



PERCEPTIONS OF WHO'S NOT PAYING THEIR FAIR SHARE

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Abstract

Data from the *Community Hopes, Fears and Actions Survey* are used to examine how pervasive the view is that the more privileged in society are failing to pay their fair share of tax, to understand the beliefs that underpin such perceptions, and the reforms that are needed to open dialogue with the Australian public about the issue. Support is found for five hypotheses. Economic self-interest provides a partial explanation for perceptions of vertical inequity, but more important are disillusionment with the Australian democracy and perceptions of insufficient procedural justice from the tax office. Values about how Australian society should develop also play a part. Those looking for a more equal, caring and compassionate Australia perceive there to be a high level of vertical inequity. Such perceptions are not shared by those aspiring to an Australia that pursues competitive advantage either economically or politically.

Introduction

Tax authorities are brokers for social order and harmony in democracies. They cannot determine the policies that are supposed to deliver these goals, nor the rules by which individuals are expected to contribute to the government coffers. But they carry responsibility for making it all happen — collecting taxes and providing government with revenue. As such, their integrity is pivotal to smooth democratic functioning.

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Integrity for a tax authority involves having purposeful and sound goals, appropriate and ethical procedures for pursuing such goals, and processes allowing reflection and evolution of their operation in response to the democratic will (Braithwaite 2003a). This paper is a contribution to the process of reflection on how the tax system is working for its citizens. Its purpose is to investigate the extent to which the Australian community believes that their tax authority is pursuing one of its goals, collecting revenue, in a sound and purposeful way. Three questions are addressed: (a) Are different social groups in our society paying their fair share of tax? (b) What are the experiences and aspirations lying behind public perceptions that some groups do not pay their fair share? and (c) Do perceptions of fairness shape the direction in which Australians want to see tax reform progress?

A fair share: objective reality or subjective evaluation?

The emphasis in this paper is on “what the people think” — do Australians believe that different groups are paying their fair share of tax? This does not imply that the people are always right, nor that they base their judgments on correct information, nor that they are immune from propaganda or prejudice. It does assume, however, that people’s perceptions matter, and that when such perceptions are strongly held and enduring, principles of good governance demand responsiveness from relevant authorities. Responsiveness, however, is best offered when complaints of unfairness are understood. Analyses of survey responses presented in this paper illustrate some of the community’s underlying fears of and hopes for the tax system as well as their wish list for tax reform.

Whether or not wealthy and privileged groups in society pay their fair share of tax has been a contentious issue for some time. Enquiries into the tax system have noted public concern that those with resources are able to take advantage of tax avoidance schemes and dramatically reduce their taxable income in ways outside the reach of most Australians, including wage and salary earners whose income places them in the top marginal tax bracket (Fraser, Boucher, Freeland, Gregory & McClelland 1999; Hobson 2002; Murphy 2003; Murphy & Byng 2002; Rawlings 2003; Senate Economics References Committee 2001; Women’s Electoral Lobby 1999). At the same time, the media has exposed instances of the highly favourable taxation arrangements of the privileged, some of which are legal as in the case of Queensland judges who enjoy especially

advantageous superannuation conditions vis-à-vis taxation (Sydney Morning Herald 6 February 2003), while others are illegal as in the case of New South Wales barristers who failed to pay tax for years on end (Sydney Morning Herald 26 February 2001).

While schemes for tax avoidance and evasion have become commonplace in Australia's financial landscape, less is known of how Australians are dealing with these developments. Do they believe, for instance, that those belonging to the top echelons of Australian society are shirking their taxpaying responsibilities, and if so, do they see it as cause for concern? And, if it is of concern, what do they believe should be done? This paper addresses these questions through a quantitative analysis of responses to the *Community Hopes, Fears and Actions Survey* (Braithwaite 2001), a nation-wide survey of Australians' views of their tax system and its administration.

Theoretical underpinnings

Sociologists and psychologists have long maintained that people act in ways that are consistent with their perceptions, beliefs and feelings about the world around them (Allport 1961; Thomas & Znaniecki 1918), and that their interpretations of what is happening are as important to understand as the so-called objective events of the day. Of the many explanatory frameworks of this kind available, one that has proven particularly useful for understanding how citizens engage with social issues and policy outcomes is that of Milton Rokeach (1968; 1973). Before applying his model to the current context, however, a little more needs to be said about the basic assumptions of the approach.

According to Rokeach, our evaluations of what is happening around us have to be understood within a psychological context. This psychological context is not more important than environmental considerations, but it adds value through explaining why people in apparently similar situations act and think quite differently. For instance, economists have raised our awareness of how we can all think and act in ways to maximise our share of limited resources. That we can, however, does not mean that we will. How we perceive the value of the resources, how we perceive the consequences of pursuing these resources, and how we define self-interest more generally falls very much in the domain of social identities and psychological realities.

In recent social science debates, social identity theories have moved onto centre stage as a means of understanding and explaining human behaviour. Such theories explain differences in the way individuals act in terms of influences from their social world; how they are influenced by reference groups, role models and more generally, social groups. Some are groups to which they belong, others groups from which they recoil, and yet others are aspirational groups, real or imagined. Through assuming that each person can create and re-create as many different social identities as there are social contexts, social identity theorists have provided a powerful tool for understanding how the behaviour of one person can change without apparent reason as the social context changes. For instance, a tax lawyer with a big corporation may say and do one thing with her CEO, another with her friends, and another with the tax office's auditor. In each case, the person is responding to a different set of relationships and social expectations, that is, a different social identity has become salient in each context.

