

11 Tax non-compliance among the under-30s

Knowledge, obligation, or skepticism?

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Introduction

Relatively consistently across taxpaying jurisdictions, younger people are found to be less compliant than middle-aged and older people (Jackson and Milliron, 1986; Mason and Calvin, 1978; Orviska and Hudson, 2002; Andreoni, Erard and Feinstein, 1998; Wearing and Headey, 1997). The finding has prompted some tax authorities, like the Australian Taxation Office, to tailor their advisory services to young taxpayers through a special purpose online site (Commissioner of Taxation, 2004), while others, like the Swedish Tax Agency, have launched extensive advertising campaigns to educate younger people about the benefits of paying taxes (Wittberg, 2006). Both interventions have research findings to support them. Younger taxpayers are known to be less knowledgeable about tax matters (McKerchar, 2002; Niemirowski and Wearing, 2006a), they have been shown to have a less well developed sense of moral obligation or law abidingness to pay tax (Orviska and Hudson, 2002; Wearing and Headey, 1997), and they are more likely to be sceptical about government authority (Inglehart, 1997; Putnam, 2000; Watts, 1999).

This chapter examines whether the lower compliance levels of younger taxpayers are associated with lack of knowledge, less moral obligation or greater Skepticism of government authority. In the first set of analyses, those under 30 years of age are compared with those in middle-aged and older age groups in terms of (a) tax evasion; (b) knowledge and resources; (c) moral obligation and deterrence; and (d) Skepticism as measured by motivational postures in relation to authority. Knowing that age groups differ on these qualities, however, does not mean that all these differences are implicated in non-compliance. Thus, a logistic

regression analysis is used to find out which of these factors – knowledge and resources, moral obligation and deterrence, or motivational posturing to authority, explain the relationship between age and tax evasion. Before investigating these relationships using a national survey of Australian taxpayers, the *Community Hopes, Fears and Actions Survey*, a brief review is undertaken of previous work that underpins expectations of a systemic reason for why younger generations are less compliant.

Lack of knowledge of youth non-compliance

A number of theoretical models of voluntary compliance recognize the importance of capacity, that is, the importance of a person or group knowing what an authority expects, and being able to deliver on such expectations (Carver and Scheier, 1998; Kagan and Scholz, 1984; Mitchell, 1994). Yet such knowledge in the field of taxation is not so readily accessible, particularly to the uninitiated.

A body of research has been critical of the complexity of tax systems and the problems this poses for achieving high rates of compliance (Andreoni et al., 1998; Brand, 1996; Tanzi and Shome, 1994). A significant portion of supposed tax evasion has been shown as unintentional, resulting from lack of knowledge, misunderstanding and ambiguous interpretation of tax law (Hasseldine and Li, 1999; Long and Swingen, 1991). Fear of unintentional non-compliance is experienced by taxpayers: A high proportion use tax agents to lodge their returns and their ideal tax agent overwhelmingly is one who is honest and will do their tax without fuss and risk (Hite and McGill, 1992; Sakurai and Braithwaite, 2003; Tan, 1999). It is likely that newcomers to the tax system, with lower levels of income, uncomplicated tax returns, and less obvious gain through use of a tax agent will be at risk of non-compliance. McKerchar (2002) and Niemirowski and Wearing (2006a) have reported that the tax knowledge of younger people is significantly less than that of older taxpayers. If young people are unsure of what the tax authority expects of them and are not connected with a tax agent who can provide them with appropriate advice, they may be considerably disadvantaged in their capacity to comply with tax law, particularly in a self-assessment tax system. Thus:

Hypothesis 1 (a): The under-30s are less knowledgeable about tax office expectations, and also may be less likely to have access to expert advice on tax matters; and

Hypothesis 1 (b): Less knowledge and access to knowledge among the under-30s explains higher non-compliance.

Low moral obligation and youth non-compliance

“Know how” is one factor in models of voluntary compliance, feeling that one “ought to” do the right thing is another (Kagan and Scholz, 1984). There is evidence that paying tax can initially be met with resistance: People need time to become socialised into taxpaying norms (Kirchler, 1999). The criminological literature provides further support for the thesis that younger people are more likely to question their moral obligation to pay tax than older people. They tend to be less likely to feel the constraints of law or convention and are less risk averse (Gottfredson and Hirschi, 1990; Sampson and Laub, 1993). Wearing and Headey (1997) have argued that younger people risk being socially marginalised within the taxpaying community. The networks that young taxpayers belong to are unlikely to encourage them to identify with or internalise the standards of honest taxpayers.

