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Vivienne Waller

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## **Tax morale amongst used car dealers**

Vivienne Waller

### **Introduction**

Attitudes of used car dealers to taxation is of significance to the Australian Taxation Office (ATO) because of suspected non-compliance in the used car industry. Motor-vehicle retailing was named in the ATO 2003/2004 Compliance Program as a high-risk industry in the cash economy and hence to be subject to ATO focus, including unannounced 'walk-in' registration visits. This paper presents a snapshot of the tax morale of a group of 18 very small businesses dealing in used cars.

Tax morale (Frey 1997) is the intrinsic motivation that people have to voluntarily pay tax (Torgler 2003). The literature suggests that tax morale is partially determined by the level of trust and confidence in the tax system (Sparrow 1994; Murphy 2002) including perceptions of whether or not the system is fair (Murphy 2003; Taylor 2003).

Taxpayers assess the fairness of the tax office in both relative terms, that is, the share of tax they pay compared to others (Wenzel 2004) and in procedural terms, that is, whether they are treated respectfully, impartially and responsively by the ATO (Braithwaite and Reinhart 2000). The Taxpayer's Charter has been developed to ensure that the ATO is procedurally fair, and is seen as such (Australian Taxation Office 2003). Perceptions of relative fairness depend upon a conviction that the tax laws are fair as well as a belief that other people are not getting away with not meeting their tax obligations.

In addition to tax morale, other factors affecting tax compliance are fear of the law and perceptions that the ATO has the power to enforce compliance (Braithwaite 2003). This paper does not explore these other factors but focuses on tax morale. The

data presented in this paper were based on interviews with used car dealers one to three weeks after they had been subject to an Unannounced Registration Integrity Check from the ATO. In addition to providing insights about car dealer tax morale and hence compliance, this paper also presents a taxpayer perspective on the TaxPayers' Charter.

## **Methodology**

Over a period of 3 months between March and May in 2004, the researcher accompanied ATO field officers on 33 attempted walk-ins (unannounced registration integrity checks) to small used car yards. The researcher observed 21 actual walk-ins and returned to reinterview the car dealer between one and four weeks after the walk-in. Most of these return interviews were conducted one or two weeks after the walk-in and the researcher managed to reinterview 18 of the 21 used car dealers involved. This paper is based on data collected in these return interviews.

Care needs to be taken in interpreting the findings. Initially these interviews with dealers were recorded and subsequently transcribed. However after two requests not to turn on the recorder, the researcher decided that interviewees might be more forthcoming if they were not recorded. It is likely that those dealers who thought that the researcher was associated with the ATO were constrained in their conversation with the researcher. The first time they had met the researcher was with an ATO field officer in the context of a walk-in and even though the researcher stressed that she was not from the ATO, interviewees seemed to find this difficult to fully accept.

It should also be noted that some car dealers conflated State revenue authorities with the ATO, making it difficult at times to know to which body they were referring.

Interviewed car dealers were asked open questions about their opinion of the walk-in, their dealings with, and opinion of, the tax office, and the cash economy.

Interviewees were also asked specific questions about the Taxpayers' Charter, the compliance model and the level of taxation.

Car dealers were given a summary of the Taxpayers' Charter and asked to comment on particular aspects. Table 1 matches the items of the TaxPayers' Charter, most commented on by car dealers, with the relevant instigator of tax morale.

*Table 1: The TaxPayers' Charter and Instigators of Tax morale*

Item of TaxPayer's Charter	Instigators of Tax Morale		
	Relative Fairness	Procedural fairness	Trust and confidence
<b>A</b> Treat you fairly and reasonably		✓	
<b>B</b> Treat you as being honest in your tax affairs unless you act otherwise		✓	
<b>C</b> Offer you professional service and assistance to help you understand and meet your tax obligations		✓	
<b>H</b> Give you advice and information you can rely on			✓
<b>L</b> Administer the tax system in a way that minimises your costs of compliance	✓		

In discussing the findings, the exact numbers of interviewees making certain points is not always given, so as not to give a preciseness to the results that could be quite misleading. For a small qualitative study like this, the numbers of interviewees making certain points is generally of less significance than the nature of the points made. The strength of small qualitative studies is the richness of the data and with this in mind some lengthy verbatim quotes have been included to give a fuller sense of how car dealers thought and felt about the ATO and the taxation system.