But not all behaviours are so malleable. When our values, attitudes and beliefs remain salient and influential across social contexts and even across identities, we might think of ourselves as carrying psychological maps that allow us to see some things and exclude others, and that leave us open to new understandings on some matters and closed or resistant on others. This framework is employed in the present analysis to gain insight into how people arrive at the judgment that "others are not paying their fair share of tax". The task is to trace the key cognitions in the psychological map that lead some people to evaluate taxation in this way, and to seek tax reform.

The value-attitude-belief system of "not paying their fair share"

Rokeach's (1968; 1973) contribution to understanding psychological maps lies in his depiction of the value-attitude-belief system. Values represent enduring beliefs about ideal goals and ways of behaving that serve as standards for judging ourselves and others. Attitudes represent clusters of beliefs that zero in on particular objects, events or situations that we encounter in our environment. And beliefs, the basic building block of the system, can be defined as "any simple proposition, conscious or unconscious, inferred from what a person says or does, capable of being preceded by the phrase 'I believe that...'" (Rokeach 1968: 113).

As well as attitudes and values, there are subsystems of cognitions, relating to objects and how things work, to significant others, and to ourselves.

Beliefs, attitudes and values need not, and generally do not, exist in isolation. The interconnected sets become building blocks to create narratives that enable people to interpret their world, to understand what is happening to them and others, and to plan what they should do in the future (Maruna 2001; Rokeach 1964). When beliefs, attitudes and values become loosely connected and are shared by others, ideologies come into being, and provide a blueprint for how a group sees, interprets and plans action.

All of these interconnected subsystems of beliefs, attitudes and values potentially have a role to play in supporting and shaping the specific belief that "others are not paying their fair share of tax". For example, individuals who hold such a view may express outrage, justifying their response by invoking such values as abiding by the law, moral obligation, or civic responsibility. Attitudes about democracy and the place of the tax system in the democracy are also relevant to how strongly one holds the view that there are disparities in tax contributions in the community. Such attitudes engage with broader ideologies such as free markets, democratic socialism and liberalism (see Rawlings 2003).

Broad sweeping values and world views represent one aspect of the value-attitude-belief system that might sensitise some and blindfold others to whether or not different groups are paying their fair share of tax. Just as important, however, are people's experiences, first hand or vicarious, of the tax system at work. Those who believe that they are paying more than their fair share or feel that paying tax prevents them from achieving their goals are likely to be very conscious of disparities in contributions across groups. So too are those who believe that their tax office fails to carry out its duties with integrity, that is, in accordance with the principles of the Taxpayers' Charter in which taxpayers are promised treatment that is respectful, helpful, impartial, and fair (Australian Taxation Office 1997).

A set of hypotheses

Six general hypotheses are delineated below to frame this investigation of beliefs, attitudes and values that are associated with the perception that other social groups are not paying their fair share of tax and that tax reform is needed.

The economic self-interest hypothesis

The discipline of economics has been the strongest academic voice promulgating the idea that financial self-interest shapes how members of the public respond to tax policy. The policy preference of the individual is assumed to be that which advantages the person financially; the least preferred policy will be that which imposes costs, either in an absolute sense, or relative to others. In order to test this popular account of community reaction to tax policy, two variables are measured to represent financial self-interest. The first represents absolute loss at the hands of the tax system, that is, the individual cannot get ahead, no matter how hard he/she works, because of taxation. The second is a relative index of whether the individual pays a fair share of tax compared with others.

The security value hypothesis

Values associated with security, order and discipline are well entrenched in our belief systems (Braithwaite 1994; 1998). Those who aspire to a world where rules are followed, authority is respected, prosperity prevails, and the national interest is well protected will be positively disposed to standing up for the status quo. Strength and dominance mean maintaining control of the regulatory systems that are in place and discrediting resistance to those systems. To the extent that criticisms of disparity in taxpaying are read as an attack on "the haves" by aspiring "have-nots", those with security values will not perceive vertical inequities in the operation of the tax system. On the other hand, if they believe the system is not working as it should and is failing in its duty to enforce the law, the security oriented may rail against the lawlessness and express support for the claim that some are not paying their fair share.

Associated with having a security value orientation is belief in free markets and small government (Dryzek & Braithwaite 2000). Those who favour less government interference and more reliance on markets to regulate economic activity are likely to be supportive of avoidance measures (within the letter of the law at least), and are therefore less likely to be concerned about disparities in the fairness of the tax system from the perspective of different social groups.

The harmony value hypothesis

While security values institutionalise and regulate competition between individuals and groups in the society, harmony values emphasise mutual respect

and well being (Braithwaite 1994; 1998). One of the prime purposes of a tax system is to enable government to distribute resources in such a way that no member of the society is left alone to face unremitting hardship. Individuals with a strong allegiance to harmony values are likely to be sensitised to the most powerful and privileged not fully meeting their taxpaying responsibilities.

