

**THE TAXPAYERS' CHARTER:  
DOES THE AUSTRALIAN TAX OFFICE  
COMPLY AND WHO BENEFITS?**

*Valerie Braithwaite and Monika Reinhart*



The Australian National University  
Australian Taxation Office  
Centre for Tax System Integrity



**WORKING PAPER No 1**  
*December 2000*

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ISBN 0 642 76800 5  
ISSN 1444-8211

**WORKING PAPER No 1**  
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Australian National University 2000*

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*National Library of Australia*

Cataloguing-in-Publication data:

Valerie Braithwaite and Monika Reinhart  
The Taxpayers' Charter: Does the Tax Office Comply  
and Who Benefits?

Bibliography

ISBN 0 642 76800 5

1. Australian Taxation Office. 2. Income tax - Australia.
3. Taxation - Australia. I. Centre for Tax System Integrity. II. Title. (Series: Working paper (Centre for Tax System Integrity); no. 1).

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## Abstract

This paper presents initial findings on the Taxpayers' Charter from the *'Community Hopes, Fears and Actions Survey'*. The performance of the Australian Taxation Office (Tax Office) is high on most of the standards. Where it is low, there is the possibility of remedial action through making public the Tax Office's serious commitment to evaluating its own performance on the standards and improving performance where necessary. This paper also shows that when the public perceives the Tax Office adhering to the principles of the Charter, they also perceive the Tax Office as having qualities that are necessary for effective governance. The trustworthiness and legitimacy ascribed to the Tax Office are highest when the Tax Office is evaluated positively in terms of the principles of the *Taxpayers' Charter*.

## **The Taxpayers' Charter: Does the Tax Office comply and who benefits?**

*Valerie Braithwaite and Monika Reinhart*

The *Taxpayers' Charter* is the document that defines the kind of relationship the Australian Taxation Office (Tax Office) aspires to have with the Australian public. The Charter provides the basis for establishing a cooperative, respectful and trusting relationship with the public. In turn, the expectation is that the public will adopt a cooperative relationship with the Tax Office, respecting the legitimacy of the institution, trusting its processes, and accepting an obligation to pay tax. The relationship is assumed to be symbiotic, with cooperation from one party eliciting cooperation from the other.

There are various explanations for why the expectation of a symbiotic relationship may be misguided. First, if a competitive relationship exists between the Tax Office and the citizen, signs of 'generosity' by one party may be perceived as weakness by the other. For example, cooperative signals from the Tax Office may result in would-be tax evaders thinking they can get away with more and taking risks. On the other side, the Tax Office may take advantage of the situation when they see a taxpayer give a little bit of ground. They may become more demanding and invasive when they sense a taxpayer will not resist. The problem in moving from a competitive to a cooperative relationship is who gives way first, and at what cost.

This paper uses data from the *Community Hopes, Fears and Actions Survey* (Braithwaite, 2000) to begin to examine the nature of the relationship between the Tax Office and the Australian public. This was a survey of 2010 randomly selected adults from across Australia. The survey was conducted between June and September, 2000. The *Community Hopes, Fears and Actions Survey* comprised 12 sections that covered the respondents' goals for the community, attitudes to the democracy, understanding of the Tax Office and experience with the tax system, cash handling and tax reporting behaviours, and social-demographic background.

The *Community Hopes, Fears and Actions Survey* is cross-sectional and cannot capture the dynamic interplay between tax officers and the public as they contest and cooperate on tax matters. We can use the survey, however, to examine some basic questions about the nature of the relationship between the Tax Office and the public at one point in time.

Specifically, the following three questions are addressed in this paper:

- (1) Does the Tax Office act in accordance with the standards set out in the *Taxpayers' Charter*?
- (2) Do some segments of Australian society see the Tax Office as honouring the code more than others?
- (3) Do taxpayers express greater trust in the Tax Office and believe it has greater legitimacy when they see the Tax Office behaving in accordance with the *Taxpayers' Charter*?

### **1. Does the Tax Office act in accordance with the standards set out in the *Taxpayers' Charter*?**

Table 1 below presents the percentages of respondents who believe that the Tax Office behaves in accordance with its Charter obligations 'most times' or 'almost always'.