### **Relative fairness**

#### Level of taxation

Most of the car yards visited were very small, either run by a sole proprietor or a husband and wife partnership where the husband sold the cars and the wife maintained the business records. Almost all of the dealers considered that times



were grim for used car dealers. This is supported by findings from the Victorian Automobile Chamber of Commerce (VACC) that sales of used cars by dealers have decreased over the past few years whereas private sales of used cars have boomed (Victorian Automobile Chamber of Commerce 2004). According to another VACC publication (Victorian Automobile Chamber of Commerce 2003), the average profit margin for retail cars in Australia in 2003 (including new cars) was 1.9% compared to 6.1% for all service industries. It is perhaps not surprising then that the general mood of the interviewed dealers was that they have to pay too much tax relative to other businesses or relative to people selling cars privately. As one dealer commented:

“If you are making money, no one minds paying tax. It’s when you’re not making money.”

Only one of the interviewed car dealers mentioned that he was happy to pay tax while more than half (ten) made comments indicating that they considered that car dealers paid too much tax. This is in contrast to the findings of Ahmed and Braithwaite (2004) that small businesses, in general, thought that they paid less than their fair share of personal income tax.

When they talked about tax, the interviewed dealers tended to group State taxes in with taxes collected by the Australian Taxation Office; for example:

“too much tax, stamp duty, GST, transfer fee. There are more fees than profit at the moment.”

Even so, the Goods and Services Tax (GST) was singled out for particular criticism. Six car dealers made negative comments about the GST when asked for their general opinion of how the ATO deals with the motor vehicle industry and most car dealers made negative comments about the GST at some time

during the interview. GST is paid on used cars sold by dealers but not on used cars sold privately and has been publicly identified by VACC (2003) as the reason for the decline in sales of used cars through dealers. As the following comments show, dealers themselves also considered that they were unable to compete with people selling cars privately because of the GST:

“It costs us thousands of dollars more a year now in GST, buying computers and the drama and stress. Worst thing that ever happened. Like for us, the GST, when we sell a car, we don’t get any more money for the car now. We have to include that in the price of the car. We can’t put the price up to cover the cost. That just means less money that we make for each car now. It’s like having another salesman and paying them commission on each car. It’s just totally unfair.”

“If you’re a private person, there’s no GST. The only GST on a second hand car is from a poor dope like me who’s all legal and has got a licence.”

“I think out of all, probably the GST has hurt us more than anybody else, because we don’t reclaim it back.”

#### Costs of compliance

Many of the interviewed car dealers considered that the costs of compliance had been increased by the GST, and in particular, the requirement to lodge a Business Activity Statement (BAS) every quarter. This may partly explain the findings of a VACC study, (Victorian Automobile Chamber of Commerce 2003), that more than 80% of very small businesses (less than 5 employees) considered that the time spent on government compliance activities had increased over the preceding five years.

When shown the Taxpayers' Charter, half of the reinterviewed car dealers made negative comments about item L 'Administer the tax system in a way that minimises your costs of compliance', mentioning how much it cost them to prepare their BAS. See for example the following comment from a car dealer who was on the VACC committee when the GST came in:

"The costs in complying, instead of doing one return a year, I now do four. And that obviously costs me more money. But I suppose in the complying, it's inevitable the cost would go up. If I wanted to I could do it myself, but you've sort of got all that "Well who do I work for today myself or the Tax Department?" You know, it's a sore point with car dealers..... But where everyone else can make their prices look as cheap as they can, we've got to make ours look higher because we've built all of these things in... It's a bit frustrating when you've got to pay an accountant to count the money that you've collected for the government - that you don't want to be collecting for them anyway. And if there is a mistake, it's your fault."

Another considered that:

"the government should compensate small business for having to employ extra staff to comply. If you make a genuine mistake you get treated like a criminal."

### Working for the ATO

Several car dealers made the point that because they collect the GST and stamp duty, they feel like they are acting as tax collectors for the ATO. For example:

"I collect tax for the government. I don't get paid to do it. And then if I'm late sending it in they fine me."

Some made the point that because they are collecting the GST on behalf of the ATO, there should be recognition by the ATO of what this costs car dealers. For example:

“We’re collecting for government. They should pay some of these costs. eg fifty percent of what it costs me to prepare BAS... each time I do BAS it costs me about \$400.”

