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individual engenders hostility, widespread failure to enforce creates cynicism and distorts reference norms.[5]

The Keith Committee[6] in England argued that enforcement powers should be precise and logically formulated, consistent across the range of taxation legislation, should allow for the minimum of administrative discretion and should be subject to ultimate judicial control which in turn should be capable of being applied in a summary and expeditious way.[7] Although the Keith Committee recommended that civil sanctions and surcharges should be the primary means of enforcing compliance, it argued that effective criminal sanctions should be available in cases of deliberate and serious frauds.[8]

Tax offences, however, have been treated as a special form of offending, quarantined from the general types of criminality, in that the non-enforcement of the law, together with the use of civil rather than criminal penalties has, in the past, allowed the taxation system to decay and fall into disrepute. Further, by allowing major illegalities to go unsanctioned, enforcement authorities have allowed the development of endemic cynicism and general disrespect for the law that may take years to reverse.[9] In terms of achieving a deterrent effect, enforcement authorities also appear to have failed in this regard.

penalty structure has an impact upon compliance. Allingham and Sandmo published an early model of this theory.[14]

Studies of criminal behaviour in general have found that the probability of apprehension is more important than the sanctions actually imposed.[15] Yet another influence may be the precision of information regarding the probability that punishment will be imposed. Consequently, vague information about the relatively low probability of detection and punishment enhances the low deterrent value.[16]

On the other hand some studies have found that taxpayers are more sensitive to the magnitude of the penalty than to the probability of detection when the probability is very low (i.e. 4 % or less).[17] This could have implications for Anglo-Saxon countries that have moved to a self-assessment environment.[18] Other researchers have observed a significant relationship between the severity of the criminal sanctions and compliance by one group of taxpayers: high-income self-employed individuals.[19] This has also been supported by similar work on sanctions.[20] Within each of the groups this study covered, legal sanctions were most effective for the higher class and the better educated (not the best). These studies have also found that the threat of guilt feelings was a greater deterrent to tax evasion than the threats or stigma of legal sanctions.

Another potentially salient issue involves the existence of a threshold or the possibility of being detected. Threshold levels of detection may explain in part, inconsistent findings on the deterrent effects of the certainty versus the severity of punishment. Studies have provided evidence that states that in reaching a threshold probability of detection, mild punishment may be as effective a deterrent as a more severe one.[21] The severity of sanction does not necessarily produce a linear effect with tax compliance. Other authors submit that the social cost of sanctions could outweigh the benefits. Taxpayers as a group may become alienated if sanctions are perceived as too severe, resulting in general antagonism and disrespect for the law.[22]

However, the positive effect of increased sanction levels on taxpayer compliance has been found to hold up even where relatively low (and realistic) penalty levels are

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[14] Allingham, M. G. and Sandmo, A., "Income Tax Evasion: A Theoretical Analysis," (1972), Vol 1, *Journal of Public Economics*, 323-338.

[15] Tittle, C. and Logan, C., "Sanctions and Deviance; Evidence and Remaining Questions," *Law and Society Review, (Spring)* (1973), 371-389.

[16] Friedland, N., "A Note on Tax Evasion as a Function of the Quality of Information about the Magnitude and Creditability of Threatened Fines: Some Preliminary Research," *Journal of Applied Social Psychology*, February, (1982), 54-59.

[17] Jackson, B. and Jones, S., "Salience of Tax Evasion Penalties Versus Detection Risk," *Journal of the American Taxation Association (Spring),*

used.[23] What is of major concern though has been that taxpayers' perceptions of the true penalty levels are higher than what the penalties actually are. This has tended to skew research findings. Other research evidence suggests that a tax system that combines both penalties and rewards is more effective in maximizing compliance than a system that focuses solely on sanctions.[24] As such, positive inducements for compliance may also have a key role to play. Whether these inducements come in the form of quicker tax refunds, or a percentage reduction in tax payable, is open to question.

Behavioural Models

Economic Model

The economic deterrence model has been used to examine tax evasion from a theoretical perspective and the fiscal psychology approach has often been used in empirical research. Factors that have been examined include:

- Complexity of the tax system;
- Level of revenue information services;
- Withholding and information reporting;
- Preparer responsibilities and penalties;
- Probability of receiving audit coverage;
- Progressively and actual level of tax rates;
- Penalties for non-compliance, and;
- Individual factors (age, gender, education and income).

The major works of Jackson and Milliron (1986) shows that there is no unanimous agreement on any one of these factors indicating a positive relationship with taxpayer compliance.

The traditional economic deterrence models draw upon deterrence theory and expected utility theory to predict that a rational taxpayer will evade tax as long as the payoff from evading is greater than the expected cost of being caught and punished. However, there is only ambiguous empirical evidence to support the predictions of economic deterrence models as a whole. Researchers[25] summarise the effect of factors that determine the monetary cost of compliance as including, the tax rate, detection probability, the level of income and penalty structure, and suggest for all of them, that existing empirical evidence provides no firm conclusions.[26]

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[23] Carnes, G. A., & Eglebrecht, T. D., "An investigation of the Effect of Detection Risk Perceptions, Penalty Sanctions and Income Visibility on Tax Compliance," *Journal of the American Taxation Association, 17 Spring,* (1995), 26-41.

[24] Falkinger, J. & Walther, H., "Rewards verus Penalties: on a New Policy on Tax Evasion," *Public Finance Quarterly*, 19, (1991), 67-79.

[25] Roth, J. A. & Scholz, J. T., and Witte, A. D., (eds), "Taxpayer Compliance Volume 1: An Agenda for Research," Philadelphia: *University of Pennsylvania Press,* (1989); also see n 3 above.

