

**Taxation Paradigms:  
What is the East Anglian Perception?**

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*What we call the beginning is often the end*

*And to make an end is to make a beginning*

*The end is where we start*

+++++

*We shall not cease from exploration*

*And the end of exploring*

*Will to arrive where we started*

+++++

*T.S Eliot (1974, 208:209)*  
*The Four Quartets, Collected Poems, 1909-1962*  
*London: Faber and Faber*

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## ABSTRACT

Ever since the Peasant's Revolt in 1379, collection of our taxes has been unpopular. In particular when the taxes are viewed as unfair the population have reacted in significant and even violent ways. For example the Hearth Tax of 1662, Window Tax of 1747 and the Poll tax of the 1990's have experienced public rejection of these levies. Additionally there has been a major growth in tax avoidance in the last 60 years.

All of this may indicate a single ontology of taxation; one where tax is disliked and avoided.

However the work of Buchanan (1994) suggested there are alternative ways of viewing taxation by identifying four alternative paradigms of taxation. This research recognises the work of Buchanan (1994) but challenges whether his alternatives are paradigms; other researchers suggest there are factors such as age, gender and background that can influence our view of taxation. If that is true then Buchanan's (1994) work must be interpreted as four alternative perceptions of taxation; that is taxation does not have a single ontology.

Based upon primary and secondary research this thesis clearly identifies the factors that can influence our view, perception, of taxation. Contrary to the conclusions of Auerbach (1999) this research considers a matrix of factors rather than adopting Auerbach's view that tax policy is endogenous and should not try to explain taxes from a wide range of factors. This matrix of factors is concluded in the Tax Perception Push-Pull Model which identifies a range of influences and in categorising the factors it identifies the relative strength or importance of the factors.

The model concept is tested against the tax changes introduced in the UK Budget statement of 2008 and shows there is a balance of push and pull factors, concluding that the population's overall view of taxation should not change.

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## **Chapter 1: Introduction and initial consideration of the influences upon taxation policy.**

### **Introduction**

Taxation has long established roots within wider aspects of economic theory resulting in theories concerning the utility function of tax as discussed by Trotman Dickenson 1998 and James and Nobes (1992, 2000).

In the public domain, taxation debate is focused upon the Annual Budget and public spending decisions. For example, in recent years the introduction of the poll tax and the recent IR35 legislation has generated substantial debate (Webb, 2000 and [www.shout99.com](http://www.shout99.com) ). Recent Budgets, in particular the 2002 - 2006 Budget statements, have incorporated only minor incremental changes or as Rose and Karran (1987) put it 'fringe tuning' to tax legislation and contain immaterial values in respect of overall fiscal policy. Such incremental change, over time, has resulted in a move from direct to indirect taxation with a potential underlying philosophy that adverse public reaction has a closer correlation to changes in direct tax. Rose and Karran (1987) recognised that individual budget changes do not contain major changes in the direction of tax policy and argue that it is the cumulative effect of changes that should be evaluated. A reactive, rather than objective, analysis of recent Budget speeches (2002-2005) might suggest the Chancellor has carefully linked spending and revenue raising issues. Such could be based upon tacit public support towards hypothecation, whilst recognising the accounting profession's evaluation that hypothecation is neither administratively economic nor efficient (Ernst and Young 1996). Engen and Skinner (1999, p323) conclude that there is 'enough evidence linking taxation and output growth to make reasonable inference that beneficial changes in tax policy can have modest effects on output growth'. Therefore the careful structuring of Chancellors' speeches may have wider economic benefit by stressing the benefits of tax

change. Engen and Skinner (1999, p324) that, other things being equal, a 2.5 percentage points reduction in average tax rates will result in increased long term economic growth of 0.2 to 0.3 percentage points.

Initial research into the public and corporate perceptions of taxation policy and the role of tax has been concerned with specific issues such as evasion or compliance costs and these are explored later in this thesis. However little contemporary work has been found which considers alternative perceptions of taxation and, in particular, how an understanding of such perceptions could or should influence taxation policy. Economic theory considers issues such as the benefit theory of taxation and ability to pay theory of taxation yet both predicate themselves upon perceived equity (or fairness in balance) in the allocation of tax shares. Buchanan (1994) proposes alternative 'paradigms' and articulates these as:

1. *Taxation can be viewed as the cost side of an inclusive fiscal exchange process, with taxes being treated as 'prices'.*
2. *Taxation can be ....modelled as the embodiment of fixed charges that the community is obliged to meet.*
3. *Taxation is a set of coercively imposed charges imposed upon those who are politically weak by those who are politically strong..... for the purpose of financing private goods and services enjoyed by the latter.*
4. *Taxation may be conceived as a self-contained collective enterprise, characterised by positive and negative transfers that have as their ultimate purpose the achievement of collectively- chosen patterns of post-tax, post-transfer distributions.*

These will be discussed in greater detail in chapter 6.

Buchanan labels these as alternative paradigms of taxation but does not explain or justify his selection of the terminology. If we take a simple definition of the word *paradigm* we will find support for Buchanan's use of the word. A paradigm is 'an example or pattern, a representative set of inflictions' (Allen, 1991 p862). If we consider each of the four points above they may be

taken as examples and so be termed paradigms. A more comprehensive view of the definition of '*paradigm*' may be found within the works of Guba and Lincoln (1998 p 185 – 186) who introduce the term as a 'set of basic beliefs that guide action' (p185). They continue by explaining that paradigms 'contain three elements: epistemology, ontology and methodology.' That is, our understanding of knowledge and how the world works, the nature of reality and how we gain knowledge. It may be implied from Buchanan's position that taxpayers have beliefs based upon knowledge, reality and learning. However if these prove not to be beliefs but perceptions of taxation then we may not talk of alternative paradigms. Whether we talk of perceptions or paradigms does not alter the focus of this thesis; if it is demonstrated that our views towards taxation may be altered or managed then we will reflect upon Buchanan's work as being concerned with perceptions of taxation. If however our views are much more deep rooted, perhaps based upon our life experiences, then they may be regarded as paradigms. As a result of the differences in definition this research will consider perceptions of taxation except where reference is made to Buchanan's work and his alternative paradigms. Chittenden and Foster (2008) compare responses across four countries and conclude that attitudes towards tax are influenced by economic and social conditions thereby supporting the view that 'Buchanan's paradigms' should be treated as alternative perceptions.

## **Wider Literature**

An initial review of the literature in the UK and US, being major, established tax paying commercial economies, provides an excellent breadth of books and papers on the subject of taxation and taxation policy. A significant omission in the literature is a clear and concise evaluation of changing taxation perceptions, other than Buchanan (1994) who then only considers the concept of equity upon his four alternative paradigms.

Lamb and Lymer (1999, p16 ) recognised that '*Taxation concerns are ubiquitous in economic decision-making and also affect patterns of social*

*interaction. Behavioural responses to the taxing process by tax payers, professional practitioners and tax officials raise issues of justice, ethics and administration. Accounting techniques give visibility to the objects of taxation and help regulate them.*' They went on to conclude that the nature of taxation demands an interdisciplinary approach to research – *'meaning that the tax researcher must adopt perspectives and research approaches of more than one academic discipline.* This is of particular importance when considering the alternative perceptions of taxation as the potential influences upon changing perceptions may arise from a diverse spectrum of factors.

Review of literature reveals a wide range of related publications which either directly or indirectly address factors that may impact upon the way the public, the accountancy profession and the revenue services view taxation. Freedman and Chamberlain (1997) and Freedman (1999) argue for the role of law within the development and understanding of tax policy and conclude that it is important to examine legislation by going beyond 'pure black letter law'.

In a similar vein, non-accountants have perceptions of the accountancy profession as being rule bound and unable to advance concepts (Vyakarnam, Srikanthan and Fitzimins, 1996), and in evaluating professional accounting education the independent researcher may well also conclude this. However Burton (2007, p98), in arguing for an alliance rather than adversarial tax systems, recognises that 'tax advisors can be expected to play a pivotal role in shaping the nature of the relationship between the two parties', where the two parties are tax payers and tax administrators.

In today's environment the linking of welfare policy with taxation might appear closely related, as demonstrated by Liberal Party policies in 2001 and 2005 ([www.liberal.org.uk](http://www.liberal.org.uk)) of tax rises to improve welfare services. However according to Boden (1999) writers did not see 'this aspect of taxation as being part of a legitimate consideration of social policy' prior to the election of the

Thatcher government in 1979. Boden (1999) considered Taylor–Goodby (1997) who suggested the role of government is 'less to tax and spend' rather it should concentrate on providing 'opportunities for individual activity'. Taylor–Goodby goes on to recognise that this may conflict with the social policy of respecting the 'equal worth of citizens'. Such a view is underpinned by Melville (2007, p8) who states that an efficient tax does not distort peoples choices . However, social anomalies have existed recently in taxation in the former married man's allowance and similar social concern may be levied at its replacement the married couples allowance, which has itself been abolished. A similar anomaly existed with the widow's bereavement allowance, noting the exclusion of widowers. In direct contradiction to these anomalies we have seen the introduction of the Working Families Tax Credit (WFTC) which is an administrative and social concept advocated by amongst others, Wilson (1985) and Bohn (1987). The WFTC evolved into the Childs Tax Credit in 2003 and has experienced significant implementation problems and public complaint; a clear lesson for taxation policy makers is that good administration and implementation are as important as the inherent nature of the tax policy. A broad review of such social policies may leave the reviewer confused as to whether tax policy is in support of the family unit or detracts from the concept of family; perhaps this confusion leads to confused or conflicting perceptions of taxation. However the radical approaches as proposed by Atkinson (1989) may still be too political to implement even if they give clearer messages. Atkinson proposed alternatives to the existing income tax and social security systems including means testing, basic income guarantees, negative income tax and graduated taxation. Of these only elements of negative income tax have arisen in the UK.

Authors such as Glennerster (1995), who identifies changes in public opinion since 1945 and the impact upon tax expectations, and Hughes and Moizer (1999), who consider the importance of ethics in tax policy and practice, add credence to the social and ethical aspects of taxation policy within research. However authors such as Hubbard (1999 p293) express concerns that the

data, in the form of distributional tables 'do not convey the appropriate information ..... the burden of a tax change is not necessarily borne by the groups that bear legal liability' (p293). This is supported by Auerbach (1999 [1]) who whilst acknowledging that statistical estimates carry a *measure of error* claims that Revenue analysis 'confronts a serious lack of information' (p289). In a damning statement (p286) Auerbach suggests that legislators would realise how limited Revenue analysis were if detailed estimates of taxes and revenues were provided. Accordingly a comprehension of the tax burden should aid policy-makers understanding of potential changes in perceptions.

Pope and Sandford (1999) consider that governments are becoming increasingly aware of the political importance of compliance costs. James and Nobes (1992 and 2000) have linked current day compliance with Adam Smith's Fourth Canon of Taxation which is explained by James and Nobes (1992 p16 ) as follows:

*'every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state.'*

(p16)

They then go on to describe four ways, according to Smith, by which taxes could fail to meet this requirement. The efficiency of tax systems will be discussed later but evidence so far indicates that the way in which taxpayers perceive the tax system, from an administrative or equity stance, will affect their personal reaction to tax and tax change.

Perceptions of taxation may be inferred from the actions of taxpayers, whether legal or illegal. The distinction between tax avoidance and evasion has preoccupied UK courts for many years. In particular modern day tax has been influenced by a spectrum of case law originating from the judgement in IRC V Duke of Westminster 1938. Authors have offered opinion as to the factors that support the evasion trend. Slemrod (1999) considers that the age of the taxpayer influences the extent of evasion

whilst Nazir (1995) in developing the work of Canto, Joines and Laffer (1983) suggests that marginal tax rates have a significant effect on the amount of tax evasion. The potential impact upon taxation perceptions is implied in the work of Kay and King (1990) who highlighted the disincentive nature of income tax by suggesting that individuals may pass on the opportunity of additional earnings. Webb (2000) concluded that the corollary to Kay and King is that individuals may seek to maximise income either from within (avoidance) or outside (evasion) the tax system. Simons and Cheng (1996) recognise that whilst tax evasion is seen as unacceptable 'small scale evasion is considered more acceptable'; they support this statement by showing that minor evasion (less than 10% of income) is seen in the same light as taking office stationery. In comparison Karlinsky, Burton and Blanthorne (2004) conclude that the average person in the USA ranks evasion 11 out of 21 from a range of criminal offences: ahead of prostitution and smoking marijuana, the same as breaches in minimum wages laws but behind carjacking. Tax crime is seen as victimless.

At the farthest end of an economic spectrum is the concept of citizens' policies as supported by Shafarman (1999) who believes that by citizens working 8 hours per week for society (Public Dividend) it is possible to:

*'Eliminate hunger and homelessness, cut taxes and government programs, and help resolve or reduce crime, pollution, racism, urban sprawl and other problems. We can simultaneously heal our political system, our communities, our nation, our world, ourselves'.*

<http://www.citizenpolicies.org>

With regard to the impact of fiscal policy upon changing perceptions it would therefore appear to be necessary to identify a link between perception and the reaction to economic policy change. Glennerster (1995) identified a much larger public support for social expenditure

in 1945 which had reduced sharply by 1964 suggesting Shafarman's view may have gained greater support post war than in the entrepreneurial, post-Thatcher Britain.

However a cautionary note to reflect upon when evaluating tax policy and practice is summarised in four points by Auerbach (1999 [2]):

- Due to economic cyclical factors '*time is short*' (p354): suggesting that tax change needs to have immediate impact to allow the link between benefit and tax change.
- '*Tax reforms are complex*' (p355), indicating that a range of influences should be considered.
- '*Tax policy is endogenous*' (p355), so we should not expect to fully justify or explain tax changes from a wide range of influences.
- '*other things are happening*' (p356), thereby reinforcing the complexity and integrative and multi-disciplinary nature of taxation.

From this initial review of literature it has been demonstrated that a range of potential factors impact upon how 'we' may perceive tax in the UK.

## **Aims and Objectives**

Holcombe (1999) proposes that 'a closer integration of public choice theory into the analysis of taxation can help increase our understanding of the tax system and can improve the quality of advice that economists offer with regard to tax policy' (p397), but recognises the difficulties in revealing people's preferences for public goods (p399).

This thesis will address a significant gap in knowledge in understanding the factors which impact upon changing perceptions of direct taxation. The wider application of tax changes through indirect taxation, taxation levy (such as petroleum revenue tax) and stealth taxes are excluded from this research

with an implicit expectation and explicit challenge in the final chapter for future researchers to critically evaluate these areas of taxation with the conclusions of this thesis.

No single literature sources address the issue of perceptions of taxation, with each consideration of the subject limiting conclusions to the narrow aspects covered by the article or book. To achieve a wider understanding of taxation perceptions the research activities will address the creation and interpretation of knowledge, Lesham and Trafford (2007), in developing a conceptual framework for future policy makers to adopt and adapt.

The primary research aims for this research are:

- Critically examine the factors which may affect personal views and ultimately an acceptance of taxes.
- Model the factors behind perceptions of tax to support makers of public policy.

To achieve these aims the research will consider a range of inter-related objectives:

- To identify which, if any, of Buchanan's alternative taxation paradigms are extant in East Anglia.
- To determine if Buchanan's alternatives may be treated as true paradigms.

IF the concept of alternative taxation paradigms is supported the research will consider the barriers facing public policy makers.

IF the concept is not supported the research will identify the prime factors which change perceptions of taxation.

The style and form of the 'model of factors' developed through the research will be developed according to whether Buchanan's alternatives are shown to be paradigms or perceptions.

The research will consider a variety of multidisciplinary influences such as:

- Trends in avoidance and evasion:

Consideration will be given to the extent taxpayers will move towards legally avoiding tax liability or illegally towards evading taxes. It may be recognised that many taxpayers will always abide by law and others will habitually seek to evade. There have been notable judicial judgements in this area (reflecting increased legal activity) and greater focus on investigations by the Inland Revenue involving traditionally compliant taxpayers.

- Impact of experience:

There are many potential influences upon taxpayers' perceptions of taxation, for example personal life experiences, business needs, tax rates and expectations. This work will consider such influences and how the influences may differ amongst tax stakeholders.

- Public preference:

Both individual circumstance and peer pressure (whether real or media induced) may heighten expectations of acceptable levels of taxation and how the taxes are used. Taxpayers understanding of the link between revenue raising and public expenditure may impact upon our expectations and propensity to avoid or evade tax.

In attempting to challenge the view of Auerbach (1999), that a range of influencing factors may be considered in viewing taxation, this thesis aims to develop a conceptual module which may be used to evaluate changes in taxation policies. From the literature reviewed so far the following factors appear to have validity within such a model, as shown in figure 1.1 below.

Figure 1.1 – Initial outline model of tax views.

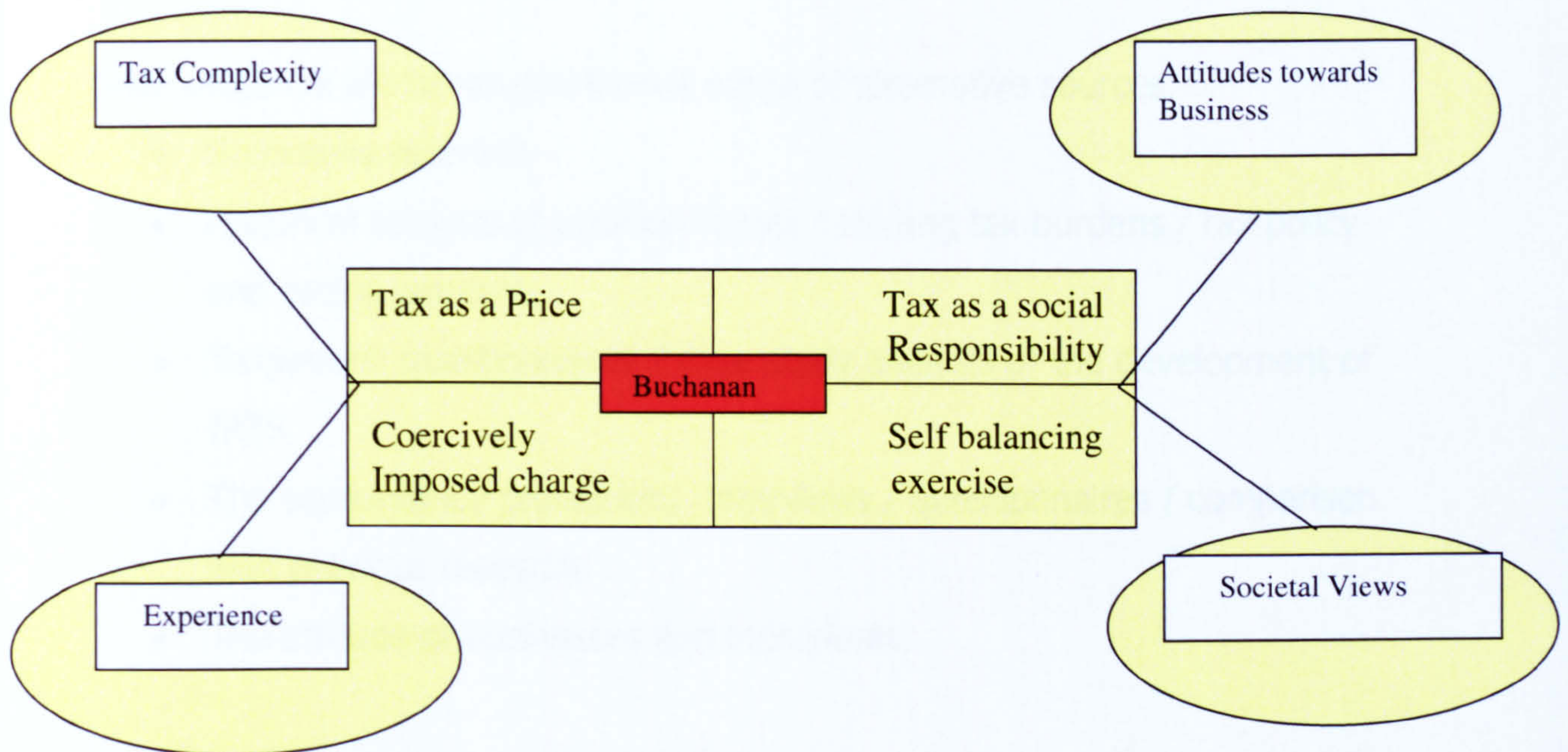


Figure 1.1 identifies, at its centre, the four alternative paradigms proffered by Buchanan. Surrounding the Buchanan box are four areas of influence, derived from an initial review of literature, where views of taxes *may* be affected:

- the complexity of taxes and tax systems,
- wider attitudes as to the role of business within society,
- personal experiences,
- wider views of society.

At this stage there is no preconception or bias towards the status of *Buchanan's paradigms*: are they paradigms or manageable perceptions? If *Buchanan's paradigms* are supported as paradigms then the areas of influence will point towards a predominant, extant paradigm. If they are shown to be perceptions then the areas of influence may re-order *Buchanan's paradigms* (more correctly called Buchanan's alternatives) as moveable perceptions of tax.

Using secondary and primary data the model introduced in figure 1.1 will be developed throughout the thesis.

Such evidence will be sought from a range of alternative sources:

- Secondary research
- Historical analysis of taxation issues / shifting tax burdens / tax policy and voting patterns.
- Taxpayers: questionnaires / case study analysis of the development of IR35
- The accountancy profession: interviews / questionnaires / comparison with previous research.
- The attitude of businesses and individuals.

The methodological approach to research and research methods adopted will be discussed in full in Chapter 2 and is based upon the preferred paradigm of post positivism.

Following the development of the methodological approach Chapter 3 will discuss a contemporary issue within UK taxation to determine whether an expected range of issues are relevant to a detailed analysis. This exercise was conducted to test outline concepts and the basic principles of conflicting tax perceptions within a peer review environment. The chapter focuses upon a review of IR35, Personal Service Companies, conducted at the outset of the research and whilst technical elements of tax regulation have been modified the chapter retains its validity as a discussion of conflicting factors influencing views of IR35.

Chapter 4 considers a range of potential factors impacting upon tax perceptions from a review of literature whilst Chapter 5 considers the political life experiences of current tax payers and how these may affect perceptions. Chapter 6 considers 'Buchanan's Paradigms' in light of knowledge gained from

the wider review of literature and concludes with eight propositions to be addressed by the analysis of primary data.

Primary data are collected from different tax stakeholders; advocates Chapter 7 and individual / employed taxpayers in Chapter 8, while corporate responses are discussed in Chapter 9. The results from each group are then critically reviewed in chapter 10 based upon the propositions developed in Chapter 6.

## **Chapter 2:**

### **Research Methodology and Method**

#### **Introduction**

According to Morgan and Smirch (1980 p492) there is a continuum of approaches to researching social sciences broadly encapsulated within the categories of positivist and phenomenological paradigms.

A paradigm is a term used to indicate the overall belief of a theoretical approach, often expressed as a law or theory (Walliman, 2001 p87). Guba and Lincoln (1998 p200) describe a paradigm 'as a set of basic beliefs that deals with ultimate or first principles'. They go on to define a logical order to determine research paradigms:

- **Ontology:** 'what is the form and nature of reality?' (p201). As this focuses on reality, research in the fields of 'aesthetic or moral significance, fall outside the realm of legitimate scientific enquiry'.
- **Epistemology:** 'what is the relationship between the knower or would-be knower and what can be known?' (p201).
- **Methodology:** how can the would-be knower discover 'whatever he or she believes can be known? (p201).

This chapter will consider the application of methodology within taxation research by evaluating alternatives from the continuum of approaches; consideration will then be given to the appropriate applied methodology and methods to be adopted.

#### **Nature of Reality**

According to Abulaish (2004) ontologies are created by 'domain experts', but who are these experts? From initial reading it is clear that the range of stakeholders is significant with each impacting upon taxation ontology. In

adopting the work of Perez, Rodrigues and Terrazas (2006) within the context of an initial review of literature it is possible to construct a theoretical ontological map of possible influences of our reality of taxation incorporating, for example, legislative ontology, person ontology, advocacy ontology and civil personality ontology. Perez, Rodrigues and Terrazas (2006) create their map by identifying a range of 'realities'- that is realities (plural) because reality will differ in different circumstances, for example due to personal views of advocates, interpretations by courts and societal attitudes. In determining the research methodology the range of possible unknown realities must inform the preferred research philosophy and application of methods. The final thesis conclusion will, in effect, identify the ontology of tax.

By implication the ontology of tax must encompass ontologies from the positivist and constructivist approaches. However Lincoln and Guba (2000) appear to suggest these ontological approaches cannot be reconciled. However Cupchik (2001, p1) proposes constructivist realism as an 'ontology that accommodates positivism and constructivism' and continues by suggesting 'the two approaches are viewed as complementary and in parallel'. Cupchik recommends that '*qualitative methods offer an in-depth account of underlying processes and help frame hypotheses that test functional relationships, while empirical findings related to process can suggest areas which might benefit from detailed examination*' (p1). This view is further supported (p6) where Cupchik argues that the two ontologies are just 'different ways of looking at real phenomena' as statistical analysis can focus upon areas that require descriptive analysis. In a similar vein Saunders et al (2007) believe that the 'critical realist's position is that our knowledge is a result of social conditioning' (p105) as the critical realist recognises the 'importance of multi level study'. However Bryman (2004) claims that a critical realist 'accepts neither a constructionist nor an objective ontology' which create a prima facie conflict between the critical realist and those using construct ontologies. But this is addressed by Cupchik who states that "constructivist realism should not be confused with constructive realism, which

holds that the results of science should be understood as constructions rather than description” Cupchik (2001, p9). Therefore the recommendations of Cupchik (2001) with his constructivist realism ontology would reconcile the use of different methodologies by the critical realist, within a multi layered study. Therefore this thesis will follow a constructivist realism ontology where realities may be revealed from a positivist and descriptive analysis.

## Positivism

Hussey and Hussey (1997, p73) state that the dominant paradigm in business research can be argued to be positivism. However social science, as the study of human society in the widest sense, is a rich source of research problems. This important, and sometimes controversial, branch of science was according to Beck (1979), first defined by Auguste Comte in the nineteenth century. Comte maintained that society could be analysed empirically just like any other subjects of scientific inquiry. The approach is based upon the belief that all knowledge is based upon information gained through experience and can be developed by observations and experiment.

Hussey and Hussey (1997, p54) identify the main features of positivistic research as:

- producing large amounts of data
- ‘uses large samples’
- being ‘concerned with hypothesis testing’
- data is specific
- ‘reliability is high’
- ‘validity is low’
- ‘generalise from sample to population’.

The positivist researcher believes these features may be appropriately applied to social sciences, and results can be expressed as laws or empirical generalisations (Walliman 2001, p166) with well founded analysis of social phenomena, based upon testable and verifiable data.

The normal process under positivistic research (Hussey and Hussey, 1997, p55) is to study the literature to establish an appropriate theory and construct hypotheses. Guba and Lincoln (1998, p204) state that the positivist seeks 'an apprehendable reality' driven by 'immutable natural laws and mechanisms'. In conducting research the research subject and researcher are deemed independent where biases should be preventable. Knowledge on which the research and hypotheses are based in the form of known facts or laws (Guba and Lincoln 1998, p212). The researcher assumes the role of objective analyst making detached interpretations about the collected data. There will be an emphasis on a highly structured methodology to facilitate replication (Gill and Johnson 1997) and quantifiable observations that lend themselves to statistical analysis (Saunders and Lewis 2000,p85).

Objectively, in terms of taxation, the research paradigm immediately lends itself to this research. There is a considerable volume of literature that suggests ways in which people's views of taxation may be affected. By objectively measuring contemporary views of tax stakeholders it should be possible to statistically evaluate results within the context of clear expectations developed from the literature. When considering a range of alternative public perceptions it may, however, not be possible to prove or disprove an expected outcome or hypothesis.

### Post positivism

Denzin and Lincoln (1998) introduce this paradigm in conjunction with positivism as having the same criteria of validity, scientific research. Guba and Lincoln 1998, p205) differentiate the two paradigms by recognising that reality exists but 'imperfectly', because of 'flawed human intellectual mechanisms'. Findings by the post positivist may be replicated but not perfectly as they flow from hypotheses which are probably true as compared to the positivist researcher who bases research upon established facts or

laws. In essence elements of qualitative data differentiate the positivist from the post positivist research.

Due to the significant interrelationship with positivist research the post positive paradigm is equally applicable to the research of taxation perceptions. Indeed the incorporation of qualitative assessment should address the diversity of potential outcomes from tax stakeholders. Post positivistic research is widely used within the field of social science as it focuses upon the falsification or rejection of hypotheses or propositions as compared to the proving of hypotheses with positivistic research.

### Phenomenology

In the last 60 years some prominent researchers refuted the claim that the scientific method could adequately provide a real understanding of the complex interrelationship in society between individuals, or as in this research individuals and the state. Lewin (1946) introduced the term 'action research' within the phenomenological paradigm as a process of planning, acting observing and reflecting. Hussey and Hussey introduce the features of the paradigm (in the same way as they did for the positive paradigm):

- qualitative data
- small samples
- generates theories
- subjective data
- 'reliability is low'
- 'generalises from one setting to another'.

The principle objections were that the positivist social science presented a misleading picture of the individual in society (Walliman, 2001, p167).

Phenomenology rejects the assertion that human behaviour can be codified in laws by identifying underlying regularities, and that society can be studied from a detached viewpoint . Perhaps the strongest argument the

phenomenologist could mount is the necessity to discover 'the details of the situation to understand the reality or perhaps the reality working behind them' Remenyi, et al (1998, p35).

The diverse nature of taxation and potential reactions to taxation also lend themselves to the phenomenological paradigm as any codification of subjective views may be accused as being unreliable; in particular if we consider 'Buchanan's alternatives' or perceptions, as discussed in chapter 1, and the opposing perceptions discussed in chapter 3, the adoption of a qualitative approach to research gains impetus. Additionally the lack of consensus as to what constitutes a good or optimum tax system may indicate the potential for generation of theory.

The complexity of the ontological map adds weight to a phenomenological methodology as, it may be argued, not all contributing ontologies may be tested objectively.

### **Preferred Paradigm**

There are weaknesses in the positivist paradigm where reality may not be demonstrable; hence the paradigm is rejected for the purposes of this research. This conclusion is supported by the conclusion of Saunders et al (2007) who suggest the positivist researcher, as a direct realist believes the world is unchanging and that, within context, individuals work at a single level of study; both figures 1.1 and 2.1 suggest that a study of tax attitudes reflects a multiple level of study.

Post-positivism is therefore considered as:

1. The significant volume of related literature identifies potential views which may be objectively tested.
2. Activities such as taxation are based according to Hussey and Hussey (1997) within the positive arm of the continuum and many of the

stakeholders (such as tax practitioners) are traditionally trained within the paradigm, thereby facilitating positivistic responses.

3. The data should be capable of objective analysis but may contain qualitative elements.

However the phenomenological paradigm is not rejected. This research considers perceptions of taxation; such perceptions are concerned with human behaviour from the individual's 'own frame of reference' (Hussey and Hussey 1997). Additionally the researcher's background in taxation precludes total objectivity as personal interests and values are brought to the research. Both aspects support the adoption of a qualitative approach to this research.

These two remaining options both have strong arguments to support their adoption and both may manifest themselves within this research. The predominant preferred paradigm is one that incorporates both approaches and that recognises the constructivist ontology discussed earlier in this chapter.

Yin (1994) considers that where the researcher uses existing theory those theories should be used to construct the research question and form the framework to organise and direct the analysis of data. The lack of clear and relevant theories to evaluate alternative perceptions moves the researcher further from the positive paradigm. Saunders et al (1997, p349) concludes that 'main variables, components, themes and issues' must be considered in developing a framework as a means to direct the analysis of data. Such an approach is consistent with the critical realist methodology.

Due to the diverse nature of potential influences on tax perceptions this research will develop a conceptual framework model of taxation influences from a diverse range of literature, by focusing upon the construction of propositions across topic silos, allowing conclusions to be drawn for each sub-topic and for selected taxation stakeholder groups. The concept of

*information silos* suggest the absence of operational reciprocity; however the use of such silos in this research will initially treat each area as discrete, but the comparison and integration of the results from each silo will be undertaken requiring a critical yet subjective analysis of outcomes across propositions which lead to a discursive, inductive approach to the issues posed. The conceptual framework model builds upon the initial model introduced in figure 1.1.

## **Research Methods adopted**

### **Test case study**

To determine the suitability of the subject area as worthy of research at both the level of strategic tax policy and tactical tax planning the relatively new and contentious topic of IR35 was identified. The use of a test case study has two key benefits:

1. It explores a recent change in UK business taxation and reaction to the change and in doing so demonstrates the needs and rationale for this research.
2. Commences a detailed review of literature.

This test case utilised data from two key sources: firstly it involved examining traditional tax literature alongside contemporary and highly critical articles and internet sources. Secondly a modified Delphi method was adopted (Saunders et al, 1997) where issues were discussed with an active practitioner: that is, a practitioner who is active as an advocate and national discussant for IR35. Issues were discussed, researched and brought back for discussion.

The case study does not purport to address every issue to conclusion, but is a refereed publication, published as a discussion paper by Earlybrave Ltd.

Figure 2.2 Literature Map

	Areas to be developed			
Chapter				
1	Role of the Professions and business	Economic and Social Policy	Burden of tax	Avoidance and Evasion
	↓	↓	↓	↓
3	Motivation: business and personal benefits	Attitudes of Government		Policy application of avoidance and evasion
	↓	↓		↓
4	The Accountancy Profession	Motivation of individuals. Motivation of the workforce. Fairness and justice. Public Policy. Spending of Revenues	Impact of tax burden.  Efficiency of the tax systems	Review of case law.
	↓	↓	↓	
5	Exposure to policy.  Economic, political and social influences		Consequences of the tax burden	
	↓	↓	↓	↓
6	Review of Buchanan’s alternatives and formulation of Propositions			

Literature

As demonstrated in chapter 1 there is a diverse range of related publications that relate to individual factors that may have an impact upon individual perceptions of taxation. When such diversity is considered in tandem with the lack of any comprehensive literature explaining the perceptions (or alternative paradigms) of taxation and, therefore, extant and relevant theories the role of

the review of literature is central to the research. To guide this review figure 2.1 was developed to show an initial map through available literature themes.

The analysis of literature is used to determine the subject silos, as identified above, the propositions to be considered and the basis for questioning tax stakeholder groups.

## Survey Design

‘Anyone can do a bad survey...to do a good survey requires expertise and professionalism at every stage: the design, sampling, questionnaire development, interviewing, analysis and reporting, based on an extensive theoretical framework well grounded in practice and methodological research’ (Morton-Williams 1993, p2, cited by Walliman 2001, p231].

According to Auderbach (1999) revenue analysis takes place in a static context with little attention to time. He says (p289) that time is an important factor ‘in determining the effect of tax burden’. This would support a longitudinal analysis but to be effective this needs to be undertaken over a significant period of time. As a surrogate for longitudinal analysis this thesis will ensure a mix of respondents to reflect age, economic status and family status across the stakeholder groups of tax practitioners / advocates, employees, employers and the self employed.

In referring to the work of Hite, Hasseldine (2002) concluded that ‘tax agencies could include specific messages for targeted groups of taxpayer’ (p127) adding support to the mix of respondents proposed in the last paragraph. In particular Hasseldine was interested in gender differences towards tax attitudes. Drawing upon wider literature he formulated a null hypothesis that there are *no differences between males and females in i) tax non-compliance attitudes, ii) prior self-reported tax evasion behaviour iii) hypothetical tax evasion.* (p127). His research concluded that there is

evidence to support gender difference, with females being more compliant (p137).

Lewis (1982) discusses the external variables which may affect attitudes over pages 161 to 177 which can be summarised as:

Age	Sex	Social Class	Education
Political preference		Attitude towards government and tax inspectors	
Dogmatism		Risk aversion	

Lewis’s variables are supported by Gilligan and Richardson (2005) who, additionally, suggest the fear of exposure of as a factor. Devos (2005) also concluded a similar set of factors, notably including nationality as a factor in determining attitudes towards tax evasion. To test this factor will require carefully balanced control and specific nationality groups and whilst this will make an interesting and challenging research project the outcomes are not expected to have a material impact upon the broader attitudes sought in this thesis. Kasipilla, Aripin and Amran (2003) found that a higher level of education will impact upon both male and female attitudes towards tax law. However Shaffer and Simons (2008, p45) did not find ‘gender, employment factors and qualifications’ to have a significant impact, although age, and hence experience, was seen as a key determinant. However, regardless of Shaffer and Simons (2008) conclusion all of Lewis’s factors will be built, implicitly or explicitly, into the survey to be conducted as researchers fail to conclude on a definite list of factors.

*‘Surveys are a data collection strategy used within research and place emphasis upon cross-sectional analyses; using standardised measures to compare across situations, they entail the collection of a number of responses, usually at a single juncture in time’* Bryman (1992, p104). This research will be cross sectional in approach.

*'A cross-sectional study is one that produces a snapshot of a population at a particular point in time'* Cohen et al (2000, p175), *'the study of a particular phenomenon at a particular time'*, Saunders et al (1997, p77). As stated this research will employ a survey strategy for the data collection and will survey a sample of the identified populations. *'Many methods can be incorporated in the use of a social survey'* Denscombe 1998, pp6-7. The survey method is usually associated with the deductive approach and allow the collection of a large amount of data from a sizeable population in a highly economical way.

So what are the crucial characteristics of surveys? Denscombe (1998, p6) lists the following three:

1. Wide and inclusive coverage. *'Implicit in the notion of 'survey' is the idea that the research should have wide coverage –a breadth of view. A survey, in principle, should take a panoramic view and 'take it all in'.'*
2. At a specific point in time. *'Surveys usually relate to the present state of affairs and involve an attempt to provide a snapshot of how things are at the specific time at which the data are collected. Though there might be occasions when researchers will wish to do a retrospective study to show how things used to be, these remain an exception to the rule'.*
3. Empirical research. *'In the sense that 'to survey' carries with it the meaning 'to look', survey work inevitably brings with it the idea of empirical research. It involves the idea of getting out of the chair, going out of the office and purposefully seeking the necessary information 'out there'. The researcher who adopts a survey approach tends to buy in to a tradition of research, which emphasises the quest for details of tangible things – things that can be measured and recorded.'*

To test the entire population within this research is not practical. The populations identified for survey are:

- Tax advocates and advisors: as key advisors in tax practice and compliance

- Employed individuals: as bearers of taxation
- Businesses: as bearers of taxation and those with greater opportunity to avoid taxation.

However, it should not be assumed that a full census survey would necessarily provide more useful results than a well-planned sample survey. Sampling provides a valid alternative to a census when:

- It would be impractical for a researcher to survey the entire population.
- Budget constraints prevent surveying the entire population
- Time constraints prevent surveying the entire population.
- The researcher has collected all the data but need the results quickly, Saunders et al (2000,p151).

The adoption of a qualitative methodology removes the need for large representative samples to test the propositions but requires sufficiency of data to undertake the detailed analysis required for an effective discussion of the propositions.

## **Sampling**

According to Hussey and Hussey (1997,p144) sampling is fundamental to positivistic study and whereas sampling may also be used in a phenomenological study we need to ensure the sample selected is representative. To test the populations identified earlier using purely, on random sampling would require the substantial construction of a population database and create logistical data collection problems; and as stated by Riley, Wood and Clark et al (2000,p88) researchers often select a too ambitious sample for realistic study. Therefore the samples used will be based upon multiple sampling techniques.

1. The national population may be represented by the demographics of Essex and Cambridgeshire: these counties have ([www.statistics.gov.uk](http://www.statistics.gov.uk)) average Gross Value Added per head of population when compared to the UK, whilst

the East of England generates 9.96% of household income (ranked 4<sup>th</sup> of 9 regions). Essex is ranked the 5<sup>th</sup> largest political area in the UK (Cambridgeshire is 29<sup>th</sup> of 81) although the ethnicity mix is weighted towards white (96.8%). These factors are considered by research marketers as being a prime, representative testing and research area.

2. A survey of all registered accounting practices based in the two county town post codes (250 practices). All practitioners must be registered by their approved body and reference is made to membership lists.
3. Cluster sampling was adopted for employee groups with a service industry, production industry and public service organisation selected at random as were the members of these three sub-groups.
4. The lack of response from business surveys leads to an alternative approach to data collection. Business managers from a selection of local businesses were approached directly.

The sample size drawn from tax stakeholders is sufficient, following the preferred paradigm and the advice of Hussey and Hussey (1997) who cite Clegg (1990) in suggesting that in sampling the traditions of the research area should be followed. Gilligan and Richardson (2005) surveyed 105 Australians in considering perceptions of tax fairness and Tan and Chin Fatt (2000) relied upon 113 respondents in assessing the impact of tax knowledge. Therefore the number of responses in this analysis is consistent with earlier studies and, when used with appropriate non-parametric analytical techniques it provides reliable evidence to draw general understanding of respondents' perceptions of tax.

Response rates were 20% from tax advocates and 19% from employed tax payers providing a volume of response consistent with the work of Gilligan and Richardson (2005) and Tan and Chin Fatt (2000). The responses from company directors are required a direct approach to selected companies, and this prevented a detailed analysis of their responses but allowed for positive comparison with the other groups.

## Questionnaire design

The questionnaire is a widely used and useful instrument for collecting survey information, providing structured, often numerical data, being able to be administered without presence of the researcher, and often being comparatively straightforward to analyse (Wilson and Mclean, 1994).

The detailed questions are generated through the construction of a question matrix, shown in annex 4, where each question is linked to one or more research areas (research propositions). Questions are originated from the review of literature in chapters 3-6, culminating in a critical review of Buchanan's work in chapter 7 and the development of the aforementioned propositions on the perceptions of tax. Each question is matrixed across eight propositions, for example the question 'should government's role in operating successful business be greater / same / less than present' supports the analysis of four of the eight propositions. This approach to questionnaires permits analysis over three dimensions:

- Dimension 1:  
Each stakeholder group will be analysed across proposition to formulate the extent to which there is consensus towards taxation.
- Dimension 2:  
Each proposition is to be evaluated by direct reference to the range of questions.
- Dimension 3:  
This is potentially the most complex dimension in that it will compare the results of each stakeholder analysis across all questions and across each proposition. At this stage we should begin to see if any general or consensus perceptions towards taxation exist in the UK.

*'One way in which degrees of response, intensity of response and the move away from dichotomous questions has been managed, is the notion of rating scales – for example, Likert scales, semantic differential scales, thrusting scales, Guttman scaling. These are very useful devices for the researcher, as they build in a degree of sensitivity and differentiation of response whilst still generating numbers'* (Cohen

et al 2000 ,p253).

A combination of techniques was adopted within the questionnaire design and in retrospective reflection the principles of tax questionnaires developed by McKerchar (2008) have been followed. Where clear answers are sought a straightforward yes / no / don't know option is be available to the respondent. A Likert scale is used to formulate the questions where a range of opinion is sought. The range will be based on a scale of 1 to 5 where 1 is in full agreement with the proposition and 5 is in total disagreement. Additionally respondents will be asked to rank alternative propositions. It is interesting to note the view of Evans (2007) who used the Delphi method to inform the personal tax debate but concluded (p118) 'if the process was repeated ...it is likely that there would be greater reliance on Likert scales'.

Ranking scales are widely used in research as they combine the opportunity for a flexible response with the ability to determine frequencies, correlation and other forms of quantitative analysis. They afford the researcher the freedom to fuse measurement with opinion, quantity and quality [Cohen et al 2000, p253].

The use of a variety of questioning techniques provides for its own problems as it can complicate the analysis of results. However regardless of approach taken each outcome may be linked to at least one of 'Buchanan's alternatives' thus allowing comparison and analysis of results across question styles. The analysis recognises that there may be differences between respondents' attitudes and their behaviour.

It bears repeating that the wording of a questionnaire is of paramount importance and that pre-testing is crucial to its success. Accordingly a pilot of two questionnaires per population will be tested, allowing for subsequent refinement of the questions before a full survey is conducted.

## Analysis

Quantitative analysis uses the syntax of mathematical operations to investigate the properties of data (Walliman 2001, p253). *'You cannot pile up words and deduce an average from them. You cannot take the square root of a sentence. It is impossible to square a word, a phrase or a paragraph'* [Leedy 1989, p173].

Data, which can be analysed in this way, must be quantitative in nature. The levels of measurement used in the collection of data, i.e. nominal, ordinal, interval and ratio, are an important factor in choosing the type of analysis, which is applicable. [Walliman 2001, p254].

Ranked or ordinal data will be produced by this research and will be based on, counts assigned to specific categories, the categories stand in some clear, ordered, ranked relationship. The categories are 'in order'. This means that the data in each category can be compared with the data in the other categories as being higher or lower than, more or less than etc., those in the other categories.

The responses coded as 2 (agree) can legitimately be seen as more positive than those coded as 3, 4, or 5 (neutral, disagree, strongly disagree), but less positive than those coded 1 (strongly agree). It is worth stressing that rank order is all that can be inferred. With ordinal data we do not know the cause of the order, or by how much they differ. This lack of a proper arithmetic content to the categories of an ordinal variable means that as with nominal variables, it makes little sense to add, subtract, multiply or divide ordinal data. (Bowers 1996, p18). The cause of the order is not material within the positivistic approach as we are only interest in the numbers and not their cause.

Using the ordinal scale, we can find the mode and the median and determine the percentage or percentile rank (Walliman 2001, p79). This research will

primarily use the percentage for analysis. If the variable is ordinal the mean should not be used, and the choice is therefore between the median and mode [Bowers 1996, p84]. The mode has been chosen and will be computed for each question within the questionnaires. The central tendency measure of the mode interprets the meaning of average as the value which occurs most often in the data. However it tells us nothing about the spread of responses.

The primary data analysis will be undertaken using codified data within SPSS. With the focus upon the use of ordinal data, the use of parametric (notably normally distributed data) cannot be considered. Therefore the use of mean and standard deviation was rejected as Field (2005) see these as parametric tests; however these were used by Simmons and Cheng (1996) in assessing attitudes towards tax evasion in Hong Kong, therefore casting doubt on their findings. Three non-parametric tests will be used: Chi Squared tests using a cross tabulation table will be used for testing two elements whilst Mann Whitney and Kruskal-Wallis tests are used for more complex analysis of differences between independent data groups.

According to Field (2006, p521) non-parametric tests are sometimes known as 'assumption-free tests'. Although these types of test do make some distributive assumptions they do not carry the same 'level of restriction' as parametric tests which rely upon the material value of the results rather than the ranking of responses. As Field (2006, p521) goes on to say 'This process is an ingenious way around the problem of using data that break the parametric assumption'.

- Mann-Whitney tests are the equivalent of the parametric T test, comparing the pattern of results between two groups or variables. This test is designed to test for a significant difference between the medians of two independent samples.
- The Kruskal-Wallis test is similar to Mann-Whitney in that it also compares medians within ranked data. The parametric equivalent is

ANOVA which compares differences between two or more independent groups.

- Chi Squared cross tabulations are used to test the link between two categorical variables where the null hypothesis indicates no relationship (i.e. independence) between the variables. This test is used together with the Kruskal-Wallis tests and Friedman's non parametric ANOVA allowing a clearer interpretation as to the significance of relationships.

All statistical computations are undertaken using the SPSS analytical software.

## **Conclusion**

This chapter has considered alternative ontologies, methodologies and alternative methods. In considering these issues the ontology of tax shows the interrelationship of factors, thereby justifying the research objective of identifying the factors that impact upon perceptions of taxation. Accordingly the research supports a constructivist realism ontology.

The research will be conducted using a mixed methodology drawing upon post positivism and phenomenology; accordingly the approach adopted by the critical realist is followed, which is consistent with the identified ontology. Questionnaire design and analytical techniques are consistent with other research in the field of taxation and support the preferred methodology.

## Chapter 3

### Testing Initial Concepts

#### Initial Example - IR35

*This is an illustrative discussion in a relatively contemporary area of tax policy and is not intended to be a comprehensive evaluation of the topic. The main aim is to demonstrate the complexity and range of factors involved in determining policy and to provide evidence that the topic is worthy of extended research. The issue of IR35 was selected as, at the outset of the research it was a new and contentious policy and one which was still strongly debated in 2008. The chapter was published (Webb 2001) to test views and not to answer the rights or wrongs of the policy.*

#### Introduction

The Blair Government within Budget day press releases introduced IR35 in 1999. The philosophy of the policy is to treat the owner / managers of personal service companies (where the individual owner works for clients but charges fees in the name of his own company) as employees of the client. The intention is to reflect the government's understanding of reality, following FRS5 (Financial Reporting Standard number 5) Reporting the Substance of Transactions, which is the 'real' relationship, one of employee and employer. Employment relationships would normally increase tax revenues and hasten timings of tax payments.

The introduction of this change brought controversy and legal challenge to the government. The aim of introducing this scenario as an initial example is to demonstrate the diversity of views towards taxation and to test whether the foci discussed earlier are worthy of further study.

To test the feasibility of undertaking further research discussions were held with a taxation practitioner and director of a service company. These, together with a review of secondary material, enabled a review of IR35 to be undertaken. The aim of this review was to identify factors influencing potential perceptions towards IR35. The following pages are taken from Webb (2001), reviewed and published in conjunction with this thesis.

The intention behind the proposals are reported to be that of equity and fairness although a quote accredited to the Paymaster General ([www.engineerjob.com/issue\\_38.html](http://www.engineerjob.com/issue_38.html)) suggests an underlying motive of attacking a previously legal tax avoidance scheme.

*'Under current legislation, some employees may be persuaded, against their own interest, to give up their rights as employees and set up personal service companies in order to benefit from substantial savings on tax and National Insurance contributions.' ..... 'Our proposals will take away these savings. It is unlikely that employees will be tempted to give up their employee status if they would be no better off. We see no reason to expect this practice to continue once the new legislation is in force.'*

*Hanney ( Accountancy Age , 25 November 1999) supported this view:*

*'At the heart of IR35 is an attempt to crack down on one-person services companies- individuals who, while ostensibly acting as employees of a company, avoid PAYE by instead charging for their services under a contract'.*

These are two strong views supporting the concepts of equity and wider social responsibility. We may consider such views as supporting Buchanan's alternative paradigm of 'community responsibility'. If IR35 policy is reflective of all government tax policies then subsequent changes to tax legislation must reflect these concepts.

The introduction of the proposals led to sustained attacks from pressure groups, contractors and politicians. The then Conservative leader, William Hague, in his response to the 2000 budget criticised the Chancellor for failing to address IR35 in the budget speech and went on to condemn the proposals as a 'stealth tax on self employed contractors'. Other bodies such as The Institution of Analysts and Programmers were reported in Accountancy Age (1999) as viewing the proposals as 'disastrous', preferring it to be scrapped.

Neither made their justification for such statements clear although they may be inferred.

Although the accountancy and taxation press has been dominated by the anti IR35 campaign a letter published in Accountancy Age on 4<sup>th</sup> January 2001 expressed a highly contentious alternative viewpoint.

*'I cannot be the only one who is tired of hearing these poor IT and other professionals who object because they are at last being asked to pay their fair share of tax and NI contributions via IR35. Most of us who work for an employer have long accepted that, however much we dislike it, we have to pay our share under the PAYE system. Some, with the connivance of many of those in the practising profession, found they could avoid doing so by the artificial use of limited companies; in the same way as the people themselves use so-called service companies to avoid liabilities. Now the government has decided to crack down on this avoidance. And a good thing too- service companies should be the next target! If everyone paid a proper share, and avoidance could be abolished completely, then tax rates would tumble. No doubt many of our practicing brethren would be horrified- but perhaps they could get on with something constructive as well. Harmer (2001).*

Such views support the views of Hughes and Moizer (1999) by suggesting the proliferation of avoidance is driven by the tax and accounting practitioners.

The formal rationale underpinning the changes have already been referred to as being founded in equity and fairness. This approach is laudable; as citizens we all bear a responsibility to contribute towards society's costs and needs. In assessing equity and fairness a simple question could be asked – should a person contribute less because of the legal status of the client / contractor relationship? Discussions with stakeholders conclude that the answer is no; possibly a surprising answer given the large volume of anti IR35 press. The corollary to this answer however is to suggest that the simple question is irrelevant, being myopic in nature, and that the policy must be viewed from a range of views and interests. If a single criterion exists for the policy then we appear to confirm myopic policymaking criticised by James and Nobes (2000), this would lead us to consider that no single Buchanan paradigm is dominant.

### **Client Motivation:**

The proliferation of client / contractor agreements would not have happened if the client side of the relationship had not seen significant benefits from the arrangement. Effectively all of the responsibilities as employers have been passed to the contractor and whilst this may have some serious potential negative impacts on the business, such as continuity of workforce and cohesive working relationships, the financial benefits have proved to be attractive.

These financial benefits are varied:

- There is no responsibility to pay employers class 1 National Insurance contributions, which currently stand, at 12.2% of earnings.
- There is no liability to pay social costs such as statutory sick pay / statutory maternity pay.
- Training costs rest with the contractor.
- PAYE service costs may be avoided.

- Employment protection law does not apply, an employment contract affords rights regarding dismissal and redundancy whilst there is no need for contractor contracts to be renewed at the natural end of a contract.
- Risks associated with errors / development losses / accidents may be transferred, in full or in part, to the contractor.

Perhaps more fundamentally it may be the only way experts working in the IT industry are able to get work!

In all, a company with extensive client / contractor contracts could face significant cost burdens if the veil of incorporation is removed and contractors are treated as employees. We are, therefore, led towards the paradigm of coercive charging.

### **Contractor motivation:**

As previously referred to it is the view of the Paymaster General that contractors who shun employment for self-employment are persuaded to do so against their best interests. However contractors will look at the impact upon their own situation.

- National Insurance contributions are only paid on remuneration, thus elements of NIC may be avoided.
- Taxation collected under Employment Tax must be paid to the Inland Revenue by 19<sup>th</sup> of the month following payment of remuneration. Only large companies are required to pay tax monthly. Therefore significant cash flow benefits may be accrued to the contractor.
- Traders have the opportunity of greater deductibility of expenses.
- Contractors generally have greater flexibility of contract being able to select whom they work for, where and when the work is undertaken, and, possibly who undertakes the work.

- Contractors, as small companies, are not necessarily constricted by restrictions in working hours or working practices providing legislation such as health and safety are not breached.
- Motivation to produce a high quality service may be greater in 'personal service' companies than with employees whose rewards are directly linked to performance. The concept of earning money for investor shareholders and directors does not exist.