Not only is moral obligation weaker in younger taxpayers, but also it is one of the most stable predictors of tax evasion (see Andreoni et al., 1998 and Richardson and Sawyer, 2001 for reviews). With Bruno Frey and Lars Feld (Frey 1997; Frey and Feld 2001; Feld and Frey 2007), Torgler has reinvigorated interest in how cultures instigate a process that leads to an internal motivation to pay tax, a state described by these researchers as tax morale (see, for example, Alm and Torgler, 2004; Torgler, 2001, 2003). Torgler (2003) has used the World Value Survey to show that younger people are more likely than older age groups to think it is justified to cheat on their tax if they have a chance.

Tax morale and tax obligation do not exist in a social vacuum. The legal sanctioning system is not irrelevant. Tax obligation is correlated positively with perceptions of the likelihood of being caught (Grasmick and Bursik, 1990; Scholz and Pinney, 1995). In other words, those who express high moral

obligation to pay their tax believe that the chances of being caught if they do not pay are high. Thus:

Hypothesis 2 (a): The under-30s have less moral obligation to be honest and are less fearful of being caught for tax cheating; and

Hypothesis 2 (b): Low scores on moral obligation and fear of being caught among the under-30s explain higher non-compliance.

Skepticism and youth non-compliance

The above explanations attribute tax non-compliance among the young to transitional states of inexperience or poor socialization. The expectation is that younger taxpayers will “age-out” of non-compliance or defiance as they gain greater understanding of the processes and grow into acceptance of their taxpaying role. Their lower compliance is a function of their disadvantage as newcomers: They lack the “how to” knowledge and the “ought to” sentiment that would make them honest.

A different way of approaching the problem posits no “ageing-out” effect, but instead a changing taxpaying culture that disproportionately affects younger taxpayers. Less certainty, greater need for individual adaptability, greater awareness of individual rights, and the desire for individual freedom have all been hallmarks of responding to a globalized world. Younger generations have been notably more enthusiastic in embracing individualism and expressing Skepticism about government agendas (Inglehart 1997; Putnam, 2000). The central proposition of social change theorists is that experiences in the formative years play a profoundly important role in how each successive generation negotiates the life-course. This means that younger taxpayers may resist becoming well-socialized into the customs established by older generations: Instead they will be setting new standards that reflect adaptation to the world as they are experiencing it.

The importance of culture, particularly the quality of democratic governance has emerged as an important theme in the taxpaying literature. Feld and Frey (2007) refer to a psychological contract between an individual and the state – people are more likely to cooperate with a tax authority if that tax

authority is respectful of and responsive to the public and what citizens expect of government. Through acknowledging a relational element in taxpaying, Feld and Frey make room for some individuals having a more satisfying and mutually supportive relationship with their tax authority than others. Frey and Feld (2001) have presented a strong argument for why quality of democratic governance should be appreciated more widely as a factor shaping willingness to comply with tax laws, a position supported by Braithwaite (forthcoming). As the perceived quality of governance changes, so does the taxpaying culture and tax compliance.

One way in which the changing relationship between government and its people can be understood is through motivational posturing theory (Braithwaite, 2003; Braithwaite, Murphy, and Reinhart, 2007). This theory maintains that individuals see themselves as being in a relationship with their government that can be defined by liking and by deference. Liking refers to positive feelings. Deference refers to accepting authority, that is, assigning oneself to a position of subservience vis-à-vis government. Both liking and deference are regarded as indicators of the social distance that individuals choose to place between themselves and the authority (Bogardus, 1928).

Social distance increases when authorities are seen as a threat to an individual's identity, that is, authorities threaten an individual's freedom or capacity to generate wealth as desired. Threat is expressed in the guise of motivational postures that wax and wane as authorities behave in ways that are seen as acceptable and unacceptable. Five types of motivational postures have been identified to represent social distance from authority. The postures that reflect least social distance of the actor from the authority are commitment (believing in the cause that the regulator is protecting, the tax system in this instance), and capitulation (recognizing the power of the authority to enforce compliance and caving in to pressure). The postures that reflect most social distance are resistance (opposing the authority's demands), disengagement (cutting oneself off from the authority's demands), and game playing (challenging and outsmarting the authority) (see Appendix for measures of the postures). Commitment, capitulation and resistance define a dimension that

reflects liking for the authority. Disengagement and game playing reflect a dimension defined by refusal to defer to the authority (Braithwaite, 2003). Thus:

Hypothesis 3 (a): The under-30s will maintain greater social distance from authority; they will be more resistant, more disengaged and more prone to game playing, and less committed and less open to capitulation.