**Table 1: Percentages of respondents who regard the Tax Office as meeting its obligations under the *Taxpayers' Charter* (minimum n = 1847)**

<b>Taxpayers' Charter</b>	<b>Percentage responding 'most times' or 'almost always'</b>
Treating you as honest in your tax affairs	73.9
Accepting your right to get advice from a person of your choice	72.4
Keeping the information confidential	70.6
Treating you fairly and reasonably	62.4
Respecting your privacy	62.0
Giving you access to information they hold about you	60.9
Offering you professional service and assistance	56.4
Explaining decisions about your tax affairs	53.4
Giving you advice and information	53.0
Giving you the right to a review from outside the Tax Office	51.3
Being accountable for what they do	45.5
Helping to minimise your costs in complying with tax laws	36.5

**Note:** Unshaded items represent communal obligations, shaded items represent exchange obligations.

At the top of the list are obligations relating to respectful treatment, fairness and honesty. Of lower ranking are obligations relating to the provision of services. These two types of obligations can be conceived as expressions of communal trust norms and exchange trust norms (Braithwaite, 1998a). Broadly speaking, trust norms define how an institution should treat others if it wishes to be considered trustworthy and what outcomes should be delivered in line with its institutional function. Communal and exchange trust norms can be aligned respectively with the expressive and instrumental functions of intergroup behaviour.

Communal trust norms refer to principles that are endorsed because they build social connectedness through mutual respect and understanding. Exchange trust norms are

principles that specify the expectations that one group has of the other in terms of outputs and the rules in place to regulate performance. The unshaded obligations in Table 1 represent communal trust norms in that they describe ways in which the Tax Office affirms its respect for individuals in the community and the assumption of innocence until proven guilty. The shaded obligations in Table 1 represent exchange trust norms in that they are performance oriented, representing the actions the public expects of the Tax Office in exchange for paying taxes.

While the public is more likely to see the Tax Office as meeting its communal obligations than its exchange obligations, it should be noted that more than 50% of the respondents endorsed the Tax Office's performance on 10 of its 12 standards. The remaining two standards on which the majority of the respondents expressed at least some doubt involved accountability and cost. It would be difficult for the Tax Office to get a good result on a question about 'minimising your compliance costs' because taxation law is inherently complex and therefore costly for everyone. This result, therefore, is no surprise. There is a paradox with the other poor result on 'being accountable'. The paradox is that while the rating on the general principle of 'accountability' is low, the ratings on the more specific manifestations of accountability (that is, the other principles in the Charter) are quite high. The *Taxpayers' Charter* is the Tax Office's primary vehicle for accountability. This suggests that the Tax Office might promote more prominently the fact that it has a Charter, that it independently measures its performance on the Charter, that it makes the results public and that the results show that most of the people, most of the time, believe the Tax Office is meeting its accountability obligations.

## **2. Do some segments of Australian society see the Tax Office as honouring the code more than others?**

This question was answered through looking at different social-demographic groups in Australia and asking if they held conflicting views about the Tax Office and its adherence to

the Charter. A set of seven social-demographic indicators were selected for analysis – personal annual income, age, sex, marital status, number of children, nationality, and educational attainment (see Appendix I). To simplify the analyses, the 12 standards of the Charter were aggregated into two scales representing exchange obligations and communal obligations. These scales appear in Appendix II with descriptive statistical details.

The differences that were observed across social-demographic groups in perceptions of Tax Office behaviour in relation to the Charter were minor. The most significant differences are represented in two regression models, the results of which are summarised in Tables 2 and 3.

**Table 2: The b and beta coefficients from an ordinary least squares regression model (stepwise procedure) using the social-demographic variables to predict communal obligations in the *Taxpayers' Charter***

<b>Demographics</b>	<b><u>b value</u></b>	<b><u>beta value</u></b>	<b><u>t value</u></b>	<b>Sig.</b>
Age	.009	.147	5.80	.000
Personal income	-.004	-.104	-3.67	.000
Gender	-.096	-.051	-2.05	.041

Adjusted R<sup>2</sup> = .04.

**Table 3: The b and beta coefficients from an ordinary least squares regression model (stepwise procedure) using the social-demographic variables to predict exchange obligations in the *Taxpayers' Charter***

<b>Demographics</b>	<b><u>b value</u></b>	<b><u>beta value</u></b>	<b><u>t value</u></b>	<b>Sig.</b>
Age	.007	.137	5.80	.000
Personal income	-.003	-.086	-3.67	.000

Adjusted R<sup>2</sup> = .03.

Table 2 uses a subset of significant social-demographic indicators to predict the degree to which the Tax Office lives up to its communal obligations in the Charter. Table 3 uses a subset of social-demographic variables to explain perceptions of Tax Office performance in relation to exchange obligations. Overall, the percentage of variance accounted for by the social-demographic indicators is very small, less than 5% in each case. Tables 2 and 3 show that there is a slight tendency, in the case of both communal and exchange obligations, for older people to express more confidence in the Tax Office's performance, and for those with a higher personal income to express less. For the most part, however, Australians from different social-demographic groups converge in their views about the Tax Office's performance in relation to the Charter.