These are all very persuasive arguments for individuals to move away from employment. Yet the Paymaster General view is that such a move is against the individual's best interest:

- Economic risk of the work undertaken may be transferred from the client to the contractor requiring comprehensive insurance and possibly guarantees.
- The 'one-person' company owner can lose social benefits, for example at the end of a contract there is no entitlement to severance pay.
- National Insurance contributions may be insufficient to guarantee benefits such as job seeker's allowance.
- Disputes with the client may need to be referred to the courts to be resolved, incurring legal costs, time and a loss of goodwill.
- The burden of record keeping, contract negotiations and accounting fall to the contractor, as does the responsibility for VAT returns and payments.
- The contractor has no automatic entitlement to receive payments either weekly or monthly in the same way as employees. Payments may be staged based upon the achievements of targets and, accordingly, the contractor may face serious cash flow problems.
- Responsibility for pension planning and the associated costs rests solely with the contractor.

Therefore it is suggested that frequently the lure of financial benefits and lack of independent advice will result in the individual rejecting employment

status. We are led to conclude that IR35 may be interpreted as direct opposition to the paradigms of 'community responsibility' ( e.g. loss of social benefits) and 'self contained exercise' (e.g. transfer of risk and pensions).

### **The Outsourcing Trend and Tax Evasion**

The Thatcher government of 1979 heralded a landmark change in outlook towards entrepreneurship. The electorate had rejected the union culture of the 1970's and the move towards small business and self-employment began. The government positively encouraged the culture where, in particular, the public sector faced new commercial challenges. Both the National Health Service and Local Government faced compulsory competitive tendering during the 1980's and early 1990's where services were subject to commercial testing. In their consideration of the NHS in the 1980's Alcock, Payne and Sullivan (2000) summarise the criticisms of NHS management concluded in the Griffiths report (1983) and the movement towards competitive tendering. Cullis and Jones (1998) considered 'that it is not the existence of competition that is important but the *potential* of competition'. They also considered the economic analysis of tax evasion and concluded that if individuals feel that public goods are overprovided, then an increase in the tax rate will lead to the intuitive result that there will be increased evasion. When considering this view in the context of outsourcing it may be concluded that by reducing the potential for adverse perceptions re overprovision of public goods and by reducing direct tax rates the Thatcher government sought to reduce the incident of tax evasion. If this is true then IR35 could achieve the opposite and encourage tax evasion.

Within the private sector similar commercial pressures during recession created the need to look at cost effective options to maintain levels of business and maintaining ( or at least minimising the potential reduction in) profits.

So over the last twenty years the hegemony of the UK economy shifted towards the entrepreneur and the rewards associated with self-employment: has the pendulum begun to swing back?

In his review of British Social Policy since 1945 Glennerster (1995) identified key trends in tax rates:

- During the 1964 Labour government it was discovered that public support for more social spending financed by taxation fell from 44% to 22%.
- During the 1970's public opinion moved towards cutting taxes whilst average take home pay, after tax, fell.
- The Thatcher government from 1979 cut basic rate tax from 33% to 25% a policy supported by succeeding governments, which has seen the basic rate cut to 23% with a new lower rate band of 20%.
- The 1993 budgets saw an increase in the overall levels of taxation due to changes in indirect tax.

Glennerster's analysis shows the public perceptions changing since 1945 initially there was some willingness to increase taxes to finance government spending, but this developed towards a preference to cut taxes. However increasing governmental cost pressures reduces that scope for potential cuts. When viewed with the disincentive effects there is growing evidence to suggest there may be further movement towards tax avoidance and evasion. Glennerster's work demonstrated changes in public attitudes, the corollary to which is that further changes have occurred requiring investigation, and will continue to change; if we have moved from a post-war attitude akin to Buchanan's 'community responsibility' paradigm towards the 'coercive charging' paradigm what has caused the change and what will trigger further change?

Additionally, in considering the disincentive effect of tax rates Huhne (1990) suggested that high marginal rates of tax would discourage work effort and encourage illegal evasion. Huhne referred to the work of Canto, Joines and

Laffer (1983) in suggesting that there is a point where more revenue is generated if the rate of tax is cut. And as the highest tax burden is with the employed it follows that moves towards avoidance and evasion schemes will grow faster within this group.

A prime example has been in the IT industry where computer programmers and analysts have been attracted by the flexibility and rewards from a client / contractor relationship and the client is able to benefit from specialist, short-term support. These people have been very successful and have gained an excellent reputation around the world. In the 2000 budget the Chancellor has recognised the UK's position in the development of worldwide e-commerce by stating *'the government's aim to make the UK the best environment in the world for e-commerce in 2000. In addition to new discounts for the electronic filing of tax returns, the Budget includes the introduction of 100 percent first year allowances for small enterprises investing in information and communications technology equipment for the next three years. Plus, a £60 million package to help SME's understand what getting on-line means for their business; help to get more of them on-line and then to help them get the right services once they are on-line'* (The Weekly Taxes News, 21 March 2000, CCH). In recognising the skills gap in the UK the government is also considering ways in which foreign workers can take up UK employment. Surely this development is in direct conflict with the implications to the IT sector arising from IR35? At <http://newsvote.bbc.co.uk> on 21<sup>st</sup> March 2000 in an article headed 'No reprieve for dot.com workers' the BBC reported. 'The issue has provoked a storm of protests because many independent contractors – particularly in IT- say they need to work in this way (i.e. as contractors) because of the nature of the industry and it is nonsense to suggest they are doing so to avoid paying tax and NIC.' At a time of technological change could we be accused of acting against indigenous IT workers while seeking a cheaper foreign workforce?

Is this a contradiction in Government policy or a symptom of an over-complicated tax system? Before the 2000 Budget the tax faculty of the ICAEW expressed their fears that the complex tax regime creates a greater need for professional help and this may result in 'rising spiral of tax avoidance if Budget 2000 fails to relieve stress on taxpayers'. In autumn 1999 in a debate in the House of Lords, Lord Jenkins claimed that the Government had underestimated the concern felt by the IT industry although Lord MacIntosh considered the implementation of IR35 would not wipe out the IT industry. Surely this style of debate has highlighted the political motivation of IR35 rather than the equity and fairness arguments?

### Conclusion from the review of IR35

This review of IR35, although not drawn from a representative survey, identifies a significant range of outlooks ranging from equity and social responsibility to reward and motivation. The review did not consider whether the impact of anti IR35 arguments could or should influence government tax policy. However sufficient evidence exists to suggest that tax policy makers fail to consider all implications or the motivations behind those implications.

Whilst government appear to predicate policy upon 'Buchanan's alternatives' of 'community responsibility' and 'self contained exercise', the Chancellor's 2001 Budget statement gave the impression for a preference to the first paradigm of 'tax as a price'. Conversely the accountancy profession and contractors appear to align to the paradigm of 'coercive charging'.

The wider research implications are to evaluate the broad public, professional and corporate views of taxation. In particular consideration will be given to consistency of views when dealing with specific issues (e.g. IR35) and broader tax concepts. The study of IR35 provides initial evidence of the need to investigate taxation paradigms and the opportunity to integrate these paradigms with taxation policy.

## Chapter Summary

In Chapter 1 it has been shown that there are clear illustrations which support the view that taxpayers will have different perceptions as to the role and function of taxes. Whether these perceptions are indeed paradigms is unimportant at this stage of the research and will only become important if primary research concludes that our views are in fact our basic values.

Potential factors introduced in this chapter may be summarised as:

- Role of professionals,
- Spending policies,
- Collection policies,
- Administration and management of taxation,
- Propensity to evade taxation,

The example of IR35 clearly demonstrated the diverse range of reactions to changes in taxation and supports the full range of '*Buchanan's alternatives*' as being present within twenty first century perceptions of taxation.

This chapter has achieved its objective of testing, in a rigorous and peer reviewed environment, the existence of alternative perceptions / paradigms and has shown that these have changed over-time. If widening the IR35 debate in this way, with subsequent discussions with practitioners and applied academic analysis the research adds knowledge and understanding to the taxation community. We are left with a range of unanswered questions concerning the prominence of particular perceptions and their propensity to change. By conducting this initial and much focused element of research the chapter has confirmed the area for wider research and begins to identify areas for deeper consideration.

The initial model introduced as figure 1.1 in Chapter 1, can, from this analysis be amended to produce the revised model shown in figure 3.1.

Figure 3.1 Developing Model of Tax Views

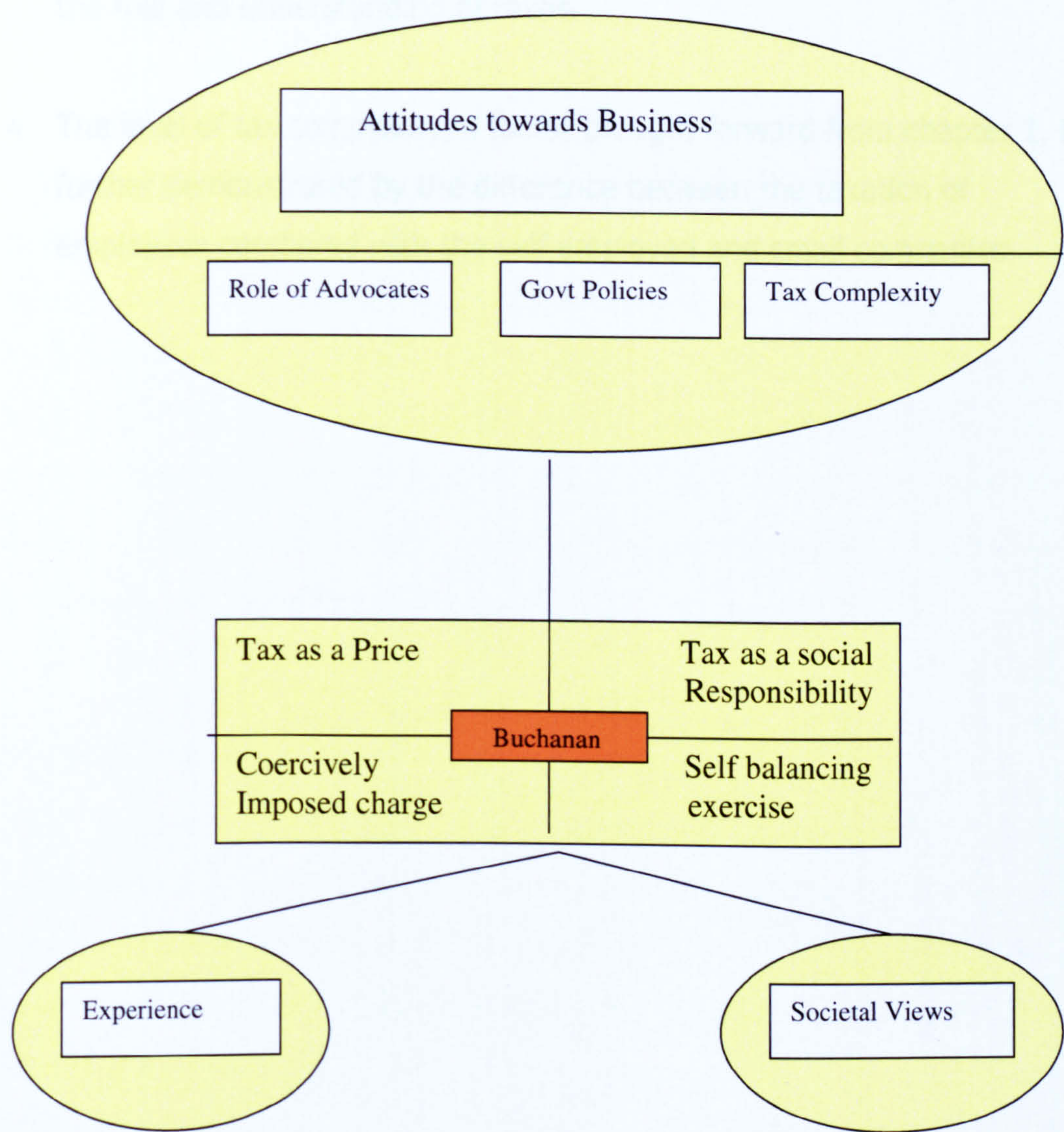


Figure 3.1 shows the outcome of the incremental development of the emerging model introduced in chapter 1. The IR35 case study focuses upon the requirements of and attitudes towards business with the following factors emerging:

- The role of the advocate and advice given to businesses is driven by the tax avoidance imperative of practitioners.

- Government policy and the contradictory governmental statements (such as supporting the rights of the individual with outsourcing and the role of business) along with the myopic condemnation by the government option provides no clear and confident understanding of the role and understanding of taxes.
- The level of tax complexity, a factor brought forward from chapter 1, is further demonstrated by the difference between the taxation of employees compared with the self employed and small companies.

## **Chapter 4:**

### **Influences upon tax perceptions: a review of literature**

#### **Introduction**

This thesis has begun to demonstrate that changes in taxation policy and legislation can be contentious even within a limited population such as those affected by IR35, as discussed in the exploratory case study in chapter 3. This is not a new phenomenon; society generally acquiesces to changes in tax policy but it is not only recent changes such as IR35 that create tension as there have been notable examples of conflict in the UK's past. This chapter considers a range of perspectives drawn from literature to identify potential influences on perceptions of tax.

#### **Historical Perspective**

In 1379 the populace rebelled in an action known as the peasants' revolt, not because of an inability to pay but because of the high level of tax being burdened on the poorest members of society (Hancock 1995). Such public reaction indicates that there is a level of taxation at which the population will challenge government.

Experience shows that the development of taxation was rarely non-contentious; examples such as the hearth tax in 1662 and window tax of 1747 illustrated the scope for tax avoidance. Rarely do we recognise the view of Queen Elizabeth I who is quoted by Adams (1993 p245) as believing 'I would rather the money was in the pockets of my people than in my treasury'. Our current view of avoidance stems from (1936) 19 TC490 when Lord Atkin expressed the view, in *IR Commrs V Duke of Westminster*, that

everyone “has the legal right so to dispose of his capital and income as to attract himself the least amount of tax”

Modern day income tax has its roots in the Napoleonic wars when William Pitt borrowed money against future excise in order to finance the war. In 1803 Addington introduced five tax schedules (a sixth was added later) which, apart from schedules B and C still survive today ( even these survived to the 1990's ) albeit in practice rather than in name. In the 1840's Peel introduced the concept of penalties for being neglectful in connection with his return of income.

In the nineteenth century fewer than one million people paid tax, these being only the wealthiest. The growth in public expenditure in the twentieth century ( e.g. pensions were introduced in 1908 ) led to the need for increased taxation so at this stage in our history the Buchanan paradigms of community responsibility and taxation as a price may have been at the forefront of attitudes. A system termed pay-as-you-earn (PAYE) was introduced in 1944 that improved government's cash flows and passed responsibility to employers for collection, providing the economic foundation for the post-war welfare state. This system is still in use today. Tax rates have changed dramatically since the second world war: in 1979 the highest rate of tax was 83% on earned income and 98% on unearned income. In the fiscal year 2005/2006 the highest rate for any type of income was 40% although the rate and scope of indirect taxation had significantly increased: deeply resented increases allowing Buchanan's 'coercively imposed charge' to gain prominence. Daunton (2002) is critical of tax policies in post war Britain as being harmful to the poorest members of society and failing to pursue the issue of fairness posed by Rawls (1971) who suggested that following social justice and equality may be at the expense of incentive and growth. Rawls questioned if chasing a just system of taxation could harm incentives resulting in negative impact upon the poorest elements in our society. History through to the late 20<sup>th</sup> Century shows us potential reaction to unjust taxation.

Examples such as the peasants' revolt and hearth tax arose when taxpayers' views of the role and nature of taxation clashed with those of the policy makers. As introduced in chapter 1 the central tenet of this thesis is to evaluate the views of taxpayers, however no reliable conclusion may be drawn unless there is an appreciation of the philosophical approaches adopted by policy makers. This may be illustrated by the actions of Chancellor Lawson in 1988 and the Reagan tax reforms around the same time. Both sought a reduction in marginal tax rates making the whole tax system less burdensome to high-income earners. Lawson opted to cut high rates of tax, an approach criticised by Huhne (1990 p71) as going too far due to the 'shaky nature of the evidence for the revenue maximising top rate'. The Reagan reforms and those in Australia and New Zealand (Huhne p73) focused upon widening the tax base, called base broadening. Following this approach, introducing radical tax breaks reduces the average rate of tax and arguably improves incentives to work harder (clearly leaning towards 'Buchanan's alternatives' of 'taxation as a price' or 'community responsibility') that according to Huhne (p71/72) the Lawson approach failed to do. Both approaches followed the same principle: that of reducing taxation to generate economic activity yet the selection of method to deliver the change may be viewed significantly differently. Townsend (2002, p3) makes an interesting conclusion: *'Households with the top fifth of disposable incomes now pay a higher proportion of all household taxes than in 1979. However, as the share of gross income received by this group has also increased, the burden of tax they face has fallen. Taxes (direct and indirect) paid by the fifth of households with the lowest disposable income now represent a higher proportion of gross income than in 1979'*. Perhaps what history shows is that there is no consensus in the manner and function of changes to taxation: why changes are to be made, how they should be made or who they should affect!

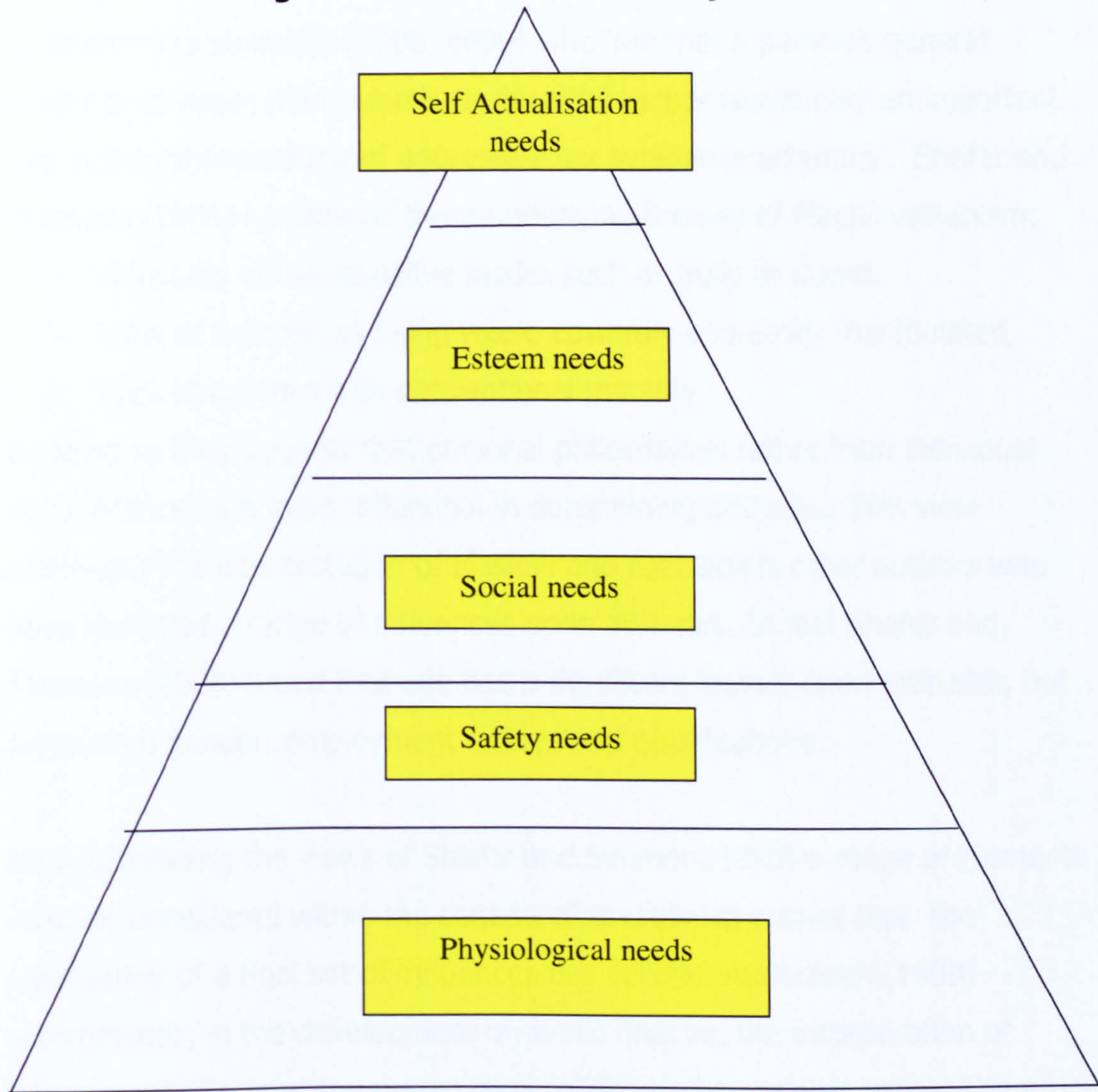
## **Motivation**

Chapter 1 introduced the influences of spending and collection policies, the role of professionals, administration and management of taxation and the propensity to evade whilst the IR35 example in chapter 2 clearly links the reaction to tax changes to the level of incurrance of tax and personal impact. The brief consideration of past actions supports the initial findings. There is, however, no central link established between the influences; such a link will now be explored before the details of influences are further explored.

Upon review of management and psychology literature, the predominant summary of human behaviour are the 1954 and 1962 works of Maslow with his now famous pyramid, shown in figure 4.1, where the different and changing needs of people are classified. Of course there are a range of human behaviour theories that could be used to illustrate potential reactions but Maslow is key theory that is consistently interpreted throughout management theory texts and the aim of this chapter is to illustrate potential reactions and not a psychological evaluation of tax stakeholders.

Maslow is criticised by, amongst others, Drenth et al (1984) who claim that there is 'little empirical evidence to support Maslow's assumptions' (p138). However Leavitt and Pondy (1964) as cited by Dintelman (2002) considers that there are flaws in all theory so allowing Dintelman to compare positive and negative attributes of Maslow before concluding that Maslow has a positive application for both businesses and their employees.

**Figure 4.1 Maslow's Hierarchy of Need**



Hannagan (1998) claims that although all five needs are extant within everybody, 'they are not uniformly motivating' (p350). At any given point the dominant need will be different; thus indicating the simplicity of the model; to address this apparent simplicity the recommendations of Hannagan will be followed:

- Consideration will be given to the person and the situational characteristics,
- There is no assumption that a single need should predominate in all situations,
- Definition of terms is required in operational terms.

In support of this approach McKenna (1998,p92) argues that all individuals have a baggage of motives and not all may be complementary to each other. The approach and attitudes of individual taxpayers has also been considered by Shafer and Simmons (2008, p699) who 'felt that a person's general tendency to adopt manipulative or deceitful tactics would play an important role in the rationalisation of aggressive tax avoidance schemes'. Shafer and Simmons (2008) considered three underlying themes of Machiavellianism:

- Advocacy of manipulative tactics such as guile or deceit,
- View of humans as being weak, cowardly and easily manipulated,
- Lack of concern with conventional morality

In doing so they suggest that personal philosophies rather than individual circumstances are more influential in determining attitudes. This view challenges the interpretation of Maslow and contradicts other authors who have identified a range of influences upon attitudes. In fact Shafer and Simmons (2008) found that age has a significant impact upon attitudes, but discounted gender, employment factors and qualifications.

Notwithstanding the views of Shafer and Simmons (ibid) a range of elements must be considered within the context of taxation to ensure that the formulation of a final set of influences has validity. Auderbach (1999) recommends, in the development of public finance, the incorporation of behavioural effects at the macro level (p288) in determining policy. Therefore the structure of Maslow is retained as a basis of considering personal circumstances.

#### Physiological needs:

These are the most basic needs of a person, hunger, thirst, sex and according to Maslow must be satisfied first. Within the context of taxation the direct linkage is the impact taxes have on the revenue streams of individuals and their resultant ability to meet physiological needs. Once these needs have been met it is unlikely taxation will have a continuing motivational effect on basic needs although regressive tax policy will impact greater on the low paid

and therefore their ability to satisfy basic need. The taxation system may be used, as part of governmental social policy, to mitigate the impact upon physiological needs by supporting the lower paid. This could be through negative income taxes, raising tax thresholds or lowering starting rates of tax thereby increase progressivity within tax. Such policies may engender a perception which supports Buchanan's alternative of community responsibility. However should progressivity reduce we may find attitudes shift to his 'coercively imposed charge'.

#### Safety needs:

Such needs incorporate issues such as emotional well-being and employment, to provide shelter (in its widest definition) and security. Maslow proffered this need from the individual's position although it may incorporate the individual's immediate dependants. In the taxation context not only are we concerned about the amount of tax we contribute but how the tax revenues are utilised. For example an individual with dependant children may seek public expenditure on health and education, others based upon location would prefer law and order to be the focus. Bennis (1998 p111) states that 'the more someone makes, the more tax he pays'. Bennis suggests that this is very abstract and impersonal as individuals do not see the money but 'the fact remains that the graded income tax is a synergic principle and guarantees that it is to the benefit of everybody'; if such a perception is predominant within UK taxpayers then it may be argued that safety needs are met by the taxation system. Contrary to this view is the perception that the tax system fails to generate the level of resources required to provide an adequate level of service. Such views may be motivated by age (need for greater personal security or need for schooling) experience (e.g. surgery waiting lists) or political ideology (entrepreneur or socialist). Should this level of need be of major importance to UK taxpayers we may conclude the Buchanan alternative paradigm of community responsibility is extant.

Safety needs also incorporate job security issues; accordingly taxation policy has been directly linked to successful business in terms of enhanced capital allowances and incentives to invest by the Chancellor of the Exchequer. The corollary to the positive links between business and taxation are the negative connotations which may be derived or inferred from corporate failure. Our life experiences will have a direct impact upon whether we see the link as positive or negative.

#### Social needs:

These needs have been labelled 'belonging' and 'acceptance' needs and 'affiliation' needs by various authors. It places need within the social context of friendship, love and contact. Within taxation this may manifest itself in two ways; firstly, it is the underlying need for contact when dealing with taxation affairs either directly with the Inland Revenue or with an advisor. Second it is the way individuals act socially with a potentially negative expectation upon the role of taxation and the Inland Revenue; although Inland Revenue data shows the population to be tax compliant this may not be the way individuals portray their views. The utilisation of tax revenues may form the basis of individuals' social need with links between tax rises and the benefits arising. The links may not necessarily be clearly defined as in a fully hypothecated tax possibly the link may only be made by the Chancellor in the budget statement.

According to Coleman and Freeman (2002) taxpayers have trouble in understanding the rules and laws applying to taxation; they argue that taxpayers have a social need insofar as they need to be seen to comply with peer group behaviour (albeit tax compliant or non-compliant behaviour). Such behaviour is influenced by personal experience, information and cultural values, including the impact of the family (p140).

Esteem needs:

In essence this is the need to achieve in an individual's own eyes or in the eyes of others. Such achievement may be personal, professional or social but when considered within the context of tax the natural conclusion is that taxation may act as a barrier to esteem; tax may be perceived as the 'coercively imposed charge'. To the individual taxation normally reduces available revenues or creates an administrative burden although according to McCaffery (1997) such an impact of taxation depends upon the income level of the individual. McCaffery claims that the gap between poverty and wealth is caused by taxation and that greater progressive taxation is needed to correct the situation. In a fully progressive tax system he claims (p107) potential losers become tax experts (due to a simplified tax system), special interest groups (such as farmers) who are targeted beneficiaries of the tax system and 'rich spenders' who will suffer a larger proportionate tax rate. Clearly the impact of taxation on esteem needs will relate to the individual although the perception of taxation as a whole will influence wider attitudes to taxation.

Coleman and Freeman (2002) believe that professionals will learn and use tax rules and laws to assist in their tax planning; they believe that this is a 'deserved reward for hard work' and may even be a base for pride amongst peers. Whereas blue collar workers need cash for survival and do not link tax revenue collection with services and may see governments as a 'thief' reinforcing the perception of 'coercively imposed charge'. (Summarised from pages 157-158). The view is supported by Giddens (1989) who recognises the pressure of society on an individual and considers tax evasion as (p143 / 144) *'white collar crime... refers to crime carried out by those in the more affluent sectors of Society. The term covers many types of criminal activity, including tax frauds'*.

McGee (1998) argues that there is no support for the proposition that tax evasion should be treated as a sin nor should governments' be seen as a thief taking taxes being taken without consent'. Sandford (2000) takes the

concept further by suggesting that people (professionals) may compare international tax rates thereby encouraging movement of labour (p41).

Self Actualisation needs:

Seen as the capping need by Maslow it relates directly to self-fulfilment. The link to taxation may not exist, but if it does it can only be within the individual's situation or circumstance. Gilligan and Richardson (2005) concludes that the fear of detection is an influencing factor in people's reaction to tax, so may be a limiting factor which resists any movement into evasion and fraud. When considering tax evasion (that is fraud) the most difficult motivator to find is that of the need to *beat the system* or as Giddens (1989) puts it, they make a rational choice (p132) where 'the opportunity presents itself and seems too good to pass up'. In some circumstances there may be no other reason for evasion other than self-fulfilment and this may only be uncovered if the fraud is found. Although it is recognised that there may be no attachment to the individual's underlying perceptions of taxation.

In applying Maslow's theory in the taxation field it is recognised that, from an intuitive view, that there is little to suggest that the hierarchical structure is, in fact, a continuum when considering attitudes towards tax. This view of Maslow shows greater consistency with Shafer and Simmons (2008), Bennis (1998) and McCaffrey (1997) who all indicate different levels and factors affecting reactions to taxation.

In support of this very specific interpretation of Maslow's needs McKenna (1998,p30-31) explains that individuals may not be fully aware of their perceptions and views. A person's level of awareness may be classified as:

- Conscious – fully aware
- Pre conscious – are able to make themselves aware
- Unconscious – deep rooted standards and desire
- Unconscious motivation – no awareness and the person acts out of character.

This research will consider each level of awareness although unconscious motivation can only be determined by default as this is the domain of psychology and hypnosis. Other levels will be assigned by the relationship of different answers to the various questionnaires.

Lewis (1982), in his use of Allport (1932) describes *'attitudes as the central problem in social psychology. Most physiologists would agree that attitudes can be described as learned predispositions to respond in a consistently favourable or unfavourable manner... Important thing to notice is that attitudes are learned. Reactions to tax stimuli are mediated by the individual in such a way that those tax stimuli will be variously perceived and evaluated.'* (p47).

## **Social Response**

To understand possible social responses to tax policy we look to the work of Rawls (1971).

According to Brown (1990 p55) Rawls rejected teleological theories. Rawls (1971 p30) contrasted teleological theory, based upon utilitarianism, with a 'justice of fairness' (p30). He continued to argue that *'by definition then, the latter is a deontological theory, one that either does not specify the good independently from the right, it does not interpret the right as maximising the good'* (Rawls ibid p30). Rawls prefers to talk of the priority of right (justice) over good. Thus there are two theories, one of justice and one of good based upon the belief that 'each person possesses an inviolability founded on justice that even the welfare of society cannot override' (Rawls 1971 p3).

In developing this view Rawls derives the notion of fairness which is to represent a 'set of independent ethical constraints' (Brown p56); these constraints or fairness dictates what people may do in pursuit of good. Within provision of public services Rawls applies this concept by arguing that the 'all

social primary goods are to be distributed equally unless an unequal distribution is to the advantage of everyone' Rawls (1971 p62). This is described by Musgrave (1985) as sharing a cake where person A, the stronger, could take more but would not do so because he would not want to be disadvantaged if roles were reversed. Person B is satisfied because of the share received. We have fairness: we have equal liberty. Buchanan (1984) assumed that all institutions involved in taxation follow the principle of maximum liberty and that taxes must be 'proportional to meet the equal liberty proviso' (p9). Buchanan critiqued his approach by acknowledging that the argument depends upon acceptance of the principle of liberty behind, what Rawls describes as, the veil of ignorance. Rawls considers the realities of life in support of his theory on maximum liberty and of fairness and promotes the view that 'it is clear that since the differences among the parties are unknown to them, and everyone is equally rational and similarly situated, each is convinced by the same arguments', Rawls (p139). It is the central tenet to Buchanan's view that this rationale of fairness and liberty is the natural limit which may be placed upon levels of taxation.

This may be contradicted by the views of VanYperen and Van de Vliert (2001) who suggest (p572) '*distributive justice exists when inputs and outcomes are fairly distributed among participants. Some people perceive a distribution of outcomes as fair when everyone receives similar outcomes, irrespective of inputs (equality rule), whereas others feel that individuals with greater need should receive higher outcomes (needs rule).*'

Most research has been undertaken from the perspective of equity. Types of input may be listed as intelligence, education, experience, training, skill, seniority. Dissatisfaction arises where there are perceived low outcomes from the input; implying the preference for taxes to be seen as prices or as a community responsibility but such dissatisfaction leads us towards the coercively imposed charge.

A key theme within the work of Rawls is that of the veil of ignorance; suggesting (p12) that our principles of justice are taken behind this veil. Rawls considers that decisions taken behind this veil 'ensures that no one is advantaged or disadvantaged' (p12). Basically everyone's relationship with each other is known (what Rawls calls the original position), where fundamental agreements contained within the position are fair. Rawls further explains (p24) that the choice of principle by an association of men 'is interpreted as an extension of the principle of choice for one man'. In exploring his concept of the veil of ignorance Rawls recognised the need to 'nullify the effects of specific contingencies which put men at odds and tempt them to exploit social and natural circumstances to their own advantage' (p136). Rawls considers that individuals do not know how various alternatives will affect their cases and they are obliged to evaluate only upon general considerations. Rawls further considers (p137) that we do not know the circumstances of our own society, although we do have an understanding of:

- Society being subject to circumstances of justice,
- General facts of human society,
- Political affairs,
- Principles of economic theory
- Basis of social organisation.

Specifically Eriksen and Fallen (1996) consider there is a 'strong influence of increased tax knowledge' upon the perceived view of fairness within taxation so supporting the views of Rawls.

Accepting the condition of the veil of ignorance makes possible 'a unanimous choice of a particular conception of justice.' (p140). The concepts behind the veil of ignorance allow decisions to be made without a complexity of an original position, where the complexity would make solutions difficult or impossible. Such a view supports the original proposition of Auderbach (1999) introduced in chapter 1 who believes that taxation should not be looked at from a multiplicity of factors. Rawls (1971) continues by considering

if a 'knowledge of particulars is allowed' (p141) outcomes will be biased; but as Rawls argues if full information was known only a few cases could be clearly decided. Decisions will be made upon a principle of justice and a principle of obligation so it is a 'natural duty for us to consider the rights and claims of others' (p148). This may support our compliant nature, as a society, to tax regulation and although externally we may indicate that Buchanan's coercively imposed charge is predominant our actions support the other three Buchanan alternatives.

Greenway and Shaw (1985) offered an alternative interpretation of Rawls' work by drawing upon the views of mid 20<sup>th</sup> century economists, Lerner (1945), Vickery (1945) and Harsanyi (1953). It is suggested that maximum liberty may be achieved due to risk adverse tendencies when gambling; i.e. the cake will still be split 50:50 due to equal odds of outcomes. Musgrave (1984) suggested this may be due to disinterestedness. It is further suggested that in reality not everyone will follow the application of this rule and, in relationship to taxation, will seek to improve out individual positions; tax becomes a self balancing exercise or seen as the coercively imposed charge.

In terms of tax policy, to follow Rawls is to select a proportional tax structure that is deemed to be fair and demonstrates maximum liberty and as Buchanan concluded, it is possible to empirically test the level of taxes that achieve this liberty. McCaffery (1997) strongly opposes this view in his argument for a simple progressive tax system. The Rawlsian approach supports the view that taxation policy is made for the general good and is intrinsically fair, based upon the underlying concepts of the veil of ignorance. If the policy, and resultant law, is seen as unjust (within our notion of justice and our collective values) we may encounter resistance such as civil disobedience or conscientious refusal: the coercively imposed charge. The Community Charge in 1990 was perceived as unjust with resulting civil disobedience. The owners of the single person companies on the other hand,

might see IR35 as unjust, yet post judicial review has not experienced significant refusal to comply; whereas Rawls might see the law as a correction of an unjust, biased position.

## **Equity and Fairness**

The key basis behind adopting the concept of applying justice lays with Rawls; these are supported by the views of Rees (1971) to promote equality as a 'reforming idea' (page 11) but Rees warns that to consider men to aspire to greater equality is an ideal or principle. Although the Marxist viewpoint may be seen to condemn societal divisions or see the inequality as untenable fact, Rees argued that these divisions are a 'universal feature of social structure' where inequality is accepted as an unalterable fact. However Rees continues and states that 'when men, or some of them, see certain inequalities as unjust and alterable, that equality as an ideal becomes a potent force in political life' (p2). Such view is supported by Rawls who recognises the extent of potential reaction for an unjust law. However, according to Gilligan and Richardson (2005) the concept of fairness is not well defined although they still see the concept as an important influencing factor.

Within the field of taxation policy there have been few instances of such *potent forces*, the reaction to the window tax and hearth tax occurred over two centuries ago, although modern day Britain has, and is experiencing groups attempting to change taxation policy in the grounds of inequality. The most recent is that of IR35, as fully evaluated in the introduction to this thesis and in 1989 riots took place in many towns and cities to protest about the Poll Tax. This is discussed below and is the clearest evidence of taxation as a coercively imposed charge.

The Local Government Finance Act 1988 received royal assent in July 1988 and with it introduced the community charge which became known popularly as the Poll Tax. (The Poll Tax was introduced as a replacement of the

domestic rates, levied by local government, which were criticised as being inherently unfair). Huhne (1990) summarises the characteristics of the poll tax as a tax designed to curb profligate authorities where there are:

- Business winners and losers
- Areas which will win and lose
- People who will win and lose

Miller (1989) stated that the poll tax was designed to make a direct impact on the redistributive element of local services. In short the tax was an attempt to link the users of services with those who fund the service or as Miller reported to 'form a connection between 'representation and taxation'. In designing the Poll Tax elements of the government considered the concept of a local income tax in favour of a flat rate poll tax, a contentious debate ensued and it took the full authority of the Whips, Miller (1989), to ensure the Local Government Bill moved towards royal assent. Outside of parliament the Association of Metropolitan Authorities (AMA) criticised linking voting with paying as 'narrow and dangerously anti-democratic'. Within parliament the government majority was reduced to 72 following a Tory rebellion against the flat rate poll tax. The UK press such as the Guardian and the Sunday Times carried critical stories, both in December 1987. Michaels Mates MP who led Tory opposition to the poll tax is referred by Miller (p97) as recognising that the government had reconsidered on the issue of the ability to pay. He continued (page 97), 'this misses the greatest point: for the overwhelming majority, for anyone above the poverty line – we are still left with a flat rate charge'. The impact of this is clearly shown by Huhne (1990) in graphical form (page 75) and is approximated in the Table 4.1.

**Table 4.1 Impact of the Community Charge**

<b>Net weekly income</b>	<b>Gross rates to income</b>	<b>Gross community charge to income</b>
<b>£</b>	<b>%</b>	<b>%</b>
0 – 50	8.2	7.9
50 – 75	5.9	6.0
75 – 100	4.0	4.8
100 – 150	3.0	3.5
150 – 200	2.0	3.0
200 – 250	2.5	2.4
250 – 300	2.9	2.1
300 – 350	2.9	2.0
350 – 400	2.9	1.8
400 – 450	2.8	1.7
500+	2.0	1.2

Table 4.1 demonstrates that the lower the level of income the greater the burden of Poll Tax as the basis of taxation moved from property to the number of people living in a property.

Examples of extreme inequity were highlighted by the London School of Economics for the Department of the Environment:

Case A – A three adult household with two earners, living in inner London, would have paid £362 in rates but £2073 in poll tax. An additional £2592 of pre tax income is needed to cover the difference.

Case B – A single spinster living in a large house would have paid £1505 in rates but only £207 poll tax.

(Adapted from Huhne 1990).

Additionally it may be argued that those earning higher wages also encourage their children into post 16 education thereby making greater use of the amount paid (in absolute rather than percentage terms). Conversely, those in poverty living in socially deprived conditions will by necessity make greater use of health services, Appleby (1995). This is a view supported by Atkinson (1989) who considered that the level of benefit, in terms of poverty and social

security, depends upon demography (p258). Atkinson also considered that a single rate tax, he was referring to Income Tax, is too restrictive, preferring some form of graduated tax.

In a separate context Rawls (1988) considered justice as 'the first virtue of social institutions' (p2) and continued to argue that efficient arrangements must still be removed. This view is based upon Rawls' principles of justice:

- 1. Each person is to have an equal right to the most extensive basic liberty compatible with similar liberty for others.*
- 2. Social and economic inequalities are to be arranged so that they are both a) reasonably expected to be to everyone's advantage, and b) attached to positions and offices open to all' (p 60).*

The briefest critique of Rawls' principles as against the poll tax supports the view of Mates, the Tory rebellion and the A.M.A. that the poll tax was manifestly unjust. Subsequent public rebellion and the swift move towards council tax in 1992 appear to cement public opinion against flat rate taxes as being fair or equitable. On the 31<sup>st</sup> March 1990 an anti Poll Tax demonstration of around 200,000 people took place in Trafalgar Square, London. On the same day 50,000 marched in Glasgow and 10,000 in Hastings (Wainwright 2002). Wainwright also reports that in 1990 there were 18 million non-payers including 1800 on the Isle of Wight whose cases were dismissed by the court on 1<sup>st</sup> June 1990.

By 1991 the Government repealed Poll tax legislation in favour of a more progressive council tax. The Militant web site contends that the Poll Tax was a 'battle that brought down Margaret Thatcher'. Perhaps this is an oversimplified and biased view, but it is an argument that has some foundation. Similar perceptions were identified by Gilligan and Richardson (2005, p335) who found that:

- Middle income earners 'pay more than their fair share',
- Any 'special provisions' are seen to benefit the wealthy,
- 'Ability to pay and progressive taxes' are 'more influential than flat or regressive taxes'.

Head (1993) reflected upon the principles of fairness in taxation by suggesting that they are not 'ethical absolutes' but paradigms which shed light on tax policy. The principles form part of the 'tax kaleidoscope' that also contains economic and budgetary factors. Referring to the work of Haig-Simmons in 1937, 1938 and 1939 Head (p14) recognised that whereas progressive taxation could be rejected on conceptual grounds before the second world war, the rapid growth of public expenditure and the emergence of the welfare state post war resulted in the 'need to mix taxes'. Head however did not believe that all taxes should be progressive and suggested that social insurance systems could be financed by a form of flat rate levy. Citing examples of public reaction to a wealth tax (in Ireland from 1975 to 1978 and France from 1982 to 1987), Head (p53) helps us conclude that poorly targeted progressive taxation will face equal pressure for voters and tax payers, thus helping us to understand the opponents of IR35.

The issues of equity and fairness are succinctly articulated by Green (1993) '*A tax system can properly be expected to fulfil a number of economic goals: it should secure a sufficient level of revenue for the government; play a role in stabilisation policy; make efficient use of resources; and be easily administrable. We may also have somewhat more abstract political expectations for it: we may want to express a common citizenship and mutual regard for one another; we may want it to help unify the nation. And of course, we want it to be fair, equitable and just.*' (p88). Green does not suggest that all these goals can be 'maximised simultaneously' but considers that a tax system must not be 'grossly inefficient' in seeking congruence.

What of 21st century attitudes? In the USA an electronic public debate forum ([www.yourdebate.com](http://www.yourdebate.com)) maintains a balance of support and criticisms of flat rate taxes with the most significant concerns surrounding the ability of the 'rich' to avoid tax on elements of income. As of May 2002 60% of respondents supported flat tax as the 'fairest plan'. In Muslim states the Jizya or poll tax is levied on all non-Muslim citizens so that they can contribute to the welfare of the state. There are key exemptions from the tax, women, young infants, persons too old to work or handicapped. Payees of the tax are granted a 'freedom of faith', and are treated with 'justice and equality with Muslims' [www.unn.ac.uk](http://www.unn.ac.uk) Also within the Islamic world we can find, potentially, the embodiment of Buchanan's second paradigm. Zakat in the Arabic language means increment, growth, and/or purification of the soul and wealth. It is, according to Tucker et al (2003) one of the *five pillars of Islam*:

- Acceptance of the unity of Allah
- Prayers to Allah five times each day
- Zakat
- Fasting for Ramadan
- Pilgrimage to Makkah once in a lifetime

It became a compulsory duty at the beginning of the 6<sup>th</sup> Century and has been enshrined within Sources of Islamic thinking: The Qur'an, The Sunnah, Ijma (consensus), Ijtihad

*Within The Qur'an* Jesus is quoted to have said:

*"I am indeed a servant of Allah; He has given me Revelation and made me a prophet, and He hath made me blessed wheresoever I be, and hath enjoined on me prayer and Zakat as long as I live."*

(Qur'an, chapter 19:30 and 31 as cited by Tucker et al, 2003)

The goals of Zakat are deemed to be

- Religious – it helps Muslims purify their souls
- Social – it contributes to the shared human environment

- Economic – it helps with wealth redistribution, encouragement of investment

*The beneficiaries of Zakat may be listed as:*

- *Poor and needy*
- *Miserable people*
- *People who collect and distribute Zakat*
- *People hesitant in their belief and those who can be converted to Islam*
- *Slaves who wish to buy their freedom*
- *Heavily indebted people*
- *Fighters in the cause of Islam*
- *Wayfarers*

The tax is levied upon obligatory persons and entities which represent the interests of persons, such persons do not include non-Muslims. According to Tucker et al (2003) the tax is paid on wealth by these obligatory persons although to the western eye the definitions provide opportunity for avoidance. However Tucker et al conclude that levels of compliance are the same within countries with an active enforcement regime as those relying upon traditional values of religious belief: taxation is seen, in Buchanan's terminology, as a community responsibility.

With widening ethnic diversity in the UK could the religious focus of Zakat benefit tax collection? The same diversity could not allow Zakat itself to become part of the UK tax regime but the concept of having a clear focus for tax revenues (as a surrogate for specific religious focus) could gain greater support. Could this suggest a possible swing towards hypothecation?

## **Tax Systems**

According to Nobes and James (2000) Smith classified a poor tax system as one in which:

1. *a great number of officers may be needed to levy the tax,*
2. *the industry of the people may be obstructed*
3. *penalties may be inflicted,*
4. *taxpayers may be subject to 'frequent visits and the odious examination of the tax gatherers'. (p16)*

Smith concluded that any of the above could create a tax system more burdensome to the people than 'beneficial to the sovereign'.

More recently the criteria for evaluating alternative methods of government finance are discussed by Hyman (1983 p346) who concludes that the following attributes should be an intrinsic base for a tax system -

- '1. Equity: The distribution of the burden of government finance should coincide with commonly held notions of fairness and the ability to pay.*
- 2. Efficiency: The system of government finance should raise revenues with only minimal loss of efficiency.*
- 3. Administrative ease: A government finance system should be relatively easy to administer in a consistent manner, without excessive costs to collect, enforce and comply with taxes and tax laws'.*

Common themes from both Smith (1776) and Hyman (1983) are concerned with the complexity of tax administration and the impact upon motivation to generate wealth both of which directly impact upon tax perceptions. Alm (1999) discussed the factors which contributed to an optimal tax system and it may be concluded from his discussions (p366–371) that the key factors are:

- Compliance costs,
- Administration costs,
- Enforcement / tax compliance
- Tax yields
- Distribution burden

Additionally the Meade report (1978), summarised in Table 4.2, considered the desirable characteristics of a tax system (p7 – 27) and, in general, underpins the views of Smith and Hyman but goes on to discuss key aspects in more detail.

**Table 4.2 Summary of the Meade Report**

Incentives and economic efficiency	<ul style="list-style-type: none"> <li>• Depends upon need for revenues</li> <li>• Income effect – higher tax – lower net income – work harder for more money</li> <li>• Substitution effect - higher tax – lower net income means working harder for the extra goods – will substitute for leisure (or forego promotion)</li> <li>• The need to keep marginal rates down is a general presumption in favour of tax systems which provide a broad basis for revenue raising purposes</li> <li>• Low tax rates over large tax base</li> <li>• Resist erosion of tax base by growth in relief’s and allowances</li> </ul>
Distributional effects	<ul style="list-style-type: none"> <li>• A good tax system should be horizontally equitable (treat like with like). System must be capable of vertical redistribution</li> <li>• Minimise clash between redistribution and loss of efficiency</li> <li>• Flexible to allow scope for different political choices</li> </ul>
International aspects	<ul style="list-style-type: none"> <li>• Some countries may tax on consumption others on income, this results in choice</li> <li>• Differing tax rates may result in migration?</li> <li>• Given tax structures in other countries would UK tax be distorted in movements of capital and goods</li> </ul>
Simplicity and costs of administration	<ul style="list-style-type: none"> <li>• Administration costs are themselves met from taxation which can be determined with reference to the fairness of taxation</li> <li>• Compliance costs regressive</li> <li>• Compliance costs resented by taxpayers</li> <li>• Administration costs easier to obtain than compliance costs and open to public scrutiny</li> </ul>
Flexibility and stability	<ul style="list-style-type: none"> <li>• Recognise the need to adjust total tax burdens – political and economic reasons</li> <li>• Stability – uncertainty breeds lack of confidence</li> <li>• Tax system must allow for incentives for private enterprise</li> </ul>
Transitional problems	<ul style="list-style-type: none"> <li>• Political parties change – tax policy change</li> <li>• Avoidance of major upheaval is major objective</li> </ul>

Adapted and summarised from the Meade Report

From the works of Alm (1999), Hyman (1983) and Meade (1978) we have a theoretical base on which to discuss respondent’s views on the efficiency of tax systems. Burton (2007) considered a responsive regulation tax system as one where the regulatee and regulator seek to cooperate but where the

taxpayer adopts a restrictive posture the tax authorities respond with escalating enforcement measure (as we may infer from current tax practices). This in turn falls into Smith's implied factors behind failing tax systems. Burton quotes Ayres and Braithwaite (1992) who propose a tripartism: a relationship between the taxpayer, the tax authorities and the community to develop a co-operative regulatory framework. This clearly draws upon Buchanan's second paradigm of 'community responsibility' although Burton concludes that there is little doubt that the cooperative compliance model represents a 'quantum shift' in tax policy with the creation of tax administration partnerships the concept is still under development.

### **Burden of Taxation**

As referred to earlier in this chapter public reaction to taxation is rare (for example the Poll Tax is the only large scale action taken in recent years) with public debate restricted to the annual Budget statement. Press reaction focuses upon the net impact tax changes have upon individuals and businesses.

When measuring incidence of taxation Hubbard (1999) questions the use of taxation distributional tables by advising the tables should be constructed by identifying (p294)

- '1) what taxes are to be included,
- 2) what is the definition of income,
- 3) what are the underlying assumptions,
- 4) what measure of tax burden is used and
- 5) how are temporary tax provisions treated'.

Alm (1999, p375) appeared to support Hubbard (1999) when he stated commodity taxes can '*reduce compliance and administrative costs because they eliminate the necessity of separate measurement of the tax base*'. Alm continues by suggesting that income taxes '*should be imposed at constant marginal tax rates*' and (p376) that '*use of both taxes allows each to be*

*imposed at lower marginal rates'. Sandford (2000) also argues in favour of an expenditure based tax based upon the concept of equity (p38) as 'it is fairer to tax people on what they take out of the economic system than what they put in'.*

Notwithstanding the concerns of Hubbard a starting point in considering the incidence of taxation can be to compare the UK with other EU and certain world economies. Table 4.3 is drawn from the work of Haufler (2001) who compare rates of income tax in 1989 and 1998. As the table clearly shows the UK appears to conform with the views expressed by Alm that a constant marginal tax rate should be used and although the rate imposed upon investment exceeds the EU average the UK retains a relatively low rate of tax on earned income.

**Table 4.3 International Tax Rates**

%	Top personal rate 1989	1998	Top rate on interest 1998
Austria	50	50	25
Belgium	60	60.8	15
Denmark	69.6	60	60
Finland	58	55.5	28
France	56.8	61.6	20.9
Germany	50	45	20
Ireland	56	46	27
Italy	58.1	46	30
Luxembourg	56	50	50
Netherlands	72	60	60
Portugal	40	40	20
Spain	56	56	31
Sweden	65	56	30
UK	40	40	40
EU Average	56.2	52	34
Canada	43.5	44.4	44.4
Japan	65	65	20
Norway	53	41.7	28
Switzerland	40.9	42.4	42.4
USA	36.6	46.2	39.8

Haufler, A; 2001 Taxation in a Global Economy  
Cambridge University Press, Cambridge UK

Haufler (2001) considered these comparative rates within the context of economic planning and not from the stance of attitudes toward tax. To consider tax rates within the context of perceptions and attitudes to tax requires a comparison based upon the total burden of taxation to the nation or to an individual. The UK Government commissions research on the burden of taxation with the last publication in September 2003 edited by Townsend (2003). This research paper published by the economic policy and statistics section produces an interesting analysis of the overall burden of tax and is best represented by extracting relevant points from its own 'summary of main points' :

- *The burden of taxation expresses the proportion of either national or individual income paid in taxes.*
- *Official projections suggest that, on unchanged policies, the burden of taxation (defined as net taxes and social security contributions) will be around 38% of GDP in the middle of this decade. This compares with a peak of around 39% in 1984/85 and a recent low of 33% in 1993/94*
- *As measured by the national accounts, the tax burden in 2003/04 is forecast to be 36% of GDP. At the start of the twentieth century the ratio was around 10%*
- *In 2000 the aggregate tax burden in the United Kingdom was below the average for the EU15. However, it was higher than that in several major non-European countries....*
- *Households with the top fifth of disposable incomes now pay a higher proportion of all household taxes than in 1979. However, as the share of gross income received by this group has also increased, the burden of tax they face has fallen.*
- *Taxes (direct and indirect) paid by the fifth of households with the lowest disposable incomes now represent a higher proportion of their gross income than in 1979.*

Many of these points are worthy of further investigation.

The report (p10) shows that taxes and social security contributions calculated as a proportion of gross domestic product has fluctuated around the mid 30%’s since 1978. However the UK is currently projecting a significant increase in this proportion to 2007/2008 where the proportion is estimated to be 38.2%. This has grown from a figure of 36.8% in 2001/2002, a figure with little significant movement during the Blair Government 1987 – 2002. The projected growth to 2007/2008 returns the UK to the proportions seen in the early days of the Thatcher Government on the 1980’s; however the early 1980’s is seen as a period of reform leading to proportions of 33% - 34% by 1992, with 35% not being exceeded until 1997 and the Blair Government. In evaluating perceptions of tax recent and projected changes in this measure of tax burden may strengthen either paradigm 2 or 3 (community responsibility and coercively imposed charge), subject to the strength of citizenship as concluded by the Fabian Society ( and the ability of the citizen to comprehend the real net impact of changes in taxation).