Hypothesis 3 (b): Greater social distance in the under-30s explains higher non-compliance.

Method

In 2000, a national survey, the *Community Hopes, Fears and Actions Survey (CHFAS)*, was conducted. The 2040 respondents who completed the survey were among a sample of Australians whose names were drawn from the publicly available electoral rolls by means of a stratified random sampling frame. The purpose of the survey was to find out what Australians thought of their tax system. Self-completion questionnaires were posted to respondents with a reply-paid envelope. Completed and returned surveys represented 29% of the targeted sample. While this was lower than desirable, it is consistent with the response rates obtained by other survey researchers who have focused on the issue of taxation (Kirchler, 1999; Kirchler, Niemirowski, and Wearing, 2006; Pope, Fayle, and Chen, 1993; Wallschutzky, 1996; Webley, Adams, and Elffers, 2002). In order to assess the bias associated with the participating sample, a number of comparative analyses have been conducted (Mearns and Braithwaite, 2001; Braithwaite and Reinhart, 2005). The findings support the conclusion that the *CHFAS* provides a broad cross-section of the population and is suitable for uncovering and explaining relationships among variables in a general population sample.

The *CHFAS* contained questions that were designed to measure self-reported tax evasion, knowledge and resources, moral obligation and deterrence, and motivational posturing in relation to authority. For the most part they comprise multi-item scales. All have been used in previous publications and have been shown to have acceptable levels of reliability and validity (measures

described in detail in Braithwaite 2001, 2003). For ease of interpretation, the survey questions associated with each of the measures will be reviewed as the findings are presented below.

Also included in the *CHFAS* were demographic variables including age in years, sex (0 = female, 1 = male), highest educational attainment² (1 = primary or less, 2 = some secondary, 3 = completed secondary, 4 = trade, diploma, 5 = tertiary), The age of respondents in the *CHFAS* in 2000 was used to form three groups for subsequent analyses: those under 30 years of age (the younger group), those between 30 and 55 (the middle-aged group), and those older than 55 (the older group). Respondents were included in the groups only if they had answered questions about their taxpaying behaviour in the financial year prior to the survey (n = 1528). There were 201 respondents in the younger group, 934 in the middle-aged group, and 393 in the older group. These groups formed the base for testing the hypotheses.³

Are young taxpayers more likely to evade tax?

Respondents were asked to report on how much of their income they had declared in their last tax return, and how likely it was that they had claimed false deductions when they lodged the return. Respondent also were asked if they had worked in the cash economy in the last 12 months.

Undeclared income: This index comprised a general question, “As far as you know, did you report all the money you earned in your 1998–99 income tax return?” and 7 specific measures requiring respondents to run down a checklist and consider whether they had reported all or just some of the income derived from the following sources: (a) salary and wages; (b) honorariums, tips, allowances, bonuses, director’s fees; (c) eligible termination payments; (d) Australian government allowances; (e) Australian government pensions; (f) interest; and (g) dividends.

Over-claiming deductions: This index was formed through aggregating responses to two questions: How much did you exaggerate the amount of deductions or rebates; and how confident are you that the claims were legitimate.

Cash economy income: This was measured through a single question, “Have you worked for cash-in-hand payments in the last 12 months? By cash-in-

hand we mean cash money that tax is not paid on.” Responses were scored 0 for “no” and 1 for “yes.”

For present purposes, these measures were used together to form a single dichotomous measure of evasion versus non-evasion (see Ahmed and Braithwaite, 2005 for details). If a respondent failed to comply on any of the 11 questions on tax evasion, they were coded as an evader. If they were compliant on every question, they were coded as a non-evader. The measure proved to be particularly suitable for younger people who tend to have more limited opportunities for evasion (Ahmed and Braithwaite 2005).

Of the under-30 year olds, 44% evaded tax in the *CHFAS*, compared with 30% of the middle-aged and 28% of the older age group (Chi-square Test of Independence ($df = 2$) = 18.43, $p < .001$).

Are young taxpayers less able to comply?

The potential of young taxpayers to be compliant may be compromised if they are less knowledgeable about tax office expectations than other taxpayers. Compensating for such deficits may be capacity to access those with knowledge. Two questions measured support from others when lodging a tax return. Young taxpayers may be less aware of or have less access to sources of sound tax advice.

