from this total  $N$  are due to missing values.

## B. MEASURES

Four different identities (individual, occupational, economic, and Australian taxpayer) were each measured by three standardized seven-point ratings. First, "Where do you position yourself within the tax system? When you think about tax, do you see yourself primarily . . . (1) as an individual, (2) in terms of your occupational group, (3) as a member of the Australian community, (4) in terms of your income group" (each option with a scale from 1 = not at all, to 7 = very much; the same response format applied to all following items unless otherwise noted). Second, "What is important to you? (1) Your individuality, (2) your occupational group, (3) the Australian community, (4) your income group." Third, "What do you feel pride in? (1) Being who you are personally, (2) belonging to your occupational group, (3) being a member of the Australian community, (4) belonging to your income group." Factor analysis showed that all six subgroup identity items loaded on a single first factor (loadings > 0.47), Australian identity items loaded on a second factor (loadings > 0.73), and individual identity items loaded on a third factor (loadings > 0.69). For each level of identity, items proved sufficiently internally consistent—personal identity ( $\alpha = 0.66$ ), subgroup identity ( $\alpha = 0.87$ ), and Australian identity ( $\alpha = 0.79$ )—and were averaged to obtain scale scores.

Personal tax ethics and perceived social tax norms were measured by three items each (Wenzel 2004a). The same three items were used for each concept, except that the subject of the question was either "you" (personal ethics) or "most people" (social norms): "Do you [most people] think one should honestly declare all income on one's tax return?", "Do you [most people] think it is acceptable to overstate tax deductions on one's tax return?" (reverse-coded), and "Do you [most people] think working for cash-in-hand payments is a trivial offence?" (reverse-coded). The alpha consistency for either scale was rather low: personal tax ethics ( $\alpha = 0.51$ ) and social norms ( $\alpha = 0.57$ ). However, these measures were maintained in this form to be consistent with previous research (Wenzel 2004a, 2005).

Anticipated feelings of shame and guilt if one were found to have defrauded the tax system were measured by two items each. For each of two

scenarios, (1) not declaring a cash payment of Aus\$5,000 and (2) falsely claiming Aus\$5,000 as work-related expenses, respondents were asked, if they got caught, "Would you feel embarrassed?" and "Would you feel guilty?" Factor analysis showed that the four items loaded homogenously on a single factor (loadings > 0.91). The four items showed high internal consistency ( $\alpha = 0.93$ ) and were averaged to obtain a single scale score for shame/guilt.

Perceived legitimacy of the tax system was measured by nine items that tapped into the perceived fairness of the Tax Office (e.g., "Our tax system is fair"), the Tax Office representing Australian norms and values (e.g., "The Tax Office is an institution that represents what the Australian people believe in") as well as favorability toward and trust in the tax authority (e.g., "The Tax Office can be trusted to administer the tax system so that it is right for the country as a whole"). Scale scores were obtained by averaging across items ( $\alpha = 0.91$ ).

Lastly, the survey included measures of two possible broad motivations to evade tax: "People who evade tax probably do so for many different reasons. Even if you would never evade tax, we are asking you to imagine why you might do it if you did. In other words, if you were to ever evade tax, what would be a likely reason for doing so? If I ever evaded tax, I would do so because. . . ." Four items measured an *antagonistic motivation* to defy the tax authority out of resistance or competitive orientation (e.g., "I would enjoy tricking the Tax Office", "I would have had a bad experience with the Tax Office and would want to get even";  $\alpha = 0.85$ ). Five items measured a motivation of *justified self-interest* where taxpayers look after their own interests and may justify this with arguments of fairness (e.g., "I would look after my own interests first, as everybody else does," "I would want to compensate myself for being unfairly disadvantaged by the tax system";  $\alpha = 0.69$ ).

Respondent sex (1 = male, 2 = female), age (in years), education level (1 = not much formal schooling, 8 = post-graduate degree), family income (0, 5, 10, . . . 75, 100, 250+ Aus\$1,000 dollars) and language spoken at home (non-English speaking background, 1 = no, 2 = yes) were also obtained and included here as background characteristics. However, they will not be discussed in any detail.