The report goes onto analyse (p13) the 2001/2002 proportion (note p10 stated the proportion as 36.8% and p13 as 36.9%) into the following:

Taxes on production	14.1%
Tax on income and wealth	16.3%
Taxes on Capital	0.2%
Social Security Contributions	6.3%

If this is compared to 10 years earlier we find the proportions as 14.3% / 15.6% / 0.2% and 6.2% respectively. From these figures it would appear that little has changed in the mix of taxes other than an increase in the taxes on income and wealth of which a significant increase is in council tax.

It is demonstrated that the overall burden of tax has increased, and is projected to continue to increase. However who within society are bearing this increase? Table 4.4 below extract examples from the report (p17):

**Table 4.4: Direct and Indirect taxes as a % of gross income**  
**Analysed by quintiles of disposable income**

year	1 <sup>st</sup> quintile	2nd	3rd	4th	5 <sup>th</sup> Highest
1979	31%	34%	38%	39%	38%
1989	38%	36%	38%	38%	35%
1999	31%	35%	37%	38%	36%
2002	32%	33%	36%	36%	35%

Whilst the upper quintiles have seen a reduction in burden the lowest income group has seen an increase in burden and the differential in burden across quintiles has closed so indicating a reduction in progressivism of tax burden. The report however produces additional figures which demonstrate progressiveness if the tax paid by the quintiles with the first paying 7% of total tax revenues the highest pays 43%. The report concludes that although the 5<sup>th</sup> quintile pays a higher proportion of tax the share of gross income has also increased and consequently their overall burden of taxes has fallen. The opposite is true for the first quintile. These findings are supported by the analysis of Adam et al (2007) who estimate the overall tax burden as a proportion of GDP will rise and remain at 40.4% from 2008-2009 onwards which is in contrast to proportions of under 40% in the period 1990 to 2005.

In its detailed analysis of tax burden the report (p25–34) utilises the notion of hypothetical households to compute the impact tax changes on take home pay. A summary of the analysis has been constructed in the following tables.

**Table 4.5: Burden of direct tax 2002**

% of Median earnings	50%	75%	100%	200%	500%
Single No Children	14.9%	20.6%	23.4%	27.8%	35.1%
Married No Children both working	2.8%	9.6%	14.9%	23.4%	30.2%
Married 2 Children Husband working	-46.1%	-7.6%	11.6%	23.9%	33.7%

Source – the Burden of Taxation 2003

The table illustrates the impact of tax credits for low earners as recommended by Wilson (1985) and Bohn (1987) as positive social policy and we can also see the gearing effect of tax rates available to married couples. Once a married man who is the sole earner significantly exceeds median earnings he will pay a greater proportion of tax than his married counterparts with equivalent earnings. It may also be concluded that for taxpayers at or below the median there is a tax benefit for supporting a family.

These results may be compared to 10 years before the 2003 report, as shown in Table 4.6.

**Table 4.6 :Burden of direct tax 1992**

% of Median earnings	50%	75%	100%	200%	500%
Single No Children	18.8%	23.8%	26.4%	28.1%	35.1%
Married No Children both working	2.6%	9.4%	15.5%	24.8%	29.3%
Married 2 Children Husband working	-18.1	11.1%	16.8%	23.3%	32.8%

Source – the Burden of taxation 2003

To appreciate the impact of the changes between 1992 and 2002 a simple measurement of the movement in percentage points reveals potential inequities in changes in direct tax, as shown in the Table 4.6(a).

**Table 4.6(a) :Burden of direct tax change 1992 – 2002**  
**Percentage points**

% of Median earnings	50%	75%	100%	200%	500%
Single No Children	-3.9	-3.2	-3.0	-0.3	0
Married No Children both working	+0.2	+0.2	-0.6	-1.4	-0.9
Married 2 Children Husband working	-28	-18.7	-5.2	-0.6	+0.9

Calculated difference between 1992 and 2002 percentages of direct tax burden.

The change in burden over the last 10 years has been unbalanced. The greatest reductions in direct tax burden have been for taxpayers at or below the median although we see an increase in burden for married couples in the lower income groups. A similar inequity, albeit minor, occurs at the highest

income group where to be the sole earner in a marriage with children is a disadvantage.

The analysis in the burden of direct taxation compared to the analysis of direct and indirect tax as a proportion of gross income highlights an underlying pattern in changes in taxation. For a majority of taxpayers (and electorate) the direct tax burden has fallen whilst the differentials in total tax burden have narrowed. We have also seen the proportions of taxes on income and wealth increase. The natural conclusion to this scenario is that there is a significant shift in the incidence of tax from direct to indirect. The review of literature discussed taxpayers understanding of their liability and suggests most taxpayers are unaware of their total tax liability. Direct taxes have the greatest visibility to taxpayers and with these showing a reduction in burden research may discover a positive attitude towards taxation. Certainly the survey of The Commission on Taxation and Citizenship (2000) indicates a willingness to increase the direct burden on the higher paid. But do respondents to the surveys realise the reducing differentials in total tax burden are opposed to such a movement? Are they aware of the taxes they are paying?

The detailed analysis of the research report, the burden of taxation, focused upon the three categories of tax payers details in table 6.5 above over a period of 10 years. The use of hypothetical situations may disguise significant impact of change on different groupings or upon individual changes in tax legislation. It is however in practical for any research to evaluate an infinite range of scenarios. To test conclusions which may be drawn from the Government based research an independent analysis has been undertaken.

To consider the impact on recent headline tax changes upon individuals the following 2002 earnings levels were considered; minimum wage earners, average wage earners, and amount approximately mid way between the minimum and the average, two levels of remuneration around the 40%

threshold and two higher earners represented by £50,000 p.a. and £80,000 p.a.. The 2002 earnings were then inflated and deflated using the retail price index<sup>1</sup> and subjected to taxation at the rates pertaining in the relevant periods. The results of the exercise are shown in Table 4.7. Separate calculations were undertaken for single and married persons.

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<sup>1</sup> The use of the retail price index in this scenario follows the work of Adam et al (2007)

**Table 4.7 Income – Percentage of tax Borne on deflated income and based upon earlier years tax rates**

		2007 Income Levels			Proportion of tax to income			
		£8993	£17648	£25177	£33177	£35295	£58825	£94120
SINGLE								
	2007	6.24%	13.97%	16.37%	17.73%	17.98%	25.40%	30.88%
	2006	6.14%	13.92%	16.34%	17.70%	17.96%	25.33%	30.83%
	2005	6.08%	13.89%	16.31%	17.68%	17.94%	25.26%	30.79%
	2004	6.13%	13.91%	16.33%	17.70%	17.96%	25.30%	30.81%
	2003	6.10%	13.90%	16.32%	17.69%	17.95%	25.28%	30.80%
	2002	5.70%	13.70%	16.18%	17.58%	17.85%	25.08%	32.98%
	2001	5.73%	13.71%	16.19%	17.59%	17.85%	25.09%	30.68%
	2000	6.47%	14.09%	16.45%	17.79%	18.04%	25.25%	30.78%
	1999	6.39%	14.53%	17.07%	18.50%	18.77%	25.75%	31.09%
	1998	8.13%	15.11%	17.47%	18.80%	19.06%	26.12%	31.33%
	1997	8.16%	15.14%	17.49%	18.82%	19.07%	26.18%	31.36%
	1996	8.63%	15.85%	18.29%	19.66%	19.92%	26.75%	31.72%
	1995	9.10%	16.80%	19.25%	20.64%	20.90%	27.67%	32.30%
	1994	8.98%	16.76%	19.22%	20.62%	20.88%	27.57%	32.23%
	1993	8.84%	16.77%	19.23%	20.62%	20.88%	27.33%	32.08%
	1992	9.00%	16.85%	19.29%	20.66%	20.92%	27.19%	32.00%
	1991	10.78%	17.75%	19.92%	21.14%	21.38%	27.14%	31.96%
	1990	11.27%	18.00%	20.09%	21.28%	21.50%	27.96%	32.48%
		8.24%	15.77%	18.16%	19.52%	19.77%	26.55%	31.77%
range	max	1990	1990	1990	1990	1990	1995	2002
	min	2002	2002	2002	2002	2001	2002	2001
MARRIED								
	2007	6.24%	13.97%	16.37%	17.73%	17.98%	25.40%	30.88%
	2006	6.14%	13.92%	16.34%	17.70%	17.96%	25.33%	30.83%
	2005	6.08%	13.89%	16.31%	17.68%	17.94%	25.26%	30.79%
	2004	6.13%	13.91%	16.33%	17.70%	17.96%	25.30%	30.81%
	2003	6.10%	13.90%	16.32%	17.69%	17.95%	25.28%	30.80%
	2002	5.70%	13.70%	16.18%	17.58%	17.85%	25.08%	32.98%
	2001	5.73%	13.71%	16.19%	17.59%	17.85%	25.09%	30.68%
	2000	6.47%	14.09%	16.45%	17.79%	18.04%	25.25%	30.78%
	1999	3.64%	13.14%	16.09%	17.75%	18.07%	25.33%	30.83%
	1998	4.10%	13.06%	16.03%	17.71%	18.03%	25.51%	30.94%
	1997	4.14%	13.10%	16.06%	17.73%	18.05%	25.56%	30.98%
	1996	4.58%	13.78%	16.84%	18.57%	18.89%	26.13%	31.33%
	1995	3.78%	14.09%	17.35%	19.19%	19.54%	26.86%	31.79%
	1994	3.48%	13.95%	17.26%	19.12%	19.48%	26.73%	31.71%
	1993	3.08%	13.18%	16.71%	18.71%	19.09%	25.61%	31.01%
	1992	2.81%	12.14%	15.99%	18.16%	18.57%	25.44%	30.90%
	1991	3.35%	13.97%	17.27%	19.13%	19.48%	25.32%	30.83%
	1990	3.41%	14.00%	17.29%	19.15%	19.50%	26.04%	31.28%
		4.17%	13.53%	16.59%	18.32%	18.65%	25.69%	31.23%
range	max	2000	1995	1995	1995	1995	1995	2002
	min	1992	1992	1998	2002	1998	2002	2001

From the government research we would expect to find the lower paid to be paying a much lower level of tax, year on year, compared to higher earners. And when solely considering tax rate versus income versus personal allowances, all groups other than the low paid married men and highly paid persons (whether married or not) are paying proportionately less tax now than in 1990 and is confirmed by complimentary comparative analysis undertaken by Adam et al (2007). All groups have experienced increases and decreases in taxation during the period with key falls occurring after 1996. The group most adversely affected are married men earning at or around the minimum wage where rates have increased over the 12 years and have fluctuated, with a net increase, since 1996. The rise in proportional rates for all groups (other than the two subject to higher rate tax) since 2002 has had exactly the same absolute impact on earners thereby demonstrating a regressive trend, a trend confirmed when recognising the absolute impact on the higher rate groups is to reduce tax in real terms.

Throughout the period incremental change is minor and whilst there is no evidence to suggest Rose and Karran's (1987) view that *'keeping out of trouble is one of the basic rules of politics'* the failure to headline policy changes through taxes may be down to political inertia, as discussed by Rose and Karran. They also argue that the cumulative impact of changes must be the focus of critical analysis.

The results, in global terms, agree with the government research; people are paying less in tax in real terms. However by looking at rates and allowances in isolation we can see that the tax changes lack uniformity and a significant movement in the progressive nature in income tax; indeed in real terms tax changes have been regressive. Such anomalies may impact upon the views of individuals and hence the range and standard deviation of survey responses.

## Understanding Changes

The extent to which individual taxpayers understand changes to headline taxation and changes in the burden of taxation can be categorised as:

- Experience / background
- Use of a tax advocate and advisor
- The 'Public Face of Taxation' (The Chancellor's speech and Press reaction and views)

The first of these factors is specifically orientated around the individual and broader conclusions may only be drawn from empirical evidence. This has been discussed extensively in chapter 5.

The role of the tax advocate and the professions has been considered from available literature in chapter 5 and it may be concluded that the motivations of advisors may impact upon the tax perceptions of the individual.

The 'Public Face of Taxation' reveals a competitive and entrenched presentation of the 'face' as illustrated by reviewing speeches made by Chancellors of the Exchequer. The budget speech made by Chancellor Brown in 1998 followed the structure of previous budgets speeches and was structured:

- Economic stability – followed by areas of emphasis:
- Encouraging work
- Promoting Enterprise
- A fairer society
- Protecting our environment  
before covering
- Specific tax changes.

By 2003 the balance of the budget speech had changed; the structure of the 2003 speech was:

- The economy and our global responsibilities (terrorism)
- Tax Freezes and Tax cuts

No details were provided in the speech of how additional revenues were to rise and, in particular, no specific details of tax rates and bandings were given. This approach to budget speeches continues. In doing so the Chancellor has distanced tax spends and tax revenues and has removed the potential for even implied hypothecation.

Why might this be? If the Chancellor seeks to accentuate the positives within the budget statement an analysis of press comments shows that they consistently focus upon negative elements and tax rises. For example:

*Big shocks and small concessions lurking in the small print (Financial Times 2006),*

*Doubts cast over Brown's rules for economy, Financial Times, 2005,*

*Tax hikes alert over £10bn black hole, Daily Mail, 2002,*

*CBI lashes Brown on pensions tax raid, Daily Mail, 2007,*

*Company car bombshell, Daily Mail, 2001,*

*and New Labour's sham 157 stealth tax rises.*

It is difficult to find positive and supportive press response to budget speeches even in years, such as 2003, where many duties were frozen and tax bandings and allowance were increased by 3% whilst inflation was approximately 2.7%.

But are the taxpaying and voting citizens simply influenced by short term statements attached to a single speech? According to Nadeau and Niemi (1999) the 'annual budget presentation is one of the most important forms of public, partisan behaviour in a parliamentary democracy' (p 858). They continue their analysis by concluding that voters' assessments are a product of the performance of the economy, the content of the budget, the media's

reaction to the budget and political factors, and are *not* simply 'derivative of general feelings about the government in power or intended vote'

## **Emergence of Tax Avoidance and Evasion**

The basic definitions of avoidance and evasion are simple in concept.

Avoidance is the legal planning of tax affairs in order to minimise a taxation liability whilst evasion is an illegal arrangement of tax affairs. The application of the concepts is however not simple and although the current framework for tax planning has been determined by the courts many of the concepts are set into UK history. As discussed earlier in this chapter there have been a number of contentious developments in UK taxation where taxpayers have sought ways to minimise their liabilities. Also introduced in this chapter were the implementation of PAYE in 1944 and the widening of the range of tax payers during the 20<sup>th</sup> century. As levels and scope of taxes increased more and more elaborate avoidance schemes came to prominence.

### **Avoidance Schemes**

As the use of avoidance schemes grew so did the Inland Revenue's fight to ensure all taxes were collected, firstly by challenging avoidance schemes in the courts and secondly by ensuring all existing legislation were correctly applied.

A major shift in judicial attitude in favour of the Inland Revenue came in 1982 in the case of *WT Ramsay Ltd V IR Commrs* ( AC 300 ). The court decided to look at the substance of a transaction rather than the legal form as previously determined in the *Duke of Westminster* doctrine (British Master Tax Guide 1997). The taxpayers organised their affairs by undertaking steps which if taken separately would have been seen as perfectly legal. However when the steps were taken together it was the Inland Revenue's contention that the sole purpose was to avoid tax. Their Lordships recognised they could not go behind a genuine document or transaction but neither were they compelled to "look at a document or transaction in blinkers, isolated from any context to

which it properly belongs". The result was to concentrate on the substance of the transaction and set aside the intervening steps when determining the tax status. Success, in the eyes of the revenue authorities, in the fight for tax compliance!

If the Ramsay case was a major change, the case of *Furniss V Dawson*, 1984 (BTC 71) was a watershed. Not only did the courts support the Ramsay view of substance over form but also applied the principle to a tax deferment scheme. Lord Brightman supported the judgement by stating the conditions in which substance over form will apply, allowing the courts to look at the end result:

- there must be a pre-ordained series of transactions or a single transaction into which steps are inserted which have no commercial purpose except that of tax avoidance

Cases since 1984 have concentrated on whether a transaction has been pre-ordained (*Bayliss V Gregory* 1988 BTC 268) or have commercial purpose, as it was partly held in *Ensign Tankers [Leasing] Ltd V Stokes* 1992 BTC 110 where a loan between a partnership and a film company contained an element of commercial reality.

The Ramsay doctrine is still current but may be challenged on points of law and of fact. Possibly the best distinction between tax avoidance and tax mitigation can be found in the Privy Council case, *IR Commr (New Zealand) V Challenge Corporation Ltd* 1986 (BTC 442). "If the transaction is not a sham and was properly and accurately described in documentation disclosed to the Inland Revenue, the taxpayer would have successfully mitigated his tax liability."

This continued conflict between the taxation legal profession and the Inland Revenue is linked to all of Buchanan's paradigms bar that of community

obligation, as each of the other three will incorporate, de facto, elements of detailed and contendable tax planning. However the influence of ethical standards by the accountancy profession must not be underestimated. Oliver (1997) suggests that ethical duties of the professional are 'derived from the public interest' (p10), that is to prepare accounts in accordance with recognised accounting practices to show a true and fair view. There must be confidence by the taxpayer in his advisor, who must have the requisite technical and professional skills. The advisor may or will become an advocate of the taxpayer so may be faced with the conflicting interests of the tax professional and the client's position. To gain an insight into the advocate's position we may look to Lord Denning in *Rondel V Worsley* (1966) 3 ALL ER 657 who said:

*'the advocate must do all he honourably can on behalf of his client. I say all he honourably can because his duty is not only to his client. He has a duty to the court, which is paramount. It is a mistake to suppose that he is the mouthpiece of his client to say what he wants: or tool to do what he directs. He is none of these things..... He must not knowingly conceal the truth. He must not consciously misstate the facts. ... He must produce all the relevant authorities, even those against him..... He must disregard the most specific instructions of his client, if they conflict with his duty to the court. It is a code of honour.'*

Is this an insightful summary of the roles or unachievable fantasy? Either way the actions of the tax advocate and professional become fundamental to the incremental change to tax law and practice. Murphy (2007) can be inferred to be supporting Lord Denning's view by challenging the concept that advisors have an obligation to minimise a client's tax liability. Murphy (ibid) propose a code of conduct for taxation and propose tax advocates disclose adherence to the code. Graswick and Scott (1982) proffered their Deference Theory (p213-230) which states that people see tax investigations as a deterrent due to

legal sanctions, social stigma and guilt. It is hypothesised that these deterrents are equally valid when analysing the practices of tax advisors.

The Inland Revenue seeks to maximise revenue as part of the fiscal exchange process with the mandate of parliament either to support the ethical position of a community responsibility or to achieve government targets. The profession's cases contain elements that support the concept of a coercively imposed charge whilst recognising the social need to contribute to society and pay for common services. Accordingly this review of the role of the accountancy profession supports the alternative paradigms as a basis for wider taxation research. It may be inferred that the predominant Buchanan paradigm is that of the coercively imposed charge but this must be subject to empirical review.

Song and Yarbrough (2002) seek to demonstrate contradictions in attitudes and claim 87.7% disagreed with the view that 'since tax dodging hurts no one but the government, it is not a serious offence' with only 20% condoning violating tax laws, a view confirmed by Simmons and Cheng (1996) and Karlinsky, Burton and Blanthorne (2004). However people do not feel they have an obligation to report tax cheats, 49% feel that tax cheats should not be jailed. Public opinion is that most people fail to report income or paid expenses (p229). According to Sika (2004) the 2004 Budget has focused upon tax avoidance by enforcing all tax practitioners and corporations to register their tax avoidance schemes with the Inland Revenue. Sika quotes an unnamed partner of a major accountancy firm as stating (p18) 'no matter what legislation is in place, the accountants and lawyers will find a way around it'. In a latter paper Sikka and Hampton (2006) revealed that major accounting practices require clients to sign non-disclosure agreements and reported that their tax advice detailing avoidance schemes (Sikka calls them evasion schemes) are 'presented on erasable boards'. They concluded (p24) that 'the global tax avoidance industry possess serious challenges to the future democracy and the nation state itself'.

## Tax Compliance and Behaviour

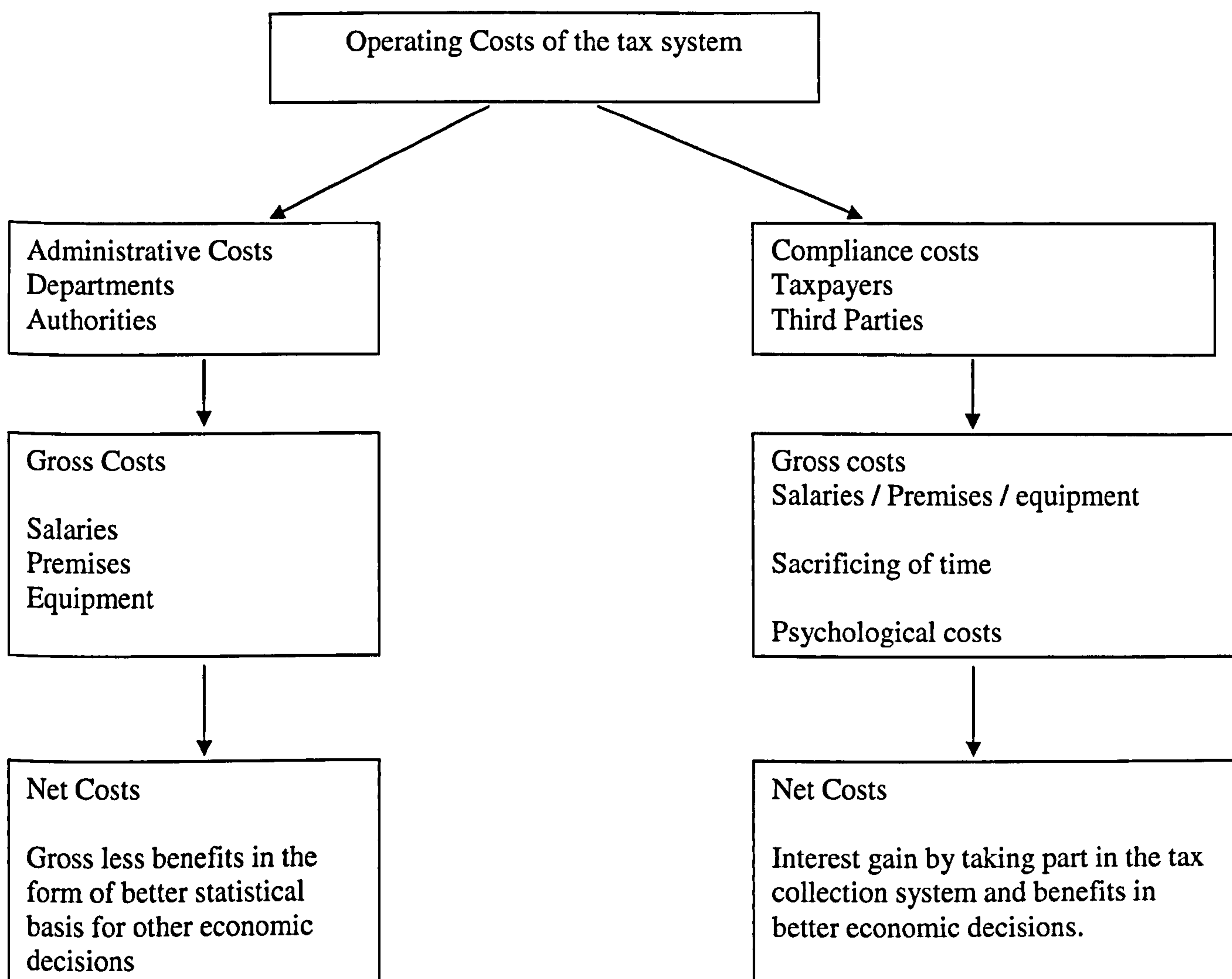
Cobbett (1763 - 1835) wrote in 1829

*"If we ride in a chaise, or coach, or on a horse, if we keep a dog, if we have a window to see through, a servant to assist us, a large part of the cost is tax. We can have no title to property, no right to occupation; we can neither lend nor borrow, nor pay or receive money; nor can we ask for justice without paying tax; and when the breath is out of our bodies, the government demands a strict account of our bequests, and takes from our children or others a large part of what we leave behind" ( as quoted by Trotman-Dickenson D I 1996 p114 - 115 ).*

Experiences of tax avoidance and evasion suggest we generally seek to minimise, at least, our tax liabilities. Drawing upon Rawls those who do not seek taxation minimisation schemes do so passively, demonstrating the concept of the 'veil of ignorance'. In 1997 the public witnessed the Alcock case in which the defendant, who held the position of Inspector of Taxes, was found to be acting illegally by accepting bribes; a review of the accountancy and general press found no clear comment declaring support for the Revenue. Dare the question be posed *was there some form of grudging admiration that Alcock had, for a time, succeeded in defeating the Revenue?* With increasing evidence since CIR V Duke of Westminster of both avoidance and evasion and the reaction to the Alcock case we may consider the Rawlsian principle as untenable or at least unrealistic within elements of society. Brooks (2007) has challenged the government under the Freedom of Information Act to release estimates of the tax gap, to 'make avoidance and evasion less socially acceptable' although the revenue authorities claim that such publication would 'embolden' taxpayers to exploit areas of vulnerability. In 2004 the permanent secretary to the secretary suggested that the gap is

around 8% of tax revenues, equating to £20 – 30bn although press estimates have been closer to £150bn. Sikka (2007) adopts a more direct critical stance towards the UK government and accuses them of twiddling thumbs whilst 'other countries are sending out strong messages'. Sikka highlights 2007 cases against KPMG in the USA and Australia costing the company \$456m and \$100m respectively.

According to Sandford (1995), few people understood, over the preceding twenty years, or considered the meaning to tax compliance costs. It was considered that compliance costs covered only the administrative and enforcement costs of the Inland Revenue whereas it is now accepted to include 'costs incurred by taxpayers in meeting the requirements laid on them by the tax law and revenue authorities' (p1). Sandford further considered that taxpayer costs include the acquisition of knowledge to deal with their legal obligations. Malmer (1995) extends this view further by proposing an analytical model of administrative and compliance costs, shown in Figure 4.2



**Figure 4.2 – Analysis of Tax Compliance Costs**

Adapted from Malmer (1995) page 235

Malmer's research provides a measurable structure for the UK although the key issue in raising the issue here is to flag the importance of psychological costs. What Malmer's work illustrates is the importance of the costs or perceived cost of adhering to tax administration systems. However as gross compliance costs are incorporated into general corporate activities and individuals rarely incur marginal cash costs the cost of compliance is perceived rather than known.

Malmer (1995) also surveyed a sample of the Swedish public to determine public views of the tax system and tax authorities. While he confirmed that

people do not like the tax system, his analysis demonstrated an improvement in attitude towards the tax authorities showing that 57% considered the authorities as acceptable or better, 12% poor or worse although 30% gave no reply or didn't know. His work did not reach a conclusion concerning the influence of Rawls's veil of ignorance in his interpretation of the results.

Little work has been published on the absolute costs to the taxpayer although Godwin (1995, p90) used data from 1977/78 to report that traders' evaluation of time spent would equate to £392 million with an upper estimate of £465 million representing a mean amount per trader of £167 (upper limit £284). Using Godwin's work it is possible to estimate the hours spent by traders on tax compliance is between 36 and 61 hours per year. Updating for general growth in price level changes this is estimated to be between £696 million to £826 million in 2007. The largest tax in the UK, by value and volume, is that collected under Schedule E Case I of the Income Taxes Act 1988 (taxation of the employment) which is collected under PAYE (Pay as You Earn); according to Collard and Godwin (2000) PAYE compliance costs are not large when measured as a percentage of revenue, approximately 1.3%, with a range of 0.14% to 7.9% dependant upon the number of employees. The estimates outlined above are based upon UK experiences; however Australia introduced self-assessment 10 years before the UK and has been criticised for a substantially more complex annual return than comparable developed tax systems. The Tax Research Network conference in 2001 heard that approximately 80% of taxpayers seek professional support in the completion of the self-assessment return. In terms of compliance Hasseldine (1999) concluded that there is less revenue audit of returns completed by a professional advisor than by the self-preparer, further stating that the use of a CPA (professional advisor) contributed to compliance but does not quantify compliance costs.

Chittenden, Poutziouris and Michaelas (2000) estimated that the compliance costs of corporation tax ranged from 0.77% of turnover for very small

companies (turnover up to £49,999) to 0.01% where turnover exceed £10,000,000. With an estimated annual turnover of the top 100 UK companies of £947,334 million the cost of compliance approximates to £94,733,353. Clearly research based upon the individual taxpayer and corporate taxpayer demonstrates that compliance costs are a material element in managing taxation; additionally a significant element of the compliance costs is not readily quantifiable by the taxpayer. And although wider studies in North America support this view, such as Pitt and Slemrod (1988) and Vaillancout (1995), Pope (1999) highlighted methodological weaknesses in general surveys used. However Pope's evaluation of the work in North America and Asia – Pacific supported the following conclusions (p94):

- 1. Compliance costs are high, whether measured in absolute terms, as a percentage of tax paid, as a percentage of GDP or by comparison to administrative costs.*
- 2. Compliance costs are very regressive.*

Pope and Sanford (1999, p95) further concluded that '*research into compliance costs and ensuing publicity puts compliance costs on the political agenda.*'

It may be argued that it is not only the costs of compliance, both explicitly quantifiable and implicit within total operating costs, that impacts upon how taxpayers view compliance generally. Sanford considered the growth in public expenditure in most OECD countries had resulted in a higher tax and compliance burden; he also claimed that increased complexity in tax systems had resulted in greater avoidance and evasion. Sanford concluded that with the exception of Sweden national tax reform had increased the complexity of the tax systems. As standards of living has risen so have the scope for more sources of income and hence compliance cost have risen; as the level of general education rises we must expect increasing incidence of avoidance and

evasion to counter rises in taxation and compliance costs plus greater public awareness with such initiatives as the tax payer's charter, (Pope 1999). Green (1999) believes that '*even small taxpayers with modest incomes and simple tax affairs may increasingly look to practitioners for advice*' (pp 146-147).

Roberts (1998) suggested categories of factors that would influence behaviour in tax planning which may be summarised as:

- a) Individual psychological factors – experience, knowledge, education, ethical attitude.
- b) Environmental factors – penalties, revenue position
- c) Task factors (inputs) – complexity of law
- d) Processing factors – time, accountability
- e) Task factors (outputs) – planning v compliance

Eland (1995) considers that this wider area of psychological compliance has been a neglected area in tax planning and compliance. And that user –friendly literature and expert advice are just as important in improving compliance and compliance cost as changes in the taxation system.

The Inland Revenue published their intention to concentrate resources on tax compliance issues in their 138th Annual Report in order to increase the revenue collected: along with the introduction of self assessment in 1997 and restructuring of the service (1994 - 1998) the Board of the Inland Revenue anticipated an improvement of their efficiency. However, although government efforts are seeking ways in which to simplify tax legislation there is still reliance upon the courts to resolve disputes.

The greatest volume of taxpayers are those in employment within the UK and subject to taxation under Employment Tax regulation (formally Schedule E). Between 1991/92 and 1994/95 the number of employee cases dealt with by the Inland Revenue ranged from 29,263,000 and 30,490,000 as compared to

an average 4,900,000 self employment cases and around 1,000,000 corporations. The Board demonstrate their collection efficiency by stating that employment tax is however a relatively cheap tax to collect as illustrated in Table 4.8.

**Table 4.8 Income Taxation Collection Costs (Pre Self Assessment)**

	Cost per taxpayer per annum Employment (Sch E) £	Cost per taxpayer Self Employment (Sch D ) £
1991/92	18.24	68.62
1992/93	19.50	70.39
1993/94	20.48	83.90
1994/95	20.66	76.12

Inland Revenue - The Government's Expenditure Plans 1996-97 to 1998-99  
at 1994/95 prices using GDP deflator

Shortly after the production of these statistics the UK taxation system moved to a self assessment regime where a) collection costs would naturally fall significantly and b) there are no longer comparative figures to measure comparable reductions in Inland Revenue collection costs. However the figures in table 4.3 still usefully demonstrate the effort made in the UK to reduce tax collection costs as they infer that substantial efficiency savings or redeployment of resources are achievable if there were to be continued movement from self-employment towards employment. The Inland Revenue would however, face significant financial and operational pressures should the move be towards self-employment; although this is mitigated by self assessment. It is clear from these two statements and Table 4.3 that a priority of the Inland Revenue to target the treatment of self-employment in situations where employment may be classified is justifiable in purely financial grounds.

Robinson and Sandford (1983) considered taxation administration as simple and efficient in their review of the complexity of tax legislation and practice

whilst Wilson (1985) not only considered PAYE as efficient and effective but further went on to suggest social reform by integrating social security systems and the tax system by introducing a form of negative income tax. A view supported by Bohn (1987). Although the tax system should not become more complex as Richardson (2006) found that lower levels of 'fiscal corruption' will occur where tax is less complex and where there are higher levels of self-assessment.

Weidenfeld and Nicolson (1985) discussed the selection of the tax base and the potential public reaction. The discussion can be summarised into the following five points:

- The tax system should apply to every member within a defined category.
- Equal amounts per head should be levied.
- Small amounts of tax should be collected frequently rather than one large amount.
- Tax information should be a by-product of other processes.
- Tax should be consistent over time.

Such arrangements will increase the complexity of the taxation system; Green and Winter (1995) highlighted the complexity of the current tax system as instrumental in the expansion of compliance costs. They infer that time and costs are incurred by the legislative process in tackling tax avoidance whilst tax practitioner 'spend much of their time doing tax planning work and creating new tax avoidance schemes' (p361).

### **Tax and work force related issues.**

Dilnot, Kay and Morris (1982) reinforced other texts when they identified the proportionately high tax base for the employed in their evaluation of the disincentive effects of income tax. Kay and King (1990 ) highlighted this disincentive nature of income tax by suggesting that individuals may pass on the opportunity of additional earnings due to taxation, the corollary to which

is that individuals may seek to maximise income either from within (avoidance) or outside (evasion) the tax system. It was Woolman (1987) who identified the high cost of dealing with potential evasion. Kay and King further suggested that the step nature of NIC and Income Tax would lead individuals to reduce tax rather than work harder to increase remuneration.

Also, in considering the disincentive effect of tax rates Huhne (1990) suggested that marginal rates of tax would discourage work effort and encourage illegal evasion. Huhne referred to the work of Canto, Joines and Laffer (1983) in suggesting that there is a point where more revenue is generated if the rate of tax is cut.

In his review of British social policy since 1945 Glennerster (1995) identified key trends in tax rates which may be summarised as (and repeated from chapter 3):

- During the 1964 Labour government it was discovered that public support for more social spending financed by taxation fell from 44% to 22%.
- During the 1970's public opinion moved towards cutting taxes whilst average take home pay, after tax, fell.
- The Thatcher government from 1979 cut the basic rate of tax from 33% to 25%, a policy supported by succeeding governments which has seen the basic rate cut to 23% with a new lower rate band of 20%.

Where direct income taxes fall there may be a reduction in the preponderance of individuals who resist income tax compliance. However the reduced scope for avoiding increased ad valorem taxes may counterbalance an expected increase in compliance rates.

Glennerster's analysis shows the public pressures changing since 1945 when there was a reducing willingness to increase taxes to finance government spending with a developing preference to cut taxes. However increasing governmental cost pressures reduces that scope for potential cuts. When

viewed with the disincentive effects discussed earlier there is growing evidence to suggest there may be a movement towards tax avoidance and evasion. And as the highest tax burden is with the employed it follows that moves towards avoidance and evasion schemes will grow faster within this group. Changes introduced since the inception of the Blair government in 1997 have widened the tax base (an increased scope of VAT, higher impact NIC, tightening of taxable benefits, removable of some allowances) which might lead to a widening of those seeking to avoid or evade taxation.

### **Paying for Spending**

We have seen the spectrum of opinions from Glennerster's view of post war Britain through entrepreneurship (IR35 illustration, from Chapter 3) through to Shafaramans' citizens' policies. A view proffered earlier was that the underlying concepts of the poll tax may stand a better chance of acceptance in the 21<sup>st</sup> century with a perceived closer linking of revenue collection policy and spending.

Wilkinson (2002) reports that both Labour (in 2000), and Conservatives (in 1998), considered hypothecation as tax policy. The Liberal Democrats have since 1992 argued for a 1 percentage point increase in base rate income tax specifically devoted to education. Wilkinson (2002) defines hypothecation as 'the assigning of receipts either from a single tax base or as a proportion from a wider tax pool of revenue' (p201) and goes on to suggest that '*supporters of earmarking who are on the left or centre see it as a means of encouraging people to pay for better services. Those on the right see it as demonstrating to voters the cost of state services and advancing opting out and privatisation. A third view is that earmarking would make for informed choices and democracy*' (p202). This subject has also been considered by The Commission on Taxation and Citizenship whose research shows (p50) the effect of earmarking on attitudes towards increases in the standard rate of income tax (table 4.9):

**Table 4.9**  
**Response to tax increase – preferred spending options**  
**Commission on Taxation and Citizenship 2000**

% in favour	Public spending unspecified	NHS	Education
1p increase	30	80	68
2p increase	34	71	61

Tax may therefore be perceived to be a price or community responsibility. This further supports a move towards hypothecation although the Commission on Taxation and Citizenship (2000) suggests that most people have no idea how or where their taxes are spent, they are not convinced that their money is spent well and to improve this understanding the links must be tangible. On pages 184 / 185 the Commission pose the following issues:

- *Does full hypothecation make people feel more connected as citizens?*  
Or will they be seen as user charges giving non-users a chance to opt out?
- *Does hypothecation unbalance relative priorities?*
- *Will it be easier for people to see the link?*
- *Do the benefits of close tax – spend relationship mean a loss of too much in flexibility?*

Referring to Jowell et al (1991) Wilkinson questions whether earmarking would make taxes less unpopular (p202) when there is an apparent divergence of attitude towards paying tax. Cobham (2007) argues that the public have very specific concerns and claims that 'politicians have ignored these in pursuing their own interests' and extending the democratic deficit. However in their unpublished contribution to the Mirrlees Review, Fullerton et al (2007) doubt that environmental taxes, designed to meet specific need, are unlikely to have any significant impact on the economic constraints which are the focal point of tax policy.

**Table 4.10 Attitudes to level of taxes**

<i>%ages</i>	<i>High incomes</i>	<i>Middles incomes</i>	<i>Low incomes</i>
<i>Much too high</i>	<i>3.5</i>	<i>2.7</i>	<i>26.6</i>
<i>Too high</i>	<i>9.5</i>	<i>24.8</i>	<i>49.5</i>
<i>About right</i>	<i>34.7</i>	<i>64</i>	<i>19.2</i>
<i>Too low</i>	<i>40.8</i>	<i>6</i>	<i>1.8</i>
<i>Much too low</i>	<i>8.9</i>	<i>.1</i>	<i>.7</i>
<i>DK</i>	<i>2.7</i>	<i>2.3</i>	<i>2.2</i>

Adapted by Wilkinson from Jowell et al (1991)

From table 4.10 we may conclude that most people have an opinion on the rates of tax with low incomes claiming to be over taxed and higher incomes under taxed. If this still applies in 21<sup>st</sup> century Britain then greater polarisation of tax incidence may be possible. When comparing the 1991 results with those of The Commission on Taxation and Citizenship (2000) we see similar results in Table 4.11.

**Table 4.11 Attitudes towards the tax levels of different income groups %**  
**The Commission on Taxation and Citizenship (2000)**

Earnings	Too high	About right	Too low
Below 15000	72	22	1
15-30000	53	38	2
30-70000	32	46	11
70000+	20	40	29

However we must balance this with the views of Bakija and Slemrod (2000) who consider the extent of disagreement over sharing the tax burden; some, they say, believe a progressive tax is a fair tax whilst others see it as 'soaking the rich' (p5). They support this view by outlining the complaints about taxation as:

- Too complicated,
- Intrusive,
- Bad for the economy,
- It is unfair.

The Commission on Taxation and Citizenship (p45) states 'the *pervasive* (perception of taxation is a sense of) *alienation from the whole subject of taxation*'. Taxes are more than unpopular – an unpleasant subject to discuss – although acknowledged as a necessary evil. This is a particular working view and one, which if it exists, may impact upon survey responses. To add to this (p45) the Commission reports that '*few people knew how much tax they paid themselves. People's perceptions of their overall tax bill is largely made up of images and impressions, in which particular taxes (petrol duty) loom disproportionately large and media reporting plays a crucial role.*'

## **Social and Public Policy**

In considering taxation in relation to social and public policy we may begin by considering two quotations:

*'the role of government is less to tax and spend and more to provide opportunities for individual activity. However, there are real problems in reconciling this approach with the parallel claim that the programme will respect the equal worth of citizens'* Boden 1999 (p62) citing Taylor-Gooby (1997).

*'The term social policy is not only used to refer to an academic discipline and its study, however, it is also used to refer to social action in the real world. Social Policy is the term used to describe actions aimed at promoting well being; it is also the term used to denote academic study of such actions'* Alcock, Payne, Sullivan (2000, p1).

Fundamentally there is a great deal of commonality between these statements with the emphasis upon well-being and the promotion of individual activity. However both indicate the problems faced in achieving acceptable policy in the real world.

A prime function of government is the provision of public goods which are also referred to by Cullis and Jones (1998) as 'collective' or 'social' goods. Such goods are discussed by Alcock et al (2000) as including education, health policy, housing policy and social services. Through public expenditure plans Governments may also influence employment and family policies. Taxation is a fundamental source of finance for these policies.

Alcock et al (2000) also discusses the theoretical strands to society that will in turn influence our taxation policies in relationship to the provision of services. Boden (1999) expresses a firm belief that taxation policy may 'affect social policy' but illustrations used by Boden and other changes to taxation legislation indicate such potential impact upon social policy whether or not they were so planned. For example:

- The change in the 1990's of 1918 regulations which had recognised the legal and moral obligation to support a wife to a system of separate taxation of husband and wife.
- The subsequent abolition of the married mans' allowance and its replacement with the married person's allowance (a flat rate tax reducer). Melville (1996 and 2000).
- Abolition of mortgage interest tax relief, initially from higher rate tax, then to a flat rate relief and finally totally. (Melville 1996, 1997, 1998, 1999, 2000, 2001).

Each of these may contribute towards society's views on marriage, the family home and home ownership. Indeed critiques of Government policy branded such changes as anti family. Conversely other changes have been welcomed as family friendly:

- Introduction of family credit, integrated into the tax system by the Working Families Tax Credit (Melville 1999).

- Allowance of national insurance credit for a man who stays at home to look after school age children. Although the motive for this may relate more to sexual discrimination legislation.

Cynically these changes may be viewed as policies that follow society, borrowing an economics term, these may be named pull policies. Or they may lead or influence social policy change (push policy). Either way they have societal impact. Hewitt and Leach (1993) evaluated the strengths and weaknesses of alternative family related benefits and the taxation system without firmly concluding on an optimum mechanism.

A radical approach to integrating taxation policy is offered by the Geonomy Society who proffers the Earth Share Manifesto by repealing taxes on human effort and replacing them with a fee for using mother earth. Some people may become recipients of the fee; government services would only be viable if the public purchased those services - an extreme approach to promoting efficient and ecological use of natural resources! Similarly Shafaraman (1997) promotes the view that all citizens should contribute to the provision of public services by active participation. Paying less in tax but working 2 hours a week for the community could engender community responsibility and pride, reduce crime and improve essential services.

These views are, in extreme, rooted in Buchanan's paradigm of community responsibility although Brett (1998) concludes that a workforce system may benefit those who face 'high marginal rates of tax' but may not be attractive to those who highly value 'domestic and leisure time'. In reality real world problems and bias may prevent such idealism although in the USA, President Bush (April 2002) was reported in the international press as being sympathetic to the view of undertaking 4000 hours of community work within an individual's lifetime.

Atkinson (1989) considers the trade-off between increasing real expenditure on benefits and reducing the tax burden; concluding that important choices

need to be made. This may be illustrated by the increasing expenditure on the NHS in the UK, shown in Table 4.12.

**Table 4.12 Comparison of NHS Expenditure 1949-1995**

YEAR	Index	1948/49 Costs @ Indexed prices	£m  Actual
1949	100	437	437
1960	134	588	902
1970	210	919	2040
1980	325	1422	11954
1990	426	1860	28900
1995	505	2209	41517

Source: Compendium of Health Statistics 1995, Office of Health Economics

Using these figures may result in an oversimplification, as we must recognise factors such as demographics and behavioural change (Levvit, Appleton and Ward (1996) and supported by Atkinson (2000)). Atkinson further concluded that taxation with a single basic rate is too restrictive and suggested means testing, basic income guarantees, negative income taxes and graduated taxes: most of which has been introduced by the 1997 UK Labour Government.

Never the less, Atkinson in reaching his conclusion may be equally criticised for oversimplification as illustrated by outlining the pressures upon the Chancellor of the Exchequer as:

- Global downturn
- War against terrorism
- OECD growth
- Limited opportunity for increased borrowing

- Demand upon public services (notably the NHS) to become 'world class'
- Over-reliance upon non-progressive 'stealth taxes'

In his April 2002 budget the Chancellor addressed these issues through taxation by reversing indirect tax trends by increasing direct taxation; notably by a 1% flat increase on basic rate tax and higher paid national insurance whilst stabilising allowances. The result was a mildly progressive increase, predicated upon a flat rate increase. Little anti reaction was experienced upon the announcement of the change, possibly because the changes did not become effective until April 2003 and maybe due to changing social perceptions. For example Reed Accountancy Personnel undertook pre budget research that revealed that while 65% of public service managers supported taxation increases to support public services only 39% were firmly behind an increase in indirect taxation.

Wider environmental policy issues also impact upon taxation policy and vice versa. The 1999 Budget introduced a new tax on aggregates with effect from April 2002, fundamental change to company car taxation by levying a charge on carbon dioxide emissions rather than value weighted by mileage and the Climate Change Levy on business fuel usage. Rayment (2007) views such changes as getting sustainability issues 'into the boardroom' but recognises the short-term financial implication. However initial conclusions from Russell and Patel (2002) suggest that the increased tax charge will not affect vehicle driving patterns or choice of vehicle.

## **Accounting Profession**

The UK has one of the oldest established professional based accountancy structures in the world and remains a focus for developments in financial reporting for those countries that base their accounts on the true and fair concept, originally codified in the Companies Act 1948 developed alongside

and upon the advice of the accountancy profession. The accounting statements produced for corporate and personal tax payers remain the key influence upon the level of taxable income and hence the ultimate tax liability. Therefore the roles of the accountant and tax advisor are interlinked. The perceptions of taxation cannot be evaluated without understanding the motivations of the accounting profession.

What influences the accountant?

It is argued by Vyakarnam, Srikantan and Fitzsimins (1996) that the technical nature of the accountancy profession forces a perspective on ethics that is rule bound. They contend that accountants are trained to follow a set of rules in the preparation of annual financial statements; if those rules are challenged from either outside or inside the profession accountants will follow a structured consultative process before revising or replacing the approach to an accounting issue. This rule based perspective is given an interesting slant by Murphy (2007) who intimates that advocates follow a code to minimise client liability although Murphy argues against this as an obligation and recommends the advocate's role be further codified by an agreed and balanced 'Code of Conduct for Taxation'.

The introduction of an accounting standards framework in 1970 oversaw the first steps in accounting standardisation although some major corporate failures resulted in a new structure being introduced following the Dearing report in 1987. Dearing recommended the formation of a financial reporting council to evaluate the implementation of new standards, including challenging corporate interpretation and application of standards. Dearing also advised upon the formation of a new independent standard setting policy, the Accounting Standards Board which has the following published aims:

- Objectivity
- Understand ability
- Determine accounting standards

- Issue standards if benefits exceed costs
- Consistency

The authority for accounting standards and the ASB is found in the Companies Act 1985 which retains the concept of true and fair view and is supported by The Companies (Revision of Defective Accounts and Reports) Regulations 1990 (SI 1990/2570). McBarnet and Whelan (1999) consider the regulatory authorities to be treading 'gingerly' (p273) when considering utilising the full strength of their powers. They argue that the success of the system may depend on balancing the goal to curb creative accounting without being charged with imposing 'unacceptable creative control' (p273). This structure does little to suggest that Vyakarnam, Srikantan and Fitzsimins's view of the profession is flawed. When considering alternative taxation paradigms the structured framework of accountancy regulation may influence how accountants consider tax issues: rule bound or substance over form. However, as Sunder (1975) asked, what accounting policies are explained by taxation? Researchers such as Lamb (1997,1999), Miller (1990) and Preston (1989) as cited by Lamb (1999) '*consider tax influences as part of a reciprocal process of interaction between taxation and accounting policies*'(p37). Lamb (1999) continued to review the opinion of accounting historians and concluded that there are three distinct yet valid alternatives in recognising the influence of tax on accounting policy:

- a cause of accounting theories,
- a body of law separate from accounting
- a reason for the development of the accounting profession.

It may be concluded that there is no clear and definite agreement amongst researchers on the impact of tax on accounting and vice versa.

When considering alternative taxation perceptions the role of the accountant in the adoption of accounting policies is, therefore, a significant influence in determining the potential identification of a predominant tax paradigm.

A further influence upon the accountant will depend upon the type of work undertaken. Freckall Hughes and Moizer (1999) identified compliance work as 'reporting what has already taken place' (p76) and avoidance work which seeks to restructure a client's affairs to minimise future taxation liability. The former relies upon the application of accounting and taxation regulation applying technical judgement where the regulation permits. The latter develops strategies that contain a primary function of avoiding future taxation liabilities. Mitchell and Sikka (2006) argue that 'predatory practices are used to increase profit' and imply the same Machiavellianism outlook as Shafer and Simmons (2008) evaluate in their later paper. Prima Facie, to increase profits would be to increase tax revenues, however should Mitchell and Sikka's view prevail those accountants are 'not constrained by any notion of ethics or morality' (2006, p290); there will be greater pressure to develop complex avoidance schemes. This contradicts the views of Vyakraram and intimates support for Murphy (2007) and his code of conduct for taxation. Such behaviour creates a tax gap which if not addressed by the revenue authorities will see, according to McManus and Warren (2006), taxpayers questioning the integrity of taxation systems and processes. Mitchell and Sikka (ibid) do imply a simpler solution: the breaking of executive reward for increased profits will remove economic incentives and reduce predatory behaviour.

How do accounts influence the taxation liability?

The measurement of profit within the accounts of sole traders and companies forms the basis of tax assessments raised under Schedule of the Taxes Consolidated Act 1997. The figure of net profit is adjusted to conform to the tax laws under one of the following categories as synthesised from Melville (1996, 1997,1998,1999,2000,2001, 2002, 2003), Lymer and Hancock (2000, 2002) and Nightingale (1996):

- a. Expenditure is disallowed which is not wholly and exclusively for the purpose of the trade, profession or vocation.

- b. Income is dis-applied from the calculation of taxable profits if it does not arise from trading activities (such as investment income).
- c. Expenditure that is deductible for (Schedule D Case I and II) but has not been incorporated into the accounting statements of the business.  
And for unincorporated businesses
- d. Goods withdrawn for personal use.

It is therefore clear that unless the majority of financial transactions fall into one of the four categories the underlying financial statements have the major influence upon the resulting taxation liability. The application of accounting practice is an evolutionary process with a programme of revised accounting standards (Financial Reporting Statements – FRS's). As at December 2002 some of the major accounting influences which impact upon tax were identified from authors such as Alexander and Britton (2001), Glautier and Underdown (2001), Riahi-Belkoui (2000) and McBarnet and Whelan (2000) and a selection are summarised as:

- Fundamental accounting policies, introduced by SSAP2 in 1971 as revised by FRED 21 and FRS 18 in December 1999 and 2000 retrospectively. Within this framework accountants are supported in the estimation of liabilities to be incorporated into accounting statements allowing for the most appropriate policies to support the true and fair view. An example would be the valuation of stock (with reference to SSAP 9); whilst the LIFO (Last In First Out) method which minimises profits is not permitted by the Inland Revenue for tax purposes, both FIFO (First In First Out) and the average costs methods are acceptable for determining taxable profits, each recording different levels of profit. The write off of redundant stock and specific bad debts are both deductible for taxation purposes (Melville 2001) yet both are subject to the application of corporate accounting policies which are company specific and not standardised throughout UK business. (Note

this is not the case in all countries, for example Italy permits a 3% bad debt maximum deduction per annum – Nobes 1992).

- The definitions of SSAP 21 will determine whether a lease may be capitalised, potentially attracting capital allowances (Capital Allowances Act 1990) or treated as a revenue expense thereby receiving immediate taxation relief.
- FRS17 is currently facing significant criticism from within the profession which some accountants believe to be a restrictive reporting burden although it contains the potential to reduce taxable profits. This single instance demonstrates that non-tax issues are likely to influence the reporting preferences of accountants.

Fisher (2006, p152) concludes that it is 'understandable that the revenue authorities would be reluctant to link tax outcomes automatically to accounting outcome'. As illustrated above, and as confirmed by Fisher (2006), tax and accounting can have different purposes and (p152) 'different audiences'.

When assessing perceptions of taxation the motivation of the accountants producing the statutory financial statements must be determined before concluding whether the taxation or accounting paradigm predominates. In considering *Gallagher V Jones* (1993) STC 537 and *Johnson V Britannia Airways* (1994) STC 763 it should be recognised that the courts place great weight on the accounting treatment. Rayney (1999) advises that the Inland Revenue generally accepts GAAP (generally accepted accounting principles) in the measurement of profits. Rayney implies that it is probable that the Inland Revenue will follow future accounting standards by reviewing FRS 12 where he concludes '*if a provision cannot be validly made under FRS 12, it will not accord with GAAP, and hence the Revenue will not allow it for tax*'. Edgely and Chandler (1999) infer that whilst the courts will not allow non-GAAP compliant policies for tax purposes they may not follow Rayney's probability either. Citing the judgement in *The Sun Insurance Office V Clark* (1911 TC Vol

1 VI 59) Edgely and Chandler (ibid) quoted Lord Loreburn 'there may be one two or three methods of arriving at the profits for a relevant period. The one which shows most accurately the position between the Revenue, on the one hand, and the taxpayer, on the other, is the one which ought be adopted.' This view was obiter in Patrick V Broadstone (1954 163 35 TC 44) where it was held that a stock valuation was permitted for accounting but not taxation purposes. A similar decision can be found in Roberston V IRC (1997 STC 282).