Consistent with this hypothesis is the expectation that those who believe Australia should move in a more caring, compassionate direction will also be concerned about any groups who have undue influence and power in the democracy, including those who are able to avoid paying their fair share of tax.

The support for a tax system hypothesis

The tax system is a core government instrumentality and as such should be regarded favourably by both security oriented and harmony oriented citizens, albeit for different reasons. But perhaps most commitment to the tax system will come from the harmony oriented who are likely to see it as the means for redistributing resources from the rich to the poor. Thus, derived from the *harmony value hypothesis* is the *support for a tax system hypothesis*. Those who are politically supportive of a tax system will be more sensitive to and critical of groups who are undermining its effectiveness.

The disillusioned Australian hypothesis

Evidence has emerged in recent years to suggest that Australians are increasingly disenchanted with their democracy (Braithwaite, Reinhart, Mearns & Graham 2001; Dryzek & Braithwaite 2000). The source of disenchantment is the powerlessness and irrelevance of the majority. By way of contrast, citizens see the door left open for influential individuals and groups to elicit favours from government that are not necessarily beneficial to the community. Those who are disillusioned with the state of the democracy will be likely to endorse criticisms of the privileged not paying their fair share. So too will those who are dissatisfied with the way government is spending taxpayers' money (at the macro level) and with the goods and services that individual taxpayers receive through the tax system (at the micro level).

The procedural justice hypothesis

Perceptions of free-riding are likely to hinge on perceptions of others not paying their fair share: The benefits of paying tax are available to all (e.g., health care,

education, a legal system, democratic governance), and people can share in these benefits without making their expected contribution to the communal pot. A problem of this kind is an example of distributive injustice, but distributive injustice cannot be divorced from procedural injustice (Taylor 2003). If processes are not fair — for example, enforcement strategies are used with some groups but not others — the outcome is also likely to be unfair — some groups will not pay their fair share of tax. It is therefore hypothesised that those who believe that there are disparities in who is paying their fair share will also believe that these disparities are mirrored in the procedures and processes adopted by the tax office to collect the revenue (the procedural justice hypothesis).

Two aspects of procedural justice are analysed in this paper. The first, is the degree to which the Australian Taxation Office acts in accordance with the Taxpayers' Charter, a public document defining the social contract between the tax office and the taxpayer. The second, is the extent to which citizens believe that the tax office has the power to take action against different kinds of taxpayers who decide to defy it.

Each of these hypotheses will be tested in relation to the belief that "others are not paying their fair share of tax". Perceptions of other groups not paying their fair share are then correlated with taxpayers' priorities for tax reform.

Method

Between June and December 2000, a national survey was conducted by the Centre for Tax System Integrity at the Australian National University (for details see Braithwaite 2001; Braithwaite *et al.* 2001). A stratified random sample of 7,754 persons was selected from publicly available electoral rolls. A lengthy questionnaire on tax matters was sent to each person who had been randomly selected, together with a letter explaining the intent of the study and a stamped addressed envelope for the return of the completed questionnaire. Two reminder cards were sent at two to three week intervals. After five weeks, a second questionnaire was posted to non-respondents, again followed by two reminder cards. Details of the methodology of the survey are available in Mearns and Braithwaite (2001).

Of the households contacted, 29 per cent completed and returned the survey, providing 2,040 cases for analysis. This response rate, while low in absolute

terms, compares favourably with rates reported for other tax surveys (Kirchler 1999; Pope, Fayle & Chen 1993; Wallschutzky 1996; Webley, Adams & Elffers 2002). Citizens seem less interested in filling out questionnaires related to tax than they are with most other topics. A series of diagnostic analyses (see Mearns & Braithwaite 2001) suggested that the sample provided a relatively representative cross-section of the views of Australians about their tax system. Furthermore, the sample was relatively representative of the population with regard to sex, ethnicity, education, age, occupation, and marital status. The biases that were detected pointed to an over-representation of those in scribing occupations who would have been more comfortable with a detailed response-intensive questionnaire, and an under-representation of younger age groups (18 to 25 years) who traditionally are difficult to recruit for self-completion surveys.

Results

Dependent variable

In order to measure perceptions that others are not paying their fair share of tax, we adapted a measure developed by Kinsey and Grasmick (1993). Kinsey and Grasmick asked their respondents to rate a number of different groups in terms of whether they were paying more than, less than, or their fair share of tax. The variation in these ratings for each respondent (that is, the degree to which the respondent rated groups differently — for example, from much more for some groups to much less for others) was used as an indicator of vertical inequity. The statistic chosen to reflect perceptions of vertical inequity for each person in the sample was the standard deviation of each person's ratings of the fairness of the contribution made by each group. If each group was rated by the respondent in exactly the same way, the respondent had a score of 0 and was assumed to perceive no vertical inequity in the tax system. The larger the number, the greater the vertical inequity perceived.

In order to make the procedure robust against anomalies in the taxpaying behaviour of the groups chosen, and in order to systematically capture variations in social standing, the *Community Hopes, Fears and Actions Survey* used a set of 12 occupational categories. Respondents rated each category in terms of whether they were paying "much less" (5), "a bit less" (4), an "ok" amount (3), "a bit more" (2) and "much more" (1) than their fair share. These

ratings were then factor analysed. The purpose of this analysis was to determine if respondents were being systematic in differentiating high social status occupations from middle and low status occupations when they made judgments about paying their fair share of tax.