### III. RESULTS

Table 1 shows means, standard deviations, and intercorrelations for all psychological variables. Respondents indicated the strongest identification as individuals, next as Australians, and then—at a somewhat lower level—in terms of their taxpayer subgroups. It can further be noted that Australian identification was moderately strongly correlated with both individual and subgroup identification, whereas the latter two were not significantly correlated with each other.

Regression analyses were used to investigate the implications of the different taxpayer identities for tax attitudes and ethics (see Table 2). First,

Table 1. Descriptive Statistics and Zero-Order Correlations

Variable	M	SD	1.	2.	3.	4.	5.	6.	7.	8.
1. Individual identity	5.90	1.07	—							
2. Subgroup identity	4.24	1.43	0.04	—						
3. Australian identity	5.59	1.25	0.33***	0.35***	—					
4. Personal ethics	5.27	1.20	0.19***	−0.12***	0.19***	—				
5 Social norms	3.73	1.26	0.04	0.10**	0.09**	0.22***	—			
6. Shame/guilt	5.47	1.55	0.14***	0.06	0.26***	0.41***	0.17***	—		
7. Legitimacy	3.55	1.18	0.03	0.08*	0.19***	0.14***	0.18***	0.27***	—	
8. Antagonistic motivation	2.46	1.36	−0.09**	0.08*	−0.04	−0.22***	−0.06	−0.12***	−0.05	—
9. Justified self-interest	4.75	1.25	0.11**	0.11***	0.04	−0.15***	−0.15***	−0.18***	−0.27***	0.37***

Notes: \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

Table 2. Regression Analyses

Predictor	Personal ethics	Social norms	Shame/guilt	Legitimacy	Antagonistic motivation	Justified self-interest
Sex	0.03	−0.04	0.11**	0.03	−0.06†	−0.08*
Age	0.20***	0.05	0.05	0.10**	0.01	−0.08*
Education	0.06	−0.04	−0.03	0.02	−0.04	−0.08*
Family income	0.06†	0.02	0.00	0.03	0.02	−0.03
NESB	−0.10**	0.05	−0.03	0.03	0.01	0.01
Individual identity	0.11**	0.04	0.04	−0.08*	−0.09*	0.14***
Subgroup identity	−0.20***	0.07†	−0.06†	0.01	0.09*	0.11**
Australian identity	0.21***	0.03	0.26***	0.22***	−0.07†	−0.07†
$R^2$	0.15	0.02	0.09	0.06	0.02	0.04
$F$	17.53***	2.39*	9.44***	6.21***	2.48*	4.24***
$df$	8; 806	8; 800	8; 801	8; 787	8; 803	8; 806

Notes: †  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

the regression model for personal ethics yielded positive effects for both individual identity and Australian identity, whereas subgroup identity was significantly negatively related to personal tax ethics. As predicted, positive taxpayer ethics seem to derive partly from one's inclusive self-definition that implies concern for collective welfare (the correlational data, of course, preclude causal inferences). Somewhat unanticipated, positive taxpayer ethics were also positively related to individual identity, suggesting perhaps that personal integrity is considered by some as a defining attribute of individual identity. In contrast as predicted, subgroup identity was significantly negatively related to personal ethics: the more strongly taxpayers identified with their (economic or occupational) subgroup, the less they endorsed positive tax ethics. Highly identified with their interest group, taxpayers may not believe that conforming tax ethics are in the interest of their group, and they may instead perceive group norms (which they have internalized) as opposing the tax system.

The regression model for perceived social norms showed a marked absence of substantial effects. Interestingly, subgroup identity tended to be positively related to social norms conforming to the tax system. A speculative interpretation of this finding is that, when identifying with an interest group, respondents may regard their group as being rather antagonistic to the tax system, compared to which they consider the wider public as more conforming. It may be added that, while this effect was only marginally significant in the present model, it became significant and stronger ( $\beta = 0.12$ ,  $p = 0.002$ ) when personal ethics were statistically controlled. So, when internalized norms (in the form of personal ethics) were controlled the effect became more pronounced, which suggests that it indeed applied to norms attributed externally to others outside one's personal and social self, to the wider public.