### **3. Do taxpayers express greater trust in the Tax Office and believe it has greater legitimacy when they see the Tax Office behaving in accordance with the *Taxpayers' Charter*?**

This paper addresses this question in a preliminary way through selecting three of the measures of trust and legitimacy incorporated in the *Community Hopes, Fears and Actions Survey*. One is a trust scale based on the theoretical formulation of Cummings and Bromiley (1996) and developed initially for use in Australian research on institutions of governance (Braithwaite, 1998b). The scale was adapted to represent the degree of trust that Australians have in the Tax Office.

The second and third scales are adapted from Tom Tyler's (1997) measures of legitimacy. The second scale is called favourability of evaluations and represents the extent to which Australians are inclined to accept the Tax Office as a legitimate institution. The third scale represents the degree to which Australians feel an obligation to obey, that is, how much do they feel obliged to accept 'the word' of the Tax Office, no matter what. These three scales are described in Appendix III.

The scores that the public gave the Tax Office on the communal and exchange obligation scales in the Charter were correlated with their scores on trust in the Tax Office and the legitimacy they gave to the Tax Office (that is, favourability and obligation). The correlations appear in Table 4 below.

**Table 4: Pearson product-moment correlation coefficients between perceptions of Tax Office adherence to the Charter and citizens’ expressions of trust, favourability and obligation toward the Tax Office**

Citizen views	Trust of Tax Office	Favourability of evaluations of Tax Office	Obligation to obey Tax Office
Belief that Tax Office meets communal obligations in Charter	.575***	.554***	.173***
Belief that Tax Office meets exchange obligations in Charter	.509***	.497***	.159***

\*\*\*p<.001

In the cases of both communal and exchange obligations, being seen to adhere to the Charter is related to greater trust in the Tax Office and a more favourable view of the Tax Office as a legitimate institution. While there was a positive relationship between adherence to the Charter and feeling an obligation to accept Tax Office decisions no matter what, the relationship was not strong.

These findings show that the principles of the Charter are highly related to some central concepts in understanding voluntary compliance. These concepts are trustworthiness and legitimacy. Individuals must trust an institution and see that institution as legitimate if voluntary compliance is to become a reality. The data from the *Community Hopes, Fears and Actions Survey* show that when people perceive the Tax Office adhering to the Charter, they

also hold the view that the Tax Office can be trusted to meet its obligations to all Australians. Furthermore, those who perceive the Tax Office adhering to the Charter see the Tax Office as having legitimacy in the sense that it is not unduly influenced by government or special interest groups. The second aspect of legitimacy, being willing to obey even when you disagree, is only weakly related to the belief that the Tax Office is adhering to the Charter. Future work will examine more closely the reasons behind this apparent defiance.

## **Conclusion**

This paper provides preliminary insights into how the Tax Office performs on the standards of good practice outlined in the *Taxpayers' Charter*. Furthermore, the paper foreshadows future work on how adherence to the Charter contributes to conditions that many regard as fundamental to good governance, such as institutional legitimacy and trustworthiness.

The majority of Australians believe that the Tax Office behaves in a manner that is consistent with its Charter most of the time. Over 50% of the sample gave the Tax Office a positive report on 10 of the 12 standards. Least satisfactory performance was associated with costs of compliance and accountability for actions.

Overall, it is of interest that the Tax Office performed better on communal trust obligations than on exchange trust obligations. Communal trust obligations refer to the codes of conduct that build social connectedness through respecting others, understanding the position of others, and preserving the dignity of others. Exchange trust obligations refer to practices that direct resources to others in return for resources. In the case of taxation, citizens pay the tax the Tax Office says they owe and, in exchange, the Tax Office is expected to provide information, advice, assistance, explanations and reviews in an orderly, open and transparent manner.

On the basis of these data, the Tax Office appears to have made more progress in terms of its commitment to building positive relations, than in providing practical help and feedback. At the same time, it is encouraging to observe few differences among social- demographic groups in how they feel about the Tax Office and its implementation of the Charter. These findings suggest that exclusion and discrimination are not issues impeding the successful implementation of the Charter at this time. This is encouraging because it is very common for women, young people, or ethnic minorities to feel more discriminated against by government authorities.

Finally, first steps have been taken to address the question, 'Does adherence to the *Taxpayers' Charter* matter?' The data presented in this paper show links between the public's perception of adherence to the Charter and the extent to which Australians place trust in the Tax Office and regard it as a legitimate institution. The data also reveal that legitimacy in the form of favourable evaluations is not the same as legitimacy in the form of 'blind' obedience. The Charter may prove to be significant for promoting healthy dialogue and resolving conflict. At this stage, the Charter shows signs of greasing the wheels of democracy, without stifling difference or debate.