[26] Hasseldine, J., "Linkages between Compliance Costs and Taxpayer Compliance," 54, *Bulletin for International Fiscal Documentation,* (2000), 299-303.

gender, marital status, education, culture and occupation have upon fairness perceptions ultimately affects compliance. The responsible citizen approach[34] also covers behavioural aspects of taxpayer compliance and includes the major works of Meier and Johnson,[35] and Jackson and Milliron.[36]

Indeed, much of the empirical work that has been carried out tends to refute the economic model of compliance in its basic form. For example, it has been demonstrated by means of laboratory experiments[37] that, even where the deterrence factor is so low that evasion makes obvious economic sense, some individuals will nevertheless comply. Such findings may be particularly relevant in the context of a self-assessment environment that operates in many western economies. Where random audits exist or where it is planned that only a small percentage of returns are selected for audit, a purely rational taxpayer would still be able to virtually discount audit as a serious deterrent factor.[38]

However, both American and British research indicates mixed results regarding the effectiveness of criminal punishment as a deterrent to non-compliance by taxpayers. That is, the level of punishment alone has not been the sole determinative factor in shaping the level of taxpayer compliance. There is a similar lack of consistency in the results of other studies testing the relationship of the probability and severity of penalties with the level of compliance.[39] Although overseas researchers have found general support for the idea that sanctions encourage compliance, there is conflicting evidence on the merits of legal sanctions and interpersonal sanctions. Furthermore the impact of the severity of sanctions was found to be unresolved.[40]

A proposal to increase criminal sanctions to reduce Tc 0.0009 Tw -17.903e8]TJlonaln(gene/

deterrence.[43] However, this model has been cr

However, another recent study which inves

women.[57] In a survey of American taxpayers Hite[58] focused on the interaction between gender and education. Female respondents with college degrees tended to be more tolerant of non-compliance than females without college degrees. On the contrary, males tended to be less tolerant of non-compliance as their education levels increased.

Age

The majority of studies reviewed by Richardson and Sawyer[59] that examined the age variable found that older taxpayers tended to be more compliant than younger taxpayers.[60] However there have been a significant number of studies that have found no relationship.[61] Richardson and Sawyer have proposed four possible explanations for the inconsistent findings. Firstly, the significance of the age variable does not extend to all taxpayers. Second, inconsistent definitions of taxpayer non-compliance are employed throughout the research. Third, when age is considered in association with a number of other variables its effect on taxpayers' compliance is diluted. Finally, the interaction of age with other compliance variables could be problematic.

Nationality

There has only been little research undertaken with respect to tax compliance and ethnicity. A literature review by Roth et al[62] which used whites and non-whites as a proxy variable found whites to be more compliant. However, Beron et al [63] suggest the results are dependent upon other variables used in the study. In particular the income variable was found to have a distortive effect. Studies of commitment to compliance using indices have found the largest differences between races.[64]

Education/Qualifications

The effect of education on taxpayer compliance is not clear, based on previous studies.[65] The reasons given for these conflicting findings are varied. First, there can be difficulty in determining which aspect of education is being measured. Comprehensive literature reviews[66] have identified four measures of education- the

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[57] For example, Robben et al [1989] found no significant relationship between gender and compliance, but their experiment involved only 22 females and twice as many males.

[58] Hite, P. A., above n 30, 155.

[59] For example, Beron, K. J., Tuachen H., V., and Witte, A. D., [1992] found the age was positively related to compliance for low and middle income proprietors, whereas Dubin and Wilde [1986] found a similar effect only for low and high income non-business taxpayers, below n 63.

[60] See for example, Smith, K., W., "Reciprocity and Fairness: Positive Incentives for Tax Compliance," in Slemrod, J., (ed), *Why People Pay Taxes: Tax Compliance and Enforcement*, (1992) Ann Arbour, MI, University of Michigan Press, 223.

[61] See for example, Porcano, T. M., "Correlates of Tax Evasion," (1988), *Journal of Economic Psychology*, 47.

[62] Roth, J. A., and Scholz, J. T., and Witte, A D., above n 25.

[63] Beron, K. J., Tauchen, H., V. and Wittie, A., D., "The Effect of Audits and Socioeconomic Variables on Tax Compliance," in Slemrod, J. (Ed), *Why People Pay Taxes: Tax Compliance and Enforcement*, (1992) Ann Arbour, MI, University of Michigan Press, 67.

[64] See for example Song, Y., and Yarborough, T., "Tax Ethics and Taxpayer Attitudes: A Survey," (1978), *Public Administration Review*, 442.

[65] See for example, Wallschutzky [1993] who indicated that education is the variable most likely to improve compliance, whereas Beron, Tauchen and Witte [1992] indicated that inconsistent results are produced as education is highly correlated with income level.

[66] See for example, Jackson, B. R, & Milliron, V. C, "Tax Compliance Research: Findings, Problems, and Prospects,"

general degree of fiscal knowledge, knowledge involving evasion opportunities, general educational attainment and specific tax knowledge. These different dimensions may assist in explaining the confusion surrounding the effect that the education variable has on taxpayer compliance.

Correlations between education and other compliance variables may also have contributed to the inconsistent results found. Other possible compliance variables that have been suggested to have a relationship with education are gender,[67] income level,[68] ethics,[69] taxpayers' perceptions of fairness,[70]detection[71]and sanctions.[72] Nevertheless, it is important that university students' attitudes to tax be examined because firstly, young people have many years of taxpaying left and secondly, graduates tend to earn more over their lifetimes than non-graduates. Consequently graduates represent a larger proportionate share of the tax base in terms of per-head taxable income.[73]

Occupation

There is a lack of clear research direction for occupation and employment status as variables contributing to taxpayers' compliance behaviour.[74] The reasons for this lack of clarity could be that many studies employ different occupational categories in their research. These occupational categories have ranged from specific occupational strata[75] to broad categories[76]. Another reason for the lack of direction could be the suggestion that the opportunities for non-compliance are associated with the particular occupation rather than the occupation itself.[77] Consequently, further research needs to be done utilising occupation as an independent variable.

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[67] Hite, P. A., above n 30, 155.
[68] Beron, K. J, Tauchen, H. V., and Wittie A. D., above n 59, 67.
[69] Mc Graw, L. K., and Scholz, J., T., "Norms, Soci

Income Level

Recent research has confirmed earlier findings of Jackson and Milliron,[78] that the evidence on the income level variable is mixed and unclear.[79] Previous research has found supporting evidence for three contrasting views encompassing positive,[80] negative[81] and no correlation[82] with taxpayer compliance. It is possible that correlations between income level and other tax compliance variables, in particular the effect of tax rates, may explain why the findings are so inconclusive.[83]

Work Experience/Tax Return Filing Experience

There appears to be a lack of research into the relationship between work experience and tax return filing experience as independent variables and taxpayer compliance. One reason for this situation could be the interaction that these variables have with other independent variables. For example, variables such as age, income level, and occupation are intuitively linked to work experience and consequently tax return filing experience. A study by Tan,[84] tested the effects of working and filing status of taxpayers' with their perceptions of fairness of the tax system. The findings indicate that both variables have an effect on the perception of fairness of the tax rate structure and filing status has an effect on the perception of fairness of the tax burden on different income levels.