A principal components analysis with a varimax rotation was used to produce the three factor solution in Table 1. Three factors were selected using the scree criterion. The significant loadings for the occupational groups on each factor appear in Table 1. Factor 1 represents *occupations of high social standing*, that is, managers of large corporations and companies and highly skilled professionals. Factor 2 represents occupations of *middle to low social standing*, that is, skilled, semi-skilled, or unskilled workers, presumably with less to gain or less opportunity to avoid or evade tax. Factor 3 represents business persons, owners of farms and small businesses, self-employed groups with opportunities to avoid or evade tax, but not with the resources of the wealthy.

This interpretation of the factor analysis suggests that Australians perceive a relationship between social standing, resources and opportunity to avoid and evade tax. To check this assertion a little further, scales were formed to correspond to these factors and were correlated with a set of marker variables taken from Kinsey and Grasmick (1993).

The items (or occupational groups) used for each scale are indicated in bold in Table 1. Items were included in one scale only (defined by the highest loading) and had to have a loading on this factor exceeding .40. The following three scales were formed by adding ratings on the scale items and dividing by the number of items: (a) perceptions that those in high social standing occupations were paying less than their fair share of tax; (b) perceptions that those in middle to low social standing occupations were paying less than their fair share of tax; and (c) perceptions that business persons were paying less than their fair share of tax.

Scores on these scales were then correlated with the indicators of vertical inequity used by Kinsey and Grasmick (1993): (a) wage and salary workers; (b) people who make a lot of their money from investments; (c) families earning less than \$20,000 per year; and (d) families earning more than \$100,000 per year. On the basis of the results presented in Table 2, perceptions of high social status occupations were most strongly associated with families earning more than \$100,000 per year and making money from investments. Perceptions of

Table 1: The loadings of various occupational groups on three rotated factors representing social groups not paying their fair share of tax

Occupational group	Factor 1	Factor 2	Factor 3
chief executives of large national corporations	.86		
surgeons	.85		
senior judges, barristers	.83		
doctors in general practice	.80		
owner-managers of large companies	.80		
tax agents and advisors	.62		
unskilled factory workers	-.34	.82	
waitresses		.81	
farm labourers		.80	
trades people		.66	.32
small business owners			.82
farm owners			.80
% variance accounted for	33.86	21.38	13.12

middle to low status occupations were most strongly related to wage and salary earners and families earning less than \$20,000 per year. Perceptions of business persons were associated with creating wealth through investments, but having a mixed profile as far as yearly earnings were concerned, that is, some having less than \$20,000 per year, some having more than \$100,000. These results support the interpretation of the factors as perceptions of social standing as well as resources and opportunity to evade or avoid tax.

Table 2: Correlations of scales based on occupational ratings with marker variables taken from Kinsey and Grasmick (1993)

Marker variables	Factor 1 high social status	Factor 2 middle to low social status	Factor 3 business persons
wage and salary workers	-.26***	.49***	.03
investors	.41***	-.13***	.16***
families with <\$20,000	-.32***	.53***	.14***
families with >\$100,000	.48***	-.21***	.06**

** $p < .01$. *** $p < .001$.

Following Kinsey and Grasmick (1993), the standard deviation of scores on the three occupational scales was calculated for each respondent and used as the index of vertical inequity, that is the perception that some occupational groups were paying less than their fair share of tax compared with others.

How much vertical inequity is there?

The vertical inequity index will be used in all subsequent analyses, but a picture of Australian's perceptions of vertical inequity can be best gleaned from the percent of respondents who indicated that the target occupational or social group was not paying its fair share of tax. Table 3 shows that most of the sample (starting at 77% for judgments of CEOs of large corporations and going down to 51% for judgments of people with family incomes in excess of \$100,000) believed that the high socio-economic groups were not paying their fair share. In contrast, very few believed (less than 12%) that low income earners, wage and salary earners and unskilled or semi-skilled workers were not paying their fair share. These figures support the conclusion that Australians associate inequity in the tax system with the privileged and wealthy stepping outside the tax net while those who are less well off are trapped in it.

Further analyses examined whether or not these views were more prevalent among some social-demographic groups than others. Perceptions of vertical inequity were somewhat more likely to be found among men ($r = -.06$, $p < .01$), among those working in the public or not-for-profit sectors ($r = .05$, $p < .05$),

among supporters of political parties of the left ($r = .10, p < .01$), and among those with less education ($r = -.05, p < .05$). These relationships were relatively weak, however. It can be safely concluded that perceptions of vertical inequity in tax paying in Australia are pervasive across social classes, and are not contingent on where one sits in the social and economic order.