The regression model for anticipated shame or guilt showed only a substantial effect of Australian identity. As predicted, the more strongly they defined themselves in an inclusive sense, the more shame or guilt respondents anticipated in case of being caught for evading tax. As anticipated, individual identity was not related to shame/guilt, different from the findings for personal ethics. This indicates that shame and guilt are truly social emotions that derive from one's commitment to the norms of one's moral community. These emotions are not engaged in respondents who define themselves as autonomous and independent from others, even though personal integrity may be a relevant attribute of one's individual self. There was only a marginally significant, negative effect for subgroup identity, in its direction consistent with the prediction: strongly identified with their subgroup, respondents anticipated less shame and guilt if they were to evade tax, presumably because they felt more commitment to their subgroup's interests and less to the benefits of the collective as a whole. As they are likely to believe that subgroup norms support a more oppositional stance, they would have little reason to feel shame or guilt if they resisted the tax authority.

Next, the regression model for legitimacy yielded, as predicted, a significant and substantial effect of Australian identity: the more strongly respondents defined themselves in this inclusive sense, the more legitimate they perceived the tax system to be. Identification with one's nation implies commitment to the values that are (supposed to be) reflected in its public institutions, as well as perception of representativeness of these institutions for one's extended self (Wenzel & Jobling 2006). Perceptions of legitimacy thus seem to derive from an inclusive self-definition. In contrast, individual identity was, as anticipated, negatively related to perception of legitimacy. This suggests that taxpayers who define themselves as individuals resist capture by a social group, strive to maintain independence from inclusive social values, or hold divergent views about what these values should be. Interestingly, however, subgroup identity, for which similar arguments could be made, was not systematically related to legitimacy.

Lastly, let us investigate the relationships between taxpayer identity and two oppositional ethics or motivations to evade tax. As predicted, inclusive identity as Australians, implying concern for the collective as a whole and legitimacy of the institutions that represent it, was negatively related to both oppositional ethics (but only marginally significantly so). In contrast, subgroup identity, implying concern for the partial interests of one's taxpayer subgroups and a competitive positioning vis-à-vis other parties within the tax system (including the tax office) was positively related to both oppositional ethics. Interestingly, individual identity was negatively related to an antagonistic motivation to evade tax out of defiance, resistance, or retaliation against the tax authority. This effect was unanticipated but suggests that an emphasis on one's independence goes both ways, with respondents identifying as individuals resisting cooptation by the authority as well as those who see themselves in opposition to it. However, individual identity was positively related to a justified self-interest notion that argues the design and injustices in the tax system require that everyone looks after their own interests. Thus, taxpayers strongly identifying as individuals, as independent and autonomous agents, may disengage themselves enough not to hold any antagonistic motivation against the tax office, but they feel free and justified to pursue their own interests.

#### IV. DISCUSSION

This study investigated how taxpayer identities at three levels of abstraction are related to tax attitudes and ethics. The findings show that both a socially very exclusive identity as an individual and a very inclusive identity in terms of one's nation (the relevant inclusive category in the context of a national tax regime) have some positive implications for tax ethics. However, for an individual identity these seem to be more limited. A strong personal identity seems to engage a sense of personal integrity as a positive

attribute, which implies the self-ascription of positive tax ethics. However, the independence and disengagement from the social environment, which are inherent in such an exclusive self-definition, means that these ethics have limited self-regulatory impact. They do not seem to imply feelings of shame or guilt anticipated for the case where one were caught evading tax. There also appears to be an attempt to maintain independence and escape any capture that the attribution of legitimacy to the tax system could imply. Moreover, there is a sense that tax evasion could be justified after all on the basis of justified self-interest.