Therefore, in recognising that the accountancy profession is governed by the over-riding principle of the true and fair view and that to achieve this view accounting standards must be adhered to we conclude that the personal approaches of accountants should not affect upon their views of taxation. However, this is too simple. We have seen that the accountant's role is more than the mere preparer of accounting statements; accountants are advisors and planners for internal and external clients. Within the context of taxation perceptions, compliance work demonstrates a neutral stance and is significantly influenced by the relevant accounting standard and rule-bound culture of the profession. Avoidance activities tend to support the existence of Buchanan's paradigm b) the coercively imposed charge as creativity in accounting potentially conflicts with GAAP in computing figures to show the 'right' level of profits for strategic, operational and taxation purposes. When creative approaches to accounting are challenged the position of accountants and legal advisors overlap; and if challenged by the Inland Revenue we experience the on-going debate as to the distinction of tax avoidance and tax evasion. This debate is clouded by the potential contradictions of the courts in deciding whether GAAP is or is not most appropriate for taxation.

## Revenues Policy

Before concluding this chapter there is one final influence to be considered but one that is not derived from earlier chapters. The UK Treasury published the UK Government's five principles of fiscal management as:

- Transparency
- Stability
- Responsibility in managing public finances
- Fairness
- Efficiency.

To be followed '*where the Government should meet taxation and spending priorities, without creating an unsustainable rise in public debt*'. ([www.hm-treasury.gov.uk/docs/1999/afiscalp.html](http://www.hm-treasury.gov.uk/docs/1999/afiscalp.html)).

Baker (1988) in works edited by Stein summarises key changes in US tax and fiscal policy starting with the 1980 Reagan government where the largest cut in peace time US taxes was introduced as inflation was considered to be under control. Baker considered there to have been a 'new consensus' in the USA where individuals and the economy were seen to have fared poorly under traditional fiscal policies and the monetarist approach of competition and low taxes would benefit all. Indeed the USA benefited from an inwards 'brain drain' at the expense of Japan, Germany, France and Canada: a scenario potentially echoed in the UK in 2001 / 2002 with the full implementation and enforcement of IR35 (Webb 2000). However Baker concludes that revenue lags, successive emergencies, world markets and social demand eventually result in modification to the basic laissez-faire principles.

In the UK a similar pattern emerged; according to Johnson (1991) the Conservative opposition concerned at marginal tax rates of 98% published a tax strategy in 1977 which contained four main elements:

- Lower personal taxation to restore work initiatives
- An enterprise package of measures to stimulate business growth

- Stronger encouragement of personal savings and capital building on the widest possible scale.
- Simplification of the tax system.

When elected in 1979, income tax higher rates were cut from 83% to 60% within one month of the election. During the Thatcher government the main fiscal weapon was to control the money supply and a prime conduit for this was to reduce public expenditure, initially in real terms but eventually to restrict growth to below the growth in GDP. The government also sought to curb expenditure by cash limiting public activities (Johnson 1991). Whilst GDP and personal prosperity appeared to grow the tax element of fiscal policy began to conflict with other objectives of the tax system and arguably fuelled the growth of avoidance and evasion. Did the Thatcher government fully appreciate the view of Schmolders (1959) who believed there should be an emphasis on 'perceptions', 'attitudes', and 'fiscal awareness' (pp 340-345). With reduced taxes and increased progressivity the public should move away from Buchanan's coercively imposed charge, but reductions in public services (leading to the winter of discontent) clearly showed a reaction where the coercively imposed charge took precedence with the alternatives of tax as a price and tax as a community responsibility being diminished.

Alternative views on the fiscal role of taxation may be traced to Adam Smith (1776) in his fourth canon of taxation as explained by James and Nobes (1992 p16 )

*'every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state'*

They then go on to describe four ways, according to Smith, by which taxes could fail to meet this requirement. (As introduced in chapter 3).

Smith concluded that any of the ways could create a tax system more burdensome to the people than 'beneficial to the sovereign'.

We have already seen the more contemporary view of Hyman (1983).

However Westat (1980), within his prospect theory, claimed that taxpayers tend not to be aware of the amount of money paid through withholding tax (which reinforces the US and UK policy of tackling marginal income thorough direct taxation). Stein (1999) tacitly reconciles the views of Smith, Hyman and Westat by concluding an ideal taxation system would have simple legislation, a wide tax base, low rates, technology based collection and progressive – and indirect in nature! The Howard Government in Australia commenced a fundamental tax reform in 1998 ([www.aph.gov.au](http://www.aph.gov.au)) that endorsed the view of a wide, indirect tax base, but with a social emphasis of family values.

## **Conclusion.**

In this chapter a range of potential factors have been discussed and this allows further development in the evolving tax perceptions model.

Issues identified so far may be categorised as:

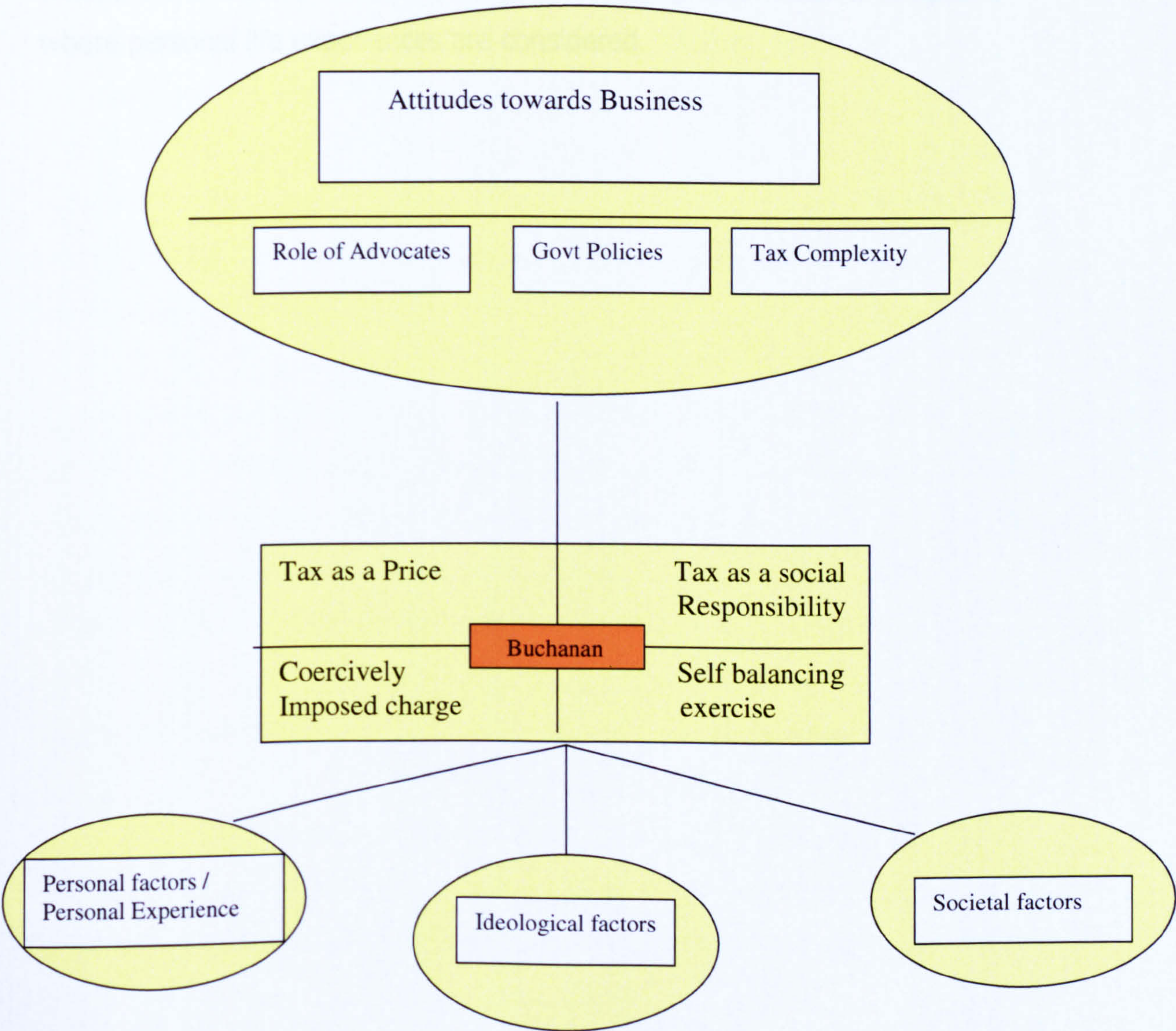
- Social Factors
- Personal Factors
- Ideological Factors

Social factors include the public's view of social responsibility and their role in fulfilling these responsibilities. Knowledge and understanding has been linked to our reactions to perceived fairness and when taken with more complex tax systems there is a greater leaning towards avoidance and evasion. Personal factors are based upon a premise that tax policies are harmful to the poor and depending upon an individual's circumstance the reaction to this premise may be more or less severe; even when the interpretation of Maslow's

hierarchal model is challenged, the literature indicates that reactions may be on a continuum. Ideological factors manifest themselves different ways, either with Machiavellian attitudes (manipulative, cold and calculating), or with the role and attitude of tax advocates through the view that tax fraud is a victimless crime. A clear indicator appears to be a preference by the public for the ability to pay principle within a progressive tax system.

These factors, drawing upon the detail of the literature, will be tested through stakeholder questionnaires but may be depicted without any reference to weighting or importance in the updated model of tax views shown in Figure 4.3.

Figure 4.3 – Updated Model of Tax Views



The literature reviewed in this chapter supports the further emergence of the tax model as shown in Figure 4.3.

*Prima facie* the model only has minor changes compared with Figure 3.1 as 'attitudes towards business', 'experience' and 'societal views' have not been extended. Whereas this chapter has significantly develops:

- Social Factors
- Role of the Advocate
- Government policy.

The chapter, in considering the above factors, supports the emergence of personal and ideological factors as an important factors in evaluating views of taxation. The ideological factors are examined in greater detail in chapter 5 where personal life experiences are considered.

## **Chapter 5:**

### **Life Experiences**

#### **Introduction**

In this chapter aspects of life experience will be considered. We have seen that views and perceptions may be learned from experience and that a key external factor in alternative tax views is that of age. Initially the exposure to economic policy will differ depending upon a person's age although wider ideologies still have some influence, but these may be based upon the academic or commercial environment the person comes from.

According to Leake (1993) human culture is constructed through discovery based upon our linguistic systems. Leake (ibid) believes the model is limited by time but if we are able to consider current cultures we should understand the macro level discourse that affects our views; this discourse is made by social and cultural interaction and, therefore, our experiences. The view that human actions are linked to language and discourse is supported by Howarth's (2000) discussion of structuralist theories.

The view that culture is constructed by discourse and, therefore, from personal experiences, may be investigated by considering a range of possible discourse experiences, as supported by Best and Kellner (1997). The chapter will develop the 'experience' element included in each iteration of the emerging model last shown as Figure 4.2.

#### **Exposure to Policy**

In the UK the taxpaying and voting populations have been exposed to the policies and ideas of different governments each championing its preferred approach to social and economic management. These life experiences may

influence how we feel and act towards current policies and whether these experiences are based upon knowledge and critical review or not they should be incorporated into current policy makers understanding of current perceptions. The 2001 UK census shows a growing population of over 58.8 million people, and compared to previous census the population is aging. Table 5.1 shows that 10.8 million or 18.5% of the population will have some life experience of the creation of the welfare state and the ensuing debate at the time. Those below retirement age will have differing ranges of experiences; some will have seen the social focus of the Wilson governments and the consensus approach adopted by the Heath government. More will have experienced the strength of the unions and the winter of discontent in 1979. People between the ages of 20 and 35 will have only experienced the entrepreneurial philosophy of the Thatcher and to some extent the Major governments. All will have experience of the partnership philosophy of the Blair government.

**Table 5.1 – UK Age Profile 2001**

<b>All ages</b>	58.8 million
<b>Under 16</b>	11.9 million
<b>Men 16-64, Women 16-59</b>	36.1 million
<b>Men 65+, Women 60+</b>	10.8 million

Source UK Census 2001

Previous elections have resulted in different styles of government and policy elected as indicated in Table 5.2.

**Table 5.2 – UK Elector Experiences**

<b>ELECTION</b>	<b>PARTY</b>	<b>INFLUENCE</b>	<b>AGE of CURRENT TAX PAYERS<sup>2</sup></b>
1945	Labour	Socialist / Keynes	82+
1950	Labour	Socialist / Keynes	77+
1951	Conservative	Capitalist / Keynes	76+
1955	Conservative	Capitalist / Keynes	72+
1959	Conservative	Capitalist / Keynes	69+
1964	Labour	Socialist / Keynes	63+
1966	Labour	Socialist / Keynes	61+
1970	Conservative	Capitalist / Keynes	57+
1974 (1)	Labour	Socialist / Keynes	51+
1974(2)	Labour	Socialist / Keynes / Friedman influences	51+
1979	Conservative	Capitalist / Friedman	45+
1983	Conservative	Capitalist / Friedman	41+
1987	Conservative	Capitalist / Friedman	37+
1992	Conservative	Capitalist / Friedman (centre rather than right)	32+
1997	Labour	Socialist / Friedman	27+
2001	Labour	Socialist / Friedman	23+
2005	Labour	Socialist / Friedman	18+

A salutary and cautionary note is that only 39% of 18 to 24 year olds voted in the 2001 general election, and this fell to 37% in 2005 ([www.parliament.uk](http://www.parliament.uk)) and a government survey shows that 34% of 12 – 19 year olds claim not to be interested in politics.

This chapter will examine the historical and post-war influences exposed to the UK public to aid understanding of their responses to this research, although a cursory review of Blair government policies show a stronger public service ethos than preceding Conservative governments such as increasing expenditure on health, education and the armed forces (Chancellor Brown speech to the House of Commons, July 2002). There is, however, increasing public scrutiny and central control of the increased spending (Public Money 19 July 2002). With the continued emphasis upon private ownership and private

<sup>2</sup> Assuming voting age at last election

sector involvement in the delivery of public services whilst supporting the public service ethos Prime Minister Blair arguably took the UK into a new era.

There is no intention to exclude such extreme views from the following discussion, as incremental change need not occur as if by right: the election success of Thatcher in 1979 saw a significant shift in economic planning as also experienced with subsequent elections in the USA. A closer spectrum of economic stance will be considered to closer reflect experiences in the UK.

The spectrum to be considered is shown in figure 5.1:

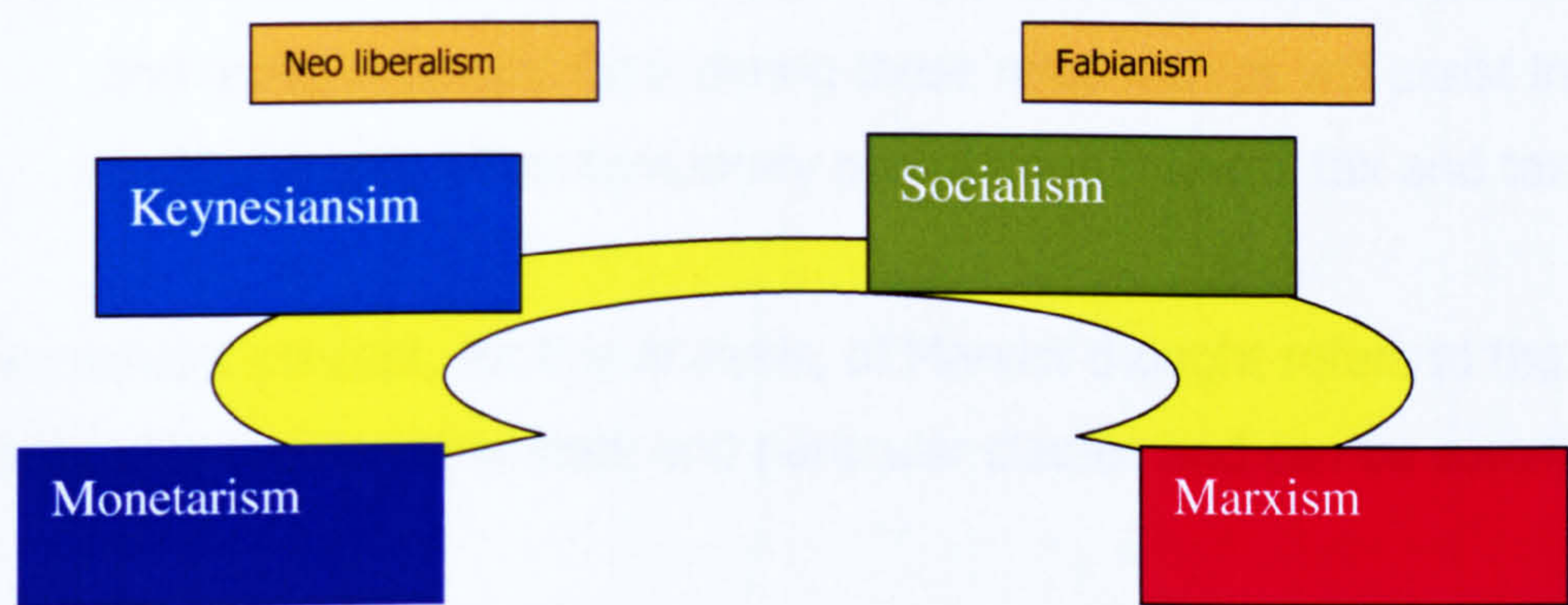


Figure 5.1 – Discourse experience spectrum.

Marxism

The first question to be considered is why should we consider the Marxist view when there have not been any UK taxpayers who have experienced such policies? In short, it could be argued that this section should not be presented within this chapter. However, the high visibility of far left tendencies during the 1970's and 1980's and the experiences in parts of Europe may influence the way in which we perceive taxation.

The pure Marxist approach to taxation is simple; tax has no role to play in an absolute Marxist state. The philosophy is social responsibility of all with equal rights and responsibilities; in such an environment there is no need for the state to raise taxes to redistribute income and provide services. *Prima facie*

there has been no UK government since conception of Parliament that has levied zero tax so how can it be argued that the UK public has been exposed to such a philosophy? The answer may be viewed in three ways:

- a) In the first third of the twentieth century only a small proportion of the population were required to pay tax on a regular basis and whilst some major services such as Police and Education (Education Reform Act 1976) were state provided others such as aspects of health and social services were community based
- b) Marxist principles have influenced some of our post-war politicians and so influence policies of the day.
- c) Elements of Marxism have influenced the relationship of the workers and those in power. Considering these relationships will assist in our understanding of contemporary perceptions towards tax and tax policy.

The relevant concept, for this analysis, of Marxist thought refers to the relationship between the state and particular classes and can be summarised:

- Firstly the state can be seen as an instrument of the economically dominant class, the bourgeoisie (Coxall and Robbins, 1998 p57). Marx justifies this view by claiming that political power flows from economic domination. Marx viewed the most important division being the separation of town and country (Sayer 1989 p26) because the advent of towns implies the necessity for 'administration, police, taxes' (p26). The town becomes a centre of population concentrating production and capital. The country becomes separated and social divisions grow. In brief and relating to modern day taxation Marx suggests inequity of taxation with such a state / class relationship where the 'country' i.e. those separated contribute to production (taxes) but fail to receive an equitable benefit. Coates (1984 p26) recognises civil servants and the educated as part of the dominant class. Even without practical experience, in the UK, of a Marxist tax policy the concerns expressed by Marx could result in geographical location as a possible influence on

perceptions of tax.

There is a clear inference that the view that tax may be seen as a price for services will not be relevant to those who receive little or no direct benefit.

Marx further criticises this relationship by claiming that the economically dominant require only two principle items, 1) property and 2) safeguarding property (police and the judiciary). Although Sayer (page p37) quotes Marx's view that common property, historically, can successfully generate wealth he continues by recognising that 'club law is law', i.e. the dominant classes determine law to support their own position. Does this suggest social class or background will influence perceptions of taxation? Can it be inferred that property holders will see taxation as a negative impact upon development of wealth and therefore will see Buchanan's paradigm of a 'coercively imposed charge' as the predominant paradigm.

The concept is succinctly covered by Brown (1990), who interprets Marx by stating that under a capitalist society 'poverty, degradation and alienation are rife' (p113). This supports class division where the bourgeoisie support development of law and business for their own purpose at the expense of the economically weak, which fall into poverty etc.

- Secondly, Marx suggests the relative autonomy of the state led by politicians who are state managers, who are the vehicle of the bourgeoisie, and whose primary goal is self interest rather than expansion of capital. Linking this view to the election cycle (Coxall and Robbins, 1998 p 59) it is suggested that winning elections depends upon economic achievement; therefore full autonomy cannot be achieved due to capitalist constraints: with the possible corollary that

tax is perceived as a coercively imposed charge.

In summary Marx viewed capitalism as a system based around production and capital that brings about conflict between the owners of capital (the bourgeoisie) and the workers- accordingly within a capitalist regime the predominant paradigm, again, leans towards the coercively imposed charge. Such conflict became violent in the Russian Revolution of 1917 when state power was reabsorbed by the commune or worker groups, (Sayer, 1989 p144). Conflict need not result in physical violence; the socialist (rather than Marxist) Bevan social reforms (1944 – 1948) were introduced after lengthy negotiations and compromise with members of the dominant class. For example negotiations with doctors began in 1943 some four years before the finalisation of the NHS structure achieved by securing the right of doctors to work privately and retaining clinical autonomy, (Levitt, Appelby and Ward, 1996).; thus demonstrating the influence of policy communities. Recent conflicts such as IR35 which has resulted in judicial determination and concerns over public waste of tax revenues may lead to swing towards Marxist views.

What can Marxist views achieve? Although Marx recognised the need for exchange within an economic system, Brown (1998) challenges the utopian view by agreeing that the capitalist class lose benefit as 'communistic shares will not come close to matching that level of individual wealth' (we could not all become millionaires) (p116). The UK has seen significant strides in change towards the Marxist views; Cole (1973) describes James Keir Hardy as facing the 'foremost task to draw the active section of the working class away from liberalism' (p127). Hardy's reputation is for a nation without a class-party war along the lines of Marx. However Brown (1998) continued claiming there could be an improved all round quality of life and that the division of labour could be remedied in adherence to Marxist principles. In the context of taxation these become the necessity for wealth redistribution and the

provision of public goods to ensure equality of access and should promote the Buchanan paradigm of the self balancing charge.

And of taxation.....? The complexity of government and public services excludes the option towards pure Marxism on purely practical grounds although the view of Shafaraman (1999), discussed earlier, concerning public dividends show a level of support for the context of community support and no or very low tax. But this is based upon acceptance of 'Buchanan's alternatives' of community responsibility whilst the Marxist seeks to exclude taxation due to a closer alignment to the paradigm of 'coercively imposed charge'. However if taxes are perceived to be raised for the benefit of the wealthy, or maybe successful business, the reaction of individuals may be along Marxist thought.

## Socialism

In the discussions above two references have been made, in the consideration of Marxism, to socialist politicians (Hardy and Bevan) thereby creating an initial link in the continuum of ideologies. But what is socialism? Berki (1975 p9) introduces his book with the same question and suggests that socialism stands for '*the values of freedom, equality, community, brotherhood, social justice, the classless society, cooperation, progress, peace and prosperity*' (p9) If this represents the values of socialism then the corollary is that they oppose inequality, poverty and injustice.

Wilczynski (1977) confirms the links with Marxism by aligning socialism with the first or 'lower' phase of communism. Marx saw this lower phase as the first step from converting from capitalism to communism although Wilczynski recognised socialism as a distinct ideology subject to its own economic policy and reform.

Wilczynski (1977 p22) claims that all socialist countries follow Marxist economic philosophy summarised as:

- a) Social ownership of the means of production: in the UK this has manifested itself by way of nationalisation of major industries.
- b) Central Economic Planning: this is where the market mechanism is replaced by state control. In the UK the market mechanism has never been abolished although the UK public have been exposed to governmental prices and income policies, rate capping and input / export controls.
- c) Integration of the state's economic and non-economic objectives: socialist states should ensure economic policy fully supports the socialist vision. In the UK tax rates as high as 98% (Webb 1997) have been levied on high earners and investors to allow some redistribution of wealth by taxation policy and development of the welfare state.
- d) Socially equitable distribution of national income: ideally this philosophy would eliminate property-based income ' whilst earned incomes are based upon the quantity and quality of work' (p23). In the UK taxpayers have seen the introduction and expansion of property-based taxes that although would not achieve the underlying philosophy does reduce property-based income to individuals and corporations.

These factors lead us to expect socialist perceptions of tax to lean towards either or both the 'self balancing charge' paradigm and 'community responsibility' paradigm.

Although socialism existed within the British political system in the nineteenth century it was not until 1918 when a unified Labour Party was formed (Callaghan 1990). Current UK taxpayers and voters will only have been exposed to the Labour socialist policies of the last 90 years, which, as discussed above were influenced by Marx but as illustrated in the four paragraphs above have not fully followed Marxist philosophy. It is little wonder that Wilczynski (1977) concluded that the distinction between capitalist and socialist economics have been 'obliterated' by western

approaches to economic management. Wilczynski (p23) calls this 'convergence'.

So what have current taxpayers and voters been exposed to? Although the UK experienced socialist government before the Second World War there has been damning criticism of their success. In particular the MacDonald government of 1924 'achieved virtually nothing of value to socialists' (Callaghan 1990 p 107) although history recognised that both the 1924 and 1929 MacDonald governments were minority governments and by 1931 he incorporated Conservatives into his cabinet.

Perhaps the most significant shift towards socialism came during the war with a coalition government. The Beveridge report was the forerunner of the modern welfare state, developed during 1944 and 1945, creating the NHS in 1947 reforming social services. Also in this period we witnessed debates on full employment and the socialisation of demand (Callaghan p 143). The environment for a post war socialist government with a nationalisation of industry policy was created. Many of the nationalised industries remained intact until the Thatcher governments of the 1980's.

As for tax policies socialist governments have, for example, introduced:

- Redistributive policies creating social payments to the needy (Callaghan 1990).
- Capital Taxes under the 1965 Wilson Government.
- Capital Transfer Tax under the 1974 Wilson Government
- Investment Income Surcharge (Pritchard 1980)
- Increasing rates of progressive income tax.

All of these illustrations support socialist (and socialist-marxist) philosophy and seek to redistribute tax shares from high earners to the needy in society. Such changes supported wider economic policy such as state control or influence of production and regulation of the economy through levels of state expenditures. Labour governments 1945 – 1979 adapted Keynesian policy to

achieve their socialist aims although the introduction of an ad valorem tax as a percentage of the selling prices of products was introduced in 1973 under the Heath Conservative government thus indicating the inter-relationship of policies based upon the views of Keynes. Coxall and Robbins (1998) went as far as concluding (quoting Haywood 1997) the 'dominant Labour ideology between 1945 and 1970 may be described as Keynesian social democracy – the desire to humanise capitalism by state intervention', p76-77) Even more surprising is that the Wilson government of 1974 introduced cash limiting within public services (Appleby 1995), this policy preceded Prime Minister Thatcher's monetarist policies by some 4 or 5 years. Callaghan (1997 p233) attributed Thatcher policies of the 1980's to the Labour Party of the 1970's.

As this brief analysis demonstrates the UK taxpayers and voters, until 1974, experienced similar policies regardless of political influence. And although Conservative governments of 1959 and 1970 aimed to reduce tax burdens, in reality they had little effect upon levels of tax against GDP. The pragmatic choices of governments were constricted by the operational success of the welfare state and the consequential growth in public expenditure. Also, as Callaghan points out, it was often the middle class that earned higher incomes yet benefited most from the welfare state. To alienate that group by significantly increasing tax or reducing service would ensure electoral failure. The Fabian Society was formed in 1884 and is considered as a British socialist movement (aligned, for example to the Australian Fabian Society and Canadian Douglas-Coldwell Foundation). Originally the society favoured a welfare state based upon the policies of Bismark in Germany and criticised the Gladstone liberalist policies. More recently the Fabian Society has been widely accredited as architects of increased taxes (primarily NIC) to improve public services although their demands for full hypothecation for health services have never been enacted. Within the wider field of taxation the Tax Justice Network continue to be outspoken critics of tax havens, and the neo-liberalist support for purely entrepreneurial ethics, as champions of the public good.

## Capitalism

It is too simplistic to conclude that capitalism is the opposite view of socialism although Hill (1997) claims 'the classical Marxist position is to suggest that the capitalist state's main function is to assist the process of capital accumulation' (p53). Winkeler (1976) views capitalism as a system of private ownership of the means of production. To support such a policy there is a need for motivation and recognition of risk (Webb 2000) and this has manifested by way of tax benefits for investing in production:

- 100% first year allowances
- Development area tax incentives
- Share options and similar rewards for investing in business
- Reduction in headline rates of marginal income tax.
- Divergence of personal and business taxation.
- Trend towards regressive taxation ( e.g. Poll Tax).

In essence these tax policies sought to create national wealth by having a successful private sector; this success reduces unemployment, reduces illness and increases net tax revenues. However Coxall (1998) criticised post war, pre 1979 conservative governments for moving away from capitalist values in favour of a paternalist, interventionist policy. Coxall cited the efforts of Enoch Powell to keep the conservatism free market tradition alive. However it was not until the Thatcher government of 1979 that the free market tradition became dominant. Until then the UK experienced Keynesianism in both political guises.

The Thatcher government, adopting monetarist rather than Keynesian philosophy, reverted to the concept of private ownership. Privatisation of major industries such as British Airways and the energy providers resulted in capital inflows to the Treasury. Reductions in capital and revenue outflows by reducing government expenditure allowed some reductions in direct taxation but more significantly in corporate tax and supported managing the economy

using monetarist principles. The differences in pre and post 1979 conservatism are illustrated in the Table 5.3.

**Table 5.3 The TWO Conservatives**

	Paternal	Thatchersim
Role of the State	Intervene	Reducing / limited
Management of the economy	Mixed government and the market	Free market economy
Social and welfare rights	Universal right to support	Individual right to support
Management of change	Gradual	Rapid
Unions	Constructive and coordinated relationship	Reduced union involvement and power
Nation State	EU integration	Independence.

Source – adapted fromn Ludlam and Smith (1996) and Coxall (1998)

During the era of Prime Minister Thatcher the UK witnessed a growth in private ownership of property and investments, a growth in new (and smaller) businesses with tax incentives for business risk and polarisation in EU relationships. Followed by the Major conservative government it is contended that the movement from the Thatcher principle of nation state was the prime influence in its electoral failure. Additionally, although headline tax rates fell, increases in indirect taxation (notably the scope of VAT) caused revenues as a proportion of GDP to rise. (Callaghan 1990).

The emphasis on entrepreneurial success leads us to consider the ‘coercively imposed charge’ as the predominant perception or paradigm.

**Friedman**

According to Heyne (1997) Friedman, a right wing liberalist, began to question Keynesian concepts and time lags, in the late 1940’s and criticised the US Federal Reserve for failing to control the supply of money. In developing monetarist concepts Friedman claimed that it is the demand for money that creates inflationary pressure rather than excessive aggregate demand, and to control inflation requires control of the money supply. Coxall

and Robins (1998, p442) encapsulates monetarist concepts in the following quote: *'Monetarism is based upon the belief that Keynesian policies cause inflation and unemployment. Monetarist policies are based upon restricting the amount of money in circulation, including government spending.'*

The primary weapon in controlling the money supply has been the interest rate impacting upon borrowings and investment. Friedman perceived this control would be enforced by government control of the central bank. The Labour government of 1997 sought to break the 'stop – go' cycle by making the central bank, the Bank of England, autonomous when setting interest rates. However the taxation relationship to the government's supply of money and tax policy has been a vehicle for applying monetarist concepts.

During the period 1979 – 1982, which is labelled by Coxall and Robins (1998) 'the monetarist experiment was undertaken by the Thatcher government. The Chancellor of the Exchequer reduced income tax, doubled VAT and raised interest rates: inflation fell but the impact of removing supply of money from the economy created high levels of unemployment. Unlike Keynesian policies where government expenditure plans were the prime weapon, with the inevitable involvement of the unions, monetarist policies needed no support from the public services or unions. Trotman -Dickenson (1998, p421) and Huhne (1990, p122-124) are critical of the experiment and point out that inflation fell even though the government failed to meet its money supply targets but 'the cost in lost output were far more grave than its adherents anticipated'.

In the years following successive governments have sought to control the money supply but at the same time restricting public service expenditure and promoting business expansion.

## Keynes

It has been argued (Heyne, 1997) that Keynes was the major force in the crystallisation of economic thinking after the 1930's. Pre-Keynes the traditional approach to economic policy was to use investment to create higher output and therefore higher income, thus perpetuating a cycle of growth. In recession the economy was seen to be in surplus, surplus output capacity and surplus employees, but a situation which would become self correcting. The Keynesian view to this scenario is to increase demand, lower output and to lower income until the economy returns to a competitive position (Heynes p460, *ibid*) supported by Trotman-Dickenson (p83, 1988) and by reducing demand to deflate the economy.

The principle tenet of Keynesian theory is the management of aggregate demand. Trotman-Dickenson (1988, p418) summarises this tenet in the form of a table:

Economy is in equilibrium when aggregate demand = supply
Unemployment develops when aggregate demand is less than supply
Inflation develops when aggregate demand is greater than supply.

To manage aggregate demand, therefore, requires expansionary and contractionary policies as confirmed by Trotman-Dickenson (pp418- 419). To achieve expansion government may increase their expenditures and / or reduce revenues by way of tax reduction. When seeking contraction expenditures will be cut and taxes increased, until equilibrium is reached. Phillips (1958) demonstrated the link between increases in wages and aggregate demand and the impact upon inflation or unemployment. James and Nobes (1992) concluded on Phillips analysis that 'it was only a small step to suggest that the government could choose which combination it wished to aim at, by controlling the level of aggregate demand' (p97). Comparisons with Marx are stark; the Marxist criticism of government's economic

management relationship, in the form of power, is opposite to the Keynesian view of governmental control.

The Keynesian approach is criticised by Coxall and Robbins (1998), in an expansion of Marx’s criticism of capitalist economic management and the electoral cycle. They do so by proffering the view that Governments adopting Keynesian economic policy will seek growth in the run up to an election and contract when the election is completed. The corollary to this view is that the Keynesian concept may be corrupted by short term political imperatives.

This ‘stop – go’ cycle is depicted by Coxall and Robbins (ibid, p439) as shown in Figure 5.2 (adapted):

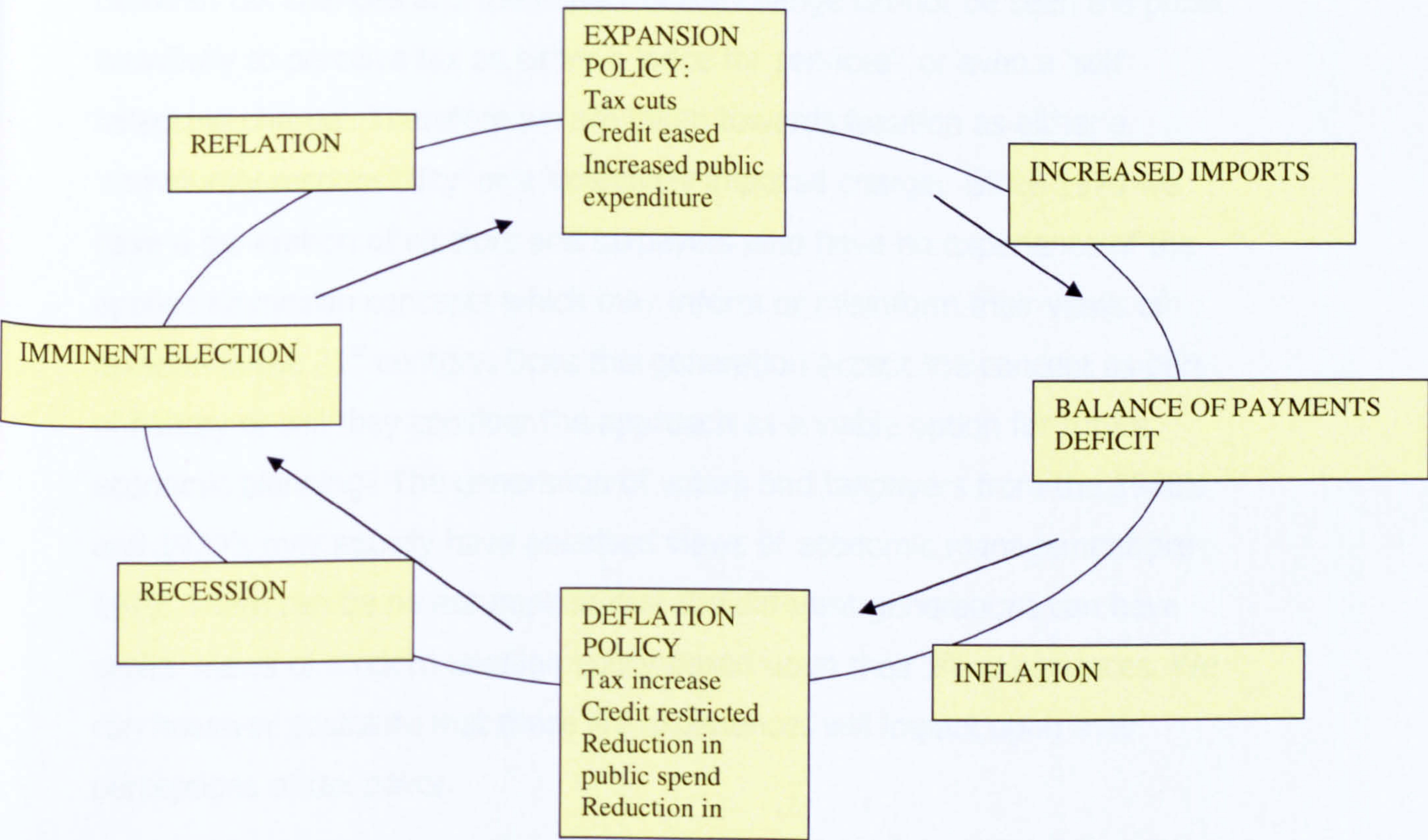


Figure 5.2 Stop Go Cycle

This cycle will exaggerate the move towards or from entrepreneurship depending upon the position within it and consequently the actions of professionals may be affected as would the perceptions of taxation. The role

of the finance profession is interlinked with the cycle; accordingly their actions will influence public perceptions concerning the profession's competence, the dominance of finance and of taxation.

Keynesian concepts formed the basis of UK economic policy in the years leading to the Thatcher government in 1979, indeed James and Nobes (ibid) p97 recognise the strong influence Keynes had on UK policy throughout the 1950's and 1960's. A monetarist criticism of Keynesian analysis is the time lag at each stage of the continuum, for example reducing tax rates will not immediately create consumer expenditure and increased imports and the need for these cuts could be greater or not needed by the time the impact of the cuts manifest themselves within the economic environment: if linkage between tax changes and the impact of the change cannot be seen the public is unlikely to perceive tax as either a 'price for services' or even a 'self balancing charge'. Therefore we are taken towards taxation as either a 'community responsibility' or a 'coercively imposed charge. Since 1979 we have a generation of electors and taxpayers who have no experience of the applied Keynesian concepts which may inform or misinform their views of taxation in the 21<sup>st</sup> century. Does this generation accept the concept as part of history or will they consider the approach as a viable option for future economic planning? The generation of voters and taxpayers from the 1960's and 1970's may equally have polarised views of economic management pre 1979. There can be no assumption that the different generations can have similar views of modern taxation policy based upon their life experiences. We can however postulate that these life experiences will impact upon their perceptions of tax policy.

## New Labour

The Blair governments were elected in 1997, 2001 and 2005 with manifestos built implicitly around socialist principles of supporting the most vulnerable in society but without returning to Marxist foundations of state control. There

has been no re-nationalisation of production nor has there been a fundamental shift to redistribute wealth through higher headline tax rates. Coxall (1998) defines New Labour as 'a blend of neo-liberal Thatcherite economics, a more traditional communication emphasis and a return to New Liberal-style interest in constitutional reform'. (p78). The New Labour ideology incorporates full use of the market economy with the role of the state that of economic facilitator, however it also values the community and wants to be seen as leaders in values surrounding health, education and crime. The ideology also aims to involve individuals in the operation and direction of public services in what Coxall labels the 'stakeholder society' (p78).

The Blair government maintained the conservative focus on cash management, and interest rates, as the prime regulator of the economy, relying upon economic growth, increasing tax revenues and reducing social payments to ensure developments within preferred areas of public services. One of the first key decisions of the first Blair government was to grant the Bank of England autonomy in determining interest rates. With interest rates placed outside cabinet control and reliance upon the free market to generate economic growth there is arguably little scope for radical tax change. The Blair government has reduced headline rates of direct tax a little, sought to target additional tax benefits and realign indirect taxation: there has been no return to high rates of marginal tax rates seen in the last socialist government of the 1970's. However initiatives such as family tax credits have proved administratively unworkable and resulted in a reversal of policy.

Chancellor Brown (2002) states his belief that reformation of tax is a prime tool in his battle against poverty in the UK. He says '*the roots of solving poverty lie in reforming tax and benefits. You cannot push up pay through wages, it has to be done through the tax system. The £5 minimum wage will*

*do less for helping poverty than £4.20 (current rate)<sup>3</sup>. The answer is through tax, because most people earning between £4.20 and £5 are helped by tax credits' (p4).* These beliefs, along with his prominent public view that university funding should be based upon graduate taxes rather than top up fees, re-emphasise socialist philosophy. (Brown believes 'if you train teachers, who earn a small amount compared to stockbrokers, a graduate tax shares the burden' p4).

Blair supporters are reported by Jones (2002) to fear that Brown is 'deliberately highlighting his ideological differences with the Prime Minister'. This brings us into the gambit of political power bases rather than tax and economic policy but the outcome of such power struggles will have an impact upon future tax policy. Continuing the theme of the earlier schedule comparing the two conservatives the following schedule compares the two labours and reflects the socialist view from post war to the 1970's and the Blair view. Where does Brown fit into the table? As a part of the Blair government he must be classified under 'new' however his socialist foundations, and those of his supporters within the parliamentary labour party demonstrates differences from the right wing interpretation of the policies.

From Table 5.4 and the previous table that compared the two types of conservatives (Table 5.3) there are, *prima facie*, startling comparisons between Thatcherism and elements of New Labour. Both focus upon the role of the market, both base economic strategy on the management of cash (through interest rates) and both do not advocate to penal progressive taxation. However the socialist foundations demonstrated by Brown create potential differences in the delivery of these aims.

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<sup>3</sup> Current development rate 2007 £4.60

**Table 5.4 The TWO Labours**

	OLD	NEW
Role of the State	Intervene	Reducing / limited
Management of the economy	Mixed government and the market	Free market economy
Social and welfare rights	Universal right to support	Reduced dependency
Management of change	Gradual	Rapid
Unions	Constructive and coordinated relationship	No return to pre 1979 rights
Nation State	Independent socialist state	UK in a Global economy

Source – adapted fromn Ludlam and Smith (1996) and Coxall (1998)

The Thatcher government is accredited (as is the Reagan Administration in America) as neo liberalist policy makers although critics in recognising that liberalism is efficient rather than fair say that the ‘American Model’ promotes low wages and high inequality (Howell and Diallo, 2007. Giegold (2008) identified the neo liberalist response to the German secret service’s (BND) illegal purchase of Liechtenstein personal tax records as ‘if tax rates were lower and the system easier, capital would not move out of the country’.

**Concluding Comments**

All of today’s electors and taxpayers have experienced the changing economic fortunes of the UK under monetarist and latterly modified monetarist principles; it is inevitable these experiences will inform their perceptions of taxation. However they have also experienced changes in policy and may be receptive to further change if it does not disrupt their personal need. Reaction to such experiences may be depicted in Figure 5.3.

The ‘taxation perception pull’ is inconclusive although, for different reasons, the ‘coercively imposed charge’ appears the stronger in Buchanan’s alternative paradigms. However, the chapter also identifies factors that support the other alternative Buchanan paradigms.

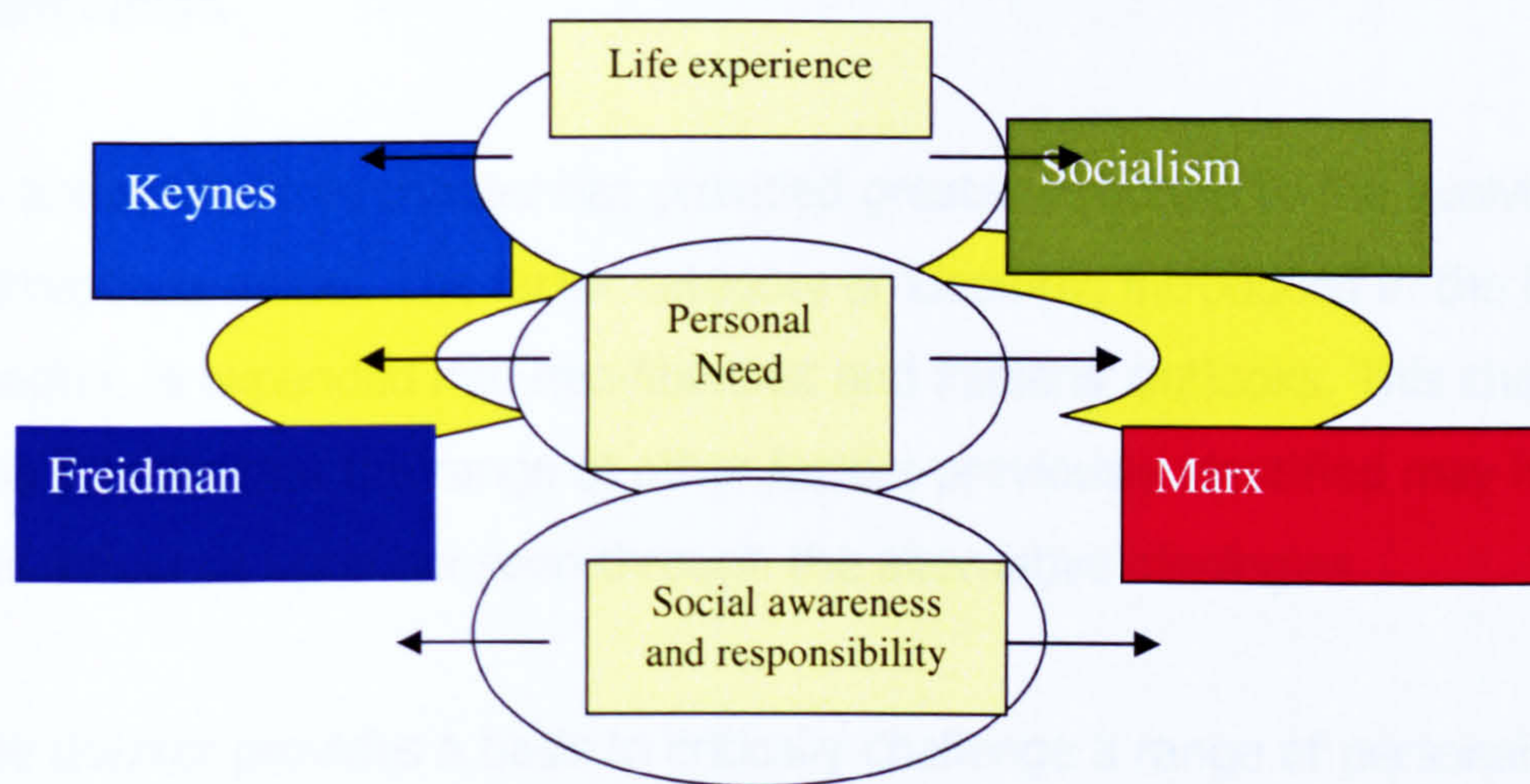


Figure 5.3 – Integrated discourse experience and responses spectrum

And of the future? Slemrod (2000) questions the need for taxes on business under market driven policies in a global market environment. He considers 'if the government levies a tax on corporate income corporate capital will tend to flee the country' (p38). If Slemrod's views are accepted then it will be the tax policies of the major western countries which will influence or even dominate UK tax policy and UK economic policy will follow current economic policy patterns regardless of government. However reports in 2002 suggest that German policy is moving away from Slemrod's view by introducing tax barriers for foreign fund managers and investors. Whilst this may be viewed as contrary to the EU single market obligations there may be tacit support of the German stand from the UK where Blair has stated his preference for retaining control of domestic tax policy and creating a clearer market environment.

Whether external factors have a greater or lesser impact upon UK tax policy is irrelevant unless the changes accord with taxpayers' perceptions of taxation.

## Conclusion

As anticipated this chapter has provided greater structure to the evolving tax perceptions model. The factor category of ideology, introduced in the last chapter, is expanded into neo-liberalist and Fabians' outlooks. This chapter also clarifies that the range of other factors previously identified may have and influence upon tax seen through the alternative ideologies.

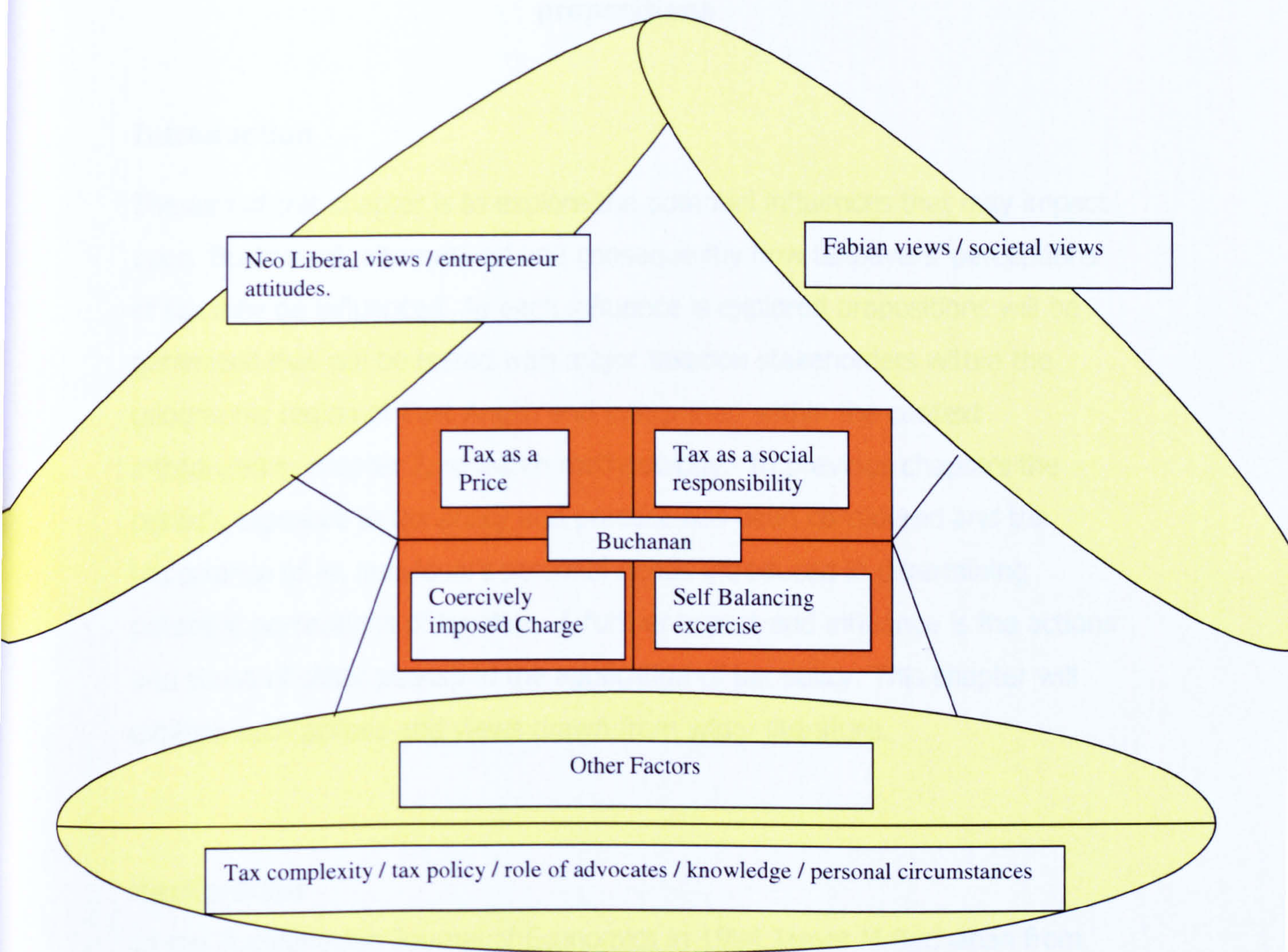
The chapter provides a basis to critically challenge a range of personal factors interacting with alternative social-political standpoints and, therefore, the individual's outlook towards Liberalist and Fabianist views. The extent of this interaction may only be resolved by primary testing and subsequent analysis. Figure 5.4 shows the extended tax model where three key areas of influence have emerged:

- Neo-liberal / entrepreneurial views,
- Fabians' attitudes
- Other factors as introduced in earlier chapters.

Factors covered by the term 'experience' have been subsumed into each of these three areas as the mix of experience, outlook and personal factors appear to be transient.

This model may now only be extended by empirical research.

Figure 5.4 – Theoretical Tax Perception Model



## **Chapter 6:**

### **Review of Buchanan's alternative paradigms of taxation: developing propositions**

#### **Introduction**

The aim of this chapter is to explore the potential influences that may impact upon 'Buchanan's alternatives' and consequently how taxpayers' perceptions of tax may be influenced. As each influence is explored propositions will be generated that will be tested with major taxation stakeholders within the geographic region of East Anglia and interpreted within the context introduced in chapter 2, research methodology. In previous chapters the public's exposure to tax policy and practice has been considered and the importance of an individual's personal needs introduced in determining potential perceptions of taxation. A further aspect and influence is the actions and views of other players in the application of tax policy. This chapter will explore such actions and views drawn from wider literature.

#### **Background**

In the Scandinavian Journal of Economics in 1984 James M Buchanan from the Center for Study of Public Choice, George Mason University, Fairfax, USA introduced and discussed the alternative ways in which taxation may be perceived by citizens and economists.

The paper argues that the perceived view of taxation policy followed Keynesian theories. It is not difficult to see how Buchanan reached this opinion as numerous economic texts concentrate on this issue. In particular James and Nobes (1992) specifically consider redistribution and the British tax system. Their work on 'taxation and equity' focuses upon the utility of taxes and offers the traditional benefit and ability to pay approaches. Similarly Lymer and Hancock (2001) devote little of their key text on taxation policy to

the area of tax equity. It is, however, recognised by James and Nobes (1992) that their text will only 'scratch the skin' of the subject and later introduce the concept that society might give priority to improving the position of the least advantaged (quoting Rawls, 1972).