Table 3: Percent of Australians who think the listed occupational and social groups are paying much less or a bit less than their fair share of tax

Occupational group	Percent
chief executives of large national corporations	76.9
owner-managers of large companies	70.1
senior judges, barristers	63.9
surgeons	58.7
doctors in general practice	51.0
families earning more than \$100,000 per year	50.6
people making money from investments	48.5
tax agents and advisors	46.1
farm owners	29.3
small business owners	23.7
trades people	21.6
families earning less than \$20,000 per year	11.5
waitresses	10.4
farm labourers	8.9
your industry, occupational group	6.7
unskilled factory workers	6.4
you, yourself	4.9
wage and salary workers	2.4

Predicting vertical inequity: description of the independent variables

Attached to each hypothesis was a set of independent variables. The economic self-interest hypothesis was represented by an absolute deprivation measure comprising the average of 1-5 ratings (strongly disagree to strongly agree) on a three item scale of economic disadvantage: (a) I would be better off if I worked less given the rate at which I am taxed; (b) Paying tax removes the incentive to earn more income; and (c) Paying tax means I just can't get ahead ($M (SD) = 3.09 (.86)$, $\alpha = .76$). The percent of the population endorsing the view that they were "held back" by tax obligations was 46.4%.

In addition, a single item measure of relative unfairness was included: Do "you, yourself" pay "much more" (1); "a bit more" (2); an "ok" amount (3); "a bit less" (4); or "much less" (5) than your fair share? ($M (SD) = 2.61 (.78)$). The responses of "a bit more" or "much more" were given by 35.8% of survey participants.

The security value hypothesis was tested using the national strength and order scale from the Social Values Inventory (Braithwaite 1982) and the small government, free markets scale based on Dryzek's (1994) work on Australian democracy. The national strength and order scale comprised the average of 1-7 ratings (reject to accept as of the utmost importance) on the following five items: (a) national greatness; (b) national security; (c) rule of law; (d) national economic development; and (e) reward for individual effort ($M (SD) = 5.64 (.97)$, $\alpha = .82$). Most respondents considered these goals, overall, as being important, very important or as of the utmost importance (81%).

The small government, free market scale comprised the average of 1-5 ratings (strongly disagree to strongly agree) on the following two items: (a) Free markets work because individual people, cooperating peacefully and voluntarily through markets, can achieve much that politicians and bureaucrats cannot achieve using compulsion and direction; and (b) The true function of government is to maintain peace and justice: This does not include interfering in national or international trade or commerce, or in the private transactions of citizens, save only as they threaten peace and justice ($M (SD) = 3.14 (.80)$, $r = .28$). The percent of the sample who regarded this world view favourably was 39.9%.

The harmony value hypothesis was tested using the international harmony and equality scale from the Social Values Inventory (Braithwaite 1982) and a more caring and equal society scale based on Dryzek's (1994) work on Australian democracy. The international harmony and equality scale comprised the average of 1–7 ratings (reject to accept as of the utmost importance) on the following ten items: (a) a good life for others; (b) rule by the people; (c) international cooperation; (d) social progress and reform; (e) a world at peace; (f) a world of beauty; (g) human dignity; (h) equal opportunity for all; (i) greater economic equality; and (j) preserving the natural environment ($M (SD) = 5.72 (.84)$, $\alpha = .87$). These goals, on average, were assigned to the top three categories of importance by 85.1% of respondents.

A more caring and equal society scale comprised the average of 1–5 ratings (strongly disagree to strongly agree) on the following two items: (a) Our community and nation should appeal to a spirit that each person is important, and has a way of influencing things; and (b) Our society will be more secure and more attractive if it is also more equitable and humane, as well as more productive and more efficient ($M (SD) = 4.08 (.59)$, $r = .56$). Endorsement of this world view was strong in the sample, reaching 91.1%.

In order to test the support for a tax system hypothesis, a commitment to the tax system scale (Braithwaite 2003b) was used comprising the following eight items: (a) Paying tax is the right thing to do; (b) Paying tax is a responsibility that should be willingly accepted by all Australians; (c) I feel a moral obligation to pay my tax; (d) I think of taxpaying as helping the government do worthwhile things; (e) I accept responsibility for paying my fair share of tax; (f) Paying my tax ultimately advantages everyone; (g) Overall, I pay my tax with good will; and (h) I resent paying tax (reverse scored). Responses which were made to each item on a 1–5 rating scale (strongly disagree to strongly agree) were averaged to derive scale scores ($M (SD) = 3.85 (.54)$, $\alpha = .82$). Respondents overall were strongly supportive of the tax system in principle (91.7%). This does not mean that taxpayers do not resist the decisions of the tax office in practice.

The disillusioned Australian hypothesis was measured through a disillusioned with the democracy scale based on the work of Dryzek (1994). The scale comprised the average of 1–5 ratings on the following nine items: (a) Democracy is a term that has lost much of its original meaning; (b) There's a

dollar democracy that runs through our supposed democracy; (c) In Australia, the rich have virtually unlimited access to the legal system and the capacity to use it to achieve their own ends; (d) I don't think we have enough input into legislation and the decisions that are important; (e) Our government is attempting to mould our society to the needs of a profit-oriented market; (f) I'm always cynical about government processes; (g) All political parties seem to be appalling; (h) The problem with democracy in Australia is that we are rarely asked our opinions; and (i) Governments can talk about democracy, but they fall down, in practice, because they cannot accept sharing power to influence decisions with those who might have different motives and ideas ($M (SD) = 3.72 (.60)$, $\alpha = .83$). The percent of the sample registering some level of disillusionment with the state of the democracy was high (85.8%).

Two additional measures included to test the disillusioned Australian hypothesis were satisfaction with government spending and the less tax, fewer benefits scale. The first was a single item: Overall, [on a rating scale from 1 to 5] how dissatisfied or satisfied are you with the way the government spends taxpayers' money? ($M (SD) = 2.48 (1.02)$). The percentage satisfied with government spending was 14.8%.