In general, car dealers felt that the level of taxation and compliance costs were relatively unfair.

### **Procedural fairness - How the ATO deals with car dealers**

Because of its effect on tax morale and hence compliance, it is important for the ATO to understand how car dealers perceive them. However, it is important to keep in mind that this may not be an objective assessment of ATO performance but more an insight into how car dealers react to the ATO. Not all car dealers had direct experience of dealing with the ATO; about half of the car dealers indicated that they had had prior contact with the ATO. Most of those who said that they had not had any contact with the ATO prior to the visit stressed that their accountant handles all dealings with the ATO. However, of these, there were only three car dealers who seemed genuinely to have no opinion about the Australian Tax Office. Tax issues did not seem to permeate the consciousness of these three car dealers and they had little to say about the ATO. For example, when asked what he thought about the ATO, one car dealer responded:

“I don’t think anything, love. I just sell cars. Ask my accountant. He does everything.”

In other cases, it seemed that the accountant was used as a buffer when it was convenient to abdicate responsibility for tax issues. For example, one dealer talked in great detail about the amounts of different types of taxes he pays in particular transactions. However, later in the interview he said:

“As soon as the Taxation Department came in here and said they wanted to audit my GST, I said you’d better see my accountant he does it, not me. He does it, I just give it to him to do it. I’m not interested.”

This last statement about not being interested was not borne out by this car dealer’s detailed discussion about the different taxes he pays.

Only one of the car dealers had ever heard of the Taxpayers’ Charter. This car dealer remembered having read something about it some time ago. During the interview, all car dealers were given a one-page summary of the rights listed in the Taxpayers’ Charter and were asked to go through and indicate any items on which they thought the ATO fared particularly well or particularly badly.

Showing car dealers the Taxpayers’ Charter may have focused their attention on issues that they would not otherwise have noticed and this may have meant that a more negative perception was elicited. However, this did not seem to be the case. Nine of the car dealers either said that they couldn’t make a comment as they didn’t have much to do with the ATO, or that it all seemed fine.

“Look I’m probably the worst guy to ask because I don’t deal with them at all. I’m the owner of the company, but my accountant handles them every month. No, but I agree with all these. (pointing to Taxpayer’s Charter) Fine.”

“Look, I sort of have no real comment on them because as I said, I don’t really get, it doesn’t really affect, er, when I say, doesn’t really affect, - the tax department affects everybody, but it doesn’t affect me directly.”

Some car dealers seemed reluctant to be seen as being critical of the ATO. There were a couple of car dealers who said ‘fine’ in response to all the Taxpayers’ items but who had been very critical of aspects of the ATO in previous or subsequent discussion.

Regardless of whether or not a car dealer claimed to have prior contact with the ATO, all car dealers had had direct contact with the ATO field officer who conducted the walk-in. When I asked the car dealers whether they had any comment to make on the suitability of the particular field officer who conducted the walk-in, almost all of them said “fine” or “no problem” in a quite offhand way. The general opinion was that they were ‘just doing their job’. No one enthused about any of the field officers but there was no negative reaction either apart from one car dealer who considered that the field officer had an “air of suspicion”. However, this same car dealer was the only one interviewed who considered that the walk-in had changed his impression of the ATO, and in a positive way. This car dealer felt positive about the visit:

“When he left I was quite happy, yeah. I mean, I guess, what was good, was hey, look we’re trying to improve whatever, the client. Well, they’re making an effort.”

A car dealer’s attitude to the Australian Tax Office was not necessarily the same as his attitude to Australian tax officers, who they may have had dealings with on the phone as well as face to face. For example, there were some car dealers, who thought that the particular field officer who visited them was “fine”, “just doing their job” but who professed to “hate” the Tax office. As shown in the

following section, these car dealers made a distinction between how the field officer treated them and what they thought the ATO stood for or how they felt that the ATO treated them.

In terms of procedural fairness, that is whether the ATO treats them respectfully, impartially and responsively, more car dealers were positive about the tax office than were negative.

Nine of the car dealers made positive comments, or at least comments that were not negative about the procedural fairness of the ATO. Comments were more likely to refer to the absence of a negative experience than be actually positive. For example:

“I haven’t had anything to do with them. They never treat me unfairly.”