RESEARCH METHODOLOGY

Survey Instrument

A survey questionnaire was used to ascertain tertiary students' attitudes towards tax evasion and the penalties for tax evasion. The strength of this approach is that it enables a large number of respondents to be surveyed with minium expense. Approval was sought and obtained from the requisite human ethics committee given the sensitivity of the information being requested. Responses to the survey were confidential and no names were given by participants. The survey was eight pages in length and took respondents approximately 15-20 minutes to complete. In most questions a seven-point Likert scale was employed to indicate the degree of agreement or disagreement. A copy of this pilot survey was given to experienced researchers and the statistical counselling service of the Business and Economics Faculty, at Monash University for suggestions on improving the instrument. It was considered that the survey questions appeared to be well understood with little opportunity for confusion.

The survey contained 31 questions

had ever been fined and penalized for tax offences themselves and their impressions thereof. Questions 12-14 sought respondents' views on law enforcement while questions 15-16 sought their views regarding tax fairness and questions 17-23 their views concerning tax morals. Questions 24-31 concluded the survey by asking respondents for their demographic details. Finally, there was also space provided in the survey to give respondents an opportunity for comments.

Survey Sample

The survey was distributed to 420 undergraduate and 50 postgraduate taxation law students at Monash University, Clayton campus, during March-April 2005. The majority of respondents were full-time students as expected, although there were also respondents from industry, accounting firms and other administrative positions. Consequently as the sample was not representative of the whole taxpayer population the findings need to be appropriately qualified. It is proposed however, that a final version of this survey instrument may be utilised by the ATO in the future which could be distributed amongst a more representative sample of the taxpayer population. For this study, 306 completed surveys were received, giving a response rate of 65%. It is considered that a response rate of anything over 30% in a tax survey is acceptable given the sensitive nature of the topic and the response rate of previous tax compliance surveys.[86] In some questions the response rate was less than 300 but the results were nevertheless included in the analysis.

DISCUSSION AND ANALYSIS OF RESEARCH RESULTS

Chi-square tests were employed to investigate the effect of demographic variables on selected survey questions (See Appendix 2). Independent variables included age, gender, nationality, qualification (level of education), occupation, and income level. These are the most common demographic variables used in tax compliance research. Although information was also gathered on taxpayers' work and tax filing experience this was not analysed. Specifically, survey questions three, four, six, sixteen and nineteen were analysed in the paper against the demographic variables. These questions represented the thrust of the study in terms of tax penalties, taxpayers' attitudes towards tax evasion and their attitudes regarding tax morals and tax fairness. The demographic variables employed were tested for statistical significance at the 5 per cent level. (ie statistically significant at p= 0.05)

In particular three categories of significance were used. The first category was where the empirical value was less than or equal to 0.05 ($p \leq 0.05$) was significant. That is the results were less likely to be due to chance. The second category was marginally significant where the empirical value was greater than 0.05 but less than 0.15 ($0.05 < p < 0.15$). The third category was insignificant where the empirical value was greater than 0.15 ($p > 0.15$). Consequently, in this category there was no relationship between the variables. It should be noted that the depending on the number of degrees of freedom (df), it is important that the numbers in each cell are large enough to make chi-square tests appropriate. That is, chi-square tests should not be used where more than 20 percent of the expected frequencies are smaller than five or when any

[86] See McIntosh and Veal achieved a 50% response rate, Tan 58% in a mail out survey, Oxley 29% and Hasseldine 22%.

expected frequency is less than one[87]. Given this qualification, chi-square tests were carried out accordingly. The frequencies and percentage breakdown of responses to all questions was also examined to enable comparisons with other studies[88]. (See Tables 1-12 below.)

Analysis of Dependent Variables.

TABLE 1: Q1-Q2/ AWARENESS OF TAX ISSUES

Respondents Opinion	None (1-2)	Some (3-5)	A lot (6-7)	Total Reponses

Given that family and friends were the most informative in the majority of cases (221 cases or 72% of respondents) the type of information received was mainly in regard to preparation of tax returns (70%). Only in less than 10% of cases was there a lot of information relating to the penalties for tax evasion or people having problems with or outwitting the ATO and audits. The lack of public education in this regard may well be a major factor in explaining the causes of tax evasion and can be linked to the behavioural factors of taxpayers outlined in the literature review.[89]

Education was also found to be significant for the appropriateness of penalties on small business owners not paying their tax debts (X^2 =31.412, df=18, p= 0.026). Other significant findings were occupation and penalties for welfare recipients under-declaring government payments ($X^{2\,=}$ 212.607, df = 180, p= 0.049.) and education and penalties for managers underreporting taxes (X^2 = 33.036, df= 18, p= 0.017.) Marginally significant results include, income level and the penalties for small business owners not paying tax debts (X^2 = 71.936, df= 60, p= 0.139.) Interestingly income level and the penalties for an academic exaggerating deductions was insignificant (X^2 =25.829, df =60, p= 1.000).

TABLE 3: Q4 PENALTIES SCENARIO

Respondents Opinion	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**Total**
4a)Monetary Fine	**< $5,000**	**$5,000**	**$10,000**	**$15,000**	**$20,000**	**>$20,000**	
	34 (12%)	37 (13%)	65 (23%)	53 (19%)	50 (18%)	44 (15%)	283 (100%)
b) A Prison Sentence	**< 1 week**	**1 week**	**2 weeks**	**3 weeks**	**4 weeks**	**>4 weeks**	
	1 (2%)	10(17%)	12(20%)	7(12%)	17(29%)	12 (20%)	59 (100%)
c) Community Service	**< 1 week**	**1 week**	**2 weeks**	**3 weeks**	**4 weeks**	**>4 weeks**	
	6 (4%)	22 (13%)	35(21%)	19 (12%)	41(25%)	42 (25%)	165 (100%)
d)Education Program	**<3 days**	**3 days**	**6 days**	**9 days**	**12 days**	**>12 days**	

results but in terms of taxpayers' perceptions the findings are consistent with those of Karlinsky.[90]

TABLE 4: Q5- Q6/ PENALTIES SCENARIO CONTINUED

Respondents Opinion	Not at All (1-2)	Neutral (3-5)	Very Much (6-7)	Total Reponses

significant (X^2 = 79.119, df =60 p= 0.050). Marginally significant results include education and the penalty for risk taking, (X^2 = 27.281, df =18 p= 0.074) and education and feelings of escaping from the penalty (X^2 = 24.298, df =18 p= 0.127). These results have implications regarding the potential deterrent effect of penalties for tax evasion.