The less tax, fewer benefits scale comprised the average of 1–5 ratings on two items: (a) Do you think that the tax you pay is fair given the goods and services you get from the government? (reverse score); and (b) Would you prefer to pay less tax even if it means receiving a more restricted range of goods and services? ($M (SD) = 2.99 (.86)$, $r = .26$). A minority (34.8%) favoured lower taxes, fewer benefits.

The procedural justice hypothesis was tested with three measures. First, respondents used a 1–5 rating scale (almost never to almost always) to indicate the tax office's performance in abiding by the Taxpayers' Charter (Australian Taxation Office 1997). The Charter is made up of 12 standards: (a) being accountable; (b) treating taxpayers fairly and reasonably; (c) treating taxpayers as honest unless they act otherwise; (d) respecting privacy; (e) treating taxpayer information confidentially; (f) offering professional service and assistance; (g) giving access to taxpayer relevant information; (h) explaining decisions to taxpayers; (i) giving reliable information and advice to taxpayers; (j) helping taxpayers minimise their compliance costs; (k) respecting taxpayers' right to an independent review; and (l) accepting taxpayers' right to representation. Survey participants rated the

Australian Taxation Office's performance on these standards on a 1-5 rating scale from "almost never" through "almost always" ($M (SD) = 3.55 (.86)$, $\alpha = .93$). The percent providing a positive appraisal of the performance of the Australian Taxation Office on the Charter standards was 72.2%.

Two other scales provided measures of the powers of the tax office to take action against those who decided to defy it. The first, called the power of the tax office to deal with wealth and privilege, related to two kinds of taxpayers: (a) wealthy individuals; and (b) large companies. Responses were made on a 1-5 rating scale (strongly disagree to strongly agree) ($M (SD) = 3.16 (1.21)$, $r = .78$). The second called the power of the tax office to deal with ordinary groups of taxpayers who decide to defy it related to (a) small business; (b) ordinary wage and salary earners; and (c) self-employed taxpayers. Responses were made on a 1-5 rating scale (strongly disagree to strongly agree) ($M (SD) = 4.10 (.68)$, $\alpha = .82$). Interestingly, only 49.9% considered the tax office as being able to deal effectively with large business and high wealth individuals who decided to defy it. In contrast, 90.8% believed that the authority was able to deal effectively with less socially and economically powerful groups.

Predicting vertical inequity: regression results

The results of an ordinary least squares regression analysis presented in Table 4 reveal support for five of the six hypotheses.

First, the economic self-interest hypothesis is confirmed by the data at both the bivariate and the multivariate level. Those who perceive vertical inequity in the tax system believe that the tax system is preventing them from achieving their goals (economic disadvantage) and more importantly, this belief is linked to the perception that they themselves are paying more than their fair share of tax (relative fairness).

The security value hypothesis receives support at the multivariate level, with supporters of this value position rejecting the idea that some groups pay more than their fair share of tax while others pay less. Nevertheless, it is of note that relationships with both national strength and order and small government, free markets are weak. The bivariate results showing no relationship with vertical inequity probably reflect the ambivalence discussed at the outset of this paper. To pay tax is to obey the law and support for the law is valued by the security oriented. On the other hand, the tax system pegs back the economic success

stories admired and desired by the security oriented, and in this sense blocks greater prosperity and achievement for individuals.

The harmony value hypothesis is confirmed at both the bivariate and multivariate levels with those concerned about having a more equal, caring and compassionate society holding to the belief that the privileged and well resourced are paying less than their fair share of tax.

The support for a tax system hypothesis was not supported. The significant result that occurred at the bivariate level (not at the multivariate level) is in the opposite direction to that predicted. Those who are committed to a tax system do not report perceptions of vertical inequity: The hypothesis was that the committed would be highly sensitive to any abuse in the system. Perhaps the more meaningful way to interpret this relationship is through its obverse: Those who are not committed to the tax system report high vertical inequity. This finding hints at the question of whether perceptions of long-term vertical inequity undermine commitment to the tax system. But such a suggestion is jumping ahead of the data. It is still an open question as to whether or not these findings reflect community backlash, or whether commitment to a system simply blinds one to its imperfections.

The theme of disillusionment with government and its relation to perceptions of vertical inequity is the most important story to emerge in the regression analysis. Those who have lost confidence in the democracy perceive the privileged shirking their taxpaying responsibilities. In the analyses in Table 4, disillusionment with the democracy is the strongest correlate of perceptions of vertical inequity at the bivariate and multivariate levels. The disillusioned Australian hypothesis is also supported by the finding that those who are dissatisfied with the way government is spending its money see vertical inequity in the tax system as an issue. The bivariate relationship showing that those who perceive vertical inequity wish to withdraw from the tax system and settle for fewer goods and services adds substance to the question raised about whether long term perceptions of vertical inequity prompt disengagement from the system by those who feel that it has let them down.

Finally, support is found for the procedural justice hypothesis. Perceptions of vertical inequity are associated with the view that the tax office does not act in accordance with its Charter when it deals with taxpayers. Moreover, vertical

inequity is linked with the view that the tax office does not have the power to deal with wealthy individuals and large companies that decide to defy it, although it has capacity to deal with non-compliant ordinary taxpayers.