Deficit in knowledge of what is expected: Respondents were asked the following question: When preparing for the lodgement of your income tax return, how well did you understand what the tax office expected of you? Was your understanding of what was required (a) extremely good, (b) good, (c) reasonable, (d) partial, or (e) poor. The scores ranged from 1 for extremely good to 5 for poor.

The younger group was significantly less confident that they had a good understanding of what the tax office expected ($M(SD) = 2.89 (1.09)$), compared with $M(SD) = 2.74 (1.01)$ for middle-aged and $M(SD) = 2.56 (1.07)$ for older age groups ($F(d,f) = 7.64, p < .001$). The difference, however, was only significant when the comparison was made with older respondents. Middle-aged respondents and younger respondents were not significantly different.

Support network: Respondents reported who they relied upon in preparing their 1998–99 tax return: (a) family member or close friend; (b) tax agent or adviser; (c) business partner; (d) tax office; (e) industry association; and (f) work employee. Only two sources of help were important – family/friends and tax agents/tax advisers. All others were endorsed by less than 7% of respondents.

Younger respondents relied on family and friends more than other age groups to complete their tax returns (41% compared with 19% among the middle-aged and 16% among the over-55s; Chi-square Test of Independence ($df = 2$) = 48.53, $p < .001$). They were significantly less likely than other groups to rely on tax agents or advisers (58% compared with 79% among the middle-aged and 79% among the over-55s; Chi-square Test of Independence ($df = 2$) = 42.24, $p < .001$).

Hypothesis 1(a) was partially supported. Younger taxpayers were unsure of what the tax office expected of them as hypothesised. Yet, they had support. They were more likely than other age groups to rely on family and friends for help. They were less likely, however, to use tax agents, possibly because their tax affairs were relatively uncomplicated. The taxpaying situation young people find themselves in is one where informal networks are almost as important as formal networks for learning about taxation. This is not likely to be a problem providing the informal advice is sound. With the middle-aged group expressing comparable uncertainty to the younger age group with regard to tax office expectations, doubts might be raised about the soundness of informal sector advice. Younger people may be more in need than most of the feedback and advice that the formal network of tax agents and advisers can offer.

Are young taxpayers less deterred and obligated?

The extent to which younger people lagged behind in developing a moral obligation to pay tax was inferred from two measures: (a) their ethical taxpaying norm about being honest and law abiding; and (b) holding as an ideal a tax adviser who advocated an honest and no-fuss approach. The third measure was awareness of the external constraints that were in place should they stray, specifically the deterrence measure of being caught. Perceived deterrence sets boundaries on actions that are not acceptable, so that even if ethical norms for

taxpaying have not been internalised, there is awareness that such norms are considered desirable and that taxpaying standards are enforced. The higher risk taking of younger people suggested that they could be oblivious to the consequences of tax evasion.

Ethical taxpaying norm: The scale that was used to measure a person's taxpaying norm was similar to that used by Wenzel (2004) and was formed by averaging rating scale responses (no!! (1) through yes!!(5)) to the following items: (a) Do YOU think you should honestly declare cash earnings on your tax return?; (b) Do YOU think it is acceptable to overstate tax deductions on your tax return? (reverse scored); (c) Do YOU think working for cash-in-hand payments without paying tax is a trivial offence? (reverse scored); (d) Do YOU think the government should actively discourage participation in the cash economy? Scores ranged from 1 to 5 with 5 representing a strong ethical taxpaying norm.

Ideal of an honest, no fuss tax adviser: Respondents were asked about their ideal tax adviser (Sakurai and Braithwaite, 2003). If honest taxpaying norms are internalised, the ideal is likely to be "someone who will do your return for you honestly with the minimum of fuss" and "someone who does not take risks and only claims for things that are clearly legitimate." Responses to these two items were averaged. Scores ranged from 1 for low priority to 4 for top priority.

Perceptions of being caught: Respondents were asked to report on how likely it would be for them to be caught should they do the following: (a) fail to declare \$5000 in income; and (b) over-claim \$5000 in deductions. In each case, they were given a scale ranging from 0 to 100%. The deterrence index comprised the average of the chances of being caught in the two scenarios. Higher scores indicated greater recognition of the likelihood of being caught. For purposes of analysis, scores were collapsed into a 1 to 5 rating scale.