TABLE 5: Q7-8/ PERSONAL PENALTY/OFFENCE

Respondents Reasons	**Penalty imposed**	**Penalty not imposed**
Q7 Have you ever been fined or penalized in some way?	5 (2%)	291(98%)
Q8 If yes, for what type of offence? eg		
1 making a false or misleading statement	3	
2.Obtaining a financial advantage by deceiving the Commonwealth or Public Authority		
3. Defrauding the Commonwealth	1	
4. failure to withhold and remit tax	1	
5.Other		

In Table 5 question 7 asked respondents whether they had been fined or penalized in some way by the ATO and positive responses were received in only 5 cases (2%). The majority 291 cases (98%) skipped to question 12. It is possible that question 7 may have also caused some confusion with respondents still answering questions 8-11 accidentally. In response to question 8, four cases involved civil offences including making errors on BAS returns, and failing to withhold and remit tax. Interestingly, there was one omission of a criminal offence of defrauding the Commonwealth. This supports the fact that evaders are prepared to reveal details if they feel comfortable with the anonymity of the survey instrument.[91]

TABLE 6: Q9-11 RESPONSE TO PENALTIES

Respondents Opinion	**(1) –(2)**	**(3)-(5)**	**(6)-(7)**	**Total Responses**
Q9 The ATO's Decision to penalize you;	Absolutely Unfair	Indifferent	Absolutely Fair	
	0	5 (100%)	0	5(100%)
Q10 The penalties against you were	Very Mild	About Right	Very Severe	
	0	5(100%)	0	5(100%)
Q11 Were the reasons for the penalty clear or unclear to you	Totally clear	Neutral	Totally Unclear	
	3(60%)	2(40%)	0	5(100%)

In Table 6 the response to question 9, all five cases were generally indifferent to the ATO s' decision to penalize them being unfair indicating a 3-5 rating on the seven point Likert scale. In response to question 10, the penalties were about right. Answers to question 11, the majority of respondents (60%) felt that the reasons for the penalties were clear although 40% were also neutral in this regard.

self–interest. Chi-square tests reveal that age, (X^2 = 147.371, df =114 p= 0.019) nationality (X^2 = 213.931, df =180 p= 0.043) and education (X^2 = 28.884, df =18 p= 0.050) all had a significant relationship with compensating oneself for evading tax. This is consistent with the equity arguments presented earlier by Tan[93]. The reason of self-interest was insignificant, but wanting to get even with the ATO was significant, for gender, (X^2 = 26.044, df =12 p= 0.011) and income level (X^2 = 85.629, df =60 p= 0.017). A significant result was also reported for gender (X^2 = 21.056, df =12 p= 0.050) and nationality (X^2 = 217.582 df =180 p= 0.029) and the rationality for evading tax.

TABLE 9: Q17-19/ TAX MORALS

Respondents Opinion	**Not at all (1-2)**	**Neutral (3-5)**	**Very Much (6-7)**	**Total Reponses**
Q17 What is important to you? a. Your individuality	4(2%)	117(44%)	145(54%)	266(100%)
b. Your Profession Industry	2(1%)	158(53%)	137(46%)	297(100%)
c. The Australian Community	17(6%)	204(69%)	75(25%)	296(100%)
d. Being an honest taxpayer	35(12%)	190(64%)	71(24%)	296(100%)
Q18 These questions ask you what you think a. Do YOU think one should honestly declare all income on one's tax return?	26(9%)	165(55%)	107(36%)	298(100%)
b. Do YOU think it is acceptable to overstate tax deductions on ones tax return?	68(23%)	207(69%)	23(8%)	298(100%)
c. Do YOU think working for cash in	433.28 0.486(wo)-6(rk( )980)- 3sh in2-1.1-5(ction00.10en934 Td6.78 433.28 0.u(%)			

TABLE 10: Q20-21/ ENGAGING A TAX AGENT

Respondents Reasons	**Tax Agent engaged (1)**	**Tax Agent not engaged (2)**
Q20 Did you rely on a tax agent or advisor in preparing your most recent income tax return?	69 (25%)	213 (75%)
Q21 Primary reason for using a tax agent		
1.Fear of making a mistake	16 (23%)	
2.The tax system is too complex	13 (19%)	
3.Insufficient time to prepare my own return	7 (10%)	
4.To legitimately minimize the tax I had to pay	29 (42%)	
5. To avoid paying tax	4(6%)	

TABLE 11: Q 22-23/ TAX AGENT SCENARIO

Respondents Opinion	**Definitely Yes (1)**	**Probably Yes (2)**	**Neutral (3)**	**Probably No(4)**	**Definitely No(5)**	**Total Responses**
Q22 The Tax Agent advises you NOT TO CLAIM the deduction on your return a. Would you agree with the tax agent's advice?	31(11%)	136(47%)	54(18%)	63(22%)	8(2%)	292(100%)
b Based on the Tax agents advice would you continue to use this agent?	24(8%)	101(35%)	83(28%)	72(25%)	12(4%)	292(100%)
Q23 Now the Tax Agent advises you TO CLAIM the deduction on your return a. Would you agree with the tax agent's advice?	30(10%)	122(42%)	93(32%)	44(15%)	4(1%)	293(100%)
b Based on the Tax agents advice would you continue to use this agent?	26(9%)	110(38%)	101(34%)	48(16%)	8(3%)	293(100%)

Analysis of Independent Variables.

TABLE 12: Q24-31/ RESPONDENT DEMOGRAPHICS

Q24. Gender	**Frequency**	**Percentage**
Female	186	61%
Male	120	39%
Total	**306**	**100%**
Q25 Age	**Frequency**	**Percentage**

Diploma Course	37	12%
University Tertiary Degree	170	57%*
Post graduate Degree	3	1%
Total	**306**	**100%**
Q 28. Occupation	**Frequency**	**Percentage**
Professional/Management	7	2%
Student	253	83%
Administrative/Accounting	33	11%
Trades Person	0	0
Social Work/teaching	2	0.6%
Service Industry (Sales)	7	2%
Other- not working	2	0.7%
Other – working	2	0.7%
Total	**306**	**100%**
Q 29 Personal Income	**Frequency**	**Percentage**
Zero income	129	42%
$1-$5,000	10	3%
$5,001-$10,000	79	26%
$10,001- $20,000	26	9%
$20,001-$30,000	13	4%
$30,001-$40,000	12	4%
$40,001 -$50,000	10	3%
$50,001or more	27	9%
Total	**306**	**100%**
Q 30. Employment Status	**Frequency**	**Percentage**
Unemployed	14	5%
Retired from paid work	0	0%
Full-time Student	186	61%
Keeping House	2	1%
Other	5	2%
Employed	99	31%
Total	**306**	**100%**
Q31 Last Tax Returned Lodged	**Frequency**	**Percentage**
2003/04 year	138	45%
2002/03 year	20	6.7%
2001/02 year	3	1%
2000/01 year	1	0.3%
Not lodged in last 5 years	144	47%
Total	**306**	**100%**

* As the majority of students surveyed were in their final year of a degree course they interpreted Q27, the level of education, as having completed their undergraduate degree.