Table 4: Standardised regression coefficients, adjusted R^2 and bivariate correlations for an OLS regression analysis predicting vertical inequity from 6 types of predictor variables

Hypothesis	Predictor	r	β
Economic self-interest	economic disadvantage	.20***	.06**
	relative fairness (self pays less)	-.24***	-.13***
Security	national strength & order	-.01	-.06*
	small government, free markets	.02	-.05*
Harmony	international harmony & equality	.10***	.08**
	a more caring and equal society	.18***	.08**
Tax system support	commitment	-.08***	.02
Disillusioned Australian	disillusioned with democracy	.37***	.21***
	satisfaction with government	-.27***	-.08***
	less tax, fewer benefits	.17***	.00
Procedural justice	Charter adherence	-.23***	-.10***
	power with the privileged	-.23***	-.12***
	power with ordinary taxpayers	.12***	.09***
	Adjusted R^2		.22***

* $p < .05$. ** $p < .01$. *** $p < .001$.

Relating perceptions of vertical inequity to tax reform

This paper only begins the task of examining the implications of perceptions of vertical inequity. That such views are well entrenched in the minds of some taxpayers is without doubt. A follow-up survey conducted early in 2002 revealed a notable degree of stability in ratings of vertical inequity. Correlations ranged from .36 (for families earning less than \$20,000) to .54 (for farm owners), with

the overall assessment of vertical inequality in 2000 and 2002 correlating .52. In other words, those who saw high vertical inequity in 2000 were also highly likely to report high vertical inequity in 2002. Further support for the entrenched nature of perceptions of vertical inequity is provided by Rawlings (2003).

It seems highly likely that perceptions of vertical inequity affect taxpayers' behaviours at an individual level (whether they comply, avoid or evade tax law) (see Braithwaite, Schneider, Reinhart & Murphy 2003; Wenzel in press) and at the collective level (what they are looking for in tax reform). This paper addresses the relationship between perceptions of vertical inequity and tax reform. The rationale is that tax reform in the past has provided the context for public debate over vertical inequities in the tax system (Fraser *et al.* 1999). We can use these survey data to ask what is the language of tax reform that will begin to address perceptions of vertical inequity for the majority of Australians. If there is some kind of policy conversation that can take place between the government and its citizens to address these perceptions, there is hope that perceptions of vertical inequity will represent "an historical moment" rather than an entrenched position of resentment among Australians that a key institution in the democracy fails a basic test of integrity.

The *Community Hopes, Fears and Actions Survey* (Braithwaite 2001) asked respondents to prioritise 14 principles to guide tax reform. They could indicate that the principle was not important (1), somewhat important (2), important (3), very important (4), or of the utmost importance (5). Four of these principles fell behind the others in importance: improving the competitiveness of Australian business, making the tax system simpler through getting rid of exemptions, getting rid of as many deductions as possible, and looking into a flat rate of tax. The low rating given to these proposals shows a population of taxpayers who accept and want a degree of sophistication in the tax system. Part of the explanation may be Australians' love of their annual tax refund. Another part may be acceptance of the often-heard justification that complexity is driven by a desire to make the system fair and reasonable for all.

The top ten tax reform principles are listed in Table 5. The reforms can be grouped into two kinds: (a) reforms relating to transparency and sharing responsibility for paying tax; and (b) reforms relating to tax containment and efficiency. A principal components analysis supported separating the goals for tax reform in this way.

The reform measures most strongly associated with transparency in taxpaying and sharing responsibility were: (i) ensuring large corporations pay their fair share; (ii) ensuring that people who are wealthier pay more tax; (iii) making public the amount of tax paid by large corporations; and (iv) making sure the government has a secure source of revenue to provide public goods. The first three tax reform principles were the ones most strongly correlated with perceptions of vertical inequity, the coefficients ranging from .26 to .28. Moreover, they were among the tax reform measures that were most strongly endorsed by Australians.

The desire for containment of the tax system and improved efficiency was represented by the following reform priorities: (i) getting rid of the grey areas of tax law; (ii) minimising the regulations and paperwork for taxpayers; (iii) keeping taxes as low as possible; (iv) broadening the tax base so everyone contributes; (v) giving corporations incentives to serve the community; and (vi) keeping costs of administering the tax system down. Support for all of these reform measures correlated positively with perceptions of vertical inequity, but the coefficients are comparatively weak, ranging from .06 to .15. This suggests that reforms of this kind may not be the prime targets for meaningful dialogue with the public on the integrity of their tax system. For those who are most concerned about vertical inequity, the reform agenda of containment, efficiency and lower taxation is likely to be a side issue. The main issue is transparency and sharing of the tax burden.

Table 5: Percent of Australians prioritising the top ten principles^a for tax reform and correlations of these principles with perceptions of vertical inequity

Principles of tax reform	Percent saying prioritise	r
<i>Transparency and sharing responsibility</i>		
Ensure large corporations pay fair share	60.3	.28***
Ensure that people who are wealthier pay more tax	37.1	.28***
Make public the tax paid by large corporations	33.9	.26***
Make sure secure source of revenue for public goods	24.0	.12***
<i>Containment and efficiency</i>		
Get rid of grey areas of tax law	39.6	.15***
Minimise the regulations and paperwork for taxpayers	33.8	.14***
Keep taxes as low as possible	30.9	.09***
Broaden tax base so everyone contributes	30.5	.08***
Give corporations incentives to serve community	28.8	.06*
Keep costs of administering tax system down	28.2	.10***

* $p < .05$. *** $p < .001$.