TAKE IN TABLE 11.1

One-way analyses of variance were used to compare younger, middle-aged and older groups in term of moral obligation and deterrence (see Table 11.1). Table 11.1 shows strong support for the hypothesis that younger age groups were lagging behind the middle-aged group in their moral obligation to

pay tax, and the middle-aged group, in turn, were lagging behind the over-55s. The under-30s displayed a weaker taxpaying ethical norm than other age groups, and showed less interest in having an honest, no-fuss tax adviser. Perceptions of the likelihood of being caught were lowest among the under-30s, increasing for the middle-aged group, and increasing again for the over-55s. The data supported Hypothesis 2(a). Together these variables show lower tax morale among younger age groups. These findings are consistent with those appearing in the tax and criminological literatures (Torgler and Valev, 2006). Younger people are less committed to being law abiding and are less fearful of consequences.

Are young taxpayers more socially distant?

The items used to measure the motivational postures of commitment, capitulation, resistance, disengagement and game playing appear in Appendix I. Each item was rated on a five-point rating scale. Scale scores were formed through averaging ratings for each scale, the higher the score, the stronger the posture.

TAKE IN TABLE 11.2

The mean scores for the three age groups were compared using one-way analyses of variance (see Table 11.2). Only partial support could be found for Hypothesis 3(a). On the cooperative postures of commitment and capitulation, the under-30s had lower scores. The younger age group were significantly weaker on commitment than both the middle-aged and older groups. On capitulation the under-30s were significantly weaker than the older group, but no different from the middle-aged group.

In terms of the defiant postures, the differences that emerged showed that the under-30s were more likely to challenge the authority of the tax office. The younger group was no different from the other age groups on resistance, the posture communicating dislike, but not lack of deference. In contrast, on the postures of game playing and disengagement, the under-30s were relatively higher, suggesting a reluctance to defer to tax authority. The under-30s were significantly more attracted to game playing than the middle-aged group, but

surprisingly not more so than the older group. The under-30s were significantly more disengaged than others and the middle-aged group more so than the over-55s (see Table 11.2).

Logistic regression analysis predicting tax evasion

The question addressed is the following: Do differences in knowledge, moral obligation and deterrence, and motivational posturing translate into behavioural differences in tax evasion, and in particular, can these factors explain why younger people are more likely to evade tax? Hierarchical logistic regression analyses were used to examine whether the effect of age in the prediction of evasion (0 = no, 1 = yes) became non-significant when knowledge, moral obligation and deterrence, and motivational posturing were entered into the regression models. Three separate analyses tested for the effects of each set of explanatory variables. The two steps involved in the analyses were entering age as a dummy variable on the first step of the analysis along with the social demographic control variables of sex and education (Model 1), and on the second step adding the explanatory variables (Model 2). Tables 11.3 to 11.5 show the changes in b coefficients that occurred when the explanatory variables were added to the predictors of age and the social demographic controls. The expectation was that all three – knowledge and resources, moral obligation and deterrence, and motivational posturing would be risk factors that predispose young people to evasion.

TAKE IN TABLE 11.3

The first hierarchical logistic regression model tested the importance of knowledge of tax authority expectations and access to a support network (family and a tax adviser), after age and the social demographic control variables had been entered into the model. Table 11.3 shows age as significant in Model 1 with membership in the younger age group increasing the likelihood of evasion. Sex was also a significant predictor, with the likelihood of tax evasion being higher for men than women. In Model 2 age and sex remained significant, with knowledge and support from family and friends becoming complementary

predictors of evasion. Uncertainty over tax office expectations and reliance on family and friends increased the likelihood of evasion. Reliance on a tax adviser neither increased nor decreased prospects for evasion. What is of note here is that knowledge did not satisfactorily explain the relationship between age and tax evasion. Membership in the younger age group remained significant. Thus, knowledge is important in its own right as a predictor of evasion, without fully explaining greater evasion among the under-30s. Hypothesis 1(b) is not supported. A further important finding is that reliance on family and friends did not improve tax compliance as hypothesised; instead it decreased.

TAKE IN TABLE 11.4

Table 11.4 tests the importance of having an ethical taxpaying norm, holding as an ideal an honest, no fuss tax adviser and believing in being caught, once age was entered into the model. Table 11.4 shows that when the set of variables relating to tax obligation and deterrence was entered into the model, age became insignificant as a predictor. The likelihood of evasion was greater if individuals had a weaker ethical taxpaying norm, were less enthused by the ideal of an honest, no fuss tax adviser and less convinced of being caught should they cheat on tax. These data are supportive of Hypothesis 2(b). It remains a plausible hypothesis that younger people are more likely to evade tax because they have a less developed sense of moral obligation and less conviction about being caught by authorities. Further work is required before any claims can be made about directions of causality.