The demographic profile of the sample was skewed and not representative of the population, however, for the purposes of a pilot test nevertheless, useful. Specifically, the results of question 24 revealed that 186 (61%) females and 120 (39%) of males completed the survey. Question 25 indicated that the greatest portion of the respondents fell into the 20-29 age-group. (80%) This is not surprising considering the majority of respondents were full-time students (83%) and only likely to be employed part-time. Question 26 indicated that 115 (38%) of the sample were of Australian

spread throughout penalty levels, while respondents with tertiary qualifications also indicated that they would feel indifferent about having to pay a substantial fine. The responses to Q6 (a) of the survey indicating whether respondents felt that what they had done, was wrong, was also fairly evenly distributed as per the level of education Q 27 (Refer Appendix 3- Q6 Chart). Of those with a secondary level of education a larger majority indicated a rating of likely to very likely as was the case for respondents with tertiary qualifications while respondents with diploma level were more neutral in this regard.

Examining the attitudes of respondents with regard to tax morals and tax fairness was objective 5 of this study. In particular, the responses in relation to Q16 (d) of the survey indicating the opportunities for tradespeople to legally reduce tax were also analysed with respect to the level of education Q 27. (Refer Appendix 3 – Q 16 Top Chart). Findings revealed that for those with a secondary level of education the majority indicated that tradespeople tend to have too few opportunities to legally reduce their tax with a definite skew to the left. Respondents with diploma level education indicated a normal distribution while those with tertiary qualifications indicated that tradespeople have about the right amount of opportunities. The number of responses to Q16 (a) of the survey indicated the opportunities to legally reduce tax for CEOs of large Corporations with respect to the level of education Q 27 (Refer Appendix 3- Q16 Bottom Chart). For respondents with a secondary level of education the majority indicated that corporate CEOs tend to have too many opportunities to legally reduce their tax with a definite skew to the right. Those with diploma level education showed more of a normal distribution but generally felt opportunities were more while those with tertiary qualifications also indicated that CEOs have either the right amount or too many opportunities. Postgraduates were also similar in this regard.

Finally the responses to Q19 (d) of the survey found that the main reason for evading tax was rationality with respect to the level of education Q 27 (Refer Appendix 3- Q19 Top Chart). For those with a secondary level of education the majority indicated that that they would be indifferent or likely to agree with rationality as being a reason for evasion (skew to the right). Respondents with diploma level showed more of a normal distribution while those with tertiary qualifications also indicated that they were neutral or likely to agree with rationality as being a reason for evasion (skew to the right). The responses to Q19(c) of the survey were in relation to the main reason for evading tax as being a game against the ATO with respect to the level of education Q 27 (Refer Appendix 3- Q 19 Bottom Chart). For respondents with a secondary level of education the majority indicated that that they would be indifferent or disagree to strongly disagree with an ATO game as being a reason for evasion (skew to the left). Those with diploma level education were consistent with this pattern while those with tertiary qualifications were also consistent with this pattern and disagreed with the ATO game as being a reason for evasion (skew to the left).

Consequently, it was evident from the findings for questions 24 to 29 and particularly Q27 of the survey that all six demographic variables analysed: gender, age, nationality, education/qualifications, occupation and income level, in many cases held statistically significant relationships with the incidence of tax evasion and the penalties for evasion. These findings are consistent with the findings of previous

studies of Birch, Peters and Sawyer,[95] Hite,[96] Meier and Johnson,[97] and Tan.[98] In particular, the research indicates that the level of education which was the predominant variable in this study plays a vital role in respondents' attitudes towards non-compliant tax behaviour. Likewise age, income level and the occupation of respondents all showed important implications for tax evasion generally, although there was little direct evidence of personal tax evasion amongst respondents.

Limitations of the Study

There are several limitations that exist in this study. Clearly, the study is not representative of the taxpayer population. Despite including a small portion of post-graduate students in the sample, the number of respondents in paid full-time work of varying occupations is non-existent. Likewise, the female population is nearly double that of males, while the age group of 40 years and older is unrepresented**.** The extent to which the sample was representative of Australian students is unknown. The educational qualifications of the respondents are also, as expected, exaggerated given that 70% of the sample is tertiary educated while personal income levels are too low and not spread across the spectrum. The fact that a random sampling technique was

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APPENDIX 1 SURVEY INSTRUMENT

TAXATION COMPLIANCE SURVEY

Responses to this survey are confidential. Please do not include your name on this survey.

SECTION A PUBLIC AWARENESS OF TAX ISSUES

1 How much information about tax issues do you receive from the following sources?

	None			Some			A lot
a. the ATO.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
b. tax practitioners.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
c. work-related publications.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
d. TV, radio, newspapers	**1**	**2**	**3**	**4**	**5**	**6**	**7**
e. friends/family	**1**	**2**	**3**	**4**	**5**	**6**	**7**

SECTION B TAX PENALTIES & DETERRENCE

3 Below is a list of possible cases of tax evasion. What is your impression in each case? How would you describe the penalties used by the ATO against…

	Very mild			Right Amount			Very severe
a. a tradesperson underreporting cash earnings.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
b. an academic exaggerating deduction claims	**1**	**2**	**3**	**4**	**5**	**6**	**7**
c. a small business owner not paying tax debts.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
d. a large corporation shifting profits abroad	**1**	**2**	**3**	**4**	**5**	**6**	**7**
e. a welfare recipient under declaring government payments	**1**	**2**	**3**	**4**	**5**	**6**	**7**
f. a manager underreporting taxes.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
g. a student part-time worker failing to lodge a tax return.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
h. a retiree under declaring investment income.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**