“I’ve never had a problem.”

This perhaps indicates a tacit expectation that dealings with the ATO are going to be negative. The following comment was atypical:

“I think they are very approachable because I’ve just recently had some dealings with them where I’ve made some inquiries and they were very, very helpful. So I have found them helpful.”

Six car dealers made comments indicating that they thought that the ATO was not procedurally fair. Just two of these dealers had extremely negative attitudes towards the tax office. As the following illustrates, both of these dealers were bitter about past treatment by the ATO.

One of these dealers ran a car yard with several staff and said of the ATO "I hate them". He described an experience, ten years previous, where he considered that he was "unfairly prosecuted" by the ATO. Because it was for a small amount he hadn't considered it worth his time to challenge the ruling, but it had left him with a very negative attitude towards the ATO. He considered the ATO to "ride roughshod over people they are suspicious of", they "don't treat people fairly", they "are a law unto themselves".

The other car dealer with an extremely negative attitude towards the ATO was a sole trader. He had had many visits from the ATO and considered that "their attitude is worse than a policeman." He gave several examples of the ATO coming in and demanding to see the books in a way that he considered to be very heavy handed.

"When the ATO come in and check the books it is like a standover."

As he went through the Taxpayers' Charter he was quite scathing:

"This Taxpayer's Charter is the opposite of what they do."

On item A (refer Table 1): "They don't treat you fair and reasonably."

On item B: "They treat you like a criminal."

On item C: "I don't think they know what professional is."

On item I: "They don't sit down and explain what they are doing and listen to the car dealer's side of things."

The extremely negative attitude that these two dealers had towards the ATO is not likely to be changed by the behaviour of a field officer on a one-off visit. A friendly ATO field officer is interpreted as an aberration or cover-up. For example, the sole trader considered that because I was there the ATO officer behaved differently and was more friendly:



“Normally they are like a detective. They strip your house and then say ‘see you later’.”

The other car dealer refused to even entertain the possibility that an ATO field officer could be a helpful, non-threatening person.

Other dealers who did not express such negative attitudes towards the ATO, still had a fixed idea of what the ATO stands for. It is perhaps difficult for these dealers to acknowledge procedural fairness from the tax office. For example, one car dealer said:

“When the ATO comes, you think ‘what do you want?’

Another confessed:

“It’s a normal reaction when the tax comes or police comes - “what have I done wrong? They are not the most popular people.”

In contrast to the two dealers who were extremely bitter about the ATO, there was one car dealer who had had a past experience with the ATO which he interpreted in a positive manner. He recounted how there was one occasion when he was to be fined for a late payment which from his point of view was “totally, grossly unfair”. He rang the ATO and protested that this was the first time he had been late and asked the ATO to check the records to prove it. The fine was subsequently waived and the car dealer was very appreciative of the ATO’s responsiveness to his excellent record of compliance.

The findings of this study suggest that taxpayer perceptions of procedural fairness, are coloured more by substantial past experience with the ATO and

general perceptions of what the ATO stands for than the most recent brief encounter with a field officer.

### **Trust and confidence in the tax system and the ATO**

Common perceptions amongst car dealers were that the tax system was too complex, the advice and information given from the ATO was unreliable and that the ATO looked in the wrong places for non-compliance. These issues all undermined car dealer trust and confidence in the tax system and the ATO.

As the next section shows, some car dealers were suspicious that there was an ulterior motive behind the walk-in, while there were other car dealers who had absolutely no idea what the visit was for.

#### Opinion of the walk-in

All of the interviewed car dealers had experienced a walk-in in the previous few weeks. They were asked whether they thought that it was reasonable that someone from the ATO had turned up unannounced. Most car dealers did not have a problem with it and considered that the field officers were just doing their job. For example:

“OK. Look, I really can’t say that I thought about it. You know, look, if the Tax department’s got to go about its business in that manner, that’s fine.”

Several car dealers made the point that it was important to know exactly why the ATO was doing the walk-in. For example:

“Oh look it doesn’t worry me. That’s fine. As long as they tell you exactly what it’s for and I know exactly what’s happening.”