Cullis and Jones (1998) argue that inefficiencies and inequalities in taxation result from self interested behaviour (of political agents), criticising normative tax literature as failing to include 'transparency' or 'visibility' in the determination of optimal taxation systems or policy. However they conclude that governments are not infallible, they make mistakes but determine tax policy in the best interests of the community; they are not revenue maximising governments. Such conclusions may begin to address the concerns of Brennan and Buchanan (1986), who consider that most public sector service institutional problems arise due to the division of taxation and expenditure.

In his 1984 paper Buchanan considered his alternative paradigms from a single view point, that of ethical limits, basing his work upon the Rawlsian principle of maximal equal liberty to derive limits on the absolute level of taxation. His paradigms may be summarised as:

1. *The cost side of an inclusive fiscal exchange process* (p103). This is a scenario where the taxpayers treat taxes paid as a price for the benefits, that is the goods and services, delivered by the government. This may be illustrated by the UK government's linkage of potential tax rate increases and the need to support the NHS (EADT 18/02/02), aligning itself to the benefit principle and Keynes.

2. *The embodiment of fixed charges* (p103). This paradigm recognises that a cost of belonging to a community is the obligation to contribute to that community. Taxation may be seen as a fixed charge which fulfils this obligation whether or not any of the benefit flows to the individual. A critical

theme behind the opposition to the Poll Tax in the UK during the early 1990's was that it was unduly burdensome on some individuals regardless of the ability to pay or benefit derived.

Both alternative paradigms 1 and 2 relate to the contribution of the taxpayer for the provision of goods with the first grounded in monetarist theory linking service provision with payment. The second is closer to Rawlsian principles of equity of access to public services.

3. The imposition *of a set of coercively imposed charges (p103)*. It is argued by Buchanan 'that those who are politically strong are able to impose levels of taxes (and taxation policy) on those who are politically weak'. The motivations for imposing certain levels of taxation may be in the best interest of the community (Cullis and Jones 1998) but sections of the community will be adversely affected by change in tax policy even when the normative redistributive effects of taxation are ignored. A prime example has already been discussed in terms of taxing service companies as if they were within the scope of Schedule E of the Income taxes Act 1988 rather than Schedule D Case I. The net increase has been estimated by the Inland Revenue at only £250m, which is small within the context of UK taxation whilst opponents suggest the hidden economic costs may more than outweigh the fiscal benefit to the government. This alternative paradigm is implicitly criticised by Marx, as discussed in chapter 5, where tax policy is determined by the dominant class, at the expense of the 'working class'.

4. That taxation is *conceived as a self contained collective enterprise (p103)*. This scenario suggests that tax policy has predetermined objectives in terms of the distribution of tax burden and benefit. The paradigm is characterised by positive and negative transfers that have the ultimate aim of achieving the objectives set. This alternative paradigm would appear to relate to traditional, normative theory although economic texts fail to address potential objectives

behind tax policy when evaluating benefit and ability to pay theories. The complexity of government targets and the need for short and medium term fiscal strategy may invalidate the alternative paradigm for objective measurement. However general acquiescence of the UK public to changes in taxation policy and practice may provide tacit evidence to support the paradigm in the UK.

Where disagreement occurs between perceptions of tax, the Commission on Taxation and Citizenship believe it depends upon the view taken of *citizenship*. Where there is a strong conception of citizenship (p90)

*'community mutual dependence..... money we earn does not simply come from our own efforts, but from education and the culture we have acquired.'*

The implication of this perception is that there is no need to limit public goods. However the alternative view is that attributed by the Commission to Margaret Thatcher (p83) *'there is no such thing as society just individuals and their families'* With such a view everyone is autonomous and should earn whatever they can as individuals (p84) *'the autonomy of the individual is expressed by the idea of basic negative rights.'* That is the provision of service is an individuals contract with the state or in Buchanan's terms – a price. But there are *free riders* plus essential collective services such as police and defence. The neo liberalist rejects positive rights as these imply a larger tax system, (p86). The 'true neo liberal would reject the role of the state in providing any resource.'

Buchanan evaluates the concept of an ethical limit to taxation within the context of the alternative paradigms. An element of his evaluation, drawing upon Rawls, is to suggest that the concepts of just and fair within the distributional framework of taxation are difficult to access as individuals are 'placed behind some veil of ignorance and/or uncertainty where they cannot identify their own positions' (P105). Using a simple model, linked to the incentive to work, Buchanan demonstrates that setting particular tax rates may not be ethically justifiable on the principle of maximal liberty. It is

recognised (p110) that the application of the principle of maximal liberty does not necessarily mean that the government will not still seek to undertake some level of transfer activity. Buchanan's aim was to indicate that an ethical limit exists and the concept may be empirically estimated; such an aim was stated whilst recognising sensitivity to change where influences may be from behavioural, economic, political or technological sources.

It is clear that the alternative paradigms considered by Buchanan are relevant in the evaluation of an ethical limit to taxation however the narrow focus of the work does not provide the required level of evidence or justification to adopt them for wider, social and fiscal, research into the strategic management of tax policy in the UK.

The question regarding the status of 'Buchanan's alternative paradigms' (are they paradigms or perceptions) was first asked in chapter 1 where the work of Chittenden and Foster (2008) indicates that views on taxation may change so Buchanan's alternatives should be treated as perceptions. Chapters 3-5 discussed a wide range of factors which may influence views of taxation and even though commentators such as Auerbach (1999) believe we should not evaluate taxes from multiple levels the balance of literature leads to a clear **conclusion: Buchanan's alternative paradigms should be treated as transient perceptions of tax.** Therefore the research objectives are focused upon the task of identifying the prime factors which cause changes to the perceptions of tax.

Accordingly each of the 'Buchanan's alternatives' must be re-evaluated in terms of the influences and sensitivities arising out of the work of, for example, Buchanan (1984), Lamb and Lymer (1999) and Webb (1997). Previous chapters have already identified a range of economic and social factors which may impact upon perceptions of tax and stem from a wide spectrum of sources. A primary source reflecting the diversity of influences within tax research is the Tax Research Network (a UK based grouping of

academics focussing upon taxation) conferences papers and an analysis of these confirm the prime influences upon tax perceptions as:

1. Accounting profession
2. Tax compliance and behaviour
3. Equity and Fairness
4. Social and Public Policy influences
5. Fiscal Policy

How individuals may react to these potential influences may be dependant upon the life experiences and personal needs considered in the preceding chapters. Each of these areas is considered in the next chapter.

## **Developing Propositions on the perceptions of taxation**

### **Accounting Profession**

**Proposition 1** – Tax requirements of clients predominate in the production of financial reports within and outside of GAAP by taxation practitioners.

The expectation is that capitalist principles predominate the business ethic of tax advisors and the views of Slemrod (2000) discussed in Chapter 4 are supported, i.e. business taxes are not required in a competitive market environment. Such a stance would support acceptance of Buchanan's third alternative paradigm. We have seen from literature that the actions of accountants impact directly upon the taxable profits of business and the adoption and interpretation of GAAP actions of the accountants. The overriding concept in producing financial reports is that of the true and fair view. The literature also explored the wider role of the accountant in provision of tax services where compliance work should adopt a neutral stance in relation to 'Buchanan's alternatives'; however the use of creative accounting techniques and the need to produce acceptable taxable profits for strategic

and operational aims provides an opportunity for avoidance culture to develop. Pressure may be such that evasion may develop.

No accounting professional will or can admit directly to either creative accounting or advising clients to evade tax. However we are able to gauge general business culture and compare the views of individuals using the tax services of an accountant.

**Proposition 2** – With a predominant view that tax is a coercively imposed charge taxpayers will opt for tax reducing advice in preference to contributing towards increased public expenditure.

Expectations are to find a spectrum of responses supporting all of Buchanan's alternative paradigms but due to the exposure to market influences since 1979, rather than deep rooted socialist principles where paradigms two (community responsibility) and three (coercively imposed charges) should predominate. There may be contradictory responses with those derived from other influences and propositions. Literature would suggest that differences in responses should be expected by age, gender and background. Age reflects the views and opinions learned from experience whilst females should demonstrate greater compliance in all tax issues. Differing education and social background may be reflected in the demand and support for levels of public goods. Income levels should, according to surveys in 1991 and 2000, show a willingness by higher earners to pay more tax; following paradigm 2 and low earners seek a reduction in liability supporting paradigm 4.

### **Compliance, Behaviour and the Alternate Perceptions.**

**Proposition 3** – UK tax payers are ignorant of their taxation circumstances with resultant decisions based upon non tax factors.

**Proposition 4-** There is a predominant view that taxation should be used to reform social policy and social security.

In the discussion of literature it has been shown that compliance costs may be explicit but material values of compliance may be hidden or implicit in the management of taxation. The materiality and pervasiveness of cost is supported by the work of Godwin (1995), Hassildine (1999) and Chitenden et al (1999), as discussed in previous chapters, which considered in isolation might suggest that the costs may be viewed as part of the fiscal exchange process or coercively imposed if the taxpayer is knowledgeable of the costs. It may be significant that in reducing compliance costs within the Inland Revenue, with the introduction of self-assessment, the associated costs of taxpayers may have increased, as evidenced in earlier Australian experiences. If however the taxpayer seeks redress by exploring avoidance and evasion the costs and efficiency of the Inland Revenue may, in turn, be adversely affected (Woolman, 1987).

A number of authors have emphasised the disincentive nature of taxes with the corollary that compliance cost are similarly viewed, subject to knowledge of the costs. Accordingly additional avoidance of costs and taxes would indicate a coercively imposed charge.

Glennerster (1995), supported by researchers such as Sandford (1995), Pope (1999) and Green and Winter (1999), considered that whereas the public supports lower direct taxation there is a strong demand for public services aligned with improved education and awareness. It may be postulated that with careful psychological management public perception may be moved towards the paradigm of a self contained exercise and even that of community responsibility.

It is anticipated that the socialist foundations of the current and previous government still impact upon taxpayers' perceptions thus supporting Buchanan's alternative paradigms one and four. The status of respondents may well determine views regarding social policy but there is no expectation that the outcomes of these hypotheses will show that their status results in complementary views. Rawls' founding principle of the veil of ignorance may be confirmed suggesting that people are genuinely ignorant of their taxation position, options open to them and the costs of compliance. Whilst there is an explicit assumption that tax professionals cannot claim to be ignorant of contemporary taxation practice there is no expectation that any group is aware of tax compliance costs. Such ignorance will influence the overall perceptions of tax policy.

## **Equity and Fairness**

**Proposition 5 – Public preference supports progressivism in taxation.**

When related to 'Buchanan's alternatives' we can clearly see that taxpayers and taxation theorists clearly link the raising of taxes with the provision of services. The reaction against flat rate taxes suggests the demand or expectation that people pay tax as a community responsibility although not taking Buchanan's paradigm of a flat charge literally. The opposition to the Poll Tax and the more recent works of Head (1993) and Green (1999) clearly show that the public will view tax as a coercively imposed charge if the burden breaches the immeasurable line of that which is equitable and fair. We cannot however conclude that flat rate taxes are not socially acceptable: Green (1999) considers their importance in specific circumstances (e.g. social insurance) and the acceptance of the Jizya and apparent USA current attitudes point away from the coercively imposed charged to that of social responsibility again

The majority of UK taxpayers will have experienced the Poll Tax experience and may oppose flat rate taxes and alternative paradigm two if an explicit comparison to the Poll Tax is made. A move towards progressive tax rather than regressive will resist lower income groups being motivated to evade tax due to pressures of basic need (chapter 4). However trends in the United States and with the influence of socialist principles within government imply support for the second alternative paradigm but with a preference towards the Rawls' view that 'it may be better to use progressive rates only when they are necessary to preserve the basic nature of justice' (1971, p279).

## **Social and Public Policy**

**Proposition 6 – Taxpayers have a preference for improved public services with higher direct taxation.**

How do the Buchanan paradigms sit within the concept of social and public policy? The supportive literature, *prima facie*, is fully integrated into the second paradigm of community responsibility and the first as part of the fiscal exchange process. And although there are differing views on the efficacy of selected policies all can be seen to demonstrate or have linkages to supporting or developing / changing social policy. What is uncertain is public opinion as to the preferred theoretical strands to society; a socially motivated tax policy as perceived by Fabianists may be held as a coercive charge by Liberalists. We have seen the views of Engen and Skinner (1999) who believe that a reduction in tax will result in a rise in economic growth and therefore the ability of people to make choices in the public goods they use. Alm (1999) advised us that we should not look at tax rates in isolation and to include administration and compliance costs in determining an optimal tax, that is a tax with constant marginal rates. However we have also seen that most taxpayers may be ignorant of the indirect costs of taxation and may not link them with the provision of services. Holcombe (1999) contributed to this

argument by concluding that it is problematic in revealing people's preferences for public goods so although a link with improved services may be believed by the taxpayer they a) may not comprehend the links between costs and revenues and b) may not know or agree that the preferences are for public goods.

To counter this apparent conflict there has been discussion on the use of hypothecation in tax. Whilst there may be tacit approval for hypothecation the two main political parties in the UK have considered and rejected the concept since 1998 on the grounds of complexity. Their decision could have been influenced by views expressed later by the Fabian Society who clearly link the level and need for tax with the strength of citizenship. Contradicting outcomes from different hypothesis may indicate the conflict between levels of tax and citizenship. Following the Reed survey of public service managers in 2001 and 2002 it is expected that all groups surveyed will support improvements in public services although the tax status of respondents may be significant in determining support for higher taxes. Some may support greater progressivity whilst others prefer a market-orientated approach improving efficiency or PPP's. The answers supporting this proposition may, and indeed should not necessarily coincide or agree with other propositions. There may be an underlying social and community belief but contradicted by the micro views on tax.

### **Revenues Policy**

**Proposition 7-** There is general support for the role of taxation within the economy

**Proposition 8 -** There is general support for the efficiency of the Revenue Authorities.

Within the relevant literature it has been shown that there are differing approaches to fiscal and tax policy whilst there has been a broad consensus

as to what a good tax system should look like. It is concluded that fiscal policies neither directly support nor contradict any of 'Buchanan's alternatives', as the object of fiscal policy is far wider than the impact of specific taxes. However Revenue efficiency within overall government policy will influence how taxpayers view the impact of taxes.

It is anticipated that the surveys will find latent wariness or distrust of the revenue authorities based upon reputation and hearsay rather than personal experiences. This may be contradicted by public support for the need of taxation within the economy.

## Conclusion

This chapter has now determined the questions that must be addressed before the concepts discussed through to Figure 5.4 can be developed into a full subjective model.

## **Chapter 7**

### **Taxation Advisors – Attitudes to UK Direct Taxation**

This chapter is based upon a double blind refereed paper delivered to the 2<sup>nd</sup> AACF ANNUAL INTERNATIONAL ACCOUNTING CONFERENCE 10-12 November 2005 ISTANBUL / TURKEY

The following text is predominately from Webb's (2005) conference paper, and will, therefore contain elements of text considered earlier in this thesis.

#### **Introduction**

The aim of this chapter is to undertake an initial exploration of the survey findings derived from responses by taxation advisors and advocates. Any conclusions drawn will be used to inform the analysis from all respondents in chapter 11, where the individual propositions will be evaluated.

The UK has one of the oldest established professional based accountancy structures in the world and remains a focus for developments in financial reporting for those countries that base their accounts on the true and fair concept, originally codified in the Companies Act 1948 developed alongside and upon the advice of the accountancy profession.

Unlike many other countries in the European Union where tax advice is the domain of the legal professions accountants in the UK are synonymous with the provision of tax advice to individuals and companies.

We have seen from the evaluation of literature, in chapters 3-5 and summarised below, that the factors which may influence accountants came from a wide spectrum of perspectives:

- Vyakarnam, Srikantan and Fitzsimins (1996) suggested that the professional is rule bound, using rules and regulation to review and revise the rules.
- Freckall–Hughes and Moizer (1999) suggested that production of accounts reflects what has happened as compared to tax planning's focus on what will or can happen.
- However, Sunder (1975) posed the question concerning accounting policies and where the choice of policy is explained by the organisation's tax planning strategy, whilst Lamb (1999) and others consider tax influences and accounting policies as being reciprocal.
- Case law does not necessarily clarify the position accountants must adopt as we have seen in the cases of *Gallagher V Jones* 1993 STC537 where the courts declared they would take great heed of the accounting treatment when determining the treatment for taxation purposes as compared to *Patrick V Broadstone* 1954 (163 35 TC 44), where the courts failed to recognise the accounting treatment of stock valuation.

Lord Denning in *Rondel V Worsley* (1966 3 ALL ER 657) considered that accountants must not consciously misstate facts and must disregard the most specific instructions of the client if these instructions conflict with the duty owed to the court.

- Extending the discussion on Denning's judgement Webb (1999) discussed the changing pressures upon tax avoidance over the last 50 years and the unclear, grey message given by the courts. Lord Denning placed accountants and tax advisors in a difficult position making it clear that they held a primary responsibility to the courts and not their clients.

**Primary data analysis.**

In order to determine the perception of accountants, as a tax advocate, all accounting practices within the postal code areas for Chelmsford in Essex and Cambridge (thereby covering large parts of Cambridgeshire), Essex and Suffolk were surveyed; this represents a significant cross section of East Anglia. A population of 148 practices were identified with a 20% response rate, some non-responses were followed up with time pressures cited, along with policies not to entertain surveys as the key reasons for non-response. With 28 responses some cross-tabulation cells result in frequencies below 5, therefore the ability to fully statistically test the data at this level is restricted; however observational analysis of proportional responses are consistent with the chapter objectives.

Questions were designed to explore the following areas:

- The complexity and efficiency of the taxation system and whether the accounting profession can influence accounting policy.
- Support for and against alternative taxes and tax structures
- Personal and ethical impact of being a tax advocate.

Lewis (1982) discusses the external variables which may affect attitudes, which can be summarised as:

Age	Sex	Social Class	Education
Political preference	Attitude towards government and tax inspectors		
Dogmatism	Risk aversion		

Devos (2005) concluded a similar set of factors, notably including nationality as a factor in determining attitudes towards tax evasion. However not all of Lewis’ external variables were tested, basing much of the scope of the research upon literature portraying the advocate as rule bound and potentially dogmatic so direct elements such as political preference were not individually

examined. Advocates are classified as being within the same socio-economic classification so no analysis of this variable was undertaken.

Gender and qualifications were examined and showed little variation in response. The only element that suggested differences between advocates was that of age; accordingly the following analysis reflects this distinction.

### **Extent to which the Inland Revenue is seen professional and fair.**

The issue was initially addressed by a direct question. Only one respondent agreed that the Inland Revenue are fully supportive of taxpayers, all others either strongly disagreed or totally disagreed that the service is fair. Upon first reflection this response was predictable and leads us towards Buchanan's 'coercively imposed charge' paradigm and challenges proposition 8, that 'there is general support for the efficiency of the Revenue Authorities'.

However as the accounting profession is founded in rule based ethics there should be mutual respect of a rule-based taxation system. Accounting and taxation practice evidences a clear contradiction to this view with the variability of accounting policies and the growth of the avoidance culture fostering or creating an adversarial relationship which may be reflected in the answer to the baseline question. Such a relationship reinforces the view that taxation advocates perceive Buchanan's 'coercively imposed charge' to be the dominant paradigm and reject proposition 8. To explore whether there are any other factors explaining the response wider aspects were explored with the tax advocates.

Firstly the attitudes towards the function of business were examined. The age of respondents determines their personal experience, therefore answers from the under 40's and over 40's were considered separately as the younger group have only experienced monetarist-based governments and economies.

**Table 7.1 Thatcher and the Entrepreneurial ethic.**

Do you believe the Thatcher Government supported an entrepreneurial ethic?	Under 40	Over 40	Total
	%	%	%
Yes	67	71	69
No	0	21	11
No Opinion	33	8	20

Table 7.1 shows considerable support for the view that the Thatcher government supported an entrepreneurial ethic. Unsurprisingly with a Pearson's Chi Squared value of 1.662 at 1 df, there is no statistical difference the attitudes of those under and over 40.

**Table 7.2 Attitudes to Private Ownership**

Is private Ownership a core element to economic success	Under 40	Over 40	Total
	%	%	%
Yes	68	86	78
No	6	5	5
No Opinion	26	9	17

The acceptance of an entrepreneurial ethic since 1979 has a relatively strong acceptance regardless of age although there is a marked difference in the attitude towards private ownership. With literature suggesting a high expected value supporting the entrepreneurial ethic it is unsurprising that there is no statistically significant difference between ages and expected outcomes. Overall the answers support the business focus which can create conflict between the advocate and the Inland Revenue. However, as shown in Table 7.2, only 68% of the younger respondents, who have primarily experienced the private ownership philosophy, are supportive of the view thus indicating a potential seed change, over time, within the accounting profession although no statistical significance can be drawn. With support for the entrepreneurial ethic and inevitable drift towards Buchanan's coercively imposed charge the results may also infer tacit support for the Thatcher underling tax policy of enhancing progressivity in direct taxation, thereby

supporting proposition 5 ‘Public Preference supports progressivism in taxation’.

As discussed earlier there should be an implicit respect for one rule based ethic from another. Accountants expressed their concerns that tax regulation is becoming more complex (90%) with a predominant view that there is less room for negotiation with the Inland Revenue although there is no consensus as to whether revenue enquires are becoming more or less targeted giving further support to the advocate’s views that taxation is a coercively imposed charge.

The Inland Revenue publish an extensive range of literature to support taxpayers, advocates and clarify technical taxation issues. Tax Advocates provided no clear opinion of the usefulness of the literature, regardless of age, as shown in Table 7.3.

**Table 7.3 – Taxation Literature**

Do you find HMRC literature to be:	Under 40	Over 40	Total
	%	%	%
Supportive and informative	11	12	12
Useful	41	45	44
Complex	48	43	44

Such evaluation of literature may be affected by education, experience or random factors such as the type of client (narrow tax aspects addressed) or the specialism of the tax practice. 85% of respondents declared their highest qualification as membership of one of the Chartered bodies with another 7 % stating a Masters degree. Theoretically respondents should have both the technical and academic skills to evaluate the HMRC literature. The results, therefore, fail to provide any clear support or rejection of proposition 8.

One further aspect was explored with advocates to understand their attitudes towards tax and the wider of elements in society; these were considered from a spectrum of potential views, as summarised in Tables 7.4 and 7.5.

**Table 7.4 – Ranking of attitudes to the role of taxation**

Rank the following in order of importance to you	Under 40	Over 40	Total	Rank
Every person has a responsibility to support the most disadvantaged	2.8	2.6	2.7	3
Taxes should provide a minimum level of public service	2.1	2.4	2.3	2
A strong business sector will provide an environment to support society rather than extended government involvement	2.4	1.7	2.0	1
Taxes should be used to reform social policy	2.6	3.2	2.9	4

**Table 7.5 Kruskal Wallis Test Statistics - Analysis of Options Statements**

	a)Every person has a responsibility to support the most disadvantaged	b) Taxes should provide a minimum level of public service	c) A strong business sector will provide an environment to support society rather than extended government involvement	d) Taxes should be used to reform social policy
Value for h	.140	4.140	.178	.075
df	1	1	1	1
Asymp. Sig.	.708	.042	.673	.785

a Kruskal Wallis Test  
b Grouping Variable: Gender

From the above analysis the value of the Kruskal-Wallis H statistic is significant in option b (Taxes should provide a minimum level of public

service) and we can see that age is a factor in determining how tax should be focused upon public services.

Although there are differences in ranking between the age groupings both placed statement 3 either first or second and statement 4 either third or last. These rankings confirm the earlier analysis that the predominant driver in attitudes towards the Inland Revenue is dominated by the business orientation and we may also deduce that Buchanan's alternative paradigm of 'community responsibility' does not rank highly with the accountancy profession and there is little support for either:

- Proposition 4 'There is a predominant view that taxation should be used to reform social policy and social services'.
- Proposition 6 'Taxpayers have a preference for improved public services with higher direct taxation'.
- Proposition 7 'There is general support for the role of taxation within society'.

Support for public services is clearly subservient to the needs of business, in the view of tax advocates, and the potential for a seed change in the profession discussed earlier must now be viewed with extreme care.

In examining the results in greater details we find that cross tabulating option a) to option b) we have a Pearson's Chi Square of 48.222 but this technique cannot be relied upon due to the sample size. So looking to the Mann-Whitney test we find that females have a lower ranking for both options, therefore having a stronger leaning towards social responsibility than their male colleagues.

**Table 7.6 Mann Whitney –Ranks, Options v Gender**

	Gender	N	Mean Rank	Sum of Ranks
b) Taxes should provide a minimum level of public service	Male	22	12.91	284.00
	female	6	20.33	122.00
	Total	28		
c) A strong business sector will provide an environment to support society rather than extended government involvement	Male	22	14.18	312.00
	female	6	15.67	94.00
	Total	28		

		c) A strong business sector will provide an environment to support society rather than extended government involvement
	b) Taxes should provide a minimum level of public service	
Mann-Whitney U	31.000	59.000
Wilcoxon W	284.000	312.000
Asymp. Sig. (2-tailed)	.042	.673
Exact Sig. [2*(1-tailed Sig.)]	.052(a)	.723(a)

a Not corrected for ties.

b Grouping Variable: Gender

As we can see from Table 7.6 there is a significant difference in gender responses to option b) confirming the earlier analysis, showing that female respondents have a stronger inclination to recognise social responsibilities within the tax system.

A similar analysis was considered for options a) and d) but as both were rated lowly by all respondents the resultant analysis will have little impact.

It is interesting to note that, from a wider perspective, 85% of respondents feel that the political leaders do not appreciate society’s views when

**Table 7.7 To what extent do you consider political leaders fully appreciate society's views when determining expenditure plans based upon tax revenues?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	1	3.6	3.6	3.6
agree	3	10.7	10.7	14.3
neutral	4	14.3	14.3	28.6
Disagree	20	71.4	71.4	100.0
Total	28	100.0	100.0	

determining the spending of tax revenues and 72% (there are no significant differences in ages or gender responses) support use of tax rates in economic planning thereby rejecting proposition 8 but supporting proposition 7.

**Attitudes towards changes in taxation**

In the last section we saw a clear business focus in the general attitude towards taxation and the Inland Revenue. The reactions to changes in the tax regime may be used to gauge the extent or depth of this view. It is assumed that tax advocates will be supportive of tax reductions and increases in reliefs and firmly against changes that increase liability and when we consider impacts upon business taxation we find:

- 100% of respondents are neutral or disagree with rises in the Employers' National Insurance Contribution and 93% neutral or against rises in employee contributions. However,
- There is no consensus to support or reject increases in tax penalties with a broader range of response to questions involving the removal of MIRAS, the introduction of a 10% starting rate of tax, working families tax credits and removal of married couple's allowance.

Both responses could have been anticipated, the first supports the business emphasis discussed earlier whilst the second does not reject the concept of

tough penalties for those who infringe rules. These results clearly show tax advocates' rejection of proposition 6 where it is considered that 'taxpayers have a preference for improved public services with higher direct taxation'.

When evaluating the impact and rationale of the introduction of IR35 (treatment of single owner companies as employees) the expected response based upon the business emphasis should reject IR35 in favour of developing the entrepreneurial context and this was the clear response from the over 40's; the group which strongly supported the concepts of private ownership for economic success. In the under 40's group most gave a neutral response and when taken with the earlier attitude towards private ownership we may conclude that the younger elements within the accounting profession have a broader appreciation of societal issues within the tax regime. This is further demonstrated by a closer ranking of societal aspects. With a Pearson's Chi Squared score of 8.093, although three cells have responses of less than 5, there is potentially a significant difference in responses from different age groups with the over 40's strongly disagreeing with the implementation of IR35 (thereby leaning towards the coercively imposed charge perception of taxation) whilst the under 40's have a broader set of opinions thereby raising the potential for Buchanan's alternative paradigms of 'community responsibility' and 'self balancing charge' as having an important role in determining taxation policy. In relation to the propositions the age groups appear to support alternative conclusions; the over 40's clearly support proposition 2 ('With a predominant view that tax is a coercively imposed charge taxpayers will opt for tax reducing advice in preference to contributing towards increased public expenditure') and consistent with support for proposition 6. It may also be argued that the introduction of IR35 increases tax yield to higher earners, hence progressivism, and thereby gives support to proposition 5. Similar age related results, and inferences, are seen when attitudes to Working Families Tax Credits are cross tabulated (Chi Squared 5.939, significant at 5 degrees of freedom) with greater recognition of social responsibilities.

Moving to attitudes towards the taxation impact upon the individual similar responses are anticipated with a rejection of tax rises within the older group and a greater balance in response from the younger tax advocates. This pattern of response can be seen with potential rises in basic rate tax. Many younger accountants will have experienced few changes in basic rate tax and 10% fully support an increase whilst the over 40's at best are neutral to the potential with most disagreeing. Such responses are not inconsistent with the business emphasis as it divorces 'businesses' from individuals. These are observational results as the data does not show significant results at 95% confidence but, in general, show the same gender results as earlier analysis discussed above.

In considering tax changes related to social policy the over 40's disagreed with the removal of mortgage interest tax relief; this would have directly affected the age group and can be seen as contrary to the private ownership concept supported by the age group. If these age-related observations are repeated across the sample population there will be a highly significant Chi Squared result. The under 40's provided a more neutral response to a change in tax relief which many of them would have fully benefited from. There was a similar statistically significant response to the limiting and ultimate removal of the married man's personal allowance. The under 40's again give further support to the concept of a socially aware and balanced profession. The younger group are similarly supportive of the tax credit system (e.g. family tax credit) to target benefit through the tax system thereby adding support for proposition 4 and leaning towards a rejection of proposition 2.

As the concept of a more socially aware young profession further emerges when considering the next group of questions, analysis summarised in table

Table 7.8 Responses to alternative Tax Systems	
Respond to the following propositions	Chi Sq
Higher rate earners should pay more tax by virtue of a flat rate applied to higher earnings	6.929 df 4
Higher rate earners should pay more tax by a premium rate	6.717 df 4
Higher tax payers should specify tax spending preferences	4.759 df 2
All taxpayers should specify tax spending preferences	8.345 df 2

7.8 will consider the extent to which the current incidence of tax is supported by examining alternatives.

Additionally respondents were asked to consider the attractiveness of a pure flat tax where all pay the same; only two answers were neutral (one from each group) with the rest disagreeing with the concept. There is general support that

higher earners should pay more tax with the older respondents slightly leaning to a less progressive system of taxation. There is strong minority who disagree with the concept of paying higher premium tax but with no support for a pure flat rate tax there appears to be a social or ethical hurdle that even the most business focused tax advisor will not cross. Even the option of being able to hypothecate the premium tax charge does not attract support although the concept of possible hypothecation for all taxpayers has a balanced response. Choices for personal hypothecation strongly supported spending in health and social services followed by education. Such results questions the support for proposition 8 and the perception of efficiency within the Revenue Authorities (and their ability to use revenues appropriately) and supports proposition 4 where it is considered that taxation should be used to reform social policies.

As we exist within a progressive tax regime the respondents, who we have seen marginal support for progressiveness, were asked to specify at what levels higher rates should commence. 100% of respondents sought a higher

figure than at present with 47% seeking a figure more than double current levels, table 7.9.

**Table 7.9 – Premium Rate Tax Thresholds**

Premium rates should commence at	£30k	£50k	£100k	£150K
Under 40's	63%	11%	26%	0%
Over 40's	0%	45%	30%	25%

With the minority of younger accountants seeking premium tax to begin at a level substantially higher than currently exists; this may be an indication of the business orientation as the older group are far less balanced in their views with a clearer rejection of proposition 5 by older tax advocates. Subjective expectations on the response to this question from an unrepresented peer group reflected a different pattern to those observed. It was anticipated that younger accountants would opt for a higher threshold (as they would ensure personal lower tax) and older accountants were expected to select a lower threshold as they are mostly higher rate payers already and a lowering of the threshold would widen the base of higher rate taxpayers thus reducing pressure on their group to face higher future tax pressures. Is such an inconsistency tacit support to Proposition 3, 'UK taxpayers are ignorant of their tax circumstances with resultant decisions based upon non tax factors'? Factors impacting upon personal circumstances that may impact upon the responses are considered in the next section.

**Personal and Ethical Issues**

Respondents were asked about the circumstances under which they would change their views on the appropriateness and fairness of taxation and are summarised in table 7.10:

**Table 7.10 – Impact of Changing Circumstances**

		Under 40	Over 40	Total
		%	%	%
Impact on your family	Y	95	71	82
	N	5	29	28
Impact upon your business	Y	85	79	82
	N	15	21	28
Impact upon employment	Y	89	58	72
	N	11	42	28
Impact upon the environment	Y	65	45	54
	N	35	55	46

The results shown above demonstrate that all accountants will be impacted upon by changes that directly affect them or their families and may also be affected by changes to others and the environment. The younger accountants have concrete views upon business and families and this may be reflective of their experience / confidence in business from an age group more likely to have young dependant relatives. The primary difference between the age group relates to environmental policy and whilst this is not statistically significant and 5% critical value it becomes significant towards 10% thus providing supportive evidence of the differences between age groups. The high level of positive response in acknowledging tax influencing factors adds support to Proposition 7, 'there is general support for the role of taxation within society' although such support appears to contradict earlier responses.

As the accountancy profession plays a central role in the reporting of financial performance and tax practice the respondents may consider they or their professional could be drivers of policy.

**Table 7.11 – Accountancy Profession and Tax Policy**

	Under 40	Over 40	Total
	%	%	%
To what extent can the profession influence tax policy and regulation, i.e. do tax policy makers react to the actions of the profession?			
Y	82	26	50
N	18	74	50
Are tax professionals able to initiate concepts which support of guide tax reforms			
Y	58	52	55
N	42	48	45

Whilst there is no clear agreement as to whether the profession is able to initiate policy, with an observed chi squared value of 8.18 being greater than the 5% critical value at 1 degree of freedom there is a clear significant difference between the ages when considering the extent policy makers react to the profession. The younger accountants clearly believe the accountancy profession has a voice in policy decisions whilst the older accountants do not. Is this consistent with earlier results? We appear to have a younger element of the profession with a greater balance of views contrasting the business context with societal needs, giving support to Proposition 4; they also are more influenced by changes to personal circumstances, supporting Proposition 7, and have greater enthusiasm for the role of the profession.

**Client needs**

The contractual relationship between accountant and client requires the accountant to act as advocate, in the client interest, but do advocates understand the needs and drive of their clients and do client needs coincide with personal views? Using rank linear scoring three clear responses

accounted for 86% of all views: accountants believe the most important factors in advising clients are:

- Minimise the tax liability
- Minimise Potential for Revenue enquiry
- Respond to client preferences

There is, therefore, substantial support for Proposition 1 that 'tax requirements of clients predominate in the production of financial reports within or outside GAAP'.

There was no more than a single rank score between them whilst issues such as market factors, environmental factors and a responsibility to society reflected lowly in the opinions of respondents. So although we have seen the under 40's advocates having personal views regarding the impact of taxes upon environmental issues they clearly believe clients reject such influences. Whether these agree with the real needs of clients will not be known until a second survey of company directors is undertaken but the unambiguous response above clearly demonstrate an expectation of the business context as a predominate paradigm within the wider business community and support for Proposition 2 with a predominant view that 'tax is a coercively imposed charge' taxpayers will opt for tax reducing advice in preference to contributing towards increased public expenditure.

Examining their understanding of client views further only 15% believed their clients would be happy to pay more tax and only 23% are aware of tax saving opportunities with 55% being motivated by lower taxes. This final response may indicate an inconsistency with the firm views of tax minimisation discussed earlier. It would be of key interest to the research to evaluate whether tax advocates exceeds their ethical and legal parameters in minimising liability, either with or without express consent of the client. Such a question could not be asked with any conviction of balanced or honest answer so a more neutral question was asked and this revealed that 41% of advocates have felt conflict between their role as tax advisor and their duty to uphold professional standards. The greater prevalence in this conflict is felt by

the younger accountants and from the evidence discussed above conflict will continue to grow.

**Summary of issues**

Each of the individual issues discussed above give no more than an indication of the accountants’ perceptions of taxation. When taken together we have a more coherent picture as can be seen in the following table:

**Table 7.12 Summary of Findings**

<b>Consensus View</b>	<b>Under 40’s</b>	<b>Over 40’s</b>
<ul style="list-style-type: none"><li>- The UK has experienced an entrepreneurial / business ethic.</li><li>- A balanced view on the usefulness if Inland. Revenue literature</li><li>- Needs of Public Services are subservient to the needs of business.</li><li>- Taxation should be based on a progressive system.</li><li>- Total disagreement on a pure flat tax.</li><li>- No support for – premium rate hypothecation.</li><li>- Minority support for general hypothecation.</li></ul>	<ul style="list-style-type: none"><li>- Balanced view on the role of private ownership in business.</li><li>- Tighter range of difference re the role of taxes in society.</li><li>- Neutral of the implementation of IR35.</li><li>- Supportive of the tax credit initiative.</li><li>- Views are dependant upon the impact of tax change on family and business.</li><li>- Belief that the profession is listened to by policy makers.</li><li>Greater proportion of client / professional conflict.</li></ul>	<ul style="list-style-type: none"><li>- Private ownership is core to economic success.</li><li>- Polarised views supporting a strong business sector and tax should not be used to reform social policy.</li><li>- Anti IR35.</li><li>- Anti tax credits.</li><li>- Anti removal of tax reliefs.</li><li>- Seek a significant increase in the starting point of premium rate taxation.</li><li>- Belief that the profession is not listened to.</li></ul>

<ul style="list-style-type: none"><li>- Equal split of views concerning the professions ability to guide reform.</li><li>- Strong belief on the key needs of client as business and tax minimisation orientated.</li><li>- Few clients are prepared to pay more tax.</li><li>- Over half of clients are motivated by lower taxes.</li></ul>		
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Clearly the entrepreneurial ethic, as expected, is the underlying theme of accountants' attitude towards taxation. However in the under 40's group we can see a clear recognition of wider social responsibilities; they recognise societal responsibilities and although they focus upon the perceived client business need they have experienced proportionately more conflict.

The issue of age has also been demonstrated by Shafer and Simmons (2008, p785) who found that older respondents 'judged questionable actions more harshly'. They considered that younger respondents are more Machiavellian which is diametrically opposite to the advocate responses in East Anglia, therefore confirmatory evidence must be considered before any firm conclusions may be drawn. So if this age distinction is reflective of changing attitudes then further analysis of trainee accountants should either confirm or exaggerate the differences with the over 40's group. A sample of stage 3 ACCA trainees was undertaken to reflect the views of those who should take senior client advisory roles within the next 5 – 10 years. The trainees did not respond to all questions, notably about practice management and clients

which is not necessarily unexpected as they may not be in a position to negotiate directly with clients.

In examining the focus on the entrepreneurial ethic the trainee group provided similar answers to the under 40's and had the same balance of view on the usefulness of HMRC literature. In respect of the wider role of tax in society the trainee group ranked the options exactly the same as the under 40's but with wider ranges in average scores the trend towards a more socially aware attitude is seen.

Further evidence to suggest that trainee accountants have a more balanced view of business and social issues is found when we look at attitudes to tax changes. The main respondents were firmly against increases in employee and employer National Insurance Contribution yet 84% of the trainees either support or are neutral in support of employer NIC increases. All trainees are employees and are personally affected by rises in employee NIC yet 50% of them either support or are neutral to increases. There is very strong support for the 'treatment a single person companies as individual tax payers' (IR35) as compared to the main respondents.

Other changes to income taxes also find greater support with the trainees: the potential for increases in the basic rate of tax and the implementation of the system based upon tax credits.

The trainee group make a clear statement when asked if all citizens bear equal responsibility to society's costs and needs with 66% supporting the concept, whereas 50% of the under 40's agreed. This message is reinforced with fewer respondents in this group supporting the concept of higher taxes; more of them support the concept of hypothecation. Where a premium rate of tax is to be paid 92% of the group identified £50,000 as the threshold whereas 50% of the under 40's sought a higher figure; however the response may be biased due to the lower earnings levels of trainees.

The under 40's group have clear and firm views as to the factors which may change their view of taxation. The trainee group had generally stronger views (e.g. 100% state impact on jobs as a factor – but they are all employees) and 75% of them will be influenced by environmental factors.

## **Conclusion**

This research project began as the foundation stage of wider research into perceptions of taxation. This chapter evaluates the responses from a single stakeholder group and the data, to have significant meaning must be critically compared to other stakeholder groups.

It was expected that the taxation practitioners would have a clear and underlying philosophy that supported the business / entrepreneurial ethic based upon the nature of their work as an advocate and their professional roots. Indeed this theme emerged from the analysis of respondent's views thus providing an interesting position from which to compare the views of their clients.

However, age related differences also emerged from the analysis with the younger accountants demonstrating a more balanced awareness of business and social issues. The supplementary survey of trainee accountants confirmed this view as they revealed a greater leaning towards social responsibility than the under 40 practitioners. Perhaps this is a reflection of modern society where schools and university curricula now incorporate ethical and environmental issues: subsequent surveys will consider this. Regardless of whether their motivation is from prior educations, personal awareness or drivers within the profession (such as the ACCA environmental awards, governance and CSR initiatives) UK policy makers have an opportunity to reinforce the social message and improve wider perceptions of tax by overtly linking tax changes with social responsibility. This option will have greater justification if latter surveys confirm general attitudes.

If the attitudinal trends are proven then options such as tax hypothecation will gain wider public support.

This chapter has highlighted support and rejection of the following propositions:

**Table 7.13 – Proposition Evidence**

	Evidence of support	Evidence of rejection
1. Proposition 1 – Tax requirements of clients predominate in the production of financial reports within and outside of GAAP by taxation practitioners.	Yes	No
Proposition 2 – With a predominant view that tax is a coercively imposed charge taxpayers will opt for tax reducing advice in preference to contributing towards increased public expenditure.	Yes	Yes
Proposition 3 - UK tax payers are ignorant of their taxation circumstances with resultant decisions based upon non tax factors.	Yes	No
Proposition 4- There is a predominant view that taxation should be used to reform social policy and social security.	Yes	Yes
Proposition 5 – Public preference supports progressivism in taxation.	Yes	Yes
Proposition 6 – Taxpayers have a preference for improved public services with higher direct taxation.	No	Yes
Proposition 7- There is general support for the role of taxation within the economy	Yes	Yes
Proposition 8 - There is general support for the efficiency of the Revenue Authorities.	Yes	Yes

Upon first review the Table 7.13 provides contradictory responses with evidence to both support and reject propositions. Indeed, when the full sample is analysed these contradictions may be reinforced; however where there are contradictory observations the following propositions lean towards Buchanan's coercively imposed charge paradigm, 2, 7 and 8 supporting the single observations from propositions 1,3 and 6. This contrasts to the majority of observations from propositions 4 and 5.

In summary the over 40's age group lean consistently towards Buchanan's alternative paradigm of taxation as a 'coercively imposed charge'; whilst the under 40's do not have the same extreme and consistent view. Younger accountants have a greater leaning towards social responsibilities although there is no evidence to suggest they follow Buchanan's 'community responsibility' alternative or 'self balancing charge' alternative.

This analysis of advocate responses supports the emerging model of tax perceptions:

- Strong support for the entrepreneurial ethic,
- Progressive taxes preferred to regressive taxes,
- Strong indication of the advocate role in minimising tax.
- Belief that there is no motivation to pay more tax.
- Age is a factor in determining perceptions of taxation.

## **Chapter 8**

### **Attitudes of Employed taxpayers**

#### **Introduction**

This chapter continues the theme of Chapter 7; the general attitude of employed taxpayers will be considered in similar broad terms as were the views of advocates in the last chapter. It is not the objective of the chapter to test the view of advocates against employed tax players as this will be undertaken in Chapter 10 when the views of business managers are incorporated; however where observational comparisons between the two groups aid understanding they will be incorporated into this chapter.

The survey was distributed through organisations (companies and public sector bodies) with 350 surveys forms distributed achieving 66 responses, a response rate of 19%. The level of responses is in line with other tax research and refereed papers, although disappointing the number of responses provides a reliable base for non-parametric analysis.

What can we expect in evaluating the views of taxpayers?

- Age and experience could affect views of respondents as we have seen from the work of Lewis (1982), that older respondents have a secure family and work environment and will have a wider life experience which can affect views and opinions on taxation. If age and experience are significant this will accord with results found for the over 40s from the analysis of tax advocates views discussed in the last chapter. If the general trend from the advocate analysis is followed we may find younger tax payers recognising the role of taxes in environmental issues as having greater significance than older tax payers.

- Theories such as the veil of ignorance (Rawls, 1971) and views of Canto, Jones and Laffer (1983) would suggest that taxpayers know little of their tax and the impact of tax. Respondents may also be motivated by lower tax; however literature suggests that a move towards progressive tax will resist lower income groups to avoid or evade tax. It is also anticipated that respondents will have little knowledge of their tax compliance costs, implying a tax perception of a 'fiscal exchange process' which is aligned to Buchanan's fourth alternative.
- Individuals who may not be motivated by profits and business performance may place a greater emphasis upon community responsibility (Buchanan's second alternative). Accordingly there may be a greater motivation to increase public expenditure. The opposing view is that the majority of respondents, who are current employees, will only have experience of the entrepreneurial ethic (as agreed by tax advocates) and this may be evidence by direct questioning and a leaning towards avoidance and evasion. Literature suggest that these opposing views may both be extant with taxpayers being openly contradictory with an underlying social and community belief but viewing tax as a coercively imposed charge.
- The Reed surveys, as previously discussed, indicate that people will be prepared to pay for improved public services thereby suggesting some form of hypothecation may have support from respondents.
- The perceived role of ethics and social responsibility was a significant variable shown by Shafer and Simmons (2008) thus confirming these as potential influencing factors.

## **Analysis**

### **General Attitudes**

Using the same questions as for tax advocates the employees were asked their opinion on the function of business. Firstly they were asked about Thatcher's entrepreneur focus, as summarised in Table 8.1.

**Table 8.1**  
**Do you believe that the Thatcher government encouraged entrepreneurship**

Count		Do you believe that the Thatcher government encouraged entrepreneurship			Total
		YES	NO	No Opinion	
Under 40	under 40	27	6	14	47
and over 40 groups	Over 40	15	2	2	19
Total		42	8	16	66

The Pearsons Chi Squared value on the raw data is 3.109 which is significant at 10% significance level. This is different from the Advocate’s views, where no significant difference in responses was observed; further cross population analysis will be undertaken in chapter 10, however the range of influences suggested by Lewis (1982), for example age, personal experience and need (which may manifest itself in the business demands of advocates) can influence views. With literature suggesting potentially contradictory views of employee taxpayers no inference should be drawn on the similarity or disparity of advocate and employee views upon potential extant perceptions or paradigms. What we may infer at this level of analysis is that Proposition 3 may, in-part, but supported with younger respondents being ignorant of their tax circumstances; more critically there is evidence that respondents influenced by Thatcher’s polices may reject Proposition 4 (that there is a predominant view that taxation should be used to reform social policy) and support Proposition 2 (where with a predominant view that tax is a coercively imposed charge taxpayers will opt for tax reducing policies in preference to contributing towards increased public expenditure).

When advocates were asked about the importance of private ownership, as per table 8.2, in business 78% considered it a core element to economic

success with no significant difference due to age. Employee taxpayers responded:

**Table 8.2**  
**Do you believe in the concept of private ownership as a core element to Economic success?**

		Under and over 40		Total
		under 40	Over 40	
Do you believe in the concept of private ownership as a core element to Economic success?	YES	23	11	34
	NO	23	8	31
Total		46	19	65

Whilst there is no significant difference between ages the proportion of employees supporting the proposition is lower than the advocate responses. Both set of responses of the above show similar, a little less pronounced, views as the advocates but be with the age profile of respondents this is not unexpected.

With a strong entrepreneurial ethic there may be support for tax avoidance schemes amongst the respondents, however with a Chi Squared value of 5.476 age is seen to be significant at 1 df with a much larger proportion of 40+ respondents prepared to admit to tax avoidance schemes, thus strongly supporting Proposition 2 and implying rejection of Proposition 5 (public preference supports progressivism in taxation). This adds support to the conclusion in Chapter 7 that younger respondents have a great social and community outlook when considering taxation with support for Propositions 4 and 7.

**Table 8.3**  
**Have you ever planned to avoid tax?**

		Under and over 40		Total
		under 40	Over 40	
Have you ever	Yes	7	8	15
planned to avoid				
tax?	No	39	11	50
Total		46	19	65

However, when further analysing Table 8.3, there is no significant difference, in respect of age, when the question was changed to determine the extent of tax evasion with 90% never considering evasion. Of the 10% who have considered evasion most are male, creating a gender difference in attitudes towards evasion; a Chi Squared value of 3.509, 1 df is not significant at 5% confidence but is significant at 10% confidence. There is a similar level of significance (at 10% confidence) in gender responses to tax avoidance with males again more likely to avoid tax. This adds to the earlier observation that there is general support for Proposition 2 amongst significant elements of the population. However around 76% of respondents have either little or no knowledge of tax planning opportunities adding firm support to Proposition 3 that UK taxpayers are ignorant of their tax circumstances with resultant decisions based on non-tax factors.

In Chapter 7 we found that older advocates opted for premium rate tax to commence at the lower end of the spectrum offered in the questionnaire. However with a chi squared Chi Squared of 6.522 there is a significant difference between age groups with the younger employed taxpayers preferring a lower threshold, although there is no notable gender difference. There is, therefore, additional support for Proposition 5 from younger taxpayers with support of a progressive tax system.

Influences on changes of perception

Respondents were asked how they viewed changes in the following factors upon their attitude towards taxation:

- Impact on the Family
- Impact on Business
- Impact on Employment
- Impact on the Environment.

When the views of advocate’s were analysed it was found that age and gender did not have a significant impact upon the views of respondents other than environmental issues where younger advocates demonstrated a higher propensity to alter their perceptions of tax if the tax policy relationships to the environment altered.

**Table 8.4**  
**Impact of Changing Circumstances**

	<b>Age</b>	<b>Gender</b>
	Chi	Chi
Results in BOLD are significant at 5% confidence	Squared	Squared
	Value	Value
Impact on family	<b>7.877</b>	2.846
On Business	<b>5.337</b>	<b>5.199</b>
On Employment	3.262	1.455
On Environment	<b>6.122</b>	<b>4.505</b>

Within the employee taxpayer respondents there are notable conclusions that may be drawn from the analysis summarised in table 8.4:

- Where there are significant differences in gender it is the male responses who show a greater preponderance to change views. Where age is shown to be significant it was the younger respondents who are more responsive to change.
- Females do not consider taxes that impact upon the family would change their perceptions of tax.

- There is no age or gender difference in their view on the impact on employment with a high level of concern upon such impact from most respondents.

From this analysis and the potential to change attitudes towards taxation we may infer that although other questions provide support for Proposition 2 the fundamental view, when tax is personalised, respondents value the societal aspects of taxation thereby supporting Propositions 4 and 7.

In examining the relationship between attitudes towards the impact upon business against impact upon employment we see respondents lean towards the importance of employment deeming the issue far more important.

A further aspect was explored with employee tax payers to understand their attitudes towards tax and the wider of elements in society; these were considered from a spectrum of potential views.

**Table 8.5**  
**Kruskal Wallis Test Statistics**  
**Views on Societies Responsibilities**

	Gender	N	Mean Rank
a)Every person has a responsibility to support the most disadvantaged	Male	34	32.24
	female	30	32.80
	Total	64	
b) Taxes should provide a minimum level of public service	Male	34	31.35
	female	30	33.80
	Total	64	
c) A strong business sector will provide an environment to support society rather than extended government involvement	Male	34	29.26
	female	30	36.17
	Total	64	
d) Taxes should be used to reform social policy	Male	34	34.97
	female	30	29.70
	Total	64	

	a)Every person has a responsibility to support the most disadvantaged	b) Taxes should provide a minimum level of public service	c) A strong business sector will provide an environment to support society rather than extended government involvement	d) Taxes should be used to reform social policy
Chi-Square	.016	.298	2.405	1.367
df	1	1	1	1
Asymp. Sig.	.900	.585	.121	.242

a Kruskal Wallis Test  
b Grouping Variable: Gender

Table 8.5 demonstrates that employee tax payers have, on what may be initially contradictory, views: they believe, as do advocates, that the private

sector has a major role to play in creating an environment to support society. Although age did not prove to be a major factor behind differing responses, gender was found to be a significant factor in responses when determining the importance of the role of business and a strong business sector in supporting society. Whilst the same proportion of male and female consider option three to be the most important factor and significant proportion of females have conflicting views on the role of business, as summarised in table 8.6.

**Table 8.6**  
**A strong business sector will provide an environment compared to Support society rather than extended government involvement**

		c) A strong business sector will provide an environment to support society rather than extended government involvement				Total
		1st	2nd	3rd	4th	
Gender	Male	8	16	8	2	34
	female	7	6	13	4	30
Total		15	22	21	6	64

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.244(a)	3	.100
Likelihood Ratio	6.415	3	.093
Linear-by-Linear Association	2.226	1	.136
N of Valid Cases	64		

with a chi squared value of 6.244, whilst not significant at 5% confidence with 3 degrees of freedom the results show gender influences become significant at 10% confidence.

However unlike the advocates the employee tax payers have a stronger leaning towards the view that all in society must take the responsibility to support society and strongly disagree that taxes should be restricted to the provision of a minimum level of public service, therefore supporting propositions 2 and 7 and inferring support of proposition 7.. There may be a cultural factor behind these responses as unlike the advocates group where all respondents worked in the private sector the employee tax payers work across sectors; however in examining the sector responses there is a very low chi squared value for both of the categories discussed above demonstrating there is no difference in response from those working in the private sector to those working in the public and voluntary sectors.

### **Reaction to alternative tax systems**

In Webb (2005) we saw that tax advocates were split on the implementation of a flat tax, with polarised views (reflecting the public debate between Teather (2006) and the Tax Justice Network). There was no support for hypothecation by premium rate tax payers although general hypothecation received 50% support from the under 40's. With the presumption that employees earn less than advocates there should be a weaker preference for a flat tax, preferring a progressive tax system, however with reference to the Reed surveys employees may give greater support to hypothecation.

The high level of significance at 10% confidence shown in table 8.7 extends the findings from the analysis of advocate views where respondents under the

Table 8.7 Responses to alternative Tax Systems	
Respond to the following propositions	Age - Chi Sq
Higher rate earners should pay more tax by virtue of a flat rate applied to higher earnings	7.722 df 4
Higher rate earners should pay more tax by a premium rate	4.293 df 4
Higher tax payers should specify tax spending preferences	4.085 df 2
All taxpayers should specify tax spending preferences	7.170 df 2

age of 40 demonstrate stronger support to some form of progressiveness in taxation, thereby supporting proposition 5, and support for a broad form of hypothecation of tax revenues. However 66% of all respondents support the introduction of a flat tax where the under 40's having a marginally stronger preference towards the concept (although the difference in ages is not statistically significant) indicating a rejection of

proposition 5. This appears to confirm an earlier contradiction where there is a belief within the employee taxpayers that everybody bears community responsibilities and that taxes should not just support a minimum level of service with the view that public service users should pay more for their services: the introduction of a flat tax could increase the tax burden on low earners unless, in the view of Teather (2006), personal allowances are increased to £12000 thereby potentially increasing demands on public services.