4. Assume the following case: A buiness owner, (X), negotiated “discounts” for customers in return for being paid in cash. Here, the business owner was able to reduce tax illegally by $10,000. This is the second time the person has been caught and convicted of such an offence.
The ATO would demand that the business owner pays back the tax evaded plus penalties and interest. What would you consider an appropriate penalty for the fraud? (if a combination circle more than one)

a. A monetary fine? Ç no.
Ç yes. If yes, specify the fine in Dollars:

| | | | | | |

b. A prison sentence?
Ç no.
Ç yes. ⟶ If yes, specify the length of the sentence in months:

less than 1 week | 1 week | 2 weeks | 3 weeks | 4 weeks | more than 4 weeks

c. Community service?
Ç no.
Ç yes. ⟶ If yes, specify the length of the service in weeks:

less than 1 week | 1 week | 2 weeks | 3 weeks | 4 weeks | more than 4 weeks

d. Education program?
Ç no.
Ç yes. ⟶ If yes, specify the length of the program in days:

less than 3 days | 3 days | 6 days | 9 days | 12 days | more than 12 days

5. Assume the business owner (X) above had to pay a substantial fine or penalty, please answer the following questions.

	Not at all			Neutral			Very much
a. Do you think X deserves the harsh punishment?	**1**	**2**	**3**	**4**	**5**	**6**	**7**
b. Do you think X was *personally* responsible for receiving the penalty?	**1**	**2**	**3**	**4**	**5**	**6**	**7**
c. Do you think X knew the probable consequences of his/her evasion?.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
d. Do you think X was justified in reducing tax?.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
e. Do you think X's tax evasion is a serious offence?.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**

6. Now please assume you are the business owner and you had to pay a substantial fine or penalty. How likely is it that you would…

	Not likely			Neutral			Very likely
a. feel that what you had done was wrong	**1**	**2**	**3**	**4**	**5**	**6**	**7**
b. feel sorry/remorseful.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**
c Ignore the penalty and take the risk	**1**	**2**	**3**	**4**	**5**	**6**	**7**
d. feel like you had won if you got away without paying the fine.....	**1**	**2**	**3**	**4**	**5**	**6**	**7**

e. resent the ATO having control over you **1 2 3 4 5 6 7**

7 Have you ever been fined or penalised in some way by the ATO?

Yes .....**1** ***--- continue***
No.....**2** **--skip toQ 12**

8 If yes, for what type of offence? (i.e. Civil, criminal) For example

Making a false or misleading statement…… 1
Obtaining a financial advantage by deceiving the Commonwealth or Public Authority……2
Defrauding the Commonwealth……..3
Failure to withhold and remit tax……4
Other…… .5

9. If you stated yes to 7, do you think the ATO's decision to penalise you was…

Absolutely unfair — Indifferent — Absolutely fair
1 2 3 4 5 6 7

10. Do you think the penalties against you were…

Very mild — About right — Very severe
1 2 3 4 5 6 7

11. Were the reasons for the penalty clear or unclear to you?

Totally clear — Neutral — Totally unclear
1 2 3 4 5 6 7

SECTION C TAX LAW ENFORCEMENT

12. In the following, there are some more general positions concerning the issue of law enforcement. Please indicate to what extent you disagree or agree with these views.

Scale:1 = Strongly disagree 2. = Mildly disagree 3. = Disagree 4. = Neither agree or disagree 5. = Agree 6. = Mildly agree 7. = Strongly agree

Strongly disagree — Neither agree or disagree — Strongly agree

a. The prospect of tough penalties would deter people from evading tax..... **1 2 3 4 5 6 7**

Strongly disagree — Strongly agree

b. Teaching tax evaders to deal effectively with their taxes would reduce future offences..... **1 2 3 4 5 6 7**

13. How do you think tax evasion could be best handled?

Strongly disagree — Strongly agree

a. Through informing and encouraging taxpayers to comply voluntarily..... **1 2 3 4 5 6 7**

b. Through enforcing strict rules and disciplining the guilty. .....

Strongly disagree — Strongly agree

1 2 3 4 5 6 7

c. Through exposing people who cheat the tax system (eg, publishing names of tax evaders in the ATO annual report)

Strongly disagree — Strongly agree

1 2 3 4 5 6 7

d. Through providing incentives for paying the correct amount of tax .....

Strongly disagree — Strongly agree

1 2 3 4 5 6 7

14. The following statements are possible opinions about the tax system and the ATO. Indicate how much you disagree or agree with the statement.

a. The ATO can be trusted to administer the tax system so that it is good for the country as whole.....

Strongly disagree — Neither agree or disagree — Strongly agree

1 2 3 4 5 6 7

b. The ATO tries to be fair when making their decisions.....

Strongly disagree — Strongly agree

1 2 3 4 5 6 7

c. People should follow the decisions of the ATO even if they go against what they think is right.....

Strongly disagree — Strongly agree

1 2 3 4 5 6 7

d. The ATO effectively upholds the principles of equal rights and opportunities .....

Strongly disagree — Strongly agree

1 2 3 4 5 6 7

SECTION D TAX FAIRNESS

Too few — Right amount — Too many

	Too few			Right amount			Too many
b. Judges and barristers	**1**	**2**	**3**	**4**	**5**	**6**	**7**
c. Unskilled factory workers	**1**	**2**	**3**	**4**	**5**	**6**	**7**
d. Trades people	**1**	**2**	**3**	**4**	**5**	**6**	**7**
e. Clerical workers	**1**	**2**	**3**	**4**	**5**	**6**	**7**
f. Small business owners	**1**	**2**	**3**	**4**	**5**	**6**	**7**

SECTION E TAX MORALS

Please be completely honest in your responses to these questions. Remember all your responses are totally anonymous.