There were five car dealers, just one of whom was escalated, who considered that the ATO field officer should have made an appointment prior to the walk-in. Some did not quite believe that it was a registration check as they expected that the ATO would just be able to look up the registration information on their systems. See for example the following comments:

“Well, I mean, it was ridiculous coming out and asking for my ABN and all that stuff. He knows all that stuff. I mean, I couldn’t understand it. You know, if you are going to go out and talk to people, do your work first - and they’ve got it on the computer anyway, so just look it up and walk out and say, use the principle of whoever it is and ask the questions. But don’t go through that crappy stuff about... I mean he’s only doing his job, but I mean the point was, he said I’ve got a series of questions to ask you and they were my name and address and the ABN number which he knew. You know, it was stupid.”

“I just felt, for what she said she was doing, I thought well that’s unnecessary, you didn’t have to ...and I thought maybe there is an ulterior motive there. And so I rang a couple of car yards and they said ‘No, No, she’s been here’.”

The car dealers are not expecting a visit from the ATO and the entire visit can take less than five minutes. This probably explains why it is that although field officers generally explained to the car dealer what they would be doing with the information they collected (checking it against the information in ‘the system’), few car dealers had any idea when I interviewed them later what the ATO did with the information they collected from the walk-in. Some of the responses indicated a huge gulf between what the ATO field officer had explained to the car dealer and how the car dealer recalled the visit. One car dealer thought that the walk-in was “probably like a survey to help them

improve their services'. Another thought that the purpose of the walk-in was to work out the unemployment rate. This car dealer expressed surprise when I explained that the ATO use it to check the responses against their system; he had thought that the ATO worked out the unemployment rate.

#### Complexity of tax regulations: Reliability of advice and information from the Tax Office

Hobson (2003) describes tax self-assessment as a required technology of the self. "It is a form of self-regulation, in which the individual has to seek and acquire knowledge and skills to ensure their compliance is both legal and personally advantageous." (2003:10) Of course, taxpayers can get their accountant to acquire this knowledge and skills and most of the reinterviewed car dealers (fourteen out of eighteen) mentioned their accountant during the course of the interview. At one extreme were those car dealers who indicated that they didn't want to think about taxation at all and left all taxation matters to their accountant. This type of dealer was likely to find tax issues too complex, regardless of the actual complexity of the system. For example from a one-person yard:

"I don't understand all this tax. I get my accountant to represent me."

and from another:

"I get home about seven each night and I don't want to be bothered with BAS and all that. I just pay an accountant a few hundred every quarter."

More commonly, car dealers seemed quite proactive in terms of finding out what they can claim and referred to ongoing dialogue between them, the tax office and their accountants. Complexity of tax regulations was a common theme amongst these car dealers as well. For example:

“I mean we’re all blind leading the blind. Half the accountants didn’t have a clue and even now, there’s some of them still do it differently to others as far as how they claim and what they don’t claim...a lot of accountants, you know, just talking to other people in my business, a lot of them are still doing it differently to each other, you know. Like I find it amazing, this far into it, and it hasn’t been cleared up... they should have brought out simple guidelines which are user-friendly, not for some academic to understand.”

Two dealers complained of the “grey areas” and the need for the ATO to give definite rulings which are “black and white, you can do that, you cannot do that”.

Some car dealers considered that self-regulation was inappropriate if it meant that innocent mistakes may not be picked up by the ATO for several years. These car dealers spoke at some length about this issue. The following comment from a sole trader is reproduced in full as it is a good illustration of the type of argument that was made about this issue.

“The problem I’ve got with self-regulation is that you can make innocent mistakes. You can be doing something, and when I say innocent mistakes, I can tell you I had two guys here from the taxation department, I’d ask them a question and one would say ‘Yes’, and one would say ‘No’. And then they’d have to confer and I’d say ‘Hey, I’m just a poor dopey car salesperson. You people are supposed to be out here telling me and you’ve got a dispute. Now if I did the wrong thing, and what you’re saying is you might be right or you might be right. If I do the right thing, what I perceive to be the right thing, if you check it you’ll say, ‘Yeah that’s OK’ but if you (other person) check it, you’ll say, ‘That’s not OK’. And it’s