^a Prioritising means percent rating principle as of the utmost importance. Top ten chosen on the basis of the principle's mean rating. All had a median score of 4 (very important) or 5 (utmost importance).

Conclusion

The purpose of this paper is to map psychologically the belief structures that lie behind the widespread complaint in Australian society — "The wealthy and powerful are not paying their fair share of tax". The findings reveal that there is no single universal map, nor is the map simple. A variety of experiences and perceptions sustain beliefs about vertical inequity in the tax system. No fewer than five distinct hypotheses were supported in this study.

Inveterate tax researchers and policy makers will not be the least bit surprised by the finding that perceptions of vertical inequity for some are tied to their own financial situation, a situation in which they feel unduly burdened by taxation. Economic self-interest is therefore alive and well and making its voice heard in the debate over tax justice. Of some surprise, however, is that there are many other voices in the crowd protesting against the taxpaying habits of the privileged.

An even stronger voice than economic self-interest is that fuelled by lost social capital, lost to the government as well as the tax office. Social capital is being used in this context to refer to the good relations that come from respectful and cooperative exchanges between government, including the tax office, and the citizens of Australia. Within a democracy, authorities rely on social capital for their legitimacy and their effectiveness. As social capital is lost, authorities need to devote considerably more resources to ensuring that citizens cooperate and follow their leadership (LaFree 1998). The findings in this paper consistently paint a picture of vertical inequity being linked with lost social capital as reflected in feelings of disillusionment with the democracy, dissatisfaction with government and perceptions of procedural injustice in the operations of the tax office. At the heart of these concerns is the observation that so called democratic processes, and indeed justice, are the preserve of the wealthy and the powerful.

In the context of taxation, one might consider the problem of lost social capital to be manageable and readily addressed. In some sense it is. Bringing tax office practices more in line with the Taxpayers' Charter, that is, strengthening procedural justice, is a very achievable goal for a tax authority. The task seems a little more daunting, however, when one considers the related evidence. While the tax office can do something about the ordinary taxpayers who decide to defy it, they cannot do much about big business or wealthy individuals — at least this is the observation among those who regard vertical inequity to be high in the system. This raises the question of tax office powers — are they really too limited? And if the answer is no, how and why has the tax office been unable to use the powers that it has?

Part of the answer to this question may lie in competing visions for Australia's future. The predictive capacity of the value orientations in this paper are worthy of discussion, for reasons that have less to do with the magnitude of their effect size in the regression analysis, and more to do with the different kinds of social

worlds they spell out as ideal for Australia's development. Perceptions of vertical inequity are strong among those wanting a more equal, caring and compassionate Australia. On the other hand, vertical inequity does not even register as an issue in the minds of those who are in pursuit of the competitive edge, who prioritise market advantage, and who want to see an Australia that has economic and political clout.

There is little doubt that tax reform treads highly contested territory, but the data presented in this paper point to areas where social change might begin. The sheer weight of public support for ensuring that large corporates pay their fair share suggests that consideration should be given to more active, effective and perhaps more public enforcement strategies with this segment of the taxpaying community. Finding the middle ground is also important in moving the reform process forward. An item on the tax reform agenda that may cross the divide between those troubled by vertical inequity and those not is getting rid of the grey areas of tax law. This item was ranked as the second highest priority among tax reform principles, supported by those who are concerned about vertical inequity as well as by those who want to see containment and efficiency reforms in the tax system. What appears to be a broad based interest in getting rid of grey areas of tax law makes sense from both the perspective of those who want a competitively robust economy with small government and free markets and those who want a more caring, compassionate Australia. Playing for the grey pushes up tax costs and expands a system that many would like to see contained. Playing for the grey also provides escape from the tax net that those with resources can't resist and that ordinary taxpayers clearly resent. Within the taxation context, the meeting ground for the protagonists of competing visions of Australia's future may well be the law and reforms that will more clearly mark out acceptable taxpaying behaviour.

If this is the starting point for debate, there is a glaring downside. Law, particularly re-drafting tax law, is a game for elites. And as this paper demonstrates, the tax system has been the playing field for elites for some time, a situation that has drawn the ire of the Australian public. The failure of our opinion forming institutions — parliament, political parties, the high court, the federal court, government enquiries, and the media — to frame and/or initiate a mature debate over vertical inequity, and more generally, the relationship between the tax authority and the citizens it serves has imposed a cost on Australian society that all will bear for some time. Disillusionment, and

subsequent loss of commitment to the tax system, are conditions that can not be readily reversed and that undermine the task of fostering a voluntary taxpaying culture. For people to cooperate with a tax system, they must believe in it. Perhaps more importantly, the tax authority, and the government of which it is part, must communicate belief in citizens, responsiveness to their concerns, and commitment to accord to each member of the democracy equal status as a citizen, in spite of marked differences in their taxpaying circumstances.

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