17. What is important to you?

	Not at all			Neutral			Very much
a. your individuality	**1**	**2**	**3**	**4**	**5**	**6**	**7**
b. your profession/industry	**1**	**2**	**3**	**4**	**5**	**6**	**7**
c. the Australian community	**1**	**2**	**3**	**4**	**5**	**6**	**7**
d. being an honest taxpayer	**1**	**2**	**3**	**4**	**5**	**6**	**7**

18. These questions ask you what YOU think.

	Not at all			Neutral			Very much
a. Do YOU think one should honestly declare all income on one's tax return?	**1**	**2**	**3**	**4**	**5**	**6**	**7**
b. Do YOU think it is acceptable to overstate tax deductions on one's tax return?	**1**	**2**	**3**	**4**	**5**	**6**	**7**
c. Do YOU think working for cash-in-hand payments without paying tax is a trivial offence?	**1**	**2**	**3**	**4**	**5**	**6**	**7**

19. People who evade tax probably do so for different reas

23. Think again of the scenario presented above. Now assume that your tax agent advises you to CLAIM the

31. When was your last income tax return lodged or lodged on your behalf. What financial year was it for?

2003/2004 Financial year…….. **1**

APPENDIX 2 CHI-SQUARE TESTS RESULTS

- * Statistically Significant at p< or =0.05
- **Marginally Significant where 0.05 < p< 0.15
- *** Insignificant at p>0.15

Question 3 Impression of penalties used by the ATO in cases of Tax Evasion

Q3 (a) Tradesperson underreporting

Demographic –Independent variable	Chi-Square	df	Significance
1. Gender	14.515	12	0.269***
2.Age	150.270	120	0.032*
3.Nationality	201.818	186	0.203***
4.Education	15.255	18	0.644

Q3 (e) welfare recipient under declaring govt payments

Demographic –Independent variable	**Chi-Square**	**df**	**Significance**
1. Gender	12.228	12	0.428
2.Age	129.809	114	0.148**
3.Nationality	158.859	180	0.870

6.Income level	19.787	12	0.071**

2.Age	140.677	120	0.096**
3.Nationality	217.078	186	0.059**
4.Education	19.286	18	0.374
5.Occupation	177.680	180	0.535
6.Income level	68.057	60	0.222
7.If not employed			
8. Filing Experience			

Q6 (c) Ignore penalty and take risk

Demographic –Independent variable	**Chi-Square**	**df**	**Significance**
1. Gender	23.538	12	0.023*
2.Age	104.797	114	0.720
3.Nationality	194.495	186	0.320
4.Education	27.281	18	0.074**
5.Occupation	173.192	180	0.629
6.Income level	79.119	60	0.050*
7.If not employed			
8. Filing Experience			

Q6 (d) Feeling of getting away with it

Demographic –Independent variable	**Chi-Square**	**df**	**Significance**
1. Gender	25.472	12	0.013*
2.Age	127.665	120	0.299
3.Nationality	201.410	180	0.131**
4.Education	24.298	18	0.127**
5.Occupation	181.312	180	0.459
6.Income level	65.646	60	0.288
7.If not employed			
8. Filing Experience			

Q6 (e) Resent ATO control

Demographic –Independent variable	**Chi-Square**	**df**	**Significance**
1. Gender	13.458	12	0.337
2.Age	120.944	120	0.459
3.Nationality	246.159	186	0.002*
4.Education	24.563	18	0.137**
5.Occupation	199.989	180	0.146**
6.Income level	63.650	60	0.349
7.If not employed			
8. Filing Experience			

Question 16 Which groups have the opportunity to legally reduce their tax?

Q16 (a) Corporate CEO's

Demographic –Independent variable	**Chi-Square**	**Df**	**Significance**
1. Gender	25.592	12	0.012*
2.Age	115.663	120	0.595
3.Nationality	165.763	186	0.854
4.Education	16.707	18	0.543
5.Occupation	162.784	174	0.719
6.Income level	63.551	60	0.352
7.If not employed			
8. Filing Experience			

Q16 (b) Judges and barristers

Demographic –Independent variable	**Chi-Square**	**df**	**Significance**
1. Gender	15.514	12	0.215
2.Age	135.783	120	0.154
3.Nationality	218.982	186	0.049*

8. Filing Experience			

Question 19 – Main Reasons For Evading Tax

Q19(a) Compensation

Demographic –Independent variable	Chi-Square	df	Significance
1. Gender	18.336	12	0.106**
2.Age	147.371	114	0.019*
3.Nationality	213.931	180	0.043*
4.Education	28.884	18	0.050*
5.Occupation	183.038	180	0.423
6.Income level	68.098	60	0.221
7.If not employed			
8. Filing Experience			

Q19 (b) Self Interest

Demographic –Independent variable	Chi-Square	df	Significance
1. Gender	14.649	12	0.261
2.Age	130.476	114	0.675
3.Nationality	205.004	180	0.097**
4.Education	16.726	18	0.542
5.Occupation	135.519	180	0.994
6.Income level	58.765	60	0.521
7.If not employed			
8. Filing Experience			

Q19(c) ATO Game

Demographic –Independent variable	Chi-Square	df	Significance
1. Gender	20.502	12	0.058*
2.Age	101.135	114	0.800
3.Nationality	185.078	180	0.382
4.Education	35.185	18	0.009*
5.Occupation	177.05	180	0.548
6.Income level	76.369	60	0.075**
7.If not employed			
8. Filing Experience			

Q19 (d) Rational

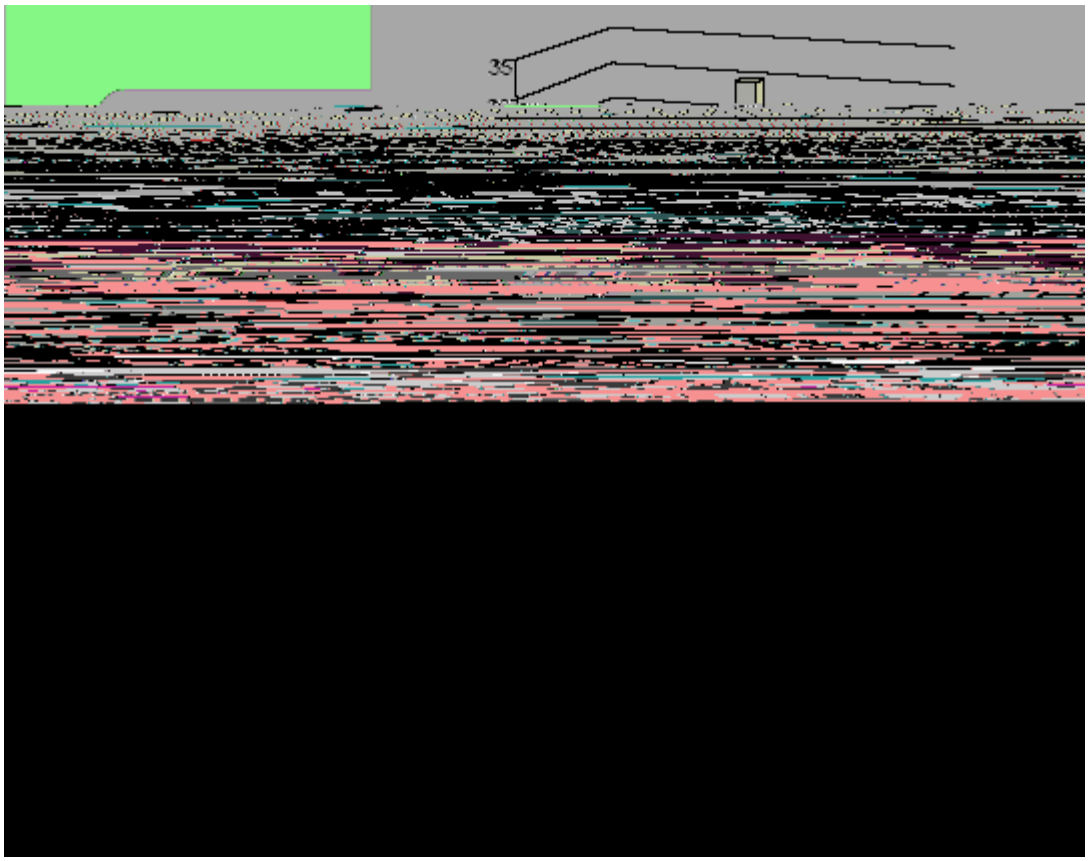
Demographic –Independent variable	Chi-Square	df	Significance
1. Gender	21.056	12	0.050*
2.Age	136.673	114	0.073**
3.Nationality	217.582	180	0.029*
4.Education	23.009	18	0.190
5.Occupation	174.212	180	0.608
6.Income level	68.126	60	0.220
7.If not employed			
8. Filing Experience			