a bit worrying when you see self-regulation, and they can come along and say 'give us your stuff for the last 4 or 5 or 7 years' or whatever it is and say, 'Hey, you're doing this wrong'. 'What do you mean I'm doing it wrong? That's how they told me.' 'Who told you?' 'I don't know what the guy's name was you know.' That's the worry I've got with self-regulation you know...So the self-regulation bit, I think once they accept it, they accept it. If they want to check it, check the bloody thing now, not in five years time. There's the figures and there's the cheque. You have a look at the figures and if you accept them, take the money and pay the cheque in and we'll move on. Don't take the money and leave that there in case 'I've got nothing to do one day, I'll go through him. And if I decide to go through him, and he's got to get his accountant out, and we give him a full tax audit, and he's got his accountant here for 4 or 5 days and that costs him \$1000, too bad, he can pay that.' I don't think that's fair. But if they came out and said to me 'Hey, we're not accepting this return, we don't think its right.' I'd say, 'Not a problem, get the accountant', because I wouldn't have even paid the bill yet and say, 'See this return you've prepared for me. They don't reckon its right. So you two need to talk, not me. And when youse have talked and you've got it all squared, you do what they want and then send me your bill.' Don't you (accountant) accept the cheque, and you (ATO) accept the cheque for the bill and then 5 years later, you say 'We're not accepting this anymore, even though we've got your money' - and you (accountant) say, 'Well if you want me to help you, you're gonna have to pay me again for what I did before.' It's not fair."

As the above comment shows, closely related to the issue of complexity of tax regulations was the issue of reliability of advice and information from the Tax Office. A common perception was that the ATO "let people down badly with information". Furthermore, there was a perception that the ATO itself wasn't

clear on correct compliance behaviour. This severely undermined trust and confidence in the Tax system. For example one dealer commented:

“I don’t know how we’re expected to comply, when all of their staff don’t know what’s going on.”

Several car dealers gave examples of where different accountants had been told different things by the tax office and car dealers spoke at length about what was perceived as the unreliability of advice and information from the Tax office.

### **Does the ATO prosecute non-compliers?**

During the interview, car dealers were shown a diagram of the compliance model and had it briefly explained to them. Most had little to say about it, saying that it seemed “fine” or “makes sense”. Most car dealers indicated that they believed that the ATO had the power to force compliance. One could argue that those car dealers who were deliberately non-compliant would have a motivation to say that they believed that the ATO could detect non-compliance and actually prosecute, because they would not want to say anything that would lead to greater ATO effort in detecting non-compliance and prosecuting. Conversely, one would expect that a subset of fully compliant car dealers would feel frustrated and consider that the ATO should be putting more effort into detecting and punishing non-compliance. Although the numbers are exceedingly small, this pattern was observed. All of those who were escalated and were asked this question (just four) agreed that the ATO is able to detect non-compliance and prosecute. However, this may be a coincidence as escalation or not seemed to depend to some extent on the field officer’s judgement.

Just one of the dealers had been prosecuted by the tax office and only four other dealers claimed to have known someone who was prosecuted. One thought that the person had thoroughly deserved it.

“Yes, I do, yes...and thoroughly deserved it. You know,... Stupid stuff.”

Another who knew of a prosecution by the tax office made the comment that he thought it was totally unfair. The dealer who had been prosecuted himself thought that it was quite unfair. A commonly held notion was that the ATO had the power to prosecute and used this power, but that they sometimes prosecuted the wrong people.

#### The cash economy

Asking about the cash economy elicited quite a response. The general view amongst the interviewed car dealers was:

“there are plenty of people that aren’t paying tax dealing with motor cars, but they’re not licensed motor car traders.”

None of the car dealers considered that there was a cash economy operating amongst licensed motor vehicle traders. Several admitted that there had been about ten years previous. However, the general perception of the car dealers was that very few people now paid cash for cars, and even if they did, it was not possible for a licensed motor car trader to work in the cash economy as regulations were much tighter than they used to be. Some car dealers went into a lot of detail giving examples that demonstrated how everything has to be documented and identified, leaving no opportunity for the car dealer to evade paying full tax.



“Everyone’s under scrutiny now. Like I answer to a lot of bodies. The motor car traders, consumer affairs, the tax department. You’ve just got to do everything right.”

More than half of the car dealers (ten) made comments indicating that they considered that car dealers were the target of disproportionate regulatory attention by the ATO. They considered that the ATO was wasting their time targeting the motor vehicle industry as “It is one of the hardest industries to rot”. One car dealer was quite cynical about the motives of the ATO in targeting attention on car dealers. He considered that the only reason they go after the “small fry” is that “they are trying to make themselves look good” so they go after the easier targets.