In contrast, an inclusive identity in terms of the nation puts one's tax ethics on a social basis, with much broader effect. Consistent with the assumption that such an identity implies a commitment to the greater collective good, concern for the welfare of other fellow citizens as well as a sense of cooperation and cohesion, strongly inclusively identified taxpayers tend to have more positive tax ethics and less oppositional tax ethics. Moreover, inclusive identity implies commitment to and internalization of collective norms and values, leading to the anticipation of shame and guilt if one were caught evading tax—a powerful social control (e.g., Grasmick & Bursik 1990). Furthermore, inclusive identity means being committed to political processes that establish public institutions as well as regarding these institutions as representing collectively shared values (but note that institutions also need to confirm these expectations, specifically by maintaining justice and fairness; Wenzel & Jobling 2006). Hence, institutions such as the tax authority and the tax system are considered more legitimate, instilling a sense of duty to comply with them (Tyler 2001).

Lastly, identification at an intermediate level of inclusion, with a subgroup or interest group of taxpayers, tends to have adverse consequences for conforming tax ethics. It undermines personal tax ethics, tends to reduce anticipated feelings of shame and guilt, and instead fuels motivation to evade tax out of antagonistic posturing, resentment, and revenge, as well as out of justified sentiments to look after one's own interests (see V. Braithwaite 2003b). These effects are likely a result of the feeling that one's resentment is shared with others, which forges a subgroup identity and gives rise to group norms of dissent and noncompliance (meaning that tax evasion is not shameful but perhaps rather heroic). Such perceived subgroup consensus and social support triggers opposition and defiance against the tax authority as an outgroup (Taylor 2003), or at least leads to the view that it is time to look after one's ingroup interests first.

## V. CONCLUSION

This empirical study showed that, among three different levels of self-definition, those respondents who defined themselves most inclusively and identify with their nation as a whole had the most favorable tax ethics and



attitudes. They indicated more positive (conforming) tax ethics, anticipated stronger shame and guilt if found evading tax, and attributed greater legitimacy to the tax system. These positive effects of an inclusive identity are consistent with other research findings in social and organizational psychology, for example, that an inclusive group identity increases cooperation in social dilemmas, rule compliance and extra-role behavior in organizations and other contexts (Tyler & Blader 2003), work motivation (Haslam, Powell & Turner 2000), trust (Kramer et al. 2001), and attribution of leadership (Turner & Haslam 2001).

The direct implication for tax administration and regulation more generally seems to be that social identity, specifically a sense of inclusion, can provide considerable leverage for compliance. Similar to leaders in organizational or political contexts, regulatory authorities may want to think of themselves as “entrepreneurs of identity” (Reicher & Hopkins 1996; see Haslam 2004). Effective regulation, this suggests, should induce, maintain, and harness social identities that promise to be beneficial to the attitudes and compliance of the regulated. At least, regulators should be aware that whatever regulatory actions they take these could have negative side effects on people’s sense of identity and thus undermine compliance levels.

Specifically, the present findings have relevance to the notion of responsive regulation (J. Braithwaite 2002), namely with regard to each of its three defining elements, distinguished at the beginning of this article. First, regarding the tactical element of responsive regulation, the concept of identity acknowledges the diversity of regulatees and the social foundation of their motives and values. Therefore, an understanding of people’s identity and their positioning in relation to the regulator and other regulatees facilitates a diagnosis of their motivational postures (V. Braithwaite 1995, 2003b) to which regulators can respond with appropriate measures selected from a suite of regulatory strategies (Ayres & Braithwaite 1992). Taxpayers who are found to define themselves primarily in inclusive terms, and who are therefore more likely to refer to the tax authority as a legitimate representative authority, are more likely to feel commitment to the tax system (see V. Braithwaite 2003b). Regulators should nurture and harness this commitment through cooperative and educational approaches. In contrast, evidence that taxpayers define themselves in terms of their taxpayer subgroup would indicate that they are primarily driven by partial group goals; they are more likely to see themselves as unfairly disadvantaged and construe their relationship to the tax authority as rather antagonistic (Taylor 2003). Correspondingly, a short-term (and perhaps short-sighted) response of the regulator would be to resort to threats and incentives regarding the group’s goals, but in the long term the relationship with taxpayers requires repair. In fact, the prevailing tendency of tax authorities to negotiate with taxpayer interest groups (in consultative committees, task forces, etc.) may contribute to the fragmentation of taxpayers in terms of subgroup identities, who then see themselves in opposition to each other and to the tax system as a whole.