Q19 (e) Getting even with the ATO

Demographic –Independent variable	Chi-Square	df	Significance
1. Gender	26.044	12	0.011*
2.Age	107.989	114	0.641
3.Nationality	167.258	180	0.743

4.Education	24.532	18	0.138**

APPENDIX

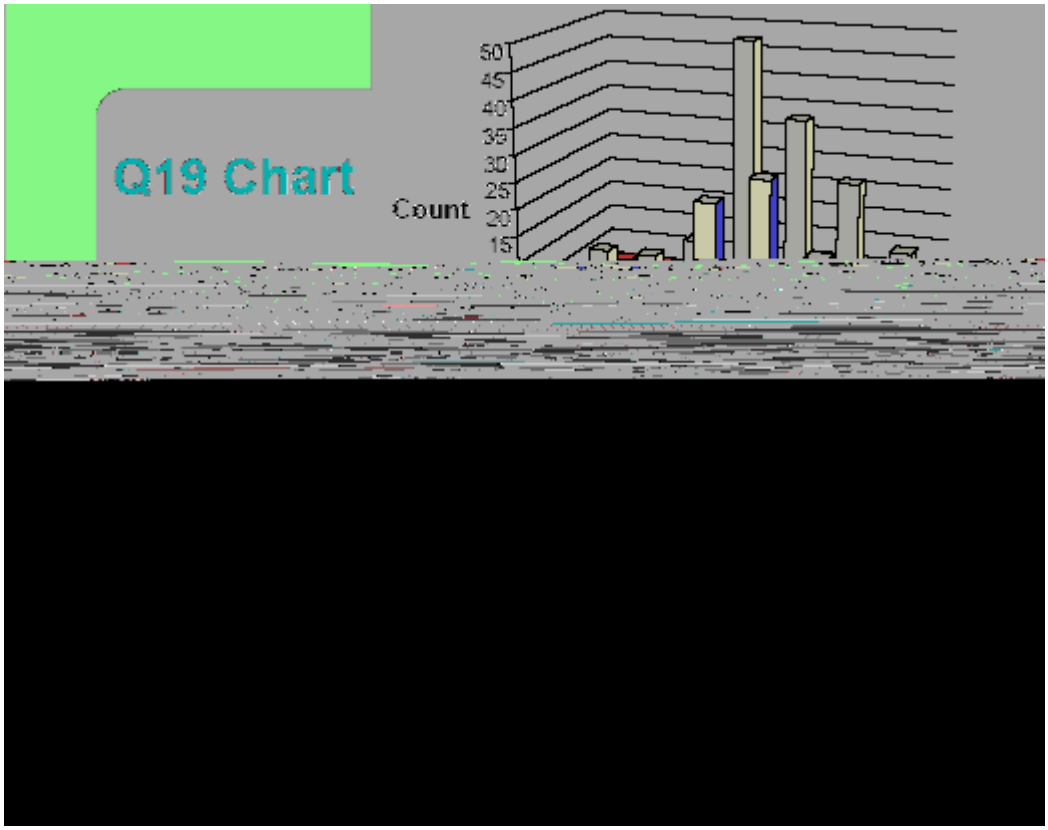


The **top chart** indicates the number of responses to Q4 (a) of the survey in relation to a monetary fine as the appropriate penalty for tax fraud with respect to the level of education Q 27.

Of those with a secondary level of education (blue bars) the majority indicated that a penalty in the range of $10,000- 15,000 was appropriate, with a definite skew to the right indicating heavier penalties. Those with Diploma level (red bars) were more evenly spread throughout penalty levels, while those with tertiary qualifications (yellow bars) also indicated that a heavier penalty of $10,000 or more was appropriate.

The **bottom chart** indicates the number of responses to Q4(c) of the survey in relation to a Community Service as the appropriate penalty for tax fraud with respect to the level of education Q 27.

Of those with a secondary level of education (blue bars) a large majority indicated a period less than one week of community service was appropriate. Those with diploma level education (red bars) were more evenly spread throughout penalty levels, although a higher proportion indicated little community service while of those with tertiary qualifications (yellow bars) a large majority indicated a period of less than one week of community service was appropriate.



The **top chart** indicates the number of responses to Q19 (d) of the survey in relation to the main reason for evading tax as being rationality with respect to the level of education Q 27.

Of those with a secondary level of education (blue bars) the majority indicated that that they would be indifferent or likely to agree with rationality as being a reason for evasion (skew to the right). Those with diploma level education (red bars) showed more of a normal distribution while those with tertiary qualifications (yellow bars) also indicated that they were neutral or likely to agree with rationality as being a reason for evasion (skew to the right).

The **bottom chart** indicates the number of responses to Q19(c) of the survey in relation to the main reason for evading tax as being a game against the ATO with respect to the level of education Q 27.

Of those with a secondary level of education (blue bars) the majority indicated that they would be indifferent or disagree to strongly disagree with an ATO game as being a reason for evasion (skew to the left). Those with diploma level education (red bars)