A confirmation of the small difference in emphasis between the under and over 40's in respect of hypothecation might be found by evaluating the responses to the demise of poll tax. Few, if any, of the under 40's group will have been directly affected by the tax so opinions must be formed by observation, folklore and the education system so there is no surprise to find only 10% of the group did not support the demise of the tax. The results of this analysis are therefore consistent, without being confirmatory, with the views supporting flat taxes. What proves interesting is that with a chi squared

value of 18.967, 2 df, we have a significantly strong age difference in assessing Poll Tax and therefore rejecting proposition 6.

When considering hypothecation there is little support for giving higher paid people the option to hypothecate (as did the advocates) with only 18% in support of the concept. In comparison the under 40's strongly support general hypothecation with 23% rejecting the concept; there is however a statistically significant difference (chi squared value of 7.17, 2df, table 8.8) between the age groups with the majority of over 40's rejecting the concept.

**Table 8.8 Relationship of under 40's responses and hypothecation**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.170(a)	3	.067
Likelihood Ratio	7.395	3	.060
Linear-by-Linear Association	2.312	1	.128
N of Valid Cases	66		

With the support, primarily from the under 40's, for greater social and community support within the tax system (not withstanding the apparent contradictions discussed above) and the preference towards hypothecation there is an interesting comparison to me made with the Shaffaramn concept where tax responsibilities are attained by undertaking community work so providing evidence in direct contradiction to the general support to proposition 2 seen elsewhere in this chapter. The respondents, irrespective of age, are split 50:50 showing the concept could have a role to play in contemporary taxation policy even though only 37% would be prepared to pay more tax to support public services and so indicating a rejection of proposition 6.

# Reaction to changes

The employee tax payers were asked about their reaction about actual or potential changes in taxation, their responses are summarised in table 8.9:

**Table 8.9 – Summary of Chi Squared Observations**

Items in bold are significant	Agree (%)	Disagree (%)	Age Chi Sq (df)	Observation
Introducing a tax starting rate at 10%	93	7	<b>8.860(4)</b>	<ul style="list-style-type: none"><li>• Supports progressiveness in taxation (proposition 5)</li><li>• Personal benefit</li><li>• Great support from younger tax payers</li></ul>
Increase in Basic Rate Tax	38	62	<b>9.650(4)</b>	<ul style="list-style-type: none"><li>• Personal Cost</li><li>• Stronger disagreement from younger tax payers, inferring possible rejection of proposition 1.</li></ul>
Increase in ER NIC	73	27	3.505(3)	<ul style="list-style-type: none"><li>• No personal impact.</li><li>• Contradicts other responses supporting the role of business in social support</li><li>• Consistent with the younger respondents' support of a low starting rate of taxation.</li></ul>
Increase in EE NIC	35	65	7.50 (4)	<ul style="list-style-type: none"><li>• Significant at 10% level</li><li>• Personal cost</li><li>• Older respondents have stronger disagreement.</li><li>• Contradicts progressiveness in taxation and therefore proposition 5.</li></ul>
Removal of MIRAS	32	29	<b>12.044(4)</b>	<ul style="list-style-type: none"><li>• Younger respondents unlikely to have significant personal experience</li><li>• Significant difference in age responses.</li></ul>

				<ul style="list-style-type: none"> <li>Older taxpayers have more polarised views in their leaning to reject proposition on this issue.</li> </ul>
Introduction of the WFTC	75	25	3.018(4)	<ul style="list-style-type: none"> <li>Supports progressiveness in taxation so supporting proposition 5.</li> <li>Supports the concept of linking social benefit and taxation thus indicating a rejection of proposition 2 and acceptance of proposition 7.</li> </ul>
Treating owner controlled companies as employees	83	17	5.330(4)	<ul style="list-style-type: none"> <li>No personal impact</li> <li>Supports the view of shared community responsibility</li> </ul>
Introduction of automatic penalties	71	29	.491(1)	<ul style="list-style-type: none"> <li>Supports the compliance culture and therefore proposition 8.</li> <li>Consistent with views on avoidance and evasion</li> </ul>

### Other Observations

ONLY six respondents gave earnings levels that are prepared to pay more tax for improved levels of public services; another 25 were not prepared to pay any more tax to support these services.

Of the six responses indicated that they would pay between 1% and 5% more in tax AND said that would be between £5 and £40 per month. BUT the difference between the percentage value of extra tax and the named value was a minimum of 119% short to 1000% short of the amounts they are prepared to pay. Such observations support the view that tax payers are ignorant of their tax circumstances thereby providing evidence supporting

proposition 3. The small number of respondents does not allow for statistical confidence although the views support the concept of the veil of ignorance and with five of the six earned more than average wage there is an implicit assumption that lack of core skills and knowledge would not be a biased factor in these results.

## **Conclusions**

The analysis of a single tax stakeholder group can give no more than an indication of predominant perceptions or paradigms however the results of this chapter may be interpreted in conflicting ways. Results from respondents suggest contradictory views which may either reflect the absence of an extant paradigm or perception OR there is balanced representation of all four of Buchanan's alternative paradigms OR respondents are confused (which itself could indicate the absence of an extant paradigm).

If we consider the Buchanan paradigm of price we may conclude that under 40's taxpayers support the linking of service delivery and price and this view is confirmed by the same group supporting the concept of users of public services contributing a greater proportion to the cost of those services, although this does not necessarily suggest that taxpayers are prepared to pay more for these services as we have seen a rejection of proposition 6 in this chapter. However there is a potential contradiction where the younger taxpayers are most likely to change their perceptions of taxation depending upon the impact upon their families and businesses, indicating a preference for progressivism in taxation. This is further supported by the groups' rejection support of tax reduction examples targeted towards the lower paid. The contradiction is extended when considering the views of taxpayers who believe taxation should not just provide a minimum level of public services. The contradictions can be tested by examining the relationship between:

- Those supporting the introduction of the 10% starting rate of tax and those suggesting users of public services should make a greater contribution to the services.

- Those suggesting users of public services should make a greater contribution to the services and those who consider taxation should not seek to provide minimum level of public services.

**Table 8.10**  
**User contribution to public services**

		Taxes should provide a minimum level of public service				Total
		1st	2nd	3rd	4th	
Do you feel that users of public services should contribute more towards those Services?	Pay more for need	7	5	8	5	25
	Neutral	6	4	4	10	24
	pay far less	0	4	2	6	12
	Total	13	13	14	21	61

So as we have commonality in responses, with clear support of proposition 6, a proposition rejected in other discussions within this chapter; so are taxpayers confused, ignorant of wider issues (blinkered) or they do not have consistent opinions?

In continuing with the point that the views of taxpayers believe taxation should not just provide a minimum level of public services we also recognise that all taxpayers agree that economic success is derived from private ownership rather than public intervention although the under 40’s group held no view on the entrepreneurial ethic that older taxpayers saw as intrinsic to the Thatcher era. Yet they believe taxation should not provide a minimum level of public services; a contradiction between the entrepreneurial and anti tax ethic and Buchanan’s paradigm of community responsibility? Such a contradiction can only be implied but is supported when considering 46/65 respondents (71%) have never sought to avoid tax, supporting the paradigm of community responsibility (although males are more likely to avoid tax than females). Younger taxpayers support lower high rate tax thresholds and are concerned about the tax links to environmental policies (this is also gender significant with females express greater concern than males).

It is not possible to reconcile these potential contradictions although their existence must be considered when examining responses for the three tax stakeholder groups.

**Table 8.11 – Proposition Evidence**

	Evidence of support	Evidence of rejection
1. Proposition 1 – Tax requirements of clients predominate in the production of financial reports within and outside of GAAP by taxation practitioners.		
Proposition 2 – With a predominant view that tax is a coercively imposed charge taxpayers will opt for tax reducing advice in preference to contributing towards increased public expenditure.	Yes	Yes
Proposition 3 - UK tax payers are ignorant of their taxation circumstances with resultant decisions based upon non tax factors.	Yes	
Proposition 4- There is a predominant view that taxation should be used to reform social policy and social security.	Yes	
Proposition 5 – Public preference supports progressivism in taxation.	Yes	Yes
Proposition 6 – Taxpayers have a preference for improved public services with higher direct taxation.	Yes	Yes
Proposition 7- There is general support for the role of taxation within the economy	Yes	
Proposition 8 - There is general support for the efficiency of the Revenue Authorities.	Yes	

Key headlines from Chapter 8 supporting the emerging tax perceptions model:

- Younger respondents are ignorant of their tax circumstances.
- There is a divided view on the role of private ownership, therefore weaker support for the entrepreneurial ethic.
- There is general support for progressive taxation with some support for hypothecation and flat taxes.
- We generally have a tax compliant population.
- Tax changes impacting upon families, business and the environment are major factors for the under 40's.
- The importance of a strong business sector although there is a stronger leaning towards the overall responsibility of societies.
- Taxes should not be restricted to funding just the minimum level of public services.
- There are stronger reactions where tax changes directly affect the individual (for example younger respondents have never experienced MIRAS so are not opposed to its removal).

## **Chapter 9**

### **Attitudes of Corporate Managers to Taxation**

#### **Introduction**

This chapter continues the theme of previous chapters where attitudes of individual tax stakeholder groups are considered.

Of 180 companies randomly surveyed only 20% responded with many companies citing corporate policy as reasons for non response. Accordingly it is inappropriate to undertake statistical analysis within this sub-population as too many response groupings will have fewer than five responses. Therefore this chapter is restricted to observational analysis. However the sample response is sufficient to test corporate management views against those of other sub-populations of stakeholder groups.

What expectations does literature indicate in understanding the views of corporate management?

Corporate manager's relationship with business owners is that of principal and agent where the agent (the manager) has a fiduciary duty, enforceable by contract or tort, requiring full disclosure of information held by the fiduciary and maintenance of a strict record of profits and losses (Kaplan 2007). The fiduciary uses bona fide powers when they honestly believe they are acting in the best interest of the principal (shareholders). Amongst other duties the agent must act congruently with the principal's direction and objectives.

Whist commentators such as Raihi – Belkaoui (2000) acknowledges that there may be a divergence between 'self interest and cooperative behaviour' (p365) it is recognised that the principal strives to maximise the returns from the use of resources. Nobes and Parker (2000) referring to a range of authors recognises the financial statements 'are useful, at least in the eyes of

analysts'. Accordingly we look to the accounting statements prepared by the agent to meet the needs of the principal.

Literature advises that shareholders (the principals) will have a primary objective of creating value (as supported by the concepts of Economic Value Added and Shareholder Value Added measurement) as clearly explained by Reynauld, vice president of Nissan (2004).

Whilst taxation is not, in itself, a creator of value the selection of accounting policy, as we saw in chapter 4, can have an impact upon tax liabilities and hence levels of profit. We also concluded in chapter 8 that tax advocates act on the understanding that their clients, the company directors, adopt tax minimisation policies and adopt accounting policies accordingly. Non compliance with tax legislation can open companies to litigation and penalties, both impacting upon profit and therefore shareholder wealth.

Value creation is not the only potential objective of shareholders, however as a constant primary objective we must assume that agents will act congruently with the value objectives and seek to minimise tax liabilities.

As referred to above, we also saw from Chapter 7 that tax advocates, who themselves are agents of corporate management, believe their clients (the corporate managers) have the following objectives when considering taxation:

- Minimise tax liabilities
- Minimise the potential for Revenue enquiry
- Respond to client preferences

Further, they consider 55% of their clients are motivated by lower taxes.

**Observations**

Unsurprisingly all except one respondent came from the private sector with the only other response from a charity (which is limited by charitable guarantee). However it was not anticipated that 75% of respondents would support a greater role of government in the creation of successful businesses; 67% of respondents also sought an interventionist role of government when asked their views of adopting a stronger entrepreneurial ethic to generate wealth for investors and wider society. These responses are consistent with the proposal that taxes should provide a minimum level of public services where 75% of respondents rejected the proposal. Such views give support to Proposition 7, general support for the role of taxes in the economy and Proposition 4 which considers a predominant view that taxation should be used to reform social and economic policy.

Further support for the community responsibility aspects of taxation and tax policy is clearly demonstrated in table 9.1, which includes a comparison of the same analysis undertaken in Chapter 7 for tax advocates.

**Table 9.1 – Ranking of attitudes to the role of taxation**

Rank the following in order of importance to you	Company Managers	Overall Rank	Tax Advocates	Advocates Rank
Every person has a responsibility to support the most disadvantaged	1.9	1	2.7	3
Taxes should provide a minimum level of public service	3.3	4	2.3	2
A strong business sector will provide an environment to support society rather than extended government involvement	2.6	3	2.0	1
Taxes should be used to reform social policy	2.3	2	2.9	4

If tax advocates are truly agents of their clients their general attitudes towards tax should be similar, even if personal views lack congruency with those of their clients. However the rankings considered in Table 9.1 reflect an inverse response when comparing tax advocates with the views of corporate managers. Whilst advocates lean toward acceptance of Propositions 2 and 4, company managers demonstrate a clear link with Buchanan's third paradigm in viewing taxation as a community responsibility. Accordingly corporate managers show clear support for Propositions 2 and 4 and their view provide supplementary evidence for the group's support for Proposition 7.

But are these broad attitudes towards taxation supported by consistent responses to detailed questioning of specific aspects of taxation?

All bar one respondent demonstrated clear and strong support for the introduction of the 10% starting rate of taxation, thereby supporting Propositions 2 and 4, and supporting Proposition 5 which proposes public supporting progressivism within taxation. Consistent with these views are the corporate manager's responses:

- Very strong opposition on any increase in the basic rate of taxation
- Moderate to strong opposition for increases in either employers or employees National Insurance Contributions (although there is less opposition to increases in employers NIC which is surprising as such increases impact directly upon corporate wealth).

There is a more balanced view when asked about the removal of MIRAS, with 58% supporting its removal. Principally the removal of MIRAS is an increase in personal tax burden so, prima facie, the response may appear at variance with the responses relating to the introduction of the 10% starting rate of tax. However the impact of losing MIRAS was upon average / higher paid taxpayers so support for the policy indicates support for progressivism (Proposition 5), support for the tax system (Proposition 7) and using tax reform to support social policy (Proposition 4). Similarly 58% (generally the

same style of responses from the same respondents) supported the removal of the married couples allowance, which for similar reasons would appear to accord with the removal of MIRAS, however this may support Proposition 3 which suggest taxpayers and ignorant of taxation. We have seen that the removal of MIRAS had a regressive impact upon the tax of low paid married taxpayers so either respondents are indicating an inconsistency of response or it suggest the general tax ignorance of respondents.

There is a stronger support (68%) for the introduction of the Working Families Tax Credits thereby providing corroborative evidence in support of Propositions 4 and 7. Surprisingly there was further consistent support for these propositions with a 75% support for the introduction of IR35. Surprising because this reduces the tax avoidance opportunities for their companies, and a consequential impact upon corporate wealth. There is a similar 75% support for the introduction of automatic penalties thereby giving support to Propositions 7 and 8, general support for the tax authorities; a view confirmed by direct questioning where 92% expressed general to strong support for the fairness and professionalism of the Revenue authorities. The respondents also considered that taxes are becoming less complex so implying general support for taxation (Proposition 7). Such a response will be welcomed by the Government as it accords with their recommendations in NAO report (July 2007) to improve relationships with taxpayers and not to open an enquiry without estimating the financial impact of that enquiry.

When considering further support for progressivism we find the respondents have divided views which are inconclusive in determining a consistent response to the proposition. Whilst there is strong opposition to the introduction of a flat amount of tax per taxpayer, so supporting progressivism, and 67% rejecting a flat rate tax another, indirect question, suggests only 42% reject a flat rate of tax. There is a clear support for progressivism where 75% of respondents support the maintenance of a premium rate tax for high earners, also indicating support for the current tax

system and therefore Proposition 7. However there is a potential contradiction in responses with split views on the role of hypothecation within the tax system; compounded by similar split views on the demise of the poll tax. Inconsistencies continue with 46% strongly supporting progressive taxes when faced with a direct question addressing their views; however a further 46% strongly opposed to progressive taxes. Interestingly all respondents indicated a premium rate earnings threshold higher than currently adopted in the UK,

We have seen an underlying theme of responses which may align with Buchanan's community responsibility alternative. The general style of response has supported progressivism and lower the burden of tax on the lower paid. However the respondents also (73%) lean towards charging the users of public services so indicating support for Buchanan's first alternative and a rejection of proposition 4; as users of public services are principally the young, elderly or low paid the introduction of user charges would demonstrate repressiveness in taxation.

Moving to personal views of corporate managers we see clearer views than those of tax advocates or employed tax payers when we consider what may impact on their views of taxes.

All respondents either moderately or strongly suggest their view of taxation will change if tax policy adversely affected their family, business or their job. There are not such firm views when considering changes in taxation upon the environment; although 90% say their views may change; responses have a greater tendency for a central mode than the previous factors.

In considering respondent's views in relation to tax professionals and business taxation we discover that there is a strong belief that tax advocates are able to initiate complex tax planning and avoidance initiatives. Although only 27% of businesses have ever contemplated avoiding tax and only 9% ever contemplating evading tax. These responses may be a support of Proposition

3 (ignorance of taxation) but they clearly demonstrate a compliance culture which itself is a community and revenue supporting trait (and shows consistency with the acceptance of automatically imposed tax penalties discussed earlier in this chapter). It is interesting to note that the respondents claim little knowledge of corporate tax planning opportunities, indicating reliance upon professional advisors. Only 18% say their companies have considered taxation in preparing financial statement, thereby rejecting Proposition 1, yet 64% either claim they support or strongly support tax minimisation policies within their businesses even though there are divided views on the applicability of a profit maximisation policy within those businesses. Such contradictions add further support for Proposition 3 (ignorance of tax) although when taken with the general tax compliant culture observed from the respondents and that only three respondents have experienced enquiry (without incurrance of penalties) there is support for Propositions 1, 7 and 8.

In support of their pro-tax policy culture and with an apparent contradiction there are fewer than 30% of respondents who support lower business taxes in the context of improving economic growth thereby increasing total government revenues.

**Summary**

Unlike the other stakeholder groups the company managers appear to have far greater support for the current tax system, including the maintenance of progressivism in taxation.

**Table 9.2– Proposition Evidence**

	Evidence of support	Evidence of rejection
1. Proposition 1 – Tax requirements of clients predominate in the production of financial reports within and outside of GAAP by taxation practitioners.	Yes	Yes
Proposition 2 – With a predominant view that tax is a coercively imposed charge taxpayers will opt for tax reducing advice in preference to contributing towards increased public expenditure.	Yes	
Proposition 3 - UK tax payers are ignorant of their taxation circumstances with resultant decisions based upon non tax factors.	Yes	
Proposition 4- There is a predominant view that taxation should be used to reform social policy and social security.	Yes	Yes
Proposition 5 – Public preference supports progressivism in taxation.	Yes	
Proposition 6 – Taxpayers have a preference for improved public services with higher direct taxation.		
Proposition 7- There is general support for the role of taxation within the economy	Yes	
Proposition 8 - There is general support for the efficiency of the Revenue Authorities.	Yes	

Headline factors supporting the development of the emerging tax perception model are :

- There are differences in views between corporate managers and their advocates.
- Social perspectives rank highly amongst corporate managers although this is balanced against support for public service user charges.
- There is support for progressive taxation and maintenance of a premium rate of tax.
- Corporate manager's views are affected by tax changes impacting upon family, businesses and jobs.

## **Chapter 10**

### **Evaluation of Research Propositions**

The objective of this chapter is to evaluate all questionnaire responses to determine the strength of argument, for or against, each of the research propositions which were introduced in Chapter 6. Discussions from the evaluations of each stakeholder group (chapters 7 to 9) will be incorporated to allow greater understanding of differences between the groups, should they exist.

The analysis will be conducted by examining the relationship between the variables mapped at the end of chapter 6.

**Proposition 1 – Tax requirements of clients predominate in the production of financial reports within and outside of GAAP by taxation practitioners.**

The main factors behind this proposition, as discussed in chapter 6, which in turn built from a review of literature are:

- Capitalist principles will predominate throughout business with profit maximisation, including tax minimisation, as the key focus of activity at the expense of wider social responsibilities.
- The adoption and application of GAAP is undertaken to directly impact upon tax liabilities.
- There are pressures, even an expectation, to avoid tax (and the potential pressure to evade tax).

Each of these points will be considered by reference to the associated questionnaire responses.

This proposition has, as its focus, the views of tax advocates which were considered in chapter 8. In the earlier evaluation evidence was found to support the proposition as the advocates believe that their clients see the critical factors in tax planning to be:

- Minimisation of tax liabilities
- Minimise the potential for Revenue enquiry
- Advocates responding to specific client preferences.

The advocates also consider that few of their clients are prepared to pay more tax to aid public services and that over 50% of their clients are motivated by profit.

Within the responses analysed in Chapter 8 there was an observed difference in responses between advocates aged under 40 years and those aged over 40 years. For example, the over 40's demonstrated clear opposition to IR35 and the removal of tax reliefs, they also see private ownership as a key to economic success. If only the over 40's response were to be considered there would be convincing arguments to accept proposition 1, providing the views of the advocates are representative of the wider business world.

In contrast, in Chapter 9, we saw conflicting evidence that indicates an uncertainty over the validity of proposition 1. Whilst company managers claim that accounting policies are not influenced by the tax planning needs of the corporation they are equally concerned over the level of profits and rely upon professional advice. Do advocates follow the needs of the client or lead the client? Company managers' responses support the concept of having corporate policies with a balanced social outlook.

Analysis: predominance of capitalist principles.

If proposition 1 is to be accepted this analysis should show clear support for the entrepreneurial ethic which underpins the minimisation of taxation through accounting policies. The baseline test of the population was to consider their

opinion of the Thatcher government’s support of entrepreneurship; 72.2% of the population agreed with the statement ‘do you believe that the Thatcher Government encouraged entrepreneurship’. However there did not appear to be such a clear response when asked about the relevance of the concept, with 41.4% disagreeing that private ownership is core to economic success.

In examining these results in more detail we consider the impact of age upon the results as we saw from literature that previous research has shown age to be a significant factor in response to tax issues and the earlier life experiences discussion shows a large proportion of the population were not of voting age when the Thatcher government was in power. In examining age response to the Thatcher and entrepreneurship question, we find a Chi Squared value of 7.360, 2 df, which is greater than the critical value of 5.99; therefore it is observed that there is a significant difference between the age groups. Table 10.1 below tabulates the outputs and as can be seen a much larger proportion of the younger elements of the population have no opinion on the subject. If ‘no opinion’ responses are excluded we find no statistical difference due to age.

**Table 10.1**  
**Do you believe that the Thatcher government encouraged entrepreneurship?**

		Under and over 40		Total
		Under 40	Over 40	
Do you believe that the Thatcher government encouraged entrepreneurship	YES	40	38	78
	NO	7	7	14
	No Opinion	14	2	16
Total		61	47	108

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.360	2	.025
Likelihood Ratio	8.355	2	.015
Linear-by-Linear Association	5.613	1	.018
N of Valid Cases	108		

By comparing the questions '*do you believe that the Thatcher government encouraged entrepreneurship*'to '*do you believe in the concept of private ownership as a core element to economic success*'we find a chi squared value of 7.403, df4, less than the critical value of 9.49 so conclude there is link between the responses from the two questions.

**Table 10.2 Do you believe that the Thatcher government encouraged entrepreneurship : Do you believe in the concept of private ownership as a core element to economic success?**

		Do you believe in the concept of private ownership as a core element to economic success?			Total
		YES	NO	No Opinion	
Do you believe that the Thatcher government encouraged entrepreneurship?	YES	49	27	1	77
	NO	6	7	1	14
	No Opinion	6	10	0	16
Total		61	44	2	107

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.403	4	.116
Likelihood Ratio	6.785	4	.148
Linear-by-Linear Association	4.181	1	.041
N of Valid Cases	107		

By looking at an example of where there has been government intervention into business taxation (opinions of IR35) and comparing responses to the extent of the government’s role in operating successful business we find there is no significant association of variables; whereas an expected relationship would be for those supporting government’s role in business to be generally supporting of the IR35 initiative. The lack of significant association may be due to ignorance or just inconsistent views. To examine this issue further we look to the responses of the sub populations, as shown in table 10.3

**Table 10.3**  
**Government's role in operating successful business**

		Category of sub pop			Total
		Tax Advocate	Individual	Company manager	
Should the Government's role in operating successful business be:	Greater than present	11	29	14	54
	Same as present	7	27	4	38
	Less than present	10	8	0	18
Total		28	64	18	110

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.300(a)	4	.003
Likelihood Ratio	17.373	4	.002
Linear-by-Linear Association	10.630	1	.001
N of Valid Cases	110		

With a critical table value for chi squared of 9.49 it is concluded that there is a significant difference between the responses of the three groups with individuals and company managers preferring greater government intervention whilst advocates show a divided opinion. There are similar significant results when considering the responses to the Thatcher's encouragement of entrepreneurship, as shown in table 10.4

**Table 10.4**  
**Do you believe that the Thatcher government encouraged entrepreneurship?**

		Category of sub pop			Total
		Tax Advocate	Individual	Company manager	
Do you believe that the Thatcher government encouraged entrepreneurship?	YES	19	42	17	78
	NO	5	8	1	14
	No Opinion	0	16	0	16
Total		24	66	18	108

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.191	4	.007
Likelihood Ratio	19.713	4	.001
Linear-by-Linear Association	.092	1	.762
N of Valid Cases	108		

From Table 10.4 we may observe there is a clear split between sub populations between those in a managerial capacity within business and employees; as suggested by the review of literature this may be down to age and / or ignorance.

There is an interesting difference in results when the views of IR35 are analysed by sub population as shown in Table 01.5

Table 10.5  
Treating single person companies as employees

		Category of sub pop			Total
		Tax Advocate	Individual	Company manager	
Treating single person companies as employees	Strongly agree	0	11	5	16
	agree	6	15	4	25
	neutral	8	26	5	39
	Disagree	14	6	3	23
	Strongly disagree	0	4	1	5
Total		28	62	18	108

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	24.708(a)	8	.002
Likelihood Ratio	27.712	8	.001
Linear-by-Linear Association	6.925	1	.009
N of Valid Cases	108		

With 7 cells less than 5 the interpretation of the results is confirmed by the Likelihood ratio.

Advocates have much firmer views in rejecting IR35 than the rest of the population, and whilst as we have seen some of the differences can be attributed to ignorance of taxation issues, the opinions of advocates demonstrate stronger leaning towards the commercial, entrepreneurial ethic.

We have already seen in chapter 8 that advocates views are affected by the age of the respondent. When age is compared to respondents' opinions on the government's role in operating successful business, Table 10.6, we find that age is a significant factor in comparing variables, with younger respondents preferring greater government intervention within business; thus this confirms and extends the findings in chapter 8.

**Table 10.6 Should the Government's role in operating successful business be: AGE**

		Under and over 40		Total
		under 40	Over 40	
Should the Government's role in operating successful business be:	Greater than present	32	22	54
	Same as present	25	13	38
	Less than present	4	14	18
Total		61	49	110

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.007	2	.007
Likelihood Ratio	10.290	2	.006
Linear-by-Linear Association	4.302	1	.038
N of Valid Cases	110		

Age is also a significant factor in the support or rejection of IR35 as shown in Table 10.7 with younger respondents demonstrating a greater leaning towards the introduction of IR35. This provides a consistent response with those analysed in table 10.6.

**Table 10.7**  
**Treating single person companies as employees \* AGE**

		Under and over 40		Total
		Under 40	Over 40	
Treating single person companies as employees	Strongly agree	8	8	16
	agree	15	10	25
	neutral	26	13	39
	Disagree	7	16	23
	Strongly disagree	3	2	5
Total		59	49	108

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.199	4	.085
Likelihood Ratio	8.316	4	.081
Linear-by-Linear Association	.754	1	.385
N of Valid Cases	108		

Finally responses on the concept of private ownership to sub populations were analysed with outputs shown in table 10.8.

**Table 10.8**  
**Do you believe in the concept of private ownership as a core element to Economic success?**

		Category of sub pop			Total
		Tax Advocate	Individual	company manager	
Do you believe in the concept of private ownership as a core element to Economic success?	YES	21	34	8	63
	NO	7	31	8	46
	No Opinion	0	0	2	2
Total		28	65	18	111

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.161	4	.004
Likelihood Ratio	12.273	4	.015
Linear-by-Linear Association	7.000	1	.008
N of Valid Cases	111		

With a table value of 9.49 there is a significant difference in the responses with tax advocates again demonstrating a much stronger entrepreneurial ethic compared to company managers and individuals.

Summary:

Is there a clear acceptance of capitalist principles and entrepreneurial ethic? In general responses showed an appreciation of the support of entrepreneurship under the Thatcher government although younger respondents provided a significant variation in responses with a large number of 'no opinions'. In comparing the 'Thatcher' responses to support for 'private ownership' we find no significant difference indicating the ethic may be assumed to be supported. However the lower proportion of direct supporters of private ownership within economic success suggests that the lack of a significant difference may be due to chance.

By analysing the sub populations we find that there are significant differences in responses when comparing those populations with *the government's role in successful business, Thatcher's support for the entrepreneurial ethic and attitudes towards IR35* with tax advocates demonstrating different views to other sub populations. This is confirmed by the analysis in table 10.8 where the stronger entrepreneurial ethic of advocates was demonstrated.

The analysis has also shown the age differences first experienced in chapter 7 to be confirmed and strengthened by this analysis; younger respondents have greater preference for government intervention in business and a leaning towards accepting the principles of IR35: both views being complementary, although it is recognised that limited life experiences and / or the veil of ignorance could be factors affecting the responses.

Capitalist principles are recognised throughout the sample population, within which advocates demonstrate the strongest entrepreneurial ethic, and as it is the advocate who prepares and advises on the preparation of accounting statements under GAAP there is supporting evidence to accept proposition 1. However there is evidence to support the view that advocates do not reflect the views of the wider population and where views are held consistently, over time, there will become a greater alignment of advocate and population views. Such a contention is worthy of further longitudinal research.

**Analysis: The adoption and application of GAAP is undertaken to directly impact upon tax liabilities.**

To support proposition 1 there must be clear linkage between the selection of accounting policies and tax planning objectives; there should also be accord between the views of tax advocates and those of their clients, the corporate managers.

Assessing the raw statistics provides general direction of views where we see:

- With a modal score of 'Yes' most respondents believe that accounting standards are supportive of tax law and compliance. The responses accord with the rule based conventions discussed in chapter 4 although 21.4% of respondents disagreed with the views.
- A 'Yes' mode is also recorded when asked when accounting policies are selected to optimise tax positions, however the spread of responses was close with 59% selecting accounting policies for this reason.
- With a modal score of '2' 68% of advocates responded that their work has not been subject to revenue enquiry; 16% had been subject to review with an increased liability arising whilst the remaining 16% have been subject to review without a change in liability. Therefore 84% of respondents have no reason to doubt their chosen accounting policies.

From the three statements bulleted above we may deduce that tax does take prominence in selecting accounting policies and there is confidence that those policies are tax compliant. To test the robustness of this view additional analysis was undertaken.

Tax advocates are generally neutral in their views on the tax knowledge of clients which does not provide a sound basis of providing advice in accordance with those client views. Both sub populations (advocates and company managers) were asked if they selected accounting policies to optimise tax positions, and as can be seen in table 10.9 the responses showed a significant difference between the two groups and the selection of accounting policy. Company managers either disagree with advocates or are not fully aware of the policies being adopted by the company.

**Table 10.9**  
**Do you select accounting policies to optimise tax positions?**

		Category of sub pop		Total
		Tax Advocate	Company manager	
Do you select accounting policies to optimise tax positions?	Yes	20	7	27
	No	8	11	19
Total		28	18	46

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	4.785	1	.029	.037	.030
Continuity Correction	3.537	1	.060		
Likelihood Ratio	4.811	1	.028		
Fisher's Exact Test					
Linear-by-Linear Association	4.681	1	.030		
N of Valid Cases	46				

Following the results discussed earlier where age was shown to be a significant factor the views towards accounting policies were similarity tested with no significance in age responses. Neither was there significance between

variables when selection of accounting policies was compared to client tax knowledge.

A final test of significance was considered to determine whether the confidence in the selection of accounting policies, discussed above, is justified. Table 10.10 below shows there is no significant difference in the variables of policy selection and revenue challenge, thereby supporting confidence observed from the raw statistics.

**Table 10.10 Mann Whitney Test – Comparison of Ranks, Accounting Policies to HMRC Challenge**

Do you select accounting policies to optimise tax positions?	N	Mean Rank	Sum of Ranks
Have the Inland Revenue ever challenged your accountancy treatment or accounting policy? Yes	19	13.61	258.50
No	6	11.08	66.50
Total	25		

**Test Statistics(b)**

	Have the Inland Revenue ever challenged your accountancy treatment or accounting policy?
Mann-Whitney U	45.500
Wilcoxon W	66.500
Z	-.888
Asymp. Sig. (2-tailed)	.374
Exact Sig. [2*(1-tailed Sig.)]	.475(a)

a Not corrected for ties.  
b Grouping Variable: Do you select accounting policies to optimise tax positions?

**Summary**

There is clear evidence to support proposition 1 with selection of tax policies being based upon tax optimisation. However there is evidence to show that

advocates and company managers have a different understanding behind the motivation of selecting accounting policies.

**Analysis: There are pressures, even an expectation, to avoid tax (and the potential pressure to evade tax).**

The final set of factors impacting the evaluation of proposition 1 is those pressures that may be experienced to deliberately reduce the burden of taxes. As already demonstrated in this chapter there is some support for the role of government in the operation of successful businesses, but are these views consistent with practice? Three base line questions were asked to test these views:

- 90.4% of respondents deny seeking to avoid tax.
- 75.9% of respondents deny seeking to evade tax.  
Of those who had sought to evade tax 89% had also planned to avoid tax.
- The third question, to advocates only, asked if they had felt conflict between their role as tax advisor and their duty to uphold professional standards: 50% of respondents had experienced such conflict.

These factors are examined further by comparing the relationship between question responses. When attitudes towards *the government's role in successful business* was compared to the direct question, *have you ever planned to avoid tax*, the resultant analysis showed a significant difference in the responses, as shown in Table 10.11.

**Table 10.11**  
**Mann Whitney Test Ranks: Role of business compared to tax avoidance**

Have you ever planned to avoid tax?	N	Mean Rank	Sum of Ranks
Should the Government's role in operating successful business be: Yes	20	53.25	1065.00
NO	61	36.98	2256.00
Total	81		

**Test Statistics(a)**

	Should the Government's role in operating successful business be:
Mann-Whitney U	365.000
Wilcoxon W	2256.000
Z	-3.002
Asymp. Sig. (2-tailed)	.003

a Grouping Variable: Have you ever planned to avoid tax?

Tax avoiders show a split attitude to the role of government whilst the non-avoider, tax compliant, responders support the same or greater role of government in the operation of successful business. Similar results were found when comparing the attitude to government with those who have evaded tax; however the small population casts doubt on the reliability of the statistics and it cannot be concluded that evaders and non evaders have different views of the government’s role within business.

Table 10.3 has already demonstrated that sub populations are significant in evaluating views on the government’s role in business with advocates displaying significantly different responses. Therefore comparing the sub populations of ‘Individuals’ and ‘Company Managers’ to tax evasion responses, then avoidance responses, may indicate why there is an apparently inconsistent attitude of evaders and avoiders. However neither analysis demonstrated a significant difference in variable with chi-squared values of .44 and .17 (df 1) respectively. Further to these tests the responses

were also tested to determine if age was a significant factor but no statistical significance was observed.

Finally the tax advocates' exposure to professional standards conflicts was examined. With a ratio of 1:1 of those experiencing conflict to those not in both the under 40's and over 40's age group there can be no significant difference in age groups. The same pattern of results was then observed when comparing the experience of this conflict with the level of tax work within a practice also demonstrating that this is not a significant factor either.

### **Summary:**

The evidence shows a preponderant attitude within society not to avoid or evade tax and whilst this alone does not deny proposition 1 the attitudes indicate that tax clients are compliant and should not demand the use of tax minimising accounting policies. Of course there is no guarantee that respondents are being truthful, in particular over potential tax evasion admissions; however the results are in line with the 2006 evasion statistics. However with 50% of advocates experiencing professional conflict we face conflicting evidence in relationship to proposition 1.

### **Proposition 1 - Conclusion**

Tax requirements of clients predominate in the production of financial reports, within and outside of GAAP by taxation practitioners.

#### **Supporting factors**

- Wide appreciation of the entrepreneurial ethic.
- Advocates support capitalist principles, for example, in their rejection of IR35.
- Advocates who lead the development of accounting policies within companies are also the GAAP experts and advisors.
- 50% of advocates have felt conflict in their role as tax advisor and their responsibility to uphold professional standards.

### Opposing factors

- Individuals and company managers strongly support the role of government in the operation of successful business,
- There is no widespread attitude of tax avoidance or tax evasion.
- Younger respondents lean towards greater societal responsibility, for example their balance acceptance of IR35 and government intervention in business.

Conclusion: the balance of argument supports acceptance of proposition 1 because the responses from advocates, who lead the design and implementation of accounting policies, show clear traits in support of tax optimisation planning. However whilst a lack of congruent view between advocates and individuals may not be of practical significance, the lack of agreement and empathy with company managers demonstrates that the client view, if as the advocates say is followed, must reflect advocates' perceived view of client need.

**Proposition 2 – With a predominant view that tax is a coercively imposed charge taxpayers will opt for tax reducing advice in preference to contributing towards increased public expenditure.**

The analysis of this proposition extends the analysis of Proposition 1 and provides a link to remaining propositions. The analysis of proposition 1 has demonstrated that the population is generally tax compliant and does not seek tax avoidance opportunities, although accounting policies are selected to optimise tax liabilities because of the attitudes of tax advocates. This proposition considers respondents' views when faced with opposing statements.

The main factors arising from chapter 6 were:

- Market influences are followed rather than social principles.
- Age and gender may influence respondents’ views and may explain apparent inconsistencies in analysis
- Earlier survey show progressivism in taxation is an underlying concept supported by the public; although the test of progressivism is considered fully in Proposition 5 the consistency of responses aligned to progressivism will aid evaluation of the population’s tax : spending balance.

**Analysis: Market influences are followed rather than social principles**

To test the general view of business versus public service attitudes, respondents were asked to rank four statements where strong support for statements a) and d) would support rejection of Proposition 2 whereas support for statements b) and c) would support Proposition 2. Table 10.12 shows the mean rank using the Friedman test (as opposed to the arithmetic mean).

**Table 10.12 Friedman Rank Test**  
**Option Ranks**

	Mean Rank
a) Every person has a responsibility to support the most disadvantaged	2.30
b) Taxes should provide a minimum level of public service	2.75
c) A strong business sector will provide an environment to support society rather than extended government involvement	2.24
d) Taxes should be used to reform social policy	2.71

Test Statistics(a)	
N	110
Chi-Square	15.147
df	3
Asymp. Sig.	.002

a. Friedman Test

The chi squared test statistic is significant at 5% level of significance with a critical value of 7.82; therefore there are significant differences in the rankings. Responses have been considered in previous chapters; the sub population ranking positions are summarised in table 10.13

**Table 10.13 Sub Population Overall Rankings – Business V Social**

	Advocates	Individuals	Company Managers	Population Ranks
a) Every person has a responsibility to support the most disadvantaged	3 <sup>rd</sup>	2 <sup>nd</sup>	1 <sup>st</sup>	2 <sup>nd</sup>
b) Taxes should provide a minimum level of public service	2 <sup>nd</sup>	4 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>
c) A strong business sector will provide an environment to support society rather than extended government involvement	1 <sup>st</sup>	1 <sup>st</sup>	2 <sup>nd</sup> equal	1 <sup>st</sup>
d) Taxes should be used to reform social policy	4 <sup>th</sup>	3 <sup>rd</sup>	2 <sup>nd</sup> equal	3 <sup>rd</sup>

Overall there is very strong support for statement c) and therefore Proposition 2. However, other than the strong consistent, capitalist message from advocates (confirming conclusions from Proposition 1) other respondents have a moderated opinion; whilst recognising the importance of a strong

business sector they believe taxes should be used to provide enhanced public services. The implication of the overall rankings is to show support for Proposition 2 but recognise that public funded public services are held to be important, so at some stage the proposition might be challenged.

As statements a) and c) reflect the top two ranks their responses were cross-tabulated, as shown in table 10.14

**Table 10.14**  
**Every person has a responsibility to support the most disadvantaged COMPARED TO A strong business sector will provide an environment to support society rather than extended government involvement**

		c) A strong business sector will provide an environment to support society rather than extended government involvement				Total
		1st	2nd	3rd	4th	
a)Every person has a responsibility to support the most disadvantaged	1st	1	9	22	4	36
	2nd	14	0	11	3	28
	3rd	12	5	0	4	21
	4th	6	13	3	0	22
Total		33	27	36	11	107

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	56.285	9	.000
Likelihood Ratio	73.470	9	.000
Linear-by-Linear Association	15.114	1	.000
N of Valid Cases	107		

There is a highly significant link between the ranked variables where only 25 of the 107 respondents showed a 1<sup>st</sup> 2<sup>nd</sup> / 2<sup>nd</sup> 1<sup>st</sup> ranking. Such variability does not diminish the previous conclusion supporting proposition 2 but the variability of responses indicates the potential for a change in outcome.

To further examine consistency of views respondent views on a range of consistent and complementary scenarios were compared, the first of these was to compare the first ranked statement c) to an increase in employers' NIC. Results are shown in Table 10.15.

**Table 10.15 A strong business sector will provide an environment to support society rather than extended government involvement COMPARED TO Increase in employers national insurance contribution**

		Increase in employers national insurance contribution			Total
		Agree	Neutral	Disagree	
c) A strong business sector will provide an environment to support society rather than extended government involvement	1st	8	4	20	32
	2nd	10	7	10	27
	3rd	12	11	12	35
	4th	1	6	4	11
Total		31	28	46	105

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.178	6	.058
Likelihood Ratio	12.333	6	.055
Linear-by-Linear Association	1.212	1	.271
N of Valid Cases	105		

For results to be consistent with the ranking results discussed above and supportive of proposition 2 the results should show no significant difference in results, with high ranking responses aligned to a rejection of the NIC increase. With a chi squared value of 12.178 compared to a critical table value of 12.59 there is no significant difference at a 5% level of significance. Although with 30/105 responses matching the expected pattern there is no more than general ratification that views are consistent. Greater confidence, however, may be drawn by the comparison in table 10.16 where two tax-reducing activities were compared: no significant difference in responses was

observed in this analysis (using likelihood ratio to support the chi squared results).

**Table 10.16**  
**Introduction of the Working Families tax credit : Introduction of the starting rate tax band of 10%**

		Introduction of the starting rate tax band of 10%			Total
		agree	neutral	Disagree	
Introduction of the Working Families tax credit	agree	36	13	4	53
	neutral	14	5	1	20
	Disagree	21	5	6	32
Total		71	23	11	105

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.964	4	.411
Likelihood Ratio	3.803	4	.433
Linear-by-Linear Association	.674	1	.412
N of Valid Cases	105		

A similar test with the same consistent outcome was observed when comparing two tax raising scenarios, as shown in table 10.17

**Table 10.17 Kruskal-Wallis Test – Rank Increase in basic rate tax : Removal of MIRAS.**

**Ranks**

Removal of MIRAS		N	Mean Rank
Increase in basic rate tax	Agree	23	44.57
	Neutral	29	46.78
	Disagree	47	54.65
	Total	99	

**Test Statistics(a,b)**

	Increase in basic rate tax
Chi-Square	3.181
df	2
Asymp. Sig.	.204

a Kruskal Wallis Test  
b Grouping Variable: Removal of MIRAS

A further influence on opinions whether tax increases should improve public services is the confidence tax payers have in the political processes in determining spending preferences. By comparing responses the consideration of political leader's appreciation of society's needs when making spending decisions to the perception that politicians favour the high paid and business over the low paid it was shown that (with a chi squared value of 1.825, df4,) there is no significant variance in response; the majority of respondents having little confidence in the political processes so providing evidence to support Proposition 2.

Summary: whilst there are inconsistencies within the data the underlying results support tax reducing initiatives within a predominantly capitalist environment but where there is little confidence in the revenue to spending process. Therefore, based on this element, proposition 2 is supported.

### **Age and gender may influence respondents' views and may explain apparent inconsistencies in analysis**

This analysis begins with a review of age responses to business versus public service attitude statements. Using the Mann Whitney test a significant difference in the grouping variable, age, will be demonstrated where the 'exact sig (2-tailed) shows a value less than .05 (Field 2006). The output from this analysis is shown in table 10.18. This shows that age has a significant impact upon attitudes towards using taxation to reform social policy. On further analysis it is found that 33% of over 40's demonstrate a level of support for the statement whereas 52% of under 40's support the view. Additionally 38% of over 40's completely reject the concept compared to 24% of under-40 year old respondents.

**Table 10.18 Mann Whitney Proposition Statement comparison to age responses**

	a)Every person has a responsibility to support the most disadvantaged	b) Taxes should provide a minimum level of public service	c) A strong business sector will provide an environment to support society rather than extended government involvement	d) Taxes should be used to reform social policy
Mann-Whitney U	1328.000	1266.000	1262.500	1084.000
Wilcoxon W	2363.000	2301.000	2297.500	3037.000
Z	-.439	-.849	-.874	-2.038
Asymp. Sig. (2-tailed)	.661	.396	.382	.042
Exact Sig. (2-tailed)	.667	.409	.389	.043
Exact Sig. (1-tailed)	.334	.205	.195	.022
Point Probability	.005	.009	.003	.001

a Grouping Variable: Under and over 40

The same pattern of results was found when the statements were tested against gender: table 10.19 shows, again, that statement d) has significantly different results in terms of gender. This result was confirmed by the chi-squared value of 8.663, df3. There is a greater level of support for taxes to be used to reform social policy from females, with 68% rejecting the view compared to 47% of males.

**Table 10.19**  
**Gender to social policy**

		d) Taxes should be used to reform social policy				Total
		1st	2nd	3rd	4th	
Gender	Male	3	15	14	21	53
	female	10	9	6	11	36
Total		13	24	20	32	89

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.66	3	.034
Likelihood Ratio	8.695	3	.034
Linear-by-Linear Association	4.519	1	.034
N of Valid Cases	89		

	a)Every person has a responsibility to support the most disadvantaged	b) Taxes should provide a minimum level of public service	c) A strong business sector will provide an environment to support society rather than extended government involvement	d) Taxes should be used to reform social policy
Mann-Whitney U	910.000	787.000	809.500	727.000
Wilcoxon W	1576.000	2218.000	2240.500	1393.000
Z	-.381	-1.444	-1.260	-1.979
Asymp. Sig. (2-tailed)	.703	.149	.208	.048
Exact Sig. (2-tailed)	.709	.151	.215	.049
Exact Sig. (1-tailed)	.354	.073	.111	.024
Point Probability	.002	.003	.013	.001

a Grouping Variable: Gender

The next set of questions, identified in table 10.20, were designed to determined respondents’ attitudes to changes or potential changes in taxes which affect all tax payers.

The following tax changes were found to be significantly related to age:

- Changes in Employers’ National Insurance
- Changes in Employees’ National Insurance
- Increase in basic rate tax

- Introduction of WFTC

The analysis demonstrates that younger respondents show a greater balanced view in supporting tax increases and greater support to the needy and low paid.

The same analysis was undertaken for gender; gender showed significant differences in considering employers NIC and WFTC, while females showed greater support for those changes thus indicating the greater social leaning of under 40 year old females.

Table 10.20 Responses to Actual or Potential Changes in Tax.

Test Statistics(a)									
	Introduction of the starting rate tax band of 10%	Increase in basic rate tax	Increase in employers national insurance contribution	Increase in employees national insurance contribution	Removal of MIRAS	Removal of the Married Couples Allowance	Introduction of the Working Families tax credit	Treating single person companies as employees	Application of self assessment automatic penalties
Mann-Whitney U	1266.000	1016.500	977.000	1010.000	1131.000	1229.500	1118.000	1281.000	1413.000
Wilcoxon W	2919.000	2006.500	2868.000	2840.000	2212.000	2999.500	2948.000	3051.000	3124.000
Z	-.796	-2.289	-3.181	-3.173	-1.427	-1.102	-2.179	-1.054	-.053
Asymp. Sig. (2-tailed)	.426	.022	.001	.002	.153	.270	.029	.292	.958
Exact Sig. (2-tailed)	.445	.022	.001	.002	.159	.286	.031	.294	.952
Exact Sig. (1-tailed)	.222	.012	.001	.001	.081	.146	.015	.147	.478
Point Probability	.022	.003	.000	.000	.000	.020	.002	.000	.002

a Grouping Variable: Under and over 40

	Under and over 40		Total	
	Under 40	Over 40		
Increase in	Agree	24	9	33
	Neutra l	19	10	29
	Disagr ee	18	29	47
Total		61	48	109

Increase in	Agree	8	4	12
	Neutr al	21	4	25
	Disa gree	31	40	71
Total		60	48	108

		Under and over 40		Total
		Under 40	Over 40	
Introduction of the Working Families tax credit	Agree	35	20	55
	Neutr al	13	8	21
	Disag ree	12	20	32
Total		60	48	108

The same questions were tested to determine if the population grouping variable showed significant differences. As three groups (advocate, individual and company manager) are involved the Mann Whitney test is inappropriate so a Kruskal Wallis was used, noting that SPSS labels the value H as Chi Squared. Results and associated cross tabulations are shown in Table 10.21.

The following elements have different responses from the sub populations:

- Increase in basic rate tax
- Increase in employers national insurance contribution
- Increase in employees national insurance contribution
- Treating single person companies as employees
- Application of self assessment automatic penalties

Interpretation of these outcomes:

- Individuals and company managers who are directly subject to changes in basic rate tax are more resistant to change, maybe indicating personal impact rather than a true paradigm.
- Individuals are also more supportive of increases in employers' NIC, again indicating that personal circumstances influence responses.
- Changes in employees' national insurance are the most sensitive of the significant changes as it is closer to being labelled as non-significant. Company managers appear to be less concerned over any increases as they, as compared to individuals, may be more appreciative of 'real' impact of change.
- Tax advocates are clearly resistant to IR35 whereas the non-affected groups are neutral or supportive.
- Tax advocates, as a primary interface with the tax system are resistant to automatic penalties indicating personal impact being a driving factor behind responses.

Table 10.21 Kruskal Wallis Sub Population Analysis  
Test Statistics(a,b)

	Increase in basic rate tax	Increase in employers national insurance contribution	Increase in employees national insurance contribution	Removal of MIRAS	Removal of the Married Couples Allowance	Introduction of the Working Families tax credit	Treating single person companies as employees	Application of self assessment automatic penalties
Chi-Square	12.191	27.773	7.071	1.442	4.033	1.545	9.652	6.829
df	2	2	2	2	2	2	2	2
Asymp. Sig.	.002	.000	.029	.486	.133	.462	.008	.033

a Kruskal Wallis Test  
b Grouping Variable: Category of sub pop

	Category of sub pop			
	Tax Advocate	Individual	company manager	
Increase in employers national insurance contribution	1	32	0	33
	6	15	8	29
	20	17	10	47
Total	27	64	18	109

	Category of sub pop			
	Tax Advocate	Individual	company manager	
Increase in basic rate tax	6	11	0	17
	9	13	2	24
	8	39	16	63
Total	23	63	18	104

	Category of sub pop			Total
	Tax Advocate	Individual	company manager	
Increase in employees national insurance contribution	Agree Neutral Disagree	1 4 22 27	7 15 41 63	4 6 8 18
Total				12 25 71 108

	Category of sub pop			Total
	Tax Advocate	Individual	company manager	
Treating single person	Strongly agree Agree Neutral Disagree Strongly disagree	26 15 26 6 4 62	5 4 5 3 1 18	42 25 39 23 5 108
Total				

	Category of sub pop			Total Total
	Tax Advocate	Individual	company manager	
Application of self assessment	Strongly agree Agree Neutral Disagree	1 7 7 13 28	0 20 23 8 61	0 13 1 4 18
Total				1 40 31 35 107

Summary: In terms of Proposition 2 age and gender divisions provide prima facie evidence to reject the proposition; younger respondents under the age of 40 show greater support for using taxes to reform social policy. The same age group support some increases in tax (national insurance and basic rate tax) and give far greater support to tax changes that support the low paid and disadvantaged. Both aspects are further emphasised when considering female respondents. Therefore if Proposition 2 was to be tested on these factors alone, with younger (and especially young female) respondents the proposition would be resisted.

However when the different elements of the population were examined it is observed that there are some inconsistencies in responses. Sub populations appear to answer in association with their personal impact of the tax change with tax increases resisted by different groups. Such inconsistencies in responses act as a support to Proposition 2.

### **Analysis: Progressivism in taxation is an underlying concept supported by the public**

Although the extent of support for progressivism is fully addressed by Proposition 5 there are associated tests of progressivism that impact upon Proposition 2.

An initial test compares a progressive tax change (introduction of the starting rate of 10%) to a more regressive move (increase in basic rate tax). There should be a significant difference in responses but as can be seen in table 10.22 the Kruskal Wallis Test does not support such a difference. In interpreting the summary data there is support for progressivism and therefore supporting a rejection of the proposition.

**Table 10.22 Increase in basic rate tax : Introduction of the starting rate tax band of 10%**

Ranks			
Increase in basic rate tax		N	Mean Rank
Introduction of the starting rate tax band of 10%	Agree	17	41.74
	Neutral	23	57.26
	Disagree	60	50.39
	Total	100	

**Test Statistics(a,b)**

	Introduction of the starting rate tax band of 10%
Chi-Square	4.330
df	2
Asymp. Sig.	.115

a Kruskal Wallis Test

b Grouping Variable: Increase in basic rate tax

However there are inconsistencies in responses that indicate support for Proposition 2. If *should higher earners pay a premium rate of tax* is cross-tabulated against *increase in basic rate tax* there should be significant variances in these variables as there is a progressive and regressive tax change; however with a chi squared value of 0.858, 2 df, significance is <.05 so there is no link in responses. An interesting further test to determine respondents' views was to cross-tabulate a question seeking support for a system of flat tax to the regressive tax change where MIRAS was removed. Table 10.23 shows no significant variation in these variables, and with a wide spread of results ignorance of the tax system may be the principal factor because with a chi squared value of 3.507, df 8, there is no significant difference when a progressive change is compared to a flat tax.