TAKE IN TABLE 11.5

Table 11.5 introduces the social distance measures of motivational postures. Those who were stronger on game playing and disengaged postures, that is, were not deferential to tax authority, had a greater likelihood of engaging in tax evasion. Age remained a significant predictor of evasion after the postures were entered into the hierarchical logistic regression model. The younger age

group remained more likely to evade tax. Hypothesis 3(b), therefore, is not supported.

Interestingly in Table 11.5, sex was no longer a significant predictor of evasion when the postures were added to the equation. Deference to authority, while not important in explaining age differences, is possibly one factor that contributes to explaining the greater compliance commonly observed among women (Andreoni et al., 1998; Richardson and Sawyer, 2001).

Integration of findings

The above analyses point to moral obligation and deterrence as the most plausible determinants of youth non-compliance. Skepticism about authority assessed through the motivational postures did not seem promising as an explanation of why younger people were more likely to evade tax. Similarly, knowledge did not appear to provide a satisfactory explanation. The absence of significant findings raised the question of whether the relationships among the explanatory variables were more complex than had been supposed. In particular, was the effect of one masked by the effect of the others?

A path model was built using the structural equation modelling program, AMOS (Version 6.00) (Arbuckle, 1999). The motivational postures did not appear to play much of a role in accounting for why younger people evaded tax, and therefore were dropped from the model building exercise. In order to simplify the process, only one of the two moral obligation variables were taken forward, ethical taxpaying norms. The path model was built around knowing what the tax authority expected, ethical taxpaying norms, perceived likelihood of being caught and compliance.

TAKE IN FIGURE 11.1

The path model representing the relationships among these variables is depicted in Figure 11.1. Age was directly and positively linked to knowledge, moral obligation and believing in the likelihood of getting caught. All three variables were then linked to tax evasion, but in the case of knowledge and being caught, only weakly. Interestingly, however, knowledge had a strong association

with moral obligation. According to the model in Figure 11.1, moral obligation, the most important predictor of tax evasion, can be strengthened by making it clearer to taxpayers what the tax authority expects. More extensive testing with longitudinal data would provide a more definitive test of the proposed direction of causality. The model in Figure 11.1 explained 11% of variance in evasion. Indicators of the fit between the data and the model were all satisfactory (Chi-square ($df = 2$) = .487, $p < .784$; GFI = 1.00; AGFI = .999; RMSEA = .000).

Discussion

Previous research has consistently reported that younger taxpayers are less positively disposed to taxpaying than others. This chapter has examined three likely explanations and tested them empirically, separately in the first instance, and subsequently in conjunction with each other. The idea that young people lack knowledge is pitted against low moral obligation and little fear of being caught, and both are pitted against Skepticism about tax authority as measured through motivational postures.

The data are cross-sectional in nature and therefore do not allow for the drawing of causal inferences about why young people are less compliant. The outcome is an assessment of different explanations in terms of their relative plausibility and worthiness of further investigation with longitudinal data. The most plausible explanation/s are likely to be those that not only differentiate young from middle and older age groups but that also relate to non-compliance, and do so in a way that renders the age relationship insignificant.⁴

Taxpayers under 30 years of age were more likely to self-report tax evasion than those who were middle-aged or older. 44% of the younger group (compared with 30% of the middle-aged group and 28% of the older group) admitted that they may have over-claimed deductions, or earned money in the shadow (sometimes called cash or black) economy or not declared all their income. Having established a pattern of non-compliance among the under-30s, the expectation was that we would be able to identify a core set of variables such as lack of knowledge, lower moral obligation and perceived deterrence, or motivational posturing that would explain the pattern. Knowledge and postures (with the exception of resistance) were related to age, but not to tax evasion in

such a way as to explain why younger taxpayers were less compliant. Lower levels of moral obligation and less fear of being caught, however, did explain, in a statistical sense, the higher levels of evasion among the under-30s. Tax obligation appears to be the most plausible explanation of tax non-compliance among younger taxpayers and most worthy of further causal analysis.

While knowledge and posturing were not important variables in explaining the age-tax evasion relationship, a path analysis was able to demonstrate that knowledge at least indirectly contributed to the pathway linking age to moral obligation. Older individuals were clearer about what the tax authority expected of them, and clarity of understanding was associated with greater moral obligation. Intuitively it makes sense that people need to know what an authority expects before they feel an ethical obligation to obey.