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## Appendix I:

### Social-demographic indicators and their descriptive statistics (minimum n = 1838)

Indicators	Descriptive statistic
Personal income/year in thousands	Mean = 27.76 Standard deviation = 27.33
Age	Mean = 48.41 Standard deviation = 15.57
Sex	
Male	46.9%
Female	53.1%
Marital status	
Never married	15.1%
Now married	71.1%
Widowed	4.7%
Divorced/separated	9.1%
Number of children	
Zero	54.6%
One	16.2%
Two	18.9%
Three	8.1%
Four or more	2.2%
Country	
Australia, NZ	76.8%
Western Europe	15.7%
Eastern Europe	1.6%
Asia, Subcontinent, Africa	5.9%
Education	
Not much schooling	1.0%
Primary school	5.4%
Junior/Intermediate Form	23.6%
Secondary/Leaving Form	21.7%
Trade Certificate/Nursing Diploma	12.7%
Diploma Course	12.1%
University/Tertiary Degree	17.6%
Postgraduate Degree	5.9%

## **Appendix II:**

### **Descriptions of the communal and exchange obligation scales from the *Taxpayers' Charter***

Respondents were asked 'Do you think that the Tax Office acts in accordance with the standards set out below?'

The response categories were: 1 = almost never, 2 = occasionally, 3 = sometimes yes, sometimes no, 4 = most times, 5 = almost always.

#### **The communal obligation scale in the *Taxpayers' Charter***

1. Being accountable for what they do
2. Treating you fairly and reasonably
3. Treating you as honest in your tax affairs unless you act otherwise
4. Respecting your privacy
5. Keeping the information they hold about you confidential, in accordance with the law

The scale was constructed by adding responses to each item and dividing by the number of items in the scale.

Mean = 3.69, Standard deviation = 0.87, Alpha reliability coefficient = 0.86

### **The exchange obligation scale in the *Taxpayers' Charter***

1. Offering you professional service and assistance to help you understand and meet your tax obligations
2. Giving you access to information they hold about you, in accordance with the law
3. Explaining to you the decisions they make about your tax affairs
4. Giving you advice and information that you can rely on
5. Helping you to minimise your costs in complying with the tax laws
6. Giving you the right to an independent review from outside the Tax Office
7. Accepting that you have the right to be represented by and get advice from a person of your choice regarding your tax affairs

The scale was constructed by adding responses to each item and dividing by the number of items in the scale.

Mean = 3.45, Standard deviation = 0.95, Alpha reliability coefficient = 0.90

## **Appendix III:**

### **Descriptions of the trust and legitimacy scales**

#### **Trust scale** (Braithwaite, 1998b)

Respondents answered the following questions on a scale from 1 to 5 where 1 = strongly disagree, 2 = disagree, 3 = neither, 4 = agree, 5 = strongly agree.

The Tax Office ...

1. Has misled the Australian people
2. Acted in the interests of all Australians
3. Turned its back on its responsibility to Australians
4. Caved in to pressure from special interest groups
5. Is trusted by you to administer the tax system fairly
6. Takes advantage of people who are vulnerable
7. Meets its obligations to Australians
8. Is open and honest in its dealings with citizens

The scale was constructed by reverse scoring Items 1, 3, 4 and 6, adding responses to each item, and dividing by the number of items in the scale.

Mean = 3.18, Standard deviation = 0.66, Alpha reliability coefficient = 0.88

#### **Legitimacy scales** (adapted from Tyler, 1997)

Respondents rated each item on a scale from 1 to 5 where 1 = strongly disagree, 2 = disagree, 3 = neither, 4 = agree, 5 = strongly agree.

(a) *Favourability of evaluation scale*

1. The Tax Office can be trusted to administer the tax system so that it is right for the country as a whole.
2. The Tax Office does its job well.
3. The Tax Office has too much power.
4. The Tax Office's decisions are too influenced by political pressures.

The scale was constructed by reverse scoring Items 3 and 4, adding responses to each item, and dividing by the number of items in the scale.

Mean = 2.86, Standard deviation = 0.68, Alpha reliability coefficient = 0.68

(b) *Obligation to obey authority scale*

1. I should accept decisions made by the Tax Office even when I disagree with them.
2. People should follow the rulings of the Tax Office even if they go against what they think is right.

The scale was constructed by adding responses to each item, and dividing by the number of items in the scale.

Mean = 2.69, Standard deviation = 0.84, Alpha reliability coefficient = 0.60

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- No. 1. Braithwaite, V. & Reinhart, M. *The Taxpayers' Charter: Does the Australian Tax Office comply and who benefits?* December 2000.