**Table 10.23 Flat Tax versus Regressive Change**

		Removal of MIRAS			Total
		agree	neutral	Disagree	
Should higher earners pay more tax but at the same flat rate as all earners?	Fully agree	6	4	12	22
	Agree	9	13	14	36
	Neutral	3	6	6	15
	Disagree	2	1	10	13
	Totally disagree	7	6	4	17
Total		27	30	46	103

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.226	8	.141
Likelihood Ratio	12.807	8	.119
Linear-by-Linear Association	.600	1	.439
N of Valid Cases	103		

Summary: this limited test of progressivism within taxation is not intended to provide categorical evidence to support or deny Proposition 2. Whilst support for progressivism is evidenced it was also found that inconsistencies exist with the data. With unclear outcomes there can be no clear rejection of proposition 2. Consistency concerns are compounded with the spread of responses when considering aspects of flat taxation.

**Proposition 2: Conclusion.**

This section has found strong and clear support for the proposition following the analysis of responses to the statement *A strong business sector will provide an environment to support society rather than extended government involvement.* This conclusion is confirmed by respondents’ preference for tax reductions and when, taken with a lack of confidence in the political processes, the argument in favour of Proposition 2 appears convincing. However there is some contrary evidence provided by respondents under the age of 40; this age group show stronger support for using taxation to reform social policy, and also have more evenly balanced views on tax increases.

These opposing views do not represent a convincing argument to reject the proposition although they indicate a potential for change, over time.

There are a range of other factors which do not deny Proposition 2 but diminish the strength of argument supporting the proposition:

- There is a lack of consistency between statement responses a) and c), the first two ranked statements.
- There is an observed lack of clear variation between support for increases in employers' NIC and statement c) – even if a significant proportion did respond as expected.
- Sub population responses indicate that views can be affected by personal status.

Proposition 3 – UK tax payers are ignorant of their taxation circumstances with resultant decisions based upon non tax factors.

Proposition 4- There is a predominant view that taxation should be used to reform social policy and social security.

The analysis of these propositions will be taken together as they build upon previous analysis and were presented as linked propositions in chapter 7 within the context of compliance behaviour.

It has been shown, through literature, the disincentive nature of taxation and the impact of compliance costs. When linked with the works of Roberts (1998) and Green (1993) it was postulated that careful psychological management of public perception may, with improved education (hence Proposition 3) move us towards a (Buchanan) paradigm of self contained exercise or even community responsibility (Proposition 4). The underlying theme impacting upon these propositions is the extent to which Rawls' veil of ignorance is extant among respondents.

Proposition evidence considered in chapters 7-9:

- Advocates show little support for integrating tax policy and social policy as demonstrated by Table 7.4, chapter 7 and Table 10.13. This is contrary to the responses considered from individuals and company managers in chapters 8 and 9.
- Respondents under 40 years of age have shown a much stronger social responsible ethos as demonstrated within Propositions 1 and 2, along with Table 7.9 in chapter 7 and Table 8.2 in chapter 8.
- Examples of inconsistency of response were first identified in chapter 7 then a number of issues in chapter 8 concluded that some differences in responses may not be reconcilable. Within chapter 10, in particular the discussion of Proposition 2, a number of inconsistencies were identified which may be caused by ignorance or personal bias, as first encountered in chapter 8.
- Limited life experiences, as discussed in literature and explored in chapter 9, may lead respondents to appear to lack knowledge in some areas of taxation.
- The sampled population acknowledges Thatcher policies but do not conclusively deny social aspects of taxation over capitalist principles.
- Individuals have little or no knowledge of tax planning opportunities
- Corporate managers showed support for proposition 4 by rejecting the view, in chapter 9, that taxes should be used to provide a minimum level of public services. However there is an apparently inconsistent message from the sub-population as the managers supported direct charging for public services.

Detailed analysis therefore must be conducted around:

- Understanding the tax system
- Support for social development through taxation.

**Analysis: Understanding the tax system**

Proposition 3 was primarily tested by a range of questions, often using the tax advocates as a key comparator because, as experts, their views should reflect the balanced and knowledgeable position. To begin with the issue of tax complexity was considered by examining differences in gender responses. Table 10.24 shows a non-significant difference in gender responses where 69% of all respondents consider tax to be more complex than historically.

**Table 10.24 Tax Complexity and Gender**

		Gender		Total
		Male	female	
Is taxation becoming more of less complex?	Less complex	8	3	11
	Neutral	6	10	16
	More complex	40	20	60
Total		54	33	87

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.172	2	.075
Likelihood Ratio	5.046	2	.080
Linear-by-Linear Association	.243	1	.622
N of Valid Cases	87		

When the question of complexity is analysed by age a significant difference is apparent as shown in table 10.25. Respondents under the age of 40 see taxation as more complex than older respondents with only 10% seeing tax as less complex compared to 26% of over 40 year olds.

**Table 10.25**  
**Under and over 40 : Is taxation becoming more or less complex?**

Count		Is taxation becoming more or less complex?			Total
		less complex	Neutral	Complex	
Under and over 40	Under 40	5	19	34	58
	Over 40	12	7	28	47
Total		17	26	62	105

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.936	2	.019
Likelihood Ratio	8.151	2	.017
Linear-by-Linear Association	1.151	1	.283
N of Valid Cases	105		

So with a population which sees tax as more complex, especially younger respondents, a further test of the question by sub-populations should show whether the population response is informed or whether general public views have influenced responses. Table 10.26 shows the analysis where there is a highly significant difference between responses (with additional reference to the likelihood ratio); however on further analysis (also contained in Table 10.26) there is no significant difference between tax advocates and individuals, thereby rejecting proposition 3. The difference is between company managers and the rest of the population, this may be due to ignorance or the practice of company managers to limit their exposure to tax by engaging expert advocates.

**Table 10.26 Tax Complexity and sub population responses**

		Category of sub pop			Total
		Tax Advocate	Individual	Company manager	
Is taxation becoming more or less complex?	Less complex	3	8	6	17
	Neutral	3	13	10	26
	More complex	22	38	2	62
Total		28	59	18	105

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.439	4	.000
Likelihood Ratio	23.941	4	.000
Linear-by-Linear Association	13.540	1	.000
N of Valid Cases	105		

Is taxation becoming more or less complex? \* Category of sub pop Crosstabulation

		Category of sub pop		Total
		Tax Advocate	Individual	
Is taxation becoming more of less complex?	Less complex	3	8	11
	Neutral	3	13	16
	Complex	22	38	60
Total		28	59	87

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.997	2	.368
Likelihood Ratio	2.123	2	.346
Linear-by-Linear Association	1.089	1	.297
N of Valid Cases	87		

A question aligned to the issue of tax complexity is whether the revenue authorities offer a professional, fair and essential service. Table 10.27 summarises the analysis in terms of gender, age and sub population.

Table 10.27 Fairness of Revenue Services

		Gender		Total
		Male	female	
To what extent do you feel that the Inland revenue is a professional, fair and Essential Service?	Agree	17	14	31
	Neutral	20	15	35
	Disagree	18	8	26
	Total	55	37	92

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.382	2	.501
Likelihood Ratio	1.410	2	.494
Linear-by-Linear Association	1.154	1	.283
N of Valid Cases	92		

		Under and over 40		Total
		under 40	Over 40	
To what extent do you feel that the Inland revenue is a professional, fair and Essential Service?	Agree	25	17	42
	Neutral	25	15	40
	Disagree	12	16	28
	Total	62	48	110

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.860	2	.239
Likelihood Ratio	2.847	2	.241
Linear-by-Linear Association	1.542	1	.214
N of Valid Cases	110		

		Category of sub pop			Total
		Tax Advocate	Individual	company manager	
To what extent do you feel that the Inland revenue is a professional, fair and Essential Service?	Agree	9	22	11	42
	neutral	4	31	5	40
	Disagree	13	13	2	28
	Total	26	66	18	110

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.993	4	.002
Likelihood Ratio	16.470	4	.002
Linear-by-Linear Association	7.232	1	.007
N of Valid Cases	110		

As Table 10.27 demonstrates there is no significant difference in gender responses (where there is a mixed / balanced response) or in age; with respondents favouring the revenue services. However there is a highly significant difference when responses are analysed by sub-population; tax advocates dispute the fairness of actions by the revenue authorities, a view borne from experience. Other respondents will have limited exposure to the revenue services and their views may be due to a lack of knowledge or simple tax cases; with most individual respondents reporting that they do not complete self assessment returns, the former rationale becomes most likely.

Respondents were also asked if taxes have been significantly increased, as a proportion of income since 1992. Chapter 4 showed that, apart from low paid married men, there has not been any significant increase in income tax burden. Whilst there are no significant differences in responses from sub

population, gender or age table 10.28 still shows an interesting breakdown in responses. A greater proportion of tax advocates feel that taxes have increased proportionately although the responses do not give a consistent and clear message. Overall the respondents lack detailed knowledge and this supports proposition 3.

**Table 10.28 Views on the impact of tax increases**

		Category of sub pop			Total
		Tax Advocate	Individual	company manager	
Do you consider that taxes have significantly increased, as a proportion of income since 1992?	Yes	18	34	8	60
	Don't Know	10	31	10	51
Total		28	65	18	111

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.929	2	.381
Likelihood Ratio	1.949	2	.377
Linear-by-Linear Association	1.868	1	.172
N of Valid Cases	111		

Respondents’ views about using reduced taxes to generate increased consumer spending showed no significant differences (for example sub population test statistic is 2.024, df1, compared to a critical value of 3.84) with a full spread of responses. The insignificance of the spread of the results neither actively supports nor denies proposition 3.

A final question was posed directly to tax advocates and company managers; their responses to the following statements were cross-tabulated: *if tax rates reduced would your average client be encouraged to increase productivity / profits against to what extent are your clients already aware of tax reduction,* with results shown in table 10.29.

**Table 10.29**  
**Are your clients already aware of tax reduction opportunities? : If tax rates reduced would your average client be encouraged to increase productivity AND / OR profits?**

		If tax rates reduced would your average client be encouraged to increase productivity AND / OR profits?			Total
		Agree	Neutral	Disagree	
To what extent, generally, are your clients already aware of tax reduction opportunities?	Agree	7	1	1	9
	Neutral	17	0	3	20
	Disagree	13	1	3	17
Total		37	2	7	46

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.168	4	.705
Likelihood Ratio	2.747	4	.601
Linear-by-Linear Association	.111	1	.739
N of Valid Cases	46		

From this analysis it may be observed that business people are motivated by lower taxes but are ignorant of the opportunities thereby supporting proposition 3.

Summary: Analysis undertaken for propositions 1 and 2 shows a range of inconsistencies that could indicate ignorance of tax circumstances, thereby supporting proposition 3. This view is supported by the observed significant difference in view of tax advocates and other respondents in respect of the perceived fairness of revenue services; advocates are unhappy with the level of service. The variability in responses could be due to differences in experience but with most, non advocate, responses not undertaking self assessment there is little evidence to ascribe the result to life experiences. Therefore the differences must be due to general / wider perceptions, thereby adding support to proposition 3. Respondents also show a lack of understanding of the impact of tax changes on business people, and whilst

motivated by reduced taxes they have no knowledge of tax planning opportunities; both aspects support proposition 3.

The only dissenting view is when complexity of taxation is evaluated; although corporate managers have different views from the rest of the population this is likely to reflect corporation tax experiences. The rest of the population have a consistent view of tax complexity giving the appearance of tax knowledge.

**Conclusion proposition 3:** the proposition is accepted, people in general are ignorant of taxation issues. This adds an interesting dimension to the analysis of responses. Whilst some views are based upon experience they are also influenced by wider, external factors. The support of this proposition adds strength to the view that 'Buchanan's alternatives' are not deeply rooted and so should be viewed as perceptions and not paradigms.

### **Analysis: Support for social development through taxation**

In evaluating a response to the question *do all citizens bear an equal responsibility towards society's costs and needs* it is observed that responses are equally divided between those who support the concept and those who disagree. The results were tested for significance using age, gender and population variables; no significant variations were noted as shown in table 10.30.

Table 10.30

Do all citizens bear an equal responsibility towards society's costs and needs, by sub-population

		Category of sub pop			Total
		Tax Advocates	Individual	Company manager	
Do all citizens bear an equal responsibility towards society's costs and needs?	Yes	9	34	11	54
	No	17	30	7	54
Total		26	64	18	108

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.600	2	.165
Likelihood Ratio	3.648	2	.161
Linear-by-Linear Association	3.287	1	.070
N of Valid Cases	108		

		Under and over 40		Total
		Under 40	Over 40	
Do all citizens bear an equal responsibility towards society's costs and needs?	Yes	34	20	54
	No	27	27	54
Total		61	47	108

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.846	1	.174
Continuity Correction(a)	1.356	1	.244
Likelihood Ratio	1.851	1	.174
Fisher's Exact Test			
Linear-by-Linear Association	1.829	1	.176
N of Valid Cases	108		

		Gender		Total
		Male	Female	
Do all citizens bear an equal responsibility towards society's costs and needs?	Yes	25	18	43
	No	29	18	47
Total		54	36	90

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.119	1	.730
Continuity Correction(a)	.017	1	.897
Likelihood Ratio	.119	1	.730
Fisher's Exact Test			
Linear-by-Linear Association	.117	1	.732
N of Valid Cases	90		

Although no significant variances were observed it is interesting to note that advocates have a different (non-significant) pattern of responses than the rest of the population. The even split of all respondents fails to provide any clear evidence to support or reject the social responsibility aspects of taxation

so other responses are needed to be able to conclude on the acceptability of proposition 4.

In introducing the poll tax into the question set respondents' views are considered in respect of a tax rejected by the public on grounds of inequity. Poll tax attempted to introduce a form of quasi hypothecation, which may be seen as a price or enforced regressive tax. The split results observed in table 10.30 above could be explained by reaction to the poll tax but, as seen in table 10.31 there is no significant differences in variables; in fact the high level of 'no opinion' impacts upon the reliability of the analysis as 75% of those without opinion are aged under 40, therefore have limited or no personal experience.

**Table 10.31**  
**Do all citizens bear an equal responsibility towards society's costs and needs? : Did you support the demise of the Poll Tax**

		Did you support the demise of the Poll Tax			Total
		Yes	No	No opinion	
Do all citizens bear an equal responsibility towards society's costs and needs?	Yes	21	15	18	54
	NO	23	12	19	54
Total		44	27	37	108

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.451	2	.798
Likelihood Ratio	.452	2	.798
Linear-by-Linear Association	.012	1	.912
N of Valid Cases	108		

In extending the use of the poll tax responses it was also observed that there is no significant difference between support of poll tax demise and the direct charging for public services. These results were tested for age, gender and sub-population significance without observing any significant difference.

This is the second set of analysis that provides inconclusive evidence in respect of social development and taxation and therefore proposition 4. So if respondents' views are inconclusive what will make respondent's change their opinions? 80% of respondents answered that they would change their view of taxation if it affected their family and 71% considered impact on jobs would be an influencing factor. Of lesser importance is tax impact upon business (52% will be influential) and impact upon the environment (50% will be an influence). There are no significant differences when testing the data for age and gender variables as shown in table 10.32 (age).

**Table 10.32 Age to tax impact factors**

	Impact upon your family	Impact upon Business	Impact upon jobs	Impact upon the environment
Mann-Whitney U	1468.000	1345.500	1397.500	1486.500
Wilcoxon W	3359.000	2620.500	3288.500	2761.500
Z	-.377	-1.098	-.810	-.238
Asymp. Sig. (2-tailed)	.706	.272	.418	.812

a Grouping Variable: Under and over 40

A significant difference in results, with regard to the impact on business, was observed when analysing responses from sub-populations using a Kruksal Wallis test as there are 3 grouping variables as shown in table 10.33

**Table 10.33  
Sub Population to tax impact factors**

	Impact upon your family	Impact upon Business	Impact upon jobs	Impact upon the environment
Chi-Square	1.348	17.610	4.340	4.144
df	2	2	2	2
Asymp. Sig.	.510	.000	.114	.126

a Kruskal Wallis Test

b Grouping Variable: Category of sub pop

This level of significance was further examined where detailed responses show tax advocates and company managers rating impact on business as an

important factor behind their view of tax whereas individuals have a broader balance of responses. Such responses reflect personal circumstances of the advocates and company managers compared to the potential lack of knowledge and understanding of individual tax payers (supporting proposition 3). So rather than equal rating of impact upon the environment with personal factors it is observed that factors impacting upon individuals take precedence over socially related changes; proposition 4 is rejected.

Instead of paying additional taxes or paying user charges there can be, as seen from literature, the opportunity to undertake community work in lieu of tax. Respondents were evenly split with 48% in favour and 52% against the idea; but although there is no consensus there is still a significant element of the population who are prepared to consider more radical approaches to taxation. The results were tested against age and gender, as shown in table 10.34, without observing any significant differences.

**Table 10.34 Attitudes towards community work**

		Under and over 40		Total
		under 40	Over 40	
Would you be prepared to undertake unpaid community work in lieu of tax?	Yes	22	9	31
	Don't know	23	10	33
	Total	45	19	64

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.012	1	.911
Continuity Correction(a)	.000	1	1.000
Likelihood Ratio	.012	1	.911
Fisher's Exact Test			
Linear-by-Linear Association	.012	1	.912
N of Valid Cases	64		

		Gender		Total
		Male	female	
Would you be prepared to undertake unpaid community work in lieu of tax?	Yes	15	16	31
	Don't know	19	14	33
	Total	34	30	64

N of Valid Cases	64		
Tests	Value	df	sided)
Pearson Chi-Square	.542	1	.462
Continuity Correction(a)	.236	1	.627
Likelihood Ratio	.543	1	.461
Fisher's Exact Test			
Linear-by-Linear Association	.533	1	.465

Taking this concept further the community work responses were compared to a direct question asking if respondents would pay more tax to support public services. Table 10.35 show a significant difference in these responses where there is support for directly helping the community but resistance to paying increased taxes to pay for additional community support.

**Table 10.35**  
**Are you prepared to pay more tax for improved state support of the Community? : Would you be prepared to undertake unpaid community work in lieu of tax?**

		Would you be prepared to undertake unpaid community work in lieu of tax?		Total
		Yes	Don't know	
Are you prepared to pay more tax for improved state support of the Community?	Yes	16	7	23
	NO	15	26	41
Total		31	33	64

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	6.417	1	.011	.018	.011
Continuity Correction	5.164	1	.023		
Likelihood Ratio	6.543	1	.011		
Fisher's Exact Test					
Linear-by-Linear Association	6.316	1	.012		
N of Valid Cases	64				

These results were then extended to determine age, gender and population influences to the question *are you prepared to pay more tax for improved state support of the Community?* No significant variances were observed of age or gender, however as shown in table 10.36 there is a significant difference between advocates and company managers confirming the differences in attitudes to social responsibility shown in the analysis to proposition 1.

**Table 10.36 Pay more tax: sub population**

		Category of sub pop		Total
		Individual	Company manager	
Are you prepared to pay more tax for improved state support of the Community?	Fully agree	24	0	24
	agree	41	3	44
	Neutral	0	10	10
	Disagree	0	5	5
Total		65	18	83

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	66.540	3	.000
Likelihood Ratio	64.900	3	.000
Linear-by-Linear Association	33.926	1	.000
N of Valid Cases	83		

**Conclusion Proposition 4:**

It was seen in the evaluation of proposition 1 that although there is a general acceptance of entrepreneurial principles there is greater recognition of social responsibility awareness amongst younger respondents. Within the analysis of proposition 2 there was some positive evidence that there is some support for social responsibility through taxation when the sample population ranked second the view that social reform should be linked to tax policies, however this was subordinate to the first rank capitalist view. Also observed in proposition 2 were the responses that are apparently motivated by personal circumstances.

Within the evaluation of proposition 4 it was discovered that the population is divided on the importance of social aspects of taxation, although around 50% supported the view that we bear equal responsibilities for society’s costs and females are more socially conscious (proposition 2) there is insufficient direct evidence to support proposition 4.

Following from the personal motivations observed in proposition 2 it was observed that respondents rank very highly the impact on family and jobs upon their view of taxation; it is also observed that advocates and company managers view the impact on business as affecting their view on taxation. This evidence supports the existence of personal paradigms rather than a tax paradigm, therefore there is only support for proposition 4 if the social issue directly affects the respondent.

To support an overall conclusion rejecting proposition 4 the analysis demonstrated that there is little support for direct contribution towards improved social and public services even if there is some unexpected support for the concept of personal non-monetary contributions in lieu of financial contributions.

#### **Proposition 5 – Public preference supports progressivism in taxation.**

The majority of literature sources view progressive taxes as the favoured approach to efficient and effective taxation, with the progressive principle supporting community responsibility. This support may be motivated by the rejection of regressive and flat taxes, for example the poll tax, although literature suggests that a flat tax could be socially acceptable if taxpayers see the importance of the specific circumstances of the tax (for example social insurance in the USA). So if there is support for the specific use of taxes then there may be support for a non progressive tax.

However with reference to the work of Rawls (1971 p279) 'it may be better to use progressive rates only when they are necessary to preserve the basic nature of justice'.

In the evaluation of proposition 4 support for a socially focused tax system was low, and with the entrepreneurial ethic supported in proposition 1 this

analysis should lean towards rejecting proposition 5. If, however, the proposition is supported then respondents may see the current level of progressivism as an acceptable system to support the community.

In chapter 7 advocates were shown to support the scheme of progressivism within the Thatcher government and the subsequent Labour government with the introduction of IR35. However the chapter also identified older advocates seeking higher premium rate thresholds so indicating a preference towards a broad flat tax for most taxpayers.

Chapter 8 considered the responses of individual taxpayers which showed older taxpayers to be more likely to avoid tax, with the inference of rejecting progressive rates of tax. However conflicting evidence arose in the chapter when the older respondents within the sub-population gave a clear support of progressivism in response to a direct question and indirect questions (such as the introduction of the 10% starting rate of tax and working families tax credits).

The analysis will be undertaken within the following headings:

- General support for progressive, flat or regressive taxes
- Hypothecation and the extent of progressivism.

### **Analysis: General support for progressive, flat or regressive taxes.**

The initial analysis considered consistency within responses; where there is support for progressive taxes there should be rejection of flat taxes. This is confirmed in table 10.37.

**Table 10.37**  
**A flat RATE of tax should be paid by all earners : Should higher earners pay a premium rate of tax?**

		Should higher earners pay a premium rate of tax?			Total
		agree	neutral	Disagree	
A flat RATE of tax should be paid by all earners	agree	16	7	28	51
	neutral	7	3	1	11
	Disagree	37	4	7	48
Total		60	14	36	110

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	26.623(a)	4	.000
Likelihood Ratio	27.387	4	.000
Linear-by-Linear Association	22.089	1	.000
N of Valid Cases	110		

With a significant chi squared value, in excess of the critical value of 9.49, the difference provides assurance that responses are dependant.

It has already been shown that the respondents are equally divided when asked about citizen’s responsibility against society needs, so this neutral response question has been used as the litmus test of attitudes towards or against progressivism. Table 10.38 shows the outcomes of this analysis.

**Table 10.38 Do all citizens bear an equal responsibility towards society’s costs and needs? : Should higher earners pay more tax but at the same flat rate as all earners?**

		Should higher earners pay more tax but at the same flat rate as all earners?			Total
		agree	neutral	Disagree	
Do all citizens bear an equal responsibility towards society’s costs and needs?	Yes	34	8	11	53
	NO	27	7	20	54
Total		61	15	31	107

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.474	2	.176
Likelihood Ratio	3.513	2	.173
Linear-by-Linear Association	3.142	1	.076
N of Valid Cases	107		

**Do all citizens bear an equal responsibility towards society's costs and needs? \* Should higher earners pay a premium rate of tax?**

		Should higher earners pay a premium rate of tax?			Total
		agree	neutral	Disagree	
Do all citizens bear an equal responsibility towards society's costs and needs?	Yes	35	5	14	54
	NO	24	10	20	54
Total		59	15	34	108

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.776	2	.092
Likelihood Ratio	4.826	2	.090
Linear-by-Linear Association	3.283	1	.070
N of Valid Cases	108		

As can be seen there is no significant dependence between the responses. However it observed that support for flat rate taxation is as strong as that for premium rate tax. What is clear is that the any social imperative behind taxation has no preference for progressive or non-progressive taxes.

Analysing the data further it is observed that there is no significant difference in response to either statement from the variables of age, gender or sub population.

Significantly there is different result when considering a tax charge based upon a flat amount of tax rather than flat rate, the former being the most regressive form of tax, as demonstrated in table 10.39.

**Table 10.39 A flat AMOUNT of tax should be paid for all earners : A flat RATE of tax should be paid by all earners**

		A flat RATE of tax should be paid by all earners			Total
		Agree	Neutral	Disagree	
A flat AMOUNT of tax should be paid for all earners	Agree	14	0	4	18
	Neutral	5	6	0	11
	Disagree	32	5	44	81
Total		51	11	48	110

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	38.279(a)	4	.000
Likelihood Ratio	33.452	4	.000
Linear-by-Linear Association	9.852	1	.002
N of Valid Cases	110		

The regressive 'flat amount' of tax is rejected by respondents regardless of views on the principles of flat taxes; accordingly the evidence shows an initial rejection of regressive taxation.

Responses to a flat rate of tax were found to have non significant difference when compared to age, gender and population variables.

So after rejecting regressive taxation the analysis turns to consider support for progressive or flat rate taxes. By comparing two questions supporting progressivism it is expected that there will be no dependence between responses. Table 10.40 confirms that when asking about the introduction of the 10% starting rate and premium rate taxation there is a consistent response in support of progressivism. Where there is a minor inconsistency support is given where progressivism benefits the lower paid but the benefit is not paid for by utilising premium rate tax on the higher paid. The standard answer supports progressivism at both end of the earnings scale.

**Table 10.40**  
**Should higher earners pay a premium rate of tax? : Introduction of the starting rate tax band of 10%**

		Introduction of the starting rate tax band of 10%			Total
		Agree	Neutral	Disagree	
Should higher earners pay a premium rate of tax?	Agree	40	11	6	57
	neutral	7	6	1	14
	Disagree	24	6	4	34
Total		71	23	11	105

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.209	4	.379
Likelihood Ratio	3.698	4	.448
Linear-by-Linear Association	.019	1	.891
N of Valid Cases	105		

With an insignificant chi squared value of 4.209 there is no observed difference or dependence in responses and so is deemed consistent.

A consistent analysis was also observed when comparing a regressive tax change (increase in basic rate tax) to a progressive tax trait of premium rates as shown in Table 10.41 and supports the earlier rejection of regressive taxes.

**Table 10.41**  
**Should higher earners pay a premium rate of tax? : Increase in basic rate tax**

		Increase in basic rate tax			Total
		Agree	Neutral	Disagree	
Should higher earners pay a premium rate of tax?	Agree	9	12	33	54
	Neutral	2	6	7	15
	Disagree	6	6	23	35
Total		17	24	63	104

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.147	4	.534
Likelihood Ratio	2.905	4	.574
Linear-by-Linear Association	.040	1	.842
N of Valid Cases	104		

Extending this analysis to compare flat rate of taxes to progressive taxes it is observed from table 10.42 that there is a significant difference in the variables.

**Table 10.42**  
**Should higher earners pay a premium rate of tax? : Should higher earners pay more tax but at the same flat rate as all earners?**

		Should higher earners pay more tax but at the same flat rate as all earners?			Total
		Agree	Neutral	Disagree	
Should higher earners pay a premium rate of tax?	Agree	29	5	26	60
	Neutral	8	5	2	15
	Disagree	26	5	5	36
Total		63	15	33	111

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.984	4	.003
Likelihood Ratio	15.460	4	.004
Linear-by-Linear Association	8.263	1	.004
N of Valid Cases	111		

29 respondents agreed with both statements are providing contradictory responses but the remaining responses are demonstrating consistency with their base opinion. There is, however, no clear message to support or reject progressive taxes. A further test asking two other related flat V progressive questions also showed a significant difference in responses but again there is no clear statement of support for either progressive or flat rate taxes; as shown in the cross-tabulation table 10.43 (as supported by supplementary Kruskal-Wallis test).

**Table 10.43**

**A flat RATE of tax should be paid by all earners : Tax rates should increase dependant upon the level of earnings**

		Tax rates should increase dependant upon the level of earnings			Total
		agree	neutral	Disagree	
A flat RATE of tax should be paid by all earners	agree	15	10	26	51
	neutral	7	3	1	11
	Disagree	38	2	8	48
Total		60	15	35	110

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	28.532	4	.000
Likelihood Ratio	30.282	4	.000
Linear-by-Linear Association	21.434	1	.000
N of Valid Cases	110		

The only general observation that can be made is that slightly more of the population supports progressive taxes than flat tax but this is inconclusive.

Summary: The only conclusion that may be drawn from this analysis is that respondents reject regressive taxation and that neither age, gender nor sub population respond differently from the sampled population. As stated above there is no conclusive evidence showing support for either progressive

taxation or flat taxation. From literature non-progressive taxes could be acceptable to the population if there is a specific rationale or use for the taxes.

**Analysis: Hypothecation and the extent of progressivism**

When comparing age, gender and population variables to hypothecation rights for the higher paid, there are significant difference in the results comparing age groups and sub-populations. Gender proved non-significant and has been omitted from the following table 10.44.

**Table 10.44 Sub-population and age attitudes to higher earners right to hypothecation.**

		Category of sub pop			Total
		Tax Advocate	Individual	Company manager	
Should higher contributors of tax revenues be able to specify how tax revenues could be used?	Agree	4	12	9	25
	Neutral	1	17	1	19
	Disagree	23	37	8	68
Total		28	66	18	112

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.982	4	.001
Likelihood Ratio	17.886	4	.001
Linear-by-Linear Association	8.402	1	.004
N of Valid Cases	112		

		Under and over 40		Total
		Under 40	Over 40	
Should higher contributors of tax revenues be able to specify how tax revenues could be used?	Agree	10	15	25
	Neutral	16	3	19
	Disagree	36	32	68
Total		62	50	112

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.947	2	.011
Likelihood Ratio	9.719	2	.008
Linear-by-Linear Association	.253	1	.615
N of Valid Cases	112		

Reference is made to the likelihood ratio, for sub-population, due to the number of cells with less than 5 responses, however the magnitude of significance limits the sensitivity of an incorrect conclusion. There is a clear difference between tax advocates and other respondents where the wider population, whilst showing a majority rejecting this form of hypothecation, less opposed to the concept. When evaluating age full reference is given to the chi square value in the cross- tabulation showing younger respondents have a more balanced response to hypothecation, although still rejecting the concept overall. Other tests were undertake: *higher contributor hypothecation* was compared to *introducing the 10% starting rate* and against *removal of MIRAS* (that is a progressive and regressive tax change) neither showing significant difference, as shown in table 10.45 derived from Krusall Wallis, in variables and so rejection of targeted hypothecation is consistent between supporters of progressive and regressive taxes.

**Table 10.45 Test Statistics - Hypothecation**

Ranks

Should higher contributors of tax revenues be able to specify how tax revenues could be used?		N	Mean Rank
Introduction of the starting rate tax band of 10%	Agree	24	50.42
	Neutral	19	49.26
	Disagree	62	55.15
	Total	105	
Removal of MIRAS	Agree	24	61.40
	Neutral	19	52.71
	Disagree	61	48.93
	Total	104	

	Introduction of the starting rate tax band of 10%	Removal of MIRAS
Chi-Square	1.128	3.394
df	2	2
Asymp. Sig.	.569	.183

a Kruskal Wallis Test

b Grouping Variable: Should higher contributors of tax revenues be able to specify how tax revenues could be used?

Although hypothecation is rejected for higher earners nearly half of respondents would be happy with the ability for all taxpayer to hypothecate as shown in table 10.46. The results were tested for significance against age, gender and sub population but no significant variation was noted.

**Table 10.46**  
**Should all taxpayers have the opportunity to specify how tax is to be used?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	51	45.5	45.9	45.9
	Neutral	19	17.0	17.1	63.1
	Disagree	41	36.6	36.9	100.0
	Total	111	99.1	100.0	
Missing	System	1	.9		
Total		112	100.0		

By comparing support for general hypothecation against the progressive test of introducing the 10% rate there no significant difference in results with an even spread of responses against a clearly progressive tax set of data. Results of this analysis are shown in table 10.47.

**Table 10.47**

**Should all taxpayers have the opportunity to specify how tax is to be used? : Introduction of the starting rate tax band of 10%**

		Introduction of the starting rate tax band of 10%			Total
		Agree	Neutral	Disagree	
Should all taxpayers have the opportunity to specify how tax is to be used?	Agree	35	8	4	47
	Neutral	10	6	2	18
	Disagree	26	9	5	40
Total		71	23	11	105

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.682	4	.612
Likelihood Ratio	2.594	4	.628
Linear-by-Linear Association	.907	1	.341
N of Valid Cases	105		

One final test on hypothecation is worthy of review. Response to flat rate rates were compared to general hypothecation as can be seen in table 10.48. There is a significant difference, based on likelihood ratio, in the responses where those agreeing with hypothecation also support flat rate taxes, and the opposite is also apparent where both concepts are rejected. This shows a clearer dependence between flat taxes and hypothecation but the population responses are split, thus confirming the earlier conclusion that there is no clear consensus in preferring progressive of flat taxes.

**Table 10.48**

**Should all taxpayers have the opportunity to specify how tax is to be used? : A flat RATE of tax should be paid by all earners**

		A flat RATE of tax should be paid by all earners			Total
		Agree	Neutral	Disagree	
Should all taxpayers have the opportunity to specify how tax is to be used?	Agree	25	7	17	49
	neutral	13	2	4	19
	Disagree	12	2	27	41
Total		50	11	48	109

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.497	4	.006
Likelihood Ratio	14.776	4	.005
Linear-by-Linear Association	6.440	1	.011
N of Valid Cases	109		

With the majority of respondents, although not a sizeable majority, supporting progressivism the extent of that support may be assessed. Respondents were asked to respond to the level at which progressive rates are extended for higher rate taxpayers. Table 10.49 shows that 94.5% (100 – 5.5) of respondents seek a threshold greater than that used currently in the UK.

Table 10.49 Tax Thresholds

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	£30000	6	5.4	5.5	5.5
	£50000	49	43.8	45.0	50.5
	£100000	41	36.6	37.6	88.1
	£150000	13	11.6	11.9	100.0
	Total	109	97.3	100.0	
Missing	System	3	2.7		
Total		112	100.0		

Tests of significance were conducted against age, gender and sub-population without any difference in responses noted. A consistency in data was expected when comparing preferred thresholds to support for progressive rates. The majority of respondents either agreed or were neutral to progressivism and of those 96% sought higher thresholds. It is also noted that the higher respondents' want premium rates to commence the greater the rejection of progressive taxes. These represent responses from the minority but show consistent views, and demonstrate that even in highly focused progressive tax question the flat tax influence is still seen. The analysis has 50% of cells with a count of less than 5 and even with recoding the number of low cells would only be reduced by three. Reliance on the chi

squared value is not suitable and even with a significant likelihood ratio the number of low cells cast doubt over reliability, however the results show an interesting pattern and even with sensitive factors the results will still be acceptable at 10% level of significance.

Summary: this section confirms the rejection of regressive taxation but with uncertainty between progressive and flat taxes the mapping to hypothecation also proved inconclusive. Whilst a link between flat tax and general hypothecation has been demonstrated there is insufficient evidence to draw a clear conclusion. There was a clear rejection of allowing power of hypothecation to be given to higher rate taxpayers.

When faced directly with progressive thresholds most respondents sought a higher limit than exists at present. The preferred widening of thresholds is consistent with the inconclusive distinction between flat and progressive taxes as a) it recognises progressive steps but b) moves closer to a flat rate covering the majority of taxpayers. This confirms this view initially suggested in chapter 7.

#### Conclusion Proposition 5:

Earlier chapters provided evidence that the proposition would be accepted with progressivism within taxes supported; advocates support the progressive policies of Thatcher and older taxpayers show a higher tendency to avoid taxes.

Regressive taxes are rejected by the respondents, support for the 10% introductory rate of tax and acceptance of premium rate thresholds clearly support progressive taxes.

However when extending the analysis to test support for progressivism over all respondents some conflicting and inconclusive evidence arises. A link

between flat taxes and hypothecation has a basis in recent experiences in the USA with social insurances and supports a move away from progressivism. Also the widening of tax thresholds is another indication of a preference for flat taxes. When comparing direct questions measuring flat versus progressive taxes there are no consistent, dominant outcomes.

Overall, whilst the majority of responses are seen as supporting progressive taxation there is insufficient evidence for an unequivocal acceptance of proposition 5.

**Proposition 6 – Taxpayers have a preference for improved public services with higher direct taxation.**

Literature has shown possible alternative views of the same tax policy; what are seen as socially motivated policies from the Fabians could be seen as a coercively imposed charge by Liberalists. Alm (1999) considers that tax rates alone should not form attitudes, such views could incorporate wider issues such as compliance costs; however respondents returned little information about such costs as they are un-quantified or unknown. This supports proposition 3 and the ignorance of taxpayers.

Chapter 7 demonstrated little support for proposition 6 with advocates ranking social preferences lowly, and in chapter 9 it was recognised that only 37% of individual taxpayers are prepared to pay more tax for public service development.

Proposition 6 is aligned with proposition 2 where it was found that there is a preference for tax reducing opportunities although some inconsistencies in responses were recognised.

Within the literature review reference was made to the Reed surveys where public service workers were shown to support development of public services from public funds.

Earlier analysis is consistent with liberalist views of laissez-faire economic policy although opposition to the welfare state is not uniformly supported across all respondents. Therefore there appears little opportunity to uncover evidence to support proposition 6, however the Reed survey indicates that the career background of respondents could lead to different responses; a range of responses was compared to the *sector* variable. If results are not shown to be significant then the initial conclusion of rejecting proposition 6 is upheld.

Table 10.50 considers the business versus social factor rankings in terms of a business sector grouping variable; there are no observed significant differences between public and private sector respondents' thereby adding evidence towards rejecting proposition 6.

**Table 10.50 Test Statistic Grouping Variable: Business Sector of respondent: ranking**

	a)Every person has a responsibility to support the most disadvantaged	b) Taxes should provide a minimum level of public service	c) A strong business sector will provide an environment to support society rather than extended government involvement	d) Taxes should be used to reform social policy
Mann-Whitney U	838.000	762.000	848.500	788.000
Wilcoxon W	2164.000	1503.000	1589.500	2114.000
Z	-1.125	-1.776	-1.043	-1.566
Asymp. Sig. (2-tailed)	.261	.076	.297	.117

a Grouping Variable: Business Sector of respondent

However a significant difference was observed when considering the government's role in successful business as shown in table 10.51. The difference shows 96% of public service respondents preferring the

government to have the same or greater role in business compared to 54% of private sector respondents.

**Table 10.51**  
**Grouping Variable: Business Sector of respondent**

	Business should take a greater role in the management and delivery of public services.	Should the Government's role in operating successful business be:
Mann-Whitney U	24.500	743.500
Wilcoxon W	27.500	2174.500
Z	-.145	-2.471
Asymp. Sig. (2-tailed)	.885	.013
Exact Sig. [2*(1-tailed Sig.)]	.894(a)	

a Not corrected for ties.  
b Grouping Variable: Business Sector of respondent

This difference is consistent with public service respondents’ significantly different view on progressivism which supports rather than confirms the need for a funded public service. The sector group also have significantly different views on the role of taxes to manage the economy with greater intervention proposed by public service respondents.

These significant differences are consistent with the public service ethos emanating from their chosen career sector, it may at least be said they have chosen their sector appropriately. However they do not in themselves provided categorical evidence to support proposition 6.

The cross-tabulations in Table 10.52 were examined without showing any significant difference to private sector respondents.

**Table 10.52 – Non significant responses**

Question to the population	Observations from the sampled population
<ul style="list-style-type: none"><li>• Do all citizens bear equal responsibility towards society’s costs and needs?</li></ul>	<ul style="list-style-type: none"><li>• Spilt results 48% in favour.</li><li>• No clear social imperative</li></ul>
<ul style="list-style-type: none"><li>• Introduction of WFTC</li></ul>	<ul style="list-style-type: none"><li>• Majority of population agree</li><li>• Supportive of a socially based tax change</li></ul>
<ul style="list-style-type: none"><li>• Do you feel that users of public services should contribute more towards those services?</li></ul>	<ul style="list-style-type: none"><li>• Support for user fees although most respondents neutral.</li><li>• No clear social imperative</li></ul>
<ul style="list-style-type: none"><li>• Do you believe in the concept of private ownership as a core element to economic success?</li></ul>	<ul style="list-style-type: none"><li>• Majority of all, and public service respondents support the view.</li><li>• Possible contradictory public sector group answers.</li></ul>

**Conclusion Proposition 6:**

The balance of sector evidence is consistent with the analysis for proposition 2, and although the public sector respondents are supportive of their sector they do not provide a consistently strong view that could be used to challenge the prima facie conclusion from proposition 2.

Therefore, proposition 6 is rejected.

**Proposition 7- There is general support for the role of taxation within the economy**

**Proposition 8 - There is general support for the efficiency of the Revenue Authorities.**

So far this chapter has considered propositions that sought to determine the extent of support for capitalist motivations, social factors within tax policy and the impact of personal factors; all upon the wider perceptions of taxation.

Propositions 7 and 8 consider the extent to which the status quo is supported; previous analysis demonstrated how highly compliant the population is, so raising expectation that proposition 7, if not 8 too, will be accepted. In literature the attributes of a good tax system based on the historic works of Smith (1776), and latterly Hyman (1983 ) were explored and it was later noted that the number of tax officers and extent of revenue visits have been addressed in the HMRC re-structure so, in theory, there should be general support for the revenue services.

In chapter 7 it was shown that tax advocates had divided opinions over the complexity and usefulness of revenue literature but in their ranking of policy preferences the group demonstrated clear commercial preferences, thereby indicating dissatisfaction with the current tax system. However the advocates supported the use of taxes in economic planning so giving contradictory views in terms of proposition 7.

In chapters 8 and 9 a general support for the role of taxes and the revenue services was observed. Younger respondents have a stronger bent towards a social role for taxation which was initially seen as supportive of proposition 7 however when linked to previous analysis this may be interpreted as a dissatisfaction with the tax system and so reject the proposition.

### **Analysis: general support for taxation.**

A range of changes to the tax system were rated by respondents with each change being categorised as a progressive or regressive change. The analysis has already excluded regressive taxes as being acceptable to the population so if there is support for the extension of progressive taxes then it may be concluded that the population are generally in favour of current policies. Responses are summarised in table 10.53.

**Table 10.53 – Support for Tax Changes**

Tax Change	Progressive or Regressive	Percentage in support / neutral
1. Introduction of 10% starting rate	P	89.5
2. Increase in Basic Rate of tax	R	39.4
3. Increase in Employers NIC	R	56.9
4. Increase in Employees NIC	R	34.3
5. Removal of MIRAS	R	54.8
6. Removal of MCA	R	48.1
7. Introduction of WFTC	P	70.4
8. Introducing IR35	P	74.1

These responses may be classified into three groups:

- 1. Those supporting progressive taxes (changes 1,7 and 8)
- 2. Those rejecting regressive taxes (changes 2 and 4)
- 3. Neutral responses to regressive taxes (changes 3, 5 and 6).

It is group 3 responses that appear uncertain; however these tax changes, because of the nature or timing of the change, would have had little personal impact upon respondents so the neutral stance is taken with the positive group 1 responses to conclude this as a source of evidence in general support of proposition 7.

The population does not show consistent support for revenue practices when evaluating responses to tax penalties. Table 10.54 shows a split response where supporting penalties also tended to support higher penalties, whilst the opposite is true for those against the penalty regime. This polarisation of views results in a significant difference in the variables.

**Table 10.54 Tax penalties should be heavier than those currently enforced : Application of self assessment automatic penalties**

		Application of self assessment automatic penalties			Total
		Agree	Neutral	Disagree	
Tax penalties should be heavier than those currently enforced.	Agree	16	9	5	30
	Neutral	13	14	10	37
	Disagree	9	8	20	37
Total		38	31	35	104

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.110	4	.011
Likelihood Ratio	12.959	4	.011
Linear-by-Linear Association	10.466	1	.001
N of Valid Cases	104		

These results fail to provide sufficient evidence to either accept or deny proposition 7.

**Conclusion Proposition 7:**

The balance of evidence in earlier analysis and this section is to accept proposition 7, because although regressive tax changes are not accepted by the population this does not suggest the general approach to tax is rejected. Elements of the population have shown dissatisfaction with the tax system and further regressive movements in tax may alienate that pat of the population, sufficient to deny the proposition.

**Analysis: Support for the Revenue Authorities.**

Analysing linked questions it is possible to gauge consistency in responses, such consistency is illustrated in table 10.55 where no significant difference

was observed. A minority disagreed with the fairness of the revenue services but most are neutral or see the service as professional, fair and essential.

**Table 10.55**  
**Views of the Revenue Services**

Ranks		
Do all citizens bear an equal responsibility towards society's costs and needs?	N	Mean Rank
To what extent do you feel that the Inland revenue is a professional, fair and Essential Service?	Yes	
	53	50.27
	NO	57.66
Total	107	

**Test Statistics(a,b)**

	To what extent do you feel that the Inland revenue is a professional, fair and Essential Service?
Chi-Square	1.723
df	1
Asymp. Sig.	.189

a Kruskal Wallis Test

b Grouping Variable: Do all citizens bear an equal responsibility towards society's costs and needs?

A range of other comparisons were undertaken on the issue of revenue fairness as summarised in table 10.56.

Table 10.56 - Fairness of Revenue Services Cross-tabulations

		Did you support the demise of the Poll Tax			Total
		Yes	No	No opinion	
To what extent do you feel that the Inland revenue is a professional, fair and Essential Service?	agree	13	12	17	42
	neutral	19	7	14	40
	Disagree	13	9	6	28
	Total	45	28	37	110

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.145	4	.273
Likelihood Ratio	5.437	4	.245
Linear-by-Linear Association	2.835	1	.092
N of Valid Cases	110		

		To what extent do you consider political leaders fully appreciate society's views when determining expenditure plans based upon tax revenues?			Total
		agree	neutral	Disagree	
To what extent do you feel that the Inland revenue is a professional, fair and Essential Service?	agree	10	8	24	42
	neutral	7	15	16	38
	Disagree	3	4	20	27
	Total	20	27	60	107

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.163	4	.057
Likelihood Ratio	9.051	4	.060
Linear-by-Linear Association	1.805	1	.179
N of Valid Cases	107		

		Do you consider that you are fully conversant with your tax reduction opportunities			Total
		agree	neutral	Disagree	
To what extent do you feel that the Inland revenue is a professional, fair and Essential Service?	agree	3	11	7	21
	neutral	9	10	12	31
	Disagree	3	4	6	13
	Total	15	25	25	65

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.092	4	.543
Likelihood Ratio	3.086	4	.544
Linear-by-Linear Association	.003	1	.959
N of Valid Cases	65		

Table 10.56 demonstrates that within the general support of the revenue services the majority of respondents rejected the poll tax so there has been a shift in attitude (notwithstanding poll tax was not managed by HMRC) and whilst there is support there is no corollary that the political tax policy makers are trusted.

It is interesting to observe that individuals do not show a committed support for the revenue, although only 20% disagree with the concept of a fair, professional and essential service.

Responses to the revenue services are different when analysing by sub population where it is shown that advocates disagree with the conduct of the tax authorities, resulting in a significant difference in variables as shown in table 10.57.

**Table 10.57**  
**Sub Population Views of Revenue Services**

		Category of sub pop			Total
		Tax Advocate	Individual	Company manager	
To what extent do you feel that the Inland revenue is a professional, fair and essential Service?	agree	9	22	11	42
	neutral	4	31	5	40
	Disagree	13	13	2	28
Total		26	66	18	110

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.993(a)	4	.002
Likelihood Ratio	16.470	4	.002
Linear-by-Linear Association	7.232	1	.007
N of Valid Cases	110		

There was no observed difference in variables when the view was compared to age, gender or sector variables.

Conclusion Proposition 8:

Other than advocates the population is supportive of the tax authorities and so proposition 8 is accepted.

## Chapter Conclusion

The chapter has considered each proposition, in turn, reaching a conclusion on each whilst recognising the balance of competing evidence.

The model developed through this thesis is materially supported by primary research, for example:

- Tables 10.10, 10.28, 10.54 provide evidence on our views of tax penalties.
- A range of tables through chapters 7 to 9 identify personal factors that may alter our view of taxation.
- Tables 10.11, 10.27 and 10.28 consider the impact of a compliance culture.
- Tables 10.3, 10.43, 10.44, 10.45, 10.46, 10.52 and 10.53 consider how tax policy and social policy may impact upon each other; these may be contrasted with tables 10.1, 10.25, 10.26, 10.27 and 10.51 which considers the role of business within the economy compared to tables 10.8, 10.30, 10.31 and 10.36 which consider the support for our public services.
- Other tables consider the complexity of taxes as an influencing factor (tables 10.25, 10.26, and 10.27), a lack of confidence in governments (table 10.28) and the recognition of societies needs (table 10.30, 10.31, 10.32, 10.36 and 10.38).

The analysis in this chapter identified a range of factors that may impact upon our perception of taxes that give no clear or consistent response to changes in taxation. For example the age of respondent does not provide a consistent response across scenarios and whilst there is a clear rejection of regressive

taxes there are inconsistent responses in response to flat taxes or progressive taxes.

The model developed up to figure 5.4 identified two categories of potential influences upon tax perceptions: Ideology (Neo-Liberalist or Fabianist) and other factors (including personal needs). Following the analysis contained in chapters 7 to 10 the model should be expanded to include the two opposing ideological influences, personal need plus those factors that fail to provide a consistent measure of perception.

Chapter 11 will now utilise the findings from chapter 10 to determine the main factors which impact upon transient perceptions of tax.

## Chapter 11

### 'Buchanan's alternatives' – A Conclusion

In chapter 1 Buchanan's four alternative paradigms of tax were introduced as:

1. *Taxation can be viewed as the cost side of an inclusive fiscal exchange process, with taxes being treated as 'prices'.*
2. *Taxation can be ....modelled as the embodiment of fixed charges that the community is obliged to meet.*
3. *Taxation is a set of coercively imposed charges imposed upon those who are politically weak by those who are politically strong..... for the purpose of financing private goods and services enjoyed by the latter.*
4. *Taxation may be conceived as a self contained collective enterprise, characterised by positive and negative transfers that have as their ultimate purpose the achievement of collectively- chosen patterns of post tax, post transfer distributions.*

However Chapter 1 also questioned whether these are true paradigms or transient perceptions of tax. Results in Chapter 10 highlight a number of inconsistencies in responses regarding progressiveness in taxation, and within proposition 4 there is strong evidence that respondents will change their view dependent upon the tax impact upon families and employment. Age has been shown as a factor behind different responses as has the tax status of the individual respondent. Whilst each of 'Buchanan's alternatives' may be observed within the questionnaire responses the lack of a consistent and predominant paradigm leads to the conclusion that:

- **Individual 'Buchanan's alternatives' are not enshrined in the public view,**
- **The alternative paradigms are, however, recognisable within a of review tax attitudes,**
- **The population have a transient view of tax dependent upon personal circumstances.**

One of the primary research question *to identify which, if any, of Buchanan's alternative taxation paradigms are extant in the UK* was rejected in chapter 6 on the grounds that the Buchanan paradigms do not exist as paradigms: therefore a single paradigm cannot be extant in the UK.

However the recognition of the existence of the concepts supporting 'Buchanan's alternatives' (or as it is concluded, the perceptions of tax) provides the basis to address the alternative research question: *to identify the prime factors that change perceptions of taxation.*

This conclusion does not reject the findings of Buchanan who evaluated his paradigms in terms of a single factor, maximum liberty; it is when a multiplicity of influencing factors is introduced that the application of a paradigm is challenged. Auerbach (1999) recommends that tax policy should not be explained or justified from a wide range of influences, an approach taken by many researchers, because of the general lack of knowledge of tax payers and the lack of influence boundaries, thereby supporting the conclusions drawn. This thesis challenges Auerbach's view by considering a matrix of influences, including the ignorance of taxpayers.

Literature provided the underpinning support for Auerbach but also provides direction for integrating the influences upon perceptions of tax; for example Lamb and Lymer (1999) recognised that taxation research required an inter-disciplinary approach and cannot be viewed as a separate subject silo. Further

to such inter-disciplinary aspects Glennerster (1995) reflected upon the changes in attitudes to public policy since 1945, and whilst this does not reject the perception of taxation paradigms it does acknowledge that public policy views may be transient. Such a view is supported by Kay and King (1990) who recognised the disincentive nature of taxes. Critically Auerbach (1999 [2]) concluded that taxes must have immediate impact to allow the link between charge and benefit, and hence changeable perceptions. It may, therefore, be postulated that recent political practices where the lead time from the announcement of tax changes to implementation exceeds one year and may, therefore make the population less reactive to tax changes.

In the extended review of literature a range of possible influencing factors were identified:

- Traditional / historical views,
- Personal motivation,
- Social awareness (including the growth in the awareness of Islamic tax practices),
- Perceptions of tax systems, structures and processes,
- Personal circumstances,
- Role of the accountancy profession,
- Age, gender, background
- Principle of justice.

In evaluating proposition 4 it was shown that 80% would change their view of tax if it affected their families, 71% would change with an impact upon jobs with a further 52% influenced by a business impact and 50% by an environmental impact.

### **Impacting Factors**

Each of 'Buchanan's alternatives' (herewith referred to as perceptions) are now discussed by drawing upon the evidence analysed in chapter 11. Factors

impacting upon the understanding of the perceptions will be classified into the following:

- factors supporting the perception,
- factors influencing the perception,
- factors rejecting the perception (although such 'rejecting' factors will naturally arise as supporting factors for other perceptions).

***Taxation can be viewed as the cost side of an inclusive fiscal exchange process, with taxes being treated as 'prices'***

#### *Factors in Support of the Perception*

The acceptance by younger respondents and individual tax payers of IR35 leads the conclusion towards either tax as a price or as a community responsibility. This is supported by a highly tax compliant society who are generally seen to be supportive of the government role, as shown in proposition 1. The issue of age is consistent with the original work of Lewis (1982) supported by Gilligan and Richardson (2005), Devos (2005) and Shaffer and Simons (2008) who have reached similar conclusions, as discussed in chapter 2. It may also be postulated that the younger respondents are more sensitive to Maslow's physiological and safety needs whilst their limited life discourse has only exposed them to the entrepreneurial business culture and so seek an alternative. These respondents support the view of Sandford (2000) who believed that a system is fairer when tax is charged based upon what is taken out of the system. This view accords with the work of Rawls (1971) and his concept of fairness although Gilligan and Richardson (2005) observe that 'fairness' is not well defined.