These findings are consistent with previous researchers who have argued that younger people age through non-compliance as they become socialised into the expectations of authority and the practices of their older peers. That said, it is noteworthy that the variance accounted for in tax evasion by age is very small. These data challenge the assertion that the under-30s represent a cohort that is distinctive in its outlook from other age groups (Mackay 1997), at least as far as taxpaying is concerned. On a number of variables, the under-30s were not so different from the middle-aged group (deficit in knowledge, capitulation, resistance) and were on occasion just like the older group (game playing). Earlier work showed that younger people were distinctive neither in their beliefs about the fairness of the system, nor in their assessment of their competence, nor in the priority they placed on tax (Braithwaite, Smart and Reinhart, 2006).

Possibly the introduction of a new tax system managed to blur some of the distinctiveness associated with age in so far as everyone was a newcomer to the system. Perhaps at another time age would prove to be a more important predictor of evasion than it has been in this particular study. Even so, it is of note that others have observed that younger taxpayers are not so different from the middle-aged group, even if the difference from the older-aged group reaches statistical significance (Torgler, 2003). From available data it seems that younger taxpayers do not undergo a dramatic change of identity post-30 to join the ranks of honest taxpayers. Borrowing from the criminological tradition (in particular,

Matza, 1964), it may be more applicable to think of younger taxpayers as not being trapped in an enclave of tax evasion but rather just drifting in and out of compliance with slightly greater frequency than older age groups. As their financial or personal situation becomes more “mainstreamed,” they may be more inclined to access tax practitioners for advice and become less reliant on family and friends. Networks may place limits on how much drift is possible as taxpayers develop a tax ‘history’ and “routine” that shapes the way in which they deal with tax in their later years. The data seem most consistent with the drift interpretation and suggest that it is quite plausible that with time the under-30s will become like the over-55s, but not perhaps without facing a few tax demons in their middle years.

Others have reached similar conclusions favouring the “ageing-out” perspective. Wearing and Headey (1997) concluded that younger age groups were marginalized as taxpayers both in terms of their personal dispositions to paying tax and the networks that were likely to influence them. This chapter supports Wearing and Headey’s findings. Torgler and Valev (2006) in their comparison of cohort and developmental trends for the related subject of corruption favour the developmental interpretation. As individuals become older, they assess corruption as less justifiable.

In suggesting that we are getting closer to closure on the role of age in tax evasion, it is worthwhile to take a bigger picture and point out that a pro-tax sensibility is a more important focus for intervention by tax authorities worried about the sustainability of their system than is age. The results were compelling in demonstrating how age pales into insignificance as a threat to the tax system compared with the erosion across age groups of moral obligation, the desire for an honest tax adviser and commitment to the tax system. This conclusion supports the claims of Frey and his colleagues (for example, see Frey, 1997; Frey and Feld, 2001; Feld and Frey, 2007). Their Swiss-based research reveals the importance of governments investing in the building and maintenance of tax morale, if democratic societies are to maintain sustainable, healthy taxpaying systems. In return for citizens’ accepting the obligation to pay taxes, governments are required to show respect for democratic principles, and be responsive to the needs and expectations of citizens. Scholz and Lubell (1998a,

1998b) have a similar understanding of tax compliance with a body of empirical data to support their argument.

While this is the primary message for tax authorities, there are insights into where there are opportunities for hastening younger people's maturation as far as honest taxpaying is concerned. Unexpectedly, the support of family and friends was related to non-compliance. A recent and well-documented finding to emerge in the Australian taxation context is that taxpayers have poor knowledge and understanding of the tax system (McKerchar, 2002; Niemirowski & Wearing, 2006b). Add to this Niemirowski and Wearing's (2006a) finding that younger people perform less well on a tax knowledge task than older people, and the picture emerges of an age cohort with imperfect knowledge, some doubts about what the tax office wants, and reliance on family and friends who also have imperfect knowledge. The work of Wearing and Headey (1997) and Niemirowski and Wearing (2006b) points to the value of examining how tax knowledge is derived and shared through work, family and other networks. Possibly improving younger taxpayers' access to tax practitioners is a way of fast-tracking the development of commitment and obligation as far as taxpaying is concerned. This presupposes tax practitioners who are sympathetic to the cultivation of a pro-tax sensibility among younger people.

Conclusion

Taken together, the findings of this study provide some interesting insights into possibilities for the erosion of Australia's self-assessment tax system across time and across generations. There is evidence that older generations are better socialised into taxpaying. Perhaps younger generations will follow in their footsteps, but if this is so, it is of some practical significance to realize that the socialization process promises to be a life long experience for taxpayers: The middle-aged group have more in common with the under-30s than they do the over-55s. The middle-aged group do not show signs of being the ideal role models for moving younger generations quickly into "compliant and cooperative mode."