Second, regarding the strategic element of responsive regulation, the present analysis points to the potential of, and barriers for, voluntary compliance and self-regulation. Personal ethics and moral emotions of shame and guilt are mechanisms of self-regulation at the level of individual regulatees. As the present results suggest, these depend in particular on a sense of inclusive identity. Therefore, identity formation could be a crucial process for meta-regulation, the “regulation of self-regulation” (Parker 2002; see also J. Braithwaite 2003) of individuals. Whether and how these processes apply to corporate entities or their representatives remains to be explored. However, it could well be that a company’s commitment to national identity and welfare (or its attempt to maintain a public image of this kind) also provides a basis for effective corporate self-regulation. For individual taxpayers, at least, the present study suggests that a tax authority should always aim at maintaining, creating, or, at any rate, not jeopardizing taxpayers’ sense of inclusiveness. Even when unfavorable decisions have to be made or when penalties have to be imposed, fairness and transparency in the decision-making process as well as respect and politeness in the interaction with taxpayers can help maintain a sense of inclusion, of pride and respect as citizens, that should foster cooperation and positive tax ethics (see Tyler & Blader 2003; Wenzel 2006).

Third, regarding the democratic element of responsive regulation, the benefits of an inclusive identity has been demonstrated in much previous social-psychological research. An inclusive identity should ensure that taxpayers value the opportunity to participate in democratic processes and have their say about the tax system and its administration; that they value having a voice as a matter of procedural fairness and are therefore more likely to attribute legitimacy to a tax system where such democratic practices apply (see Tyler 2001). Moreover, it has been argued a sense of shared identity is a precondition for effective social influence and the consensualization of views, goals, or values (see Haslam, McGarty & Turner 1996). An inclusive identity is therefore essential for the development of a shared understanding of taxation in relation to our society’s goals and values, which cannot be overemphasized as a basis for legitimacy and as a moral reference point (Picciotto 2007).

A cynical interpretation could understand this as a call for mass manipulation through feigning a nice and harmonious inclusive identity, and there may indeed be some danger of this sort. However, first, I do not believe that the threat of punishment (as the standard regulatory means), even if it allows would-be offenders an informed weighing of costs and benefits of compliance, is more respectful of liberal values such as autonomy and freedom. Second, a sense of inclusion can hardly be enforced. If it is seen as a manipulative and insincere means of control, this, as with other forms of coercion, will likely be attributed to an outgroup (Taylor & McGarty 2001)—undermining the very attempt of portraying the regulator as a legitimate representative of an inclusive category. As a consequence, one-off measures

that aim at quick fixes are unlikely to lead to positive results; rather the regulator will need to engage in a long-term process of sincere relationship building. Such a process may build on principles of justice and fairness, treating people with respect, consulting broadly with one's clientele, and conveying that one's rules and actions are consistent with values broadly shared within the inclusive category (Tyler 2001).

Lastly, going beyond the present findings, a caveat may be in order. While it can be concluded from the present findings that regulators should appeal to a sense of inclusive identity and avoid appearing socially divisive, this should not be taken as advice to ignore social reality and pay no attention to existing subgroup identities. On the contrary, research on the forging of an organizational identity or the negotiation of a consensual conflict settlement (Eggins, Reynolds & Haslam 2003) suggests that it is better to acknowledge the identities that matter to people, give these groups their say, and work with them towards a consensual understanding of a more inclusive identity. This would seem more effective in particular in a broad regulatory area such as taxation with its vast numbers of regulatees. To consensualize an inclusive identity, the hierarchical structure of social categories could here exactly be utilized by engaging first with smaller interest groups, enabling them to form their voice, towards building views about shared inclusive goals and values, and establishing how the subgroup's role and standing fit in with these. Consulted and respected in their relevant subgroup identities, people are more likely to regard the system as fair and to feel ownership of and commitment to inclusive goals and values.

MICHAEL WENZEL is a social psychologist with research interests in justice/fairness, social identity, group processes, and compliance. He was previously Fellow at the Centre for Tax System Integrity, Research School of Social Sciences, Australian National University, and is now Senior Lecturer at the School of Psychology, Flinders University, Adelaide, Australia.

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