When asked whether they thought that a cash economy operated in used cars, half (nine) of the car dealers mentioned ‘backyarders’, people who buy cars at auctions and sell them privately. Some spoke about backyarders at some length; they considered that they were unfair competition as they evaded tax. They also considered that it was unfair that the licensed car dealers were targeted by the ATO whereas the backyarders escaped attention:

“You know, look, if the Tax department’s got to go about its business in that manner, that’s fine. But if we’ve got to talk about a level playing field, then they should go knock on the private doors as well. I mean, fair’s fair. You know, because we’re paying our licensing fees, and we’re doing all the right things. And if it’s a level playing field, then go and knock on private people’s doors.”

People who worked in car yards for cash were not mentioned as part of the cash economy. One car dealer did mention another car dealer, a sole trader, who gets a pensioner in three days a week to “wash windows”. However, this

was not mentioned as part of the cash economy. Rather, this car dealer described it as “that’s fine, that’s normal”.

Car dealers who mentioned a big black market with backyarders were asked what they would do about the cash economy if they were in charge. Several made the point that the ATO should be spending time at auction houses to crack down on backyarders. Most were quite forthcoming with ideas, like not allowing the re-registration of cars that have been written off, or only allowing cars at government auctions to be sold to Licensed Motor Vehicle Traders. The quick responses and the variety of solutions offered indicated that car dealers had thought about this before. See for example the following comments:

“Now, it doesn’t take an Einstein to go sit at VicRoads and see the same old face appearing there claiming that he’s registering cars for relatives.”

“I’d go to a place like Fowler’s motor auction and I would say 50% of the buyers there are what we call backyarders.”

“I’d love to be on commission going around prosecuting them. I’d make a fortune.”

“Get the newspaper, read through it every Saturday, check all the ads and then contact all the people who are selling cars from home, and they are an enormous business. But I mean, look, the tax department knows that and the VACC knows that. Everybody knows that but they’re not going to do anything about it.”

“I’d be keeping my eye on the auctions, who is in there and who’s buying the cars and what address they go to. They’ll all be using different names but lots of times, people have the same address.”

“I think they are competent enough to, when they find a person, to prosecute them and find every sixpence that’s missing. But I don’t think they pick the right person to check. I think it’s too random. Like the other day when they walked in here. The time could be better spent. If they put that lady, with all due respect to that lady, if they put that lady on a commission and said ‘Go where ever you like and we’ll give you \$100 for every unregistered business you could find’, I bet you, she wouldn’t have come in here. No way in the world. You’d be down in the SUBURB Sunday morning market, you’d be down at the SUBURB market, you’d be in the SUBURB market. You know. There’s millions of places you could be. You could be down at the MARKET every weekend. What percentage of them would be paying GST?”

“You only have to go to the auctions. I don’t know why the government doesn’t do something about that. They are all in there buying the cars and high kilometer cars and they take them home and wind the speedos back and sell them and make thousands out of them. It’s quite easy. The government doesn’t seem to do anything about it.”

As the above statements indicate, there was a general consensus that the government deliberately turns a blind eye to the problem. This perception that the government is consciously allowing unregulated competition to operate without paying tax undermines trust and confidence in the tax system.

## **Conclusions**

This study has presented a snapshot of small used car dealers’ attitudes towards the ATO. It does not claim to be representative of small car dealers. However the issues presented here are likely to be issues amongst the broader

population of small car dealers as well. These include perceptions that the ATO is procedurally unfair, that the taxation system is unfair to car dealers, and that the government turns a blind eye to the backyarders who compete with car dealers for business. Attending to these perceptions which undermine tax morale will be a complex challenge for the ATO. As the study shows, single visits to do a walk-in are unlikely to change the mind of the individual visited. The approach needs multiple strategies at multiple levels, to bring about a change in attitudes. Furthermore, strategies directed at problems in the system as well as problems in ATO taxpayer relations need to occur to raise the integrity profile of the ATO in the eyes of the public.

However, understanding the response of individuals to tax officers is the first step in learning to become responsive to the criticisms that arise and, in the long term, it is likely to increase tax compliance amongst this group.

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