With this in mind, there are glimpses in the data of cultural movements that present a challenge to a sustainable voluntary taxpaying culture. Game

playing among older age groups suggests a pocket of defiance among a group that have been traditional tax system supporters. The role that reliance on friends and family plays in undermining compliance also warrants some consideration, as does the general standard of tax ethics in the community. Loss of tax ethics, lack of knowledge about what is required, interest in game playing with the tax authority, reliance on family and friends, and low likelihood of being caught for evasion all play a role in weakening the normative fabric of taxpaying culture.

Addressing these considerations in the community at large is as important, if not more important, than addressing youth non-compliance. Policies that rest on the argument that the non-compliance of youth is a passing fad appear to be gaining support. At the same time, there is good reason for policy makers to think more systemically and question the assumptions that underlie this position. For instance, is the taxpaying culture that younger people pass into rich in tax morale? Any hope of young people becoming good taxpayers through socialization must rely first and foremost on role models; role models who exemplify the high standards of a community that openly promotes taxpayer honesty and commitment to the tax system. In this fundamental way, the sustainability of the tax system rests less on the tax morale of the young and more upon the tax morale of the society as a whole.

Appendix: motivational posture scales

Commitment (alpha reliability coefficient = .82; homogeneity ratio = .43)

Paying tax is the right thing to do.

Paying tax is a responsibility that should be willingly accepted by all Australians.

I feel a moral obligation to pay my tax.

Paying my tax ultimately advantages everyone.

I think of tax paying as helping the government do worthwhile things.

Overall, I pay my tax with good will.

I resent paying tax. (reversed)

I accept responsibility for paying my fair share of tax.

Capitulation (alpha reliability coefficient = .63; homogeneity ratio = .27)

If you cooperate with the Tax Office, they are likely to be cooperative with you. Even if the Tax office finds that I am doing something wrong, they will respect me in the long run as long as I admit my mistakes.

The Tax Office is encouraging to those who have difficulty meeting their obligations through no fault of their own.

The tax system may not be perfect, but it works well enough for most of us.

No matter how cooperative or uncooperative the Tax Office is, the best policy is to always be cooperative with them.

Resistance (alpha reliability coefficient = .68; homogeneity ratio = .31)

As a society, we need more people willing to take a stand against the Tax Office.

It's important not to let the Tax Office push you around.

The Tax Office is more interested in catching you for doing the wrong thing, than helping you do the right thing.

It's impossible to satisfy the Tax Office completely.

Once the Tax Office has you branded as a non-compliant taxpayer, they will never change their mind.

If you don't cooperate with the Tax Office, they will get tough with you.

Disengagement (alpha reliability coefficient = .64; homogeneity ratio = .27)

If I find out that I am not doing what the Tax Office wants, I'm not going to lose any sleep over it.

I personally don't think that there is much the Tax Office can do to me to make me pay tax if I don't want to.

I don't care if I am not doing the right thing by the Tax Office.

If the Tax Office gets tough with me, I will become uncooperative with them.

I don't really know what the Tax Office expects of me and I'm not about to ask.

Game playing (alpha reliability coefficient = .69; homogeneity ratio = .32)

I enjoy talking to friends about loopholes in the tax system.

I like the game of finding the grey area of tax law.

I enjoy the challenge of minimizing the tax I have to pay.

I enjoy spending time working out how changes in the tax system will affect me.

The Tax Office respects taxpayers who can give them a run for their money.

Notes

- 1 This research was undertaken while the authors were part of the Centre for Tax System Integrity at the Australian National University and was subsequently supported by the Regulatory Institutions Network (RegNet), Australian National University. The Centre for the Tax System Integrity received funding from the Australian Taxation Office. The views expressed in this chapter do not represent those of the Office or its Commissioner.
- 2 Education was treated as a quasi-interval variable in the logistic regression analysis.
- 3 A parallel set of analyses were carried out for the full sample to address part (a) of the three hypotheses. The findings were substantively the same for the full sample and the sample who reported on taxpaying behaviour.
- 4 It is conceivable that an age related explanatory factor, such as cynicism, does not trigger non-compliance concurrently, but rather makes its presence felt a number of years later as such individuals learn the ropes and understand how they might manipulate the system. We could catch a glimpse of such an effect with cross-sectional data through testing interaction terms. With the data set used in this study, interaction terms involving age and the explanatory variables were not significant.

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