### *Factors Influencing the Perception*

Whilst the majority of respondents reject the policy of hypothecation, table 10.44 shows that individual and younger tax payers have a balanced view on the topic, indicating a conceptual link between taxes and service delivery. This finding is consistent with the mixed attitude towards hypothecation shown in the review of literature which, when taken together (survey and literature) challenge the views expressed from the Commission on Taxation and Citizenship (2000).

### *Factors Rejecting the Perception*

Proposition 4 is rejected as there is little support for direct contribution towards improved social and public services. This finding also appear to be at variance to the findings of the Commission on Taxation and Citizenship (2000), table 4.4, which suggested a link between hypothecated tax increases for public services, notably for spending on the NHS. A reason for such contradicting views may be found in Meade (1978), Hyman (1983) and even Smith (1776) in that a taxation system should have positive distributional affects with the corollary a poor system, so un-supported, would have negative impact.

Within proposition 2 it was observed that there was little confidence in the political processes in planning the use of tax revenues, and, with a tax compliant group it leads to the conclusion that taxation is not seen as prices. This also maybe explained by the views of Meade (ibid) and is evidenced by the earlier discussion on public reaction to the poll tax and the apparent inconsistencies in policy between Lawson and Reagan, as discussed in chapter 4, who were also purporting to have the same objectives and economic beliefs.

There was little support amongst respondents of the poll tax although the significant number of 'no opinion' responses tends to support the neutral view of taxation (the self contained exercise). Even younger tax paying respondents will have some life discourse exposure to the poll tax so will be affected by predominant views of the day. The work of Green (1993) is relevant to the findings as he concludes that whilst all goals cannot be maximised simultaneously by tax policy the tax system must not be seen as 'grossly inefficient'. Therefore literature would suggest that the rejection of tax as a price or as a community responsibly would be rooted in an inherent distrust of the tax systems; however the survey results did not demonstrate a wider distrust.

***Taxation can be ....modelled as the embodiment of fixed charges  
that the community is obliged to meet***

***Factors in Support of the Perception***

Within the review of proposition 2 younger respondents showed a strong preference to integrate tax and social policy; in adopting this view they demonstrate support for Boden (1999) and Alcock (2000) in recognising the growing importance of integrating tax and social policy. Although it has not been empirically tested it may be postulated that the widening role of Zakat in a multi faith community could influence general views. Additionally arising from proposition 2 there is a clear recognition within the business versus public services options of the importance to support the most disadvantaged in society, a view supported by Daunton (2002) in his criticisms of policy. Within the proposition there is a close and clear relationship for the tax measures supporting the least wealthy in society (tables 10.16 and 10.17) even if the chapter 5 showed the impact of taxes has been most negatively felt by married, low paid men. Proposition 2 confirms this view in its rejection of regressive taxation. This attitude is underpinned by the views of Greenway and Shaw (1985) who suggest we demonstrate risk adverse tendencies so

reject predominant reliance upon the success of business. The empirical evidence also supports the view of McCaffery (1997) who argues for a simple progressive tax system and Murphy (2007) who seeks a fair and just tax system.

Younger respondents support the perception of taxes being used to reform social policy, a view especially supported by females under 40's.

Proposition 5 considered the level of support for progressive, flat and regressive taxes resulting in a clear rejection of regressive taxes as such taxes are borne disproportionately by those requiring community support.

Respondents also showed consistent support for progressive taxation (table 10.40), in particular the extension of progressivism at the low end of the earnings scale where low paid earners benefited from the tax changes. These results accord with the early views of Kay & King (1990) and Huhne (1990) in supporting progressive taxes and the latter view of Townsend (2003) who recognised the regressive nature of taxes on the lower paid.

The ability to hypothecate by higher earners was strongly rejected by respondents thereby recognising that the tax system should not positively discriminate between tax payers.

### *Factors Influencing the Perception*

Whilst proposition 1 was, on balance, accepted it was observed that support for social factors maintains a significant position in respondent's views.

Additionally within proposition 1 support for IR35 by younger respondents indicates the existence of non-business motivations that may manifest as support for community responsibilities. Even within business, company managers do not believe accounting statements are planned around tax minimisation policies, thus recognising a wider, community based role for taxation; however their views are in direct contradiction to those of the tax advocates.

Proposition 3 shows an evenly split set of responses when asked '*if all citizens bear an equal responsibility towards society's costs and needs*'. Whilst 50% is not a conclusive statement of support it demonstrates a significant level of recognition for social need. The response also reflects the cross section of respondents and therefore their personal circumstances which in turn will influence their 'Maslow Need'. The population split shows no significant effect from different age groups, gender or sub population. Company managers, however, are least resistant to bearing an increase in taxation.

Another inconclusive but unexpected result supporting a community responsibility focus is the 48% positive response for Shafaramans' proposals to participate in the delivery of social functions in lieu of monetary contribution. This may reflect respondent's personal life discourse experiences and the growing environmental lobby.

These divided opinions may stem from the views of Burton (2007) who supports the tripartite view of taxes, that is, a positive relationship between tax payers, advocates and the tax authorities. Should elements of this relationship be damaged then the community responsibility view is superseded by personal impact.

### *Factors Rejecting the Perception*

Tax advocates reject IR35 and support the business ethic whilst rejecting the use of taxes to support social reform, as demonstrated in the discussions and conclusions of Chapter 7. Although IR35 was an important tax change it had low fiscal impact and affected only a small element of the tax paying population; this could have been a test of reactions following the Rose and Karan (1987) view of the basic rule of politics, that of inertia and the plan to 'keep out of trouble'. With this view in mind there will be no major change to support rejection of the perception in the later stages of a parliament.

Within proposition 3 it was shown that respondents would not be prepared to pay more tax for the development of public services although this is contrary to the Commission on Taxation and Citizenship survey results from 2000 where high and middle income respondents would be prepared to pay more tax, however 76% of lower income respondents (table 4.5) believe tax rates are too high, a view supported by the analysis of tax burden discussed in chapter 4.

This standpoint shown by the respondents in recognising their community responsibilities yet not wanting to pay more tax may reflect experiences and the high levels of marginal taxes in the 1980's under a progressive tax system.

***Taxation is a set of coercively imposed charges imposed upon those who are politically weak by those who are politically strong..... for the purpose of financing private goods and services enjoyed by the latter.***

#### *Factors in Support of the Perception*

The balance of argument concluded in the acceptance of proposition 1, the tax minimisation role of financial statements, and in concluding an acceptance of proposition 2 there is a clear preference for a strong business sector, with lower taxes, to generate wealth to pay for public services and so taxes demanded whilst being accepted in a compliant society will not be supported. Not an unsurprising result when recognising the large proportion of voters who have only experienced the business ideals that have been politically promoted from 1979 to, arguably, 2005.

Within proposition 1 the majority of respondents recognise the entrepreneurial ethic and the role of private ownership as a core element

behind economic success. For example tax advocates demonstrate a clear rejection of IR35 and select accounting policies to optimise tax positions. 50% of advocates have also experienced professional conflict in their professional role. Miller (1990) and Lamb (1999) reflect that the role of the accountant in accounting policy and taxation policy are intrinsically linked although this view is challenged by Murphy (2007) who seeks greater social and ethical standards from advocates. All of these points support a business focus with taxation seen as detraction from this focus. Proposition 2 also revealed an overall number "1" ranking for the views that '*a strong business sector will provide an environment to support society rather than extended government involvement*', which when considered with a lack of confidence in the political spending preferences shows support for the view that taxes are a coercively imposed charge.

Individuals and company managers are shown to be more resistant to change when the change affects their personal circumstance, so whilst their objective, arm's length view, may not support the coercively imposed charge this attitude changes with personal impact of tax changes.

Amongst responses analysed under proposition 3 a predominant view that taxes are increasingly seen complex became apparent, especially within the younger respondents. Additionally advocates do not see the revenue services and offering a fair service, adding to the argument that tax is a coercively imposed charge. Respondents also viewed a reduction in taxes as a motivational factor and 64% were not prepared to pay more tax to pay for public services.

94.5% of respondents believe premium rate taxes should be introduced at a threshold higher than that currently used in practice. This view may be from a fundamental belief or personal circumstances but it demonstrates a clear rejection of tax policy as it coercively imposes progressive taxation at to a low level within society.

### *Factors Influencing the Perception*

Whilst not being a conclusive majority those respondents who reject the penalty regime also believe the rates of penalties are too high.

Respondents, when evidencing proposition 5 showed inconsistent support for progressive taxation when comparing progressive taxes with flat taxes; indicating support for the issue of burdensome higher rates of tax. However there is an interesting apparent inconsistency in responses when considering table 10.48; respondents who support hypothecation, and so the link between tax and prices, also support flat taxes which indicates concern over the burden of tax. This inconsistency does not, however, need to be seen as polarised opinion as preference for taxes as prices may also be viewed as concern over taxes as a coercively imposed charge, if evidence is corroborative (as it is).

### *Factors Rejecting the Perception*

Within the review of proposition 1 table 10.1 reflected the views of younger respondent's who show a higher level of support for government intervention in business and for the introduction of IR35.

***Taxation may be conceived as a self contained collective enterprise, characterised by positive and negative transfers that have as their ultimate purpose the achievement of collectively- chosen patterns of post tax, post transfer distributions.***

### *Factors in Support of the Perception*

Proposition 3 is accepted; within a tax compliant society individuals are ignorant of taxation so must see taxes as a balanced exercise. This view is supported within the evaluation of proposition 1, where the lack of client tax knowledge was recognised which, when considered in terms of the general high level of tax compliance would indicate a neutral view in accepting the

current system of taxation. Proposition 2 shows that non-advocate respondents are less opposed to increases in employer national insurance, a tax the group is divorced from and will have lack of direct knowledge. In a similar vein there are inconsistencies in responses seeking support for progressive, flat and to a lesser extent, regressive taxes. Such inconsistencies within a compliant society indicate the acceptance of a neutral view of taxation.

The discussion within proposition 2 shows a significant difference in the ranking of business versus public service attitudes, showing a level of inconsistency in responses. Such inconsistencies can arguably support the range of potential categories of tax perceptions but can only clearly support the neutral perception. This is supported by the extended analysis with proposition 2 that showed the lack of consistency in respondent's 1<sup>st</sup> / 2<sup>nd</sup> and 2<sup>nd</sup> / 1<sup>st</sup> ranking of the business versus public service preferences.

Other than advocates, the respondents saw the revenue services as fair with no significant variation due to age or gender. However propositions 3 and 4 show a lack of detailed tax knowledge and understanding (including poll tax 'no opinions') within a highly compliant population, indicating a general acceptance of the current tax regime.

Lastly, table 10.56 supports the view that individual and company manager respondents are happy with the level of service provided by the tax authorities.

All of these points are underpinned by society's general acquiescence to tax regulation and our lack of detailed knowledge of taxes and demonstrated by the survey respondents and the wider beliefs of ignorance proffered by Rawls (1971).

### *Factors Influencing the Perception*

The population is divided when considering the extent of tax penalties; those who support penalties would like to see those penalties imposed at higher rates, thereby rejecting the perception of tax as a coercively imposed charge and accepting the role of taxes within a balanced environment.

### *Factors Rejecting the Perception*

Within proposition 1 support for the general entrepreneurial ethic reflects an identified purpose or function for taxation and so rejects the perception of 'self contained exercise'.

## **Conclusion**

Each perception has clear evidence that supports its concept, with the social perception and coercively imposed charge perception having greater weight, emphasis and recognition amongst respondents. The perceptions of tax as a price and tax as part of a self contained exercise both have evidence supporting their existence within society although the balance of such evidence suggests they are, at present, subordinate perceptions.

As perceptions individual's views will change and so, therefore, will the society's balance of views between alternative perceptions? The drivers for changing perceptions may be classified by drawing upon the review of literature and the evaluation of propositions in chapter 10. Four principle classifications, including the ideological factors previously considered, have been identified as:

- Neo-liberalist influences: as discussed in chapter 5, reflecting the entrepreneurial ethic with transfer of control of economic issues from the public to the private sector.

- Fabianist influences: as discussed in chapter 5, reflecting government intervention within the economy to ensure social justice, including increased progressiveness in taxes and hypothecation of taxes.
- Inconsistencies: a number of inconsistencies were highlighted in chapter 10 which may randomly affect taxpayer actions and attitudes or form the basis of a medium term change in the perceptions of taxation.
- Personal need: as discussed in chapter 4 with an adaptation of Maslow's hierarchy of need, personal factors can influence the individual's view of taxation whether as recipients of tax reductions satisfying physiological need or esteem need and the preponderance to avoid tax. Respondents were shown in the analysis in chapter 10 to be highly affected by tax changes on jobs, the family, business and to a lesser extent, the environment.

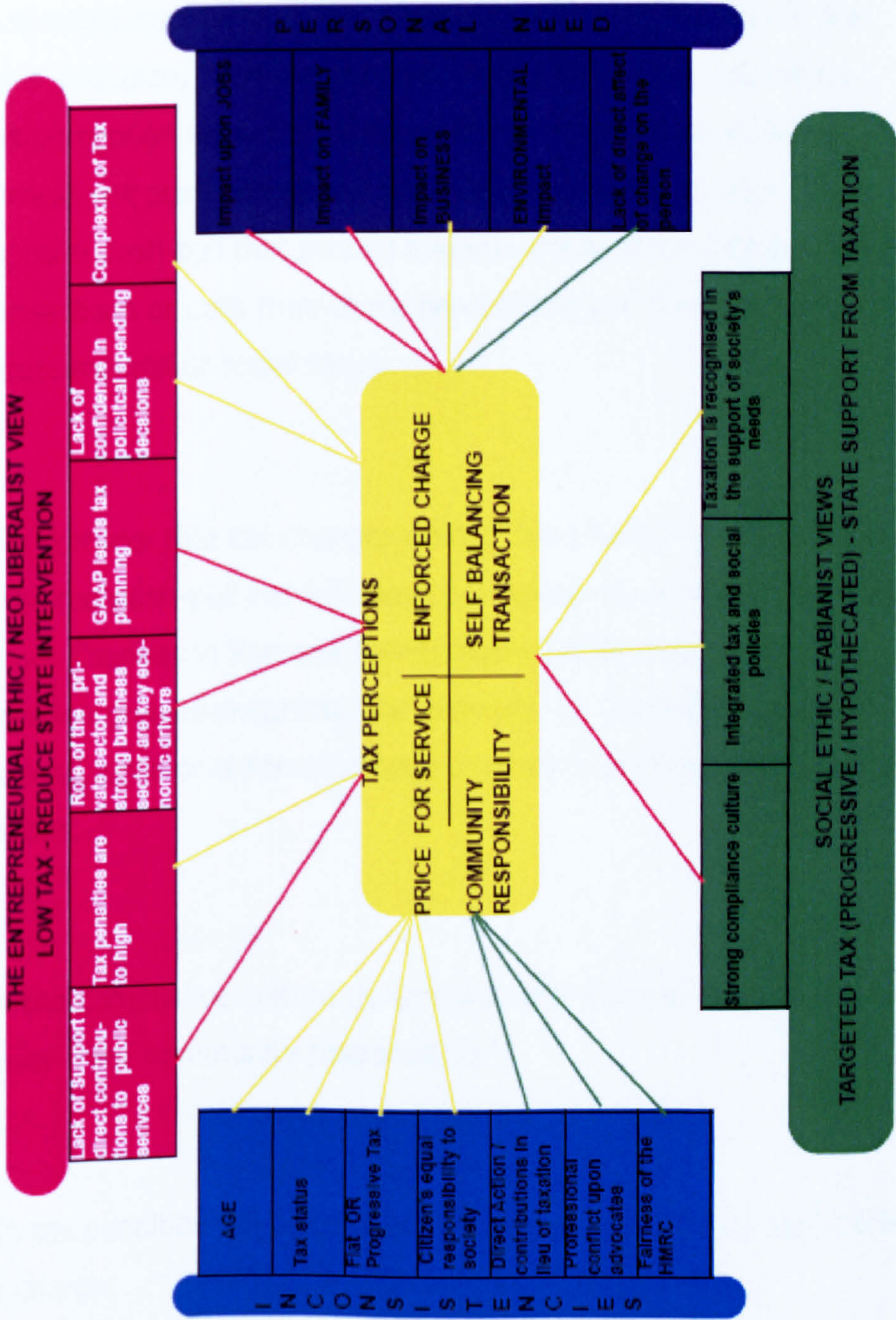
These influences are incorporated into a model, based upon the balanced score card concept, where the strength of influence is ascribed a colour:

**RED – indicates strong factors for change.**

**YELLOW – indicates a moderate factor for change**

**GREEN – indicating a positive, although weaker, factor for change.**

# Push Pull Tax Perception Model



The model incorporates 21 'push-pull' rods; 6 red, 11 yellow and 4 green. Each rod may be pushed or pulled to turn the order of the tax perceptions, with the force of the rod linked to the strength of the factors for change.

#### Example 1:

If respondents begin to consistently consider the HMRC to be fair the green push-pull will move the perception away from an 'enforced charge', provided there are no stronger counterbalances. The factor currently belongs in the 'inconsistencies' grouping, therefore a positive movement (e.g. improving fairness) pulls perception away from the enforced charge whilst a feeling of greater unfairness will push perception towards the enforced charge. There will be an opposite push-pull that pushes towards either social factors or self balancing transactions or pulls from these perceptions and therefore towards either an entrepreneurial or social focus.

#### Example 2:

If respondents consider that tax changes detract from family values or family wealth then the red push-pull rod will move perception towards the coercively imposed charge. Changes in Personal Needs push-pull factors will alter tax perceptions placing greater weighting, for example, on the entrepreneurial linked perceptions, price or enforced charge or away from these to the social focus perceptions.

#### Example 3:

If support for the compliance culture diminishes a red push-pull rod will move perception away from 'community responsibility'.

#### Example 4:

A reduction in tax penalties will pull socially linked perceptions and push away the enforced charge.

The model may be adopted by policy makers who can seek to balance (or skew) a range of tax changes red against red, yellow against yellow, to ensure the balance of perception does not change. Planned tax changes may be matched so that a red 'pull' factor increasing the entrepreneurial perceptions may be counterbalanced by improving the public's view of, for example, supporting the needs of society and supporting the environment (both yellow).

The current balance of perception, as discussed earlier in this chapter, reflects a heavy weighting towards the coercively enforced charge counterbalanced by social responsibility. By applying pressure to these push-pull rods this balance may be altered, even bringing to prominence the two less favoured perceptions.

**It is therefore concluded that the Push-Pull Tax Perception Model identifies the principal factors influencing the public's perception of taxation and provides an integrated basis for evaluating tax changes.**

**It is also concluded that the process of counterbalancing factors leads to an implicit hypothecation of tax raising policies wherever policy makers seek to maintain the existing weights supporting each perception.**

The 2008 budget was considered by the Financial Times and Daily Mail, amongst others, as neutral and unspectacular although the commentators focus upon individual changes and how each change may impact on the public. By mapping the 12 main budget tax changes the push-pull model shows a balanced weight of change. Table 11.1 demonstrates this balance:

**Table 11.1 Analysis of the 2008 Budget**  
**Number of Changes**

	Tax Increasing	Tax Decreasing
Progressive changes	1	6
Regressive Changes	4	1

Of the five regressive changes:

- Perception of 1 is influenced by impact on business (a yellow factor),
- Perception of 3 are influenced by impact on family (red factor)  
Perception of 1 is influenced by impact on the environment (yellow factor).

Of the seven progressive changes:

- Perception of 1 is influenced by impact on business (a yellow factor)
- Perception of 3 is influenced by impact on family (red factor) with 2 also influenced by impact upon business.
- Perception of 2 is influenced by impact on the environment (yellow factor)

The progressive tax increase and regressive tax reduction are both influenced by the impact on business.

'Inconsistency' factors from the Push-Pull model are not prominent in the 2008 budget although some spending decisions are, by implication targeting benefit on younger members of society.

Overall there is a balance of push-pull factors so the budget will not alter individual's perception of taxation. It may also be concluded that the budget failed to address Auderbach's guiding principle of timing of changes with only 36% of tax and spending changes having a short term impact and of those 2/3<sup>rd</sup> were socially focussed / tax reducing and 1/3<sup>rd</sup> tax increasing, although each of the changes are targeted at a sub-section of society (where business

is a sub section). So recognising the personal need factor where respondents change perception slower where there is no direct change upon them, there will be short term pressures within the Push-Pull model to change perception from elements within society but across all respondents the balance drawn from Table 11.1 remains valid.

## **Contribution to Knowledge**

According to the Quality Assurance Agency in 2001, doctorates are awarded for the creation and interpretation of knowledge; achieved by the conversion of description to analysis and from analysis to conceptualisation.

This research has focused upon a gap in knowledge, the integration of factors affecting perceptions of taxation; contemporary research focuses upon single influences, such as motivation, legal compliance and spending preferences. There are no instances of integrated research; even the 2000 research on taxation and citizenship had limited scope. The conclusion based upon the Push-Pull Tax Perception model addresses the gap in knowledge with a simple presentation of a complex conceptualisation. This model has been developed, and re-modelled, throughout the thesis; the initial basis for the model was drawn from a broad cross-section of literature and tested by the IR35 case study. The model was expanded from a detailed review of literature taken from within and outside of the traditional domain of taxation and finally developed by detailed evaluation of survey responses.

The Push-Pull Tax Perception model will have an important role for national and regional policy makers who make or influence taxation policy. The model provides a base measure to evaluate the psychological impact of tax changes on tax payers, so may balance the overall perceived impact of tax changes to minimise resistance against increases in burden OR to maximise positive reaction on tax reductions, progressive changes, changes that impact positively upon key variable factors such as family, business and age.

By converting responses from a small sample population, consistent and inconsistent responses have been analysed and categorised into influencing factors within a new conceptual model – the Push-Pull Tax Perception Model. Critics may argue that experienced observers of tax policy may conclude upon the impact of factors from intuition, and this may be true. However the model

is supported by the contemporary views of Sika (2006), Burton (2007) and Murphy (2007) who support the alignment of advocate and tax payer attitudes with governmental and social policy which, over time, should yield significant fiscal and social benefits.

The Push-Pull Tax Perception Model is subjectively applied but within a structure of objective factors so is consistent with the approach supported by the critical realist: a theoretical model with practical applications – based upon empirical evidence and evaluated by subjective discourse. Ultimate success of the model will be determined by longitudinal analysis to determine the real impact of real tax policy changes upon the views of respondents.

In Chapter 2 the ontological map of Perez, Rodrigues and Terrazas (2006) was introduced by focusing upon the range of alternative realities. Future researchers are challenged to evaluate the ontological map of taxation within an international context to then use their views of realities to modify the Push Pull Tax Perception Module within individual country environments.

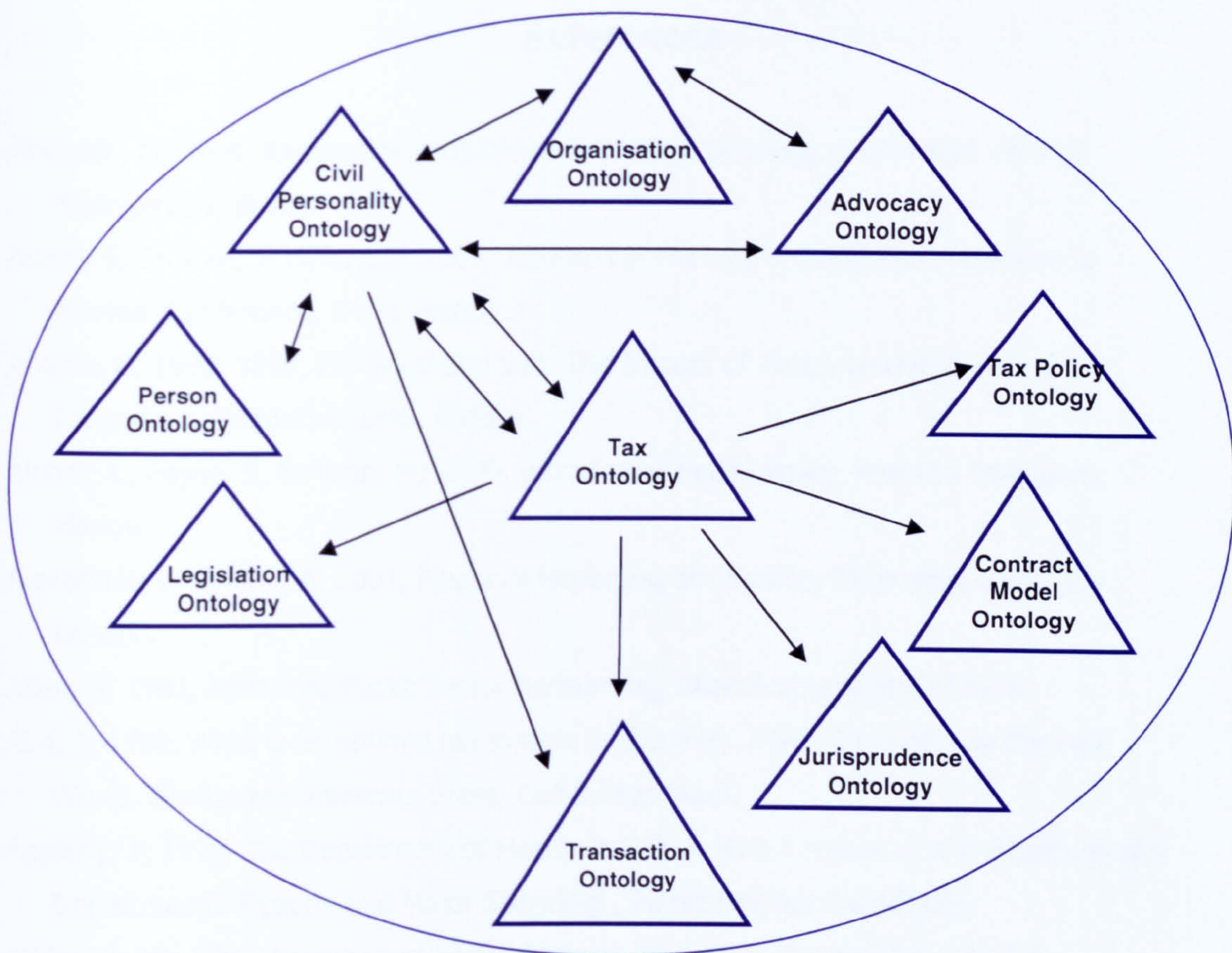


Figure 11.1 Ontological Map of Taxation

Concluding statement.

The process of the research undertaken has followed Lawton's (1997) two-factor model of a doctorate:

*As a masterpiece of **research apprenticeship** that is deliberately limited in scope, displaying **scholarly enquiry** AND that is a worthwhile learning experience and a cumulative **developmental process**.*

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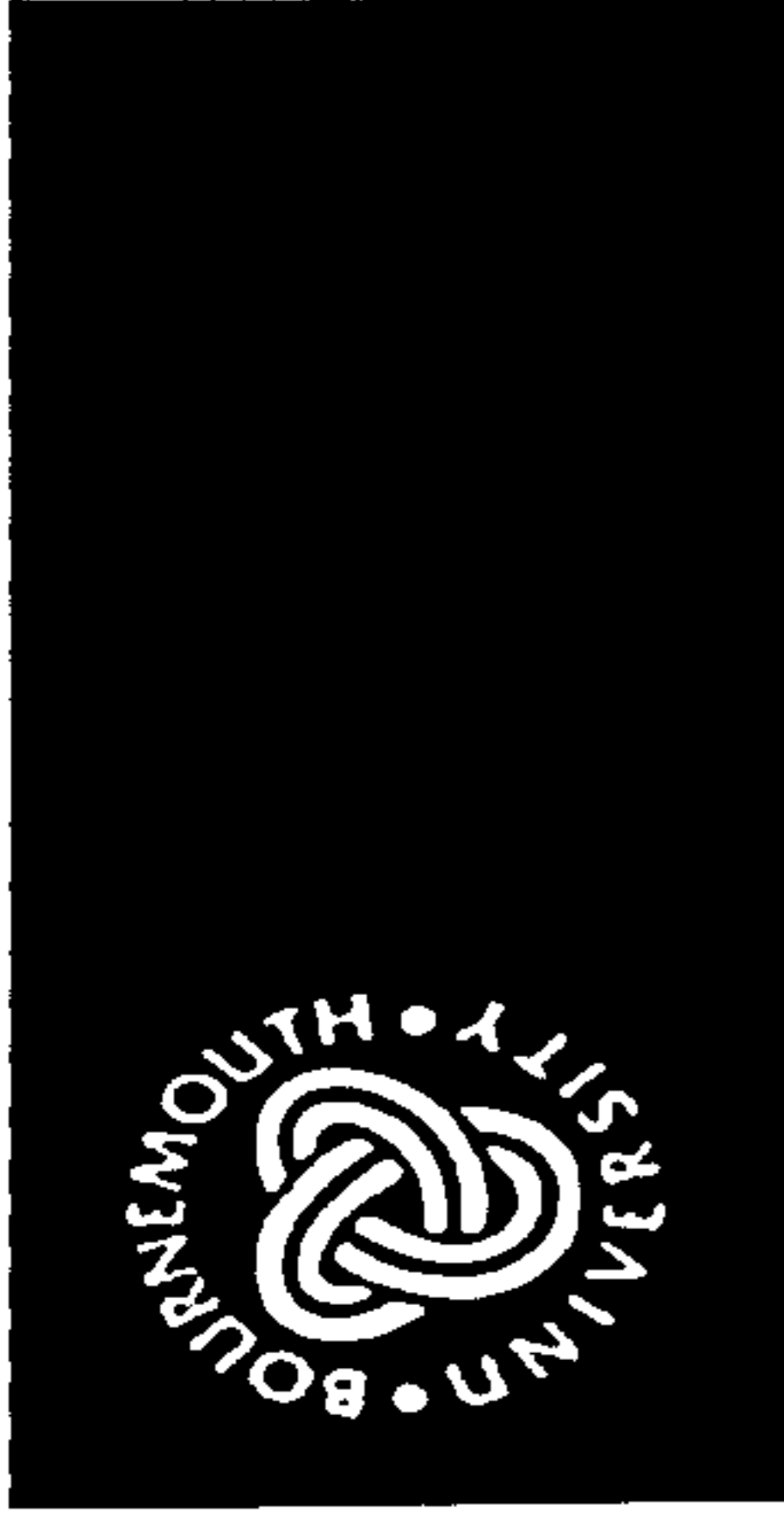
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**ANNEX 1**



Ashcroft International  
Business School

Advocat's Questionnaire



Q1	Please circle the most appropriate category that applies to your position.	Employee	Corporate Employer	Self Employed	Company Officer	Tax Advisor	Practice Accountant
Q2	Please indicate your age group	under 20	20 - 30	31-40	41- 50	51-65	65+
Q3	Please state gender	Male		Female			
Q4	Circle all that apply	have mortgage	Regular saver	married	married with dependants	single with dependants	single
Q5	Which sector do you mainly work with	Private service sector	Manufactoring	Public Service	Voluntary / Charity		
Q6	What, if any, formal training do you have in taxation	ATII  OTHER	FCCA / ACCA	FCA / ACA  NONE	CIMA	CPFA	



Q11	How do you rate recent tax changes? Score 1 for fully supporting the change to 5, Totally disagree	1	2	3	4	5	
		Introduction of the starting rate tax band of 10%					
		Potential Increase in basic rate tax					
		Increase in employers national insurance contribution					
		Increase in employees national insurance contribution					
		Removal of MIRAS					
		Removal of the Married Couples Allowance					
		Introduction of the Working Families tax credit					
		Treating single person companies as employees					
		Application of self assessment automatic penalties					
Q12	To what extent do you feel that the Inland revenue is a professional, fair and essential service?	1	2	3	4	5	
		1 for fully support to 5					



Should higher contributors of tax revenues be able to specify how tax revenues could be used?					
Should all taxpayers have the opportunity to specify how tax is to be used?					

- Please rank the following spending preferences:
- a) improve green environment
  - b) war against terrorism
  - c) education
  - d) Health & Social Services
  - e) support business growth
  - f) supporting the unemployed
  - g) emergency services
  - h) defence
  - i) Increase income of low earners
  - j) increase public sector pay
  - k) Support developing nations
  - l) transport

Q15

Rank 1

Rank 4

Rank 2

Rank 5

Rank 3

Q16	Did you support the demise of the Poll Tax	<div>YES</div>	<div>NO</div>	<div>NO OPINION</div>
Q17	Do you feel that users of public services should contribute more towards those Services? 1 for yes much more to 5 no users should contribute less as they are in need.	<div>1</div> <div></div>	<div>2</div> <div></div>	<div>3</div> <div></div>
		<div>4</div> <div></div>	<div>5</div> <div></div>	
Q18	Do you believe that the Thatcher government encouraged entrepreneurship	<div>YES</div>	<div>NO</div>	<div>NO OPINION</div>
Q19	Do you believe in the concept of private ownership as a core element to Economic success?	<div>YES</div>	<div>NO</div>	<div>NO OPINION</div>
Q20	Measure the extent of your support for the following proposals:  score 1 for fully support to 5 totally disagree  A flat AMOUNT of tax should be paid for all earners	<div>1</div> <div></div>	<div>2</div> <div></div>	<div>3</div> <div></div>
		<div>4</div> <div></div>	<div>5</div> <div></div>	



consumer spending?				
Score 1 for fully agree to 5 totally disagree				
Is it appropriate for the self employed and employed to be treated on the same basis of assessment				
YES		NO		
Q24				
Do you consider that taxes have significantly increased, as a proportion of income since 1992?				
YES		NO		DK
Q25				
Who benefits most from our taxes? Please circle ONE option		Business	Unemployed	Low wage earners
Q26		Average Earners		High Earners

Q27

Under what circumstances will you change your views on the appropriateness and fairness of UK taxes?

Score each from 1 (major influence) to 5 (no influence)

Impact upon your family					
Impact upon Business					
Impact upon jobs					
Impact upon the environment					
Other - please specify					

To what extent do you consider accountants and tax advisors are able to initiate complex tax planning and avoidance?

Q46

1	2	3	4	5

Major influence 1  
No influence 5

Do you believe taxation should be used to full support essential public services?

Q60

YES

NO

DON'T KNOW

To what extent should organisations who employ tax payers, themselves be subject to lower taxation and national insurance?

Q61

1	2	3	4	5

Fully agree with the statement 1  
totally disagree 5

Q62

Do you feel UK companies should have a greater role in the delivery and management of public services?

Score 1 for fully agree to 5 totally disagree

1

2

3

4

5

Q63

Do you consider Inland Revenue enquires are:

More / less targeted

Increasing / decreasing in occurrence

More / Less subject to negotiation

Q63

Does your organisation use ebternal tax advsiors

YES

NO

Q64

Please rank the following factors when designing your corportae tax planning

Maximise Profits

Minimise Tax

Minimise potential for revenue investigations

OTHER

please state

Do you believe taxation should be used as a primary tool to manage aggregate demand in the economy?	YES	NO	DK
---	-----	----	----

Q65	To what extent are your accounting policies chosen to optimise your tax position?					
1 - fully planned to optimise tax not a factor in managing tax	5-	1	2	3	4	5

Q66	Does your orgainsation evaluate the costs of complying with taxation legislation?	<div>YES</div> <div>NO</div>		<div>current estimate is</div> <div>£</div>
-----	---	------------------------------	--	---

Q67	Do you feel you are fully conversant with your organisations tax planning opportunities?							
	Fully conversant	1	No	1	2	3	4	5
	Understanding	5						
q68	Do you feel your staff will work harder / seek overtime if tax rates reduce and net pay increased?							
	Yes - work harder	1	No -	1	2	3	4	5
	work less	5						

## **ANNEX 2**

## Corporate Respondents Understanding our Attitudes to Tax

**Q2 What is your age? Please Circle:**   Under 30      30 – 40      41 – 50,      51-6      over 65

**Q3 Please indicate gender**                      MALE                      FEMALE

**Q5 What sector do you does your Organisation MAINLY in?**

Private Services                  Public Services                  Manufacturing                  Charitable / Voluntary

**Q6 Do you have any formal training in taxation?**                      YES                      NO

**Q7 Do you consider Inland Revenue literature to be**

Supportive and Understandable                  Useful                  Complex                  Not Sure

**Q8 What is your highest educational qualification?**

GCS/GCSE      A Level                  Degree                  Postgraduate      Professional award                  PhD

**Q9 Should the government's role in developing successful business be:**

Greater                  Same                  Less                  than at present?

**Q10 Please rank, 1<sup>st</sup> to 4<sup>th</sup>, the following statements in order of importance to you:**

- a) Every person has a responsibility to support the most disadvantaged                  RANK      \_\_\_\_\_
- b) Taxes should only provide a minimum level of public service                  RANK      \_\_\_\_\_
- c) A strong business sector will provide an environment to support society rather than government involvement                  RANK      \_\_\_\_\_
- d) Taxes should be used as a tool to reform social policy                  RANK      \_\_\_\_\_

**Q11 How would you rate recent or proposed changes in taxation? Score 1 for fully supporting the change to 5 where you totally disagree. Please tick**

	1	2	3	4	5
Introduction of a starting rate of 10%					
Increase in the basic rate of tax					
Increase in Employers national insurance contribution					
Increase in Employees national insurance contributions					
Removal of MIRAS					
Removal of Married Couples Allowance					
Introduction of Working Families tax credit					
Treating single person / owner companies in the same way as employees					
Application of automatic penalties					

**Q12 To what extent do you feel that the Inland Revenue is a professional and fair service? Score 1 for fully support to 5 totally disagree**

1	2	3	4	5

**Q13 Is Taxation becoming far less (score 1) or significantly more (score 5) complex?**

1	2	3	4	5

**Q14 Do all Citizens bear an equal responsibility towards society’s costs and needs?**

YES NO

**Please score the following statements 1 for fully support to 5 totally disagree**

	1	2	3	4	5
Should all higher earners pay more tax but at the same tax rate (%) as all earners?					
Should high earners pay a premium rate tax					
Should higher contributors of tax be able to specify how tax revenues should be used?					
Should tax payers be able to specify how tax revenues should be used?					

**Q15 Please rank your top 3 spending preferences**

Green Environment  
Business Growth  
Improve low incomes  
Transport

Terrorism  
Support Unemployed  
Pubic sector pay  
Other

Education  
Health & Social Services  
Emergency service  
International support

1<sup>st</sup> Rank
2<sup>nd</sup>
3<sup>rd</sup>

**Q16 Did you support the demise of the Poll tax?**

YES NO Don't know

**Q17 Do you feel that users of public services should contribute more towards those services?**  
1 for yes where users should pay for the economic costs of services received, to 5 where service users make no payment

1	2	3	4	5

**Q18 Do you believe that the Thatcher government encouraged entrepreneurship?**

YES NO NO OPINION

**Q19 Do you believe in the concept of private ownership as a core element to economic success?**

YES NO NO OPINION

**Q20 Please measure you support for the following proposals:**

Score 1 for fully support to 5 totally disagree

	1	2	3	4	5
A FLAT AMOUNT of tax should be paid by all earners					
A FLAT RATE of tax should be paid by all earners					
Tax rates should increase dependant upon levels of earnings					

Please circle ONE figure – should higher rates of tax commence at or above the following levels of annual earning?

£30000                      £50000                      £100000                      £150000

**Q21 To what extent do you consider political leaders fully appreciate society’s views when spending tax revenues? Score 1 for fully appreciate to 5 have no appreciation.**

1	2	3	4	5

**Q25 Do you consider that taxes have significantly increased as proportion if income since 1992?**

YES    NO    DON'T KNOW

**Q26 Who benefits most from our taxes? Please circle ONE option**

Business              Unemployed              Low wage earners              Average Earners              High Earners

**Q27 Please indicate the extent to which the following circumstances would change your views and opinions of taxation. Score 1 (major influence to 5 (no influence)**

	1	2	3	4	5
Impact upon your family					
Impact upon Business					
Impact upon jobs					
Impact upon the environment					

**QB1 To what extent do you consider accountants and tax advisors are able to initiate complex tax planning and tax avoidance. Major influence 1 / No influence 5**

1	2	3	4	5

**Qb3 Do you know how much it costs you to comply with your organisation’s tax obligations?**

Nil              under £1000              under £5000              under £10000              under £50000              More              No idea

Qb4 Has your organisation ever planned to avoid tax?  
YES NO please circle

Qb5 Has your organisation ever considered evading tax?  
YES NO please circle

Qb7 Do you believe in the concept that Business should pay lower tax to ensure national growth, and hence improved community services? Score 1 totally agree to 5 totally agree

1	2	3	4	5

Qb8 What was your organisation's last net profit figure? £\_\_\_\_\_

Qb9 Are you, corporately, prepared to pay more tax for improved state support of the Community?

YES NO

If yes what percentage increase would you pay? 1% 2% 3% 4% 5% more than 5%

Qb10 Do you believe the management of tax policy should be a key tool in managing all government policy?

YES NO NO OPINION

Qb14 Do you consider that you are fully conversant with your orgainsation's tax reduction opportunities?  
Score 1 for fully conversant to 5 no knowledge of tax affairs

1	2	3	4	5

Qb17 Tax penalties should become heavier rather than lenient?

Score 1 for Heavier to 5 More lenient

1	2	3	4	5

Qb18 Does your orgainsation or your tax advisor produce accounting statements with a primary aim of reducing your tax liability? Score 1 where it is a primary aim to 5 where accounting statements are prepared without planning for tax.

1	2	3	4	5

Qb20 After completing your corporate tax return have you ever been subject to a follow up enquiry?  
YES NO

**If YES**

**Did a higher tax liability arise from the enquiry?**      **YES**      **NO**

Were penalties enforced	YES	NO
-------------------------	-----	----

**Qc3 To what extent should organisations, who employ additional tax-payers, themselves be subject lower corporate tax and national insurance. Score 1 fully agree to 5 totally disagree.**

1	2	3	4	5

**Qc4 If figures are readily available can you say, to the nearest thousand, state your organisation's:**

Turnover £(000) \_\_\_\_\_

**Profit** £(000) \_\_\_\_\_

ER NIC £(000) \_\_\_\_\_

EE NiC £(000) \_\_\_\_\_

Income Tax collected £(000) \_\_\_\_\_

**Corporation Tax** £(000) \_\_\_\_\_

**VAT inputs + output tax** £(000) \_\_\_\_\_

**Qc6 Do you consider Revenue enquires are becoming:**

### Increasing or decreasing in frequency

### More or less targeted

**More or less subject to negotiation**

1	2	3	4	5

**Qc7 Does your organisation use external tax advisors?**

YES NO

**Qc8 Please ranks the factors in your corporate tax planning strategy:**

Maximise profits Rank \_\_\_\_\_

Minimise taxation Rank \_\_\_\_\_

Minimise potential for tax enquiry Rank\_\_\_\_\_

**Balanced approach to recognise responsibilities to the Community** Rank\_\_\_\_\_

Other (please specify) \_\_\_\_\_ Rank \_\_\_\_\_

**Qc10 To what extent are accounting policies chosen to optimise the tax position? Score 1 if tax policies lead accounting policies to 5 if tax has no bearing upon accounting policy.**

1	2	3	4	5

**Qc11 Can you estimate your organisation’s cost of tax compliance?    £\_\_\_\_\_**

**Qc13 Do you consider your staff to be motivated by lower taxes? Score 1 fully motivated to 5 no impact.**

1	2	3	4	5

## ANNEX 3

Employees - Understanding our Attitudes to Tax

Q1 Please circle the category that best reflects your position:

Employee                  Employer                  Self Employed                  Company Officer

Q2 What is your age? Please Circle:    Under 30        30 – 40    41 – 50,    51-6        over 65

Q3 Please indicate gender                  MALE                  FEMALE

Q5 What sector do you MAINLY work in?

Private Services                  Public Services                  Manufacturing                  Charitable / Voluntary

Q6 Do you have any formal training in taxation?                  YES                  NO

Q7 Do you consider Inland Revenue literature to be

Supportive and Understandable                  Useful                  Complex                  Not Sure

Q8 What is your highest educational qualification?

GCS/GCSE        A Level                  Degree                  Postgraduate        Professional award                  PhD

Q9 Should the government's role in developing successful business be:

Greater                  Same                  Less                  than at present?

Q10 Please rank, 1<sup>st</sup> to 4<sup>th</sup>, the following statements in order of importance to you:

- a) Every person has a responsibility to support the most disadvantaged                  RANK        \_\_\_\_\_
- b) Taxes should only provide a minimum level of public service                  RANK        \_\_\_\_\_
- c) A strong business sector will provide an environment to support society rather than government involvement                  RANK        \_\_\_\_\_
- d) Taxes should be used as a tool to reform social policy                  RANK        \_\_\_\_\_

Q11 How would you rate recent or proposed changes in taxation? Score 1 for fully supporting the change to 5 where you totally disagree. Please tick

	1	2	3	4	5
Introduction of a starting rate of 10%					
Increase in the basic rate of tax					
Increase in Employers national insurance contribution					
Increase in Employees national insurance contributions					
Removal of MIRAS					
Removal of Married Couples Allowance					
Introduction of Working Families tax credit					
Treating single person / owner companies in the same way as employees					

Application of automatic penalties					
------------------------------------	--	--	--	--	--

**Q12 To what extent do you feel that the Inland Revenue is a professional and fair service? Score 1 for fully support to 5 totally disagree**

1	2	3	4	5

**Q13 Is Taxation becoming far less (score 1) or significantly more (score 5) complex?**

1	2	3	4	5

**Q14 Do all Citizens bear an equal responsibility towards society’s costs and needs?**

YES NO

**Please score the following statements 1 for fully support to 5 totally disagree**

	1	2	3	4	5
Should all higher earners pay more tax but at the same tax rate (%) as all earners?					
Should high earners pay a premium rate tax					
Should higher contributors of tax be able to specify how tax revenues should be used?					
Should tax payers be able to specify how tax revenues should be used?					

**Q15 Please rank your top 3 spending preferences**

Green Environment  
Business Growth  
Improve low incomes  
Transport

Terrorism  
Support Unemployed  
Pubic sector pay  
Other

Education

Health & Social Services  
Emergency service  
International support

1<sup>st</sup> Rank
2<sup>nd</sup>
3<sup>rd</sup>

**Q16 Did you support the demise of the Poll tax?**

YES NO Don't know

**Q17 Do you feel that users of public services should contribute more towards those services? 1 for yes where users should pay for the economic costs of services received, to 5 where service users make no payment**

1	2	3	4	5

**Q18 Do you believe that the Thatcher government encouraged entrepreneurship?**

YES NO NO OPINION

**Q19 Do you believe in the concept of private ownership as a core element to economic success?**

YES NO NO OPINION

Q20 Please measure you support for the following proposals:

Score 1 for fully support to 5 totally disagree

	1	2	3	4	5
A FLAT AMOUNT of tax should be paid by all earners					
A FLAT RATE of tax should be paid by all earners					
Tax rates should increase dependant upon levels of earnings					

Please circle ONE figure – should higher rates of tax commence at or above the following levels of annual earning?

£30000 £50000 £100000 £150000

Q21 To what extent do you consider political leaders fully appreciate society's views when spending tax revenues? Score 1 for fully appreciate to 5 have no appreciation.

1	2	3	4	5

Q24 Is it appropriate for self employed and employed to be treated on same basis of taxation?

YES NO

Q25 Do you consider that taxes have significantly increased as proportion if income since 1992?

YES NO DON'T KNOW

Q26 Who benefits most from our taxes? Please circle ONE option

Business Unemployed Low wage earners Average Earners High Earners

Q27 Please indicate the extent to which the following circumstances would change your views and opinions of taxation. Score 1 (major influence to 5 (no influence)

	1	2	3	4	5
Impact upon your family					
Impact upon Business					
Impact upon jobs					
Impact upon the environment					

QB1 To what extent do you consider accountants and tax advisors are able to initiate complex tax planning and tax avoidance. Major influence 1 / No influence 5

1	2	3	4	5

QB2 Do you complete a self assessment tax return? Please circle

YES, by myself,

Yes with professional advise

No

**Qb3 Do you know how much it costs you to comply with your tax obligations?**

Nothing / own time

under £100

under £1000

under £10000

More

No idea

**Qb4 Have you ever planned to avoid tax?**

YES

NO please circle

**Qb5 Have you ever considered evading tax?**

YES

NO please circle

**Qb6 Would you be prepared to undertake unpaid community work in lieu of tax?**

YES

NO

NO OPINION

**Qb7 Do you believe in the concept that Business should pay lower tax to ensure national growth, and hence improved community services? Score 1 totally agree to 5 totally agree**

1	2	3	4	5

**Qb8 What is your gross earned income?**

£ \_\_\_\_\_

**Qb9 Are you prepared to pay more tax for improved state support of the Community?**

YES

NO

**If yes what percentage increase would you pay?** 1% 2% 3% 4% 5% more than 5%

**How much, per month, would you be prepared to pay?** £5 £10 £20 £30 £40 over £40

**Qb10 Do you believe the management of tax policy should be a key tool in managing all government policy?**

YES

NO

NO OPINION

**Qb14 Do you consider that you are fully conversant with your tax reduction opportunities?**  
Score 1 for fully conversant to 5 no knowledge of tax affairs

1	2	3	4	5

**Qb15 If tax rates reduce by 5% would you be inclined to work harder or longer hours?**  
Score 1 for definitely work harder to 5 work less hard

1	2	3	4	5

**Qb17 Tax penalties should become heavier rather than lenient?**

Score 1 for Heavier to 5 More lenient

1	2	3	4	5

## Annex 4

345

345

345

Q	Group	Question	P1	P2	P3	P4	P5	P6	P7	P8
		Please circle the category which best reflects your status in completing this Questionnaire.								
A1	All	Employee, employer, self employed, company representative, Tax advisor / accountant	Y	Y	Y	Y	Y	Y	Y	Y
		What is your age? Please circle								
A2a	All	U20 20-30 31-40 41-50 51-65 65+	Y	Y	Y	Y	Y	Y	Y	Y
A2b	All	Please indicate gender MALE FEMALE	Y	Y	Y	Y	Y	Y	Y	Y
		Circle all that apply:								
		Have mortgage regular saver married married with dependants								
A3	All	Single with dependants single	Y	Y	Y	Y	Y	Y	Y	Y
		Which sector do you MAINLY work in?								
		Private services private manufacturing								
A4	All	Public services voluntary / charitable		Y				Y	Y	Y
		What formal experience do you have in taxation training?								
A5	All	ATII FCCA ACA CIMA CIPFA OTHER NONE	Y						Y	Y
		Do you consider Inland revenue literature to be:								
		Supportive and understandable useful complex								
A6	ALL	Never used never seen								Y

		What is your highest educational qualification?										
A7	AII	Higher degree / professional qualification / first degree / FE award A Level / GCE OR GCSE    None of these					Y		Y			Y
		Should Government's role in operating successful business be:										
		Greater                      Same                      Less										
A8	AII	Than at present	Y	Y					Y			Y
		Rank the following statements in order of importance to you:										
		a) Every person has a responsibility to support the most disadvantaged RANK _____										
		b) Taxes should provide a minimum level of public service RANK _____										
		c) A strong business sector will provide an environment to support societies needs rather than government involvement RANK _____										
		d) Tax should be used to reform social policy RANK _____										
A9	AII			Y					Y			Y







A24	All	Do you consider that taxes have significantly increased, as a proportion of income since 1992?	Y	N	DK									
A25	All	Who benefits most from our taxes? Business / unemployed / low wage earners / average earners / high earners	Y					Y						
A26	All	How much extra effort do you undertake to ensure your tax affairs are dealt with Correctly? Little effort 1 substantial effort 5												Y
A27	All	Under what circumstances will you change your views on the appropriateness and fairness of UK taxes? Please rank the following: Impact upon your family Impact upon Business Impact upon jobs Impact upon the environment Other - please specify											Y	
B1	Ind.	To what extent do you consider accountants and tax advisors to be able to initiate complex tax planning and avoidance?	Y											

		Score 1 for fully able to develop new concepts to 5 as only able to function within Prescribed rules and regulations.																		
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B2	Ind	Do you complete a self assessment form?	Y	N																	Y
		If Y is it completed	With professional advice	Sept	Sept	Dec	Dec														
			without advice																		
B3	Ind	How much does it cost to comply with your tax affairs?																			Y
		nothing / own time	u£100			u£1000															
		u£10000	o £10000			no idea															
B4	Ind	Have you ever planned to avoid tax?	Y	N																	
B5	Ind	Have you ever considered evading tax?	Y	N																	
		Would you be prepared to undertake unpaid community work in lieu of tax?																			
B6	Ind	Y	N	DK																	
		Do you agree that business should pay lower amounts of tax to ensure national																			
B7	Ind																				



		Ask the IR to calculate your liability Y / N b) find the SA returns easy / simple difficult but achievable require expert completion tick which applies								
		Please tick if you have not received a return in the last 3 years.								
		After completing your self assessment form have you been subject to IR enquiry within the last 5 years?								
B13	Ind	Annually / once / twice / more than twice					Y			Y

B14	Ind	Do you consider that you are fully conversant with your tax reduction Opportunities? 1 fully conversant to 5 no knowledge of tax affairs					Y				Y
		If tax rates reduce by 5% would you inclined to work harder or longer hours? Score 1 to will definitely work harder and longer to 5 working less hard and fewer hours									
B15	Ind	Hours					Y			Y	
		Do you feel that Business should take a greater role in management and Delivery of public services? Score 1 to fully agree to 5, totally disagree.							Y	Y	
B16	Ind	Tax penalties should become heavier rather then lenient!					Y				
		Score 1 for totally agree to 5 totally disagree									
B17	Ind	To what extent do you consider accountants and tax advisors to be able to initiate complex tax planning and avoidance?							Y	Y	Y
C1	ERS						Y	Y			









		Demand?	Y	N	DK												
D12	ADV		Do you select accounting policies to optimise tax positions Y/N														
			IF N to D13														
			Do you a) believe that accounting standards support and harmonise with														
			Tax law 1 agree to 5 disagree														
D13	ADV		b) accounting standards maximise tax liability 1 agree to 5 disagree														
			Approximately what proportion of practice time is spent														
			compiling accounts _% tax planning __% creating avoidance														
D14	ADV		schemes _%														