

Mind the Age Gap!

Phyllis Alexander, Merima Balavac, and Andy Lymer provide guidance on how to improve tax literacy and tax morale in young adults.

Key Points

What's the issue?

Can tax literacy help to improve tax morale and compliance in young people?

What does it mean to me?

Why HMRC evidence suggests they are being successful in recent year in reducing the tax gap this study explores the value of tax literacy development in young people about to enter the workforce in helping to continue this trend.

What can I take away?

Improving tax literacy can make a difference - could I take a more active role in addressing low levels of tax knowledge and tax morale in the next generation of taxpayers?

Do young people understand enough about tax to be able them to fully engage as taxpayers in the debate about where our tax system should go in the future?

Since 2014 financial education has been mandated in state-maintained secondary schools in England (with similar arrangements having been in place in Scotland, Wales and Northern Ireland before this). Teaching materials, such as *Tax Facts* from HMRC¹ is now used in the best of these Schools to bring tax education into wider financial education. However, a recent study by the All Party Parliamentary Committee on Finance Education for Young People² found that this was far from being a 'job done' as few young people still left school with adequate financial education – let alone adequate knowledge of how the tax system works as a part of the knowledge they took with them into the adult working world.

We addressed the impact this might have on the ability for the public to engage fully in a tax debate in a previous Tax Adviser article (December 2015³) but a wider question of how we

¹ <https://www.tes.com/teaching-resource/tax-facts-teachers-pack-11075252>

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<https://www.young-money.org.uk/sites/default/files/APPG%20on%20Financial%20Education%20for%20Young%20People%20-Final%20Report%20-%20May%202016.pdf>

³ <https://www.taxadvisermagazine.com/article/public-attitudes-tax-%E2%80%93-who-cares>

achieve effective tax knowledge improvements is one that still needs answering. This article reports on a CIOT funded study to answer this question, at least partially – reviewing the effect of tax education on groups of young people about to enter adult working life (they hope) as they graduate from University.

It is very likely that to change the tax knowledge of large numbers of taxpayers, tax education should be introduced early and reinforced and enhanced through people's life times.

The range of taxes people need to engage with is not decreasing. According to the UK's Office of National Statistics (ONS), there has been an increase in the number of self-employed by approximately 40% since the turn of the century. With an increasing number of individuals engaging in trade in lieu of employment, tax education will play an important role in the personal and professional development of upcoming entrepreneurs. Further, with *Making Tax Digital* coming into fruition next year, and with a significant reduction in the number of taxpayer assistants at HMRC in recent years, being replaced with self-help solutions such as online support, it is arguably more imperative than ever to raise the levels of financial and tax literacy before young people leave school and higher education.

Unfortunately, general tax awareness within the UK is hindered by the very nature of our tax system. The majority of UK residents, who are employed with modest savings and investments, do not need to file self-assessment income tax returns given the personal and investment exemptions and the precision of Pay as You Earn (P.A.Y.E.) withholding on their earnings. This hasn't been lessened by the recent expanding of the allowances for dividends and savings taking even more people out of direct engagement with the tax system. Further, ask many young people if they pay tax and they will say 'no' (what about VAT?). Therefore, the questions we need to ask are:

- How tax aware are young people?
- How may their tax literacy and tax morale (i.e. motivation to pay taxes) be improved before they enter the job market?

The CIOT recently funded academic research into the inter-relationships of financial and tax literacy, tax morale and tax compliance attitudes of young people at University⁴. The diverse groups of students surveyed were asked a series of questions on financial and tax issues to establish levels of general and specific knowledge, tax ethical questions to establish proxies for tax morale, and questions in which perceptions and personal preferences on tax structure were determined.

The results showed that gender, tax tuition, and employment experience all influence tax morale. Female respondents to the survey tended to have higher tax morale in comparison

⁴ <https://www.tax.org.uk/policy-and-technical/grant-and-sponsorship-funding-applications>

to the male respondents. Interestingly, even before any tax tuition is given, students enrolled on accounting courses have lower tax morale in comparison to those enrolled on other courses that were surveyed. Those respondents that had employment experience tended to have a higher level of tax morale in comparison to those without employment experience.

The study showed that there is a general perception among the young people surveyed that the UK individual tax system is fair, but complex and the rates are too high. This is particularly strong for those in employment, regardless of whether or not they have completed tax returns. Alarming, the majority of respondents do not have a high regard for the tax compliance of others as they assume between 21% and 60% of taxpayers underpay their taxes. Further, over half of the respondents would cheat themselves by paying cash to a plumber if that would exclude VAT from the invoice.

While the researchers were unable to conclude enhanced literacy is associated with enhanced tax morale, the results nevertheless demonstrated marginal improvements in this regard also. This may be a point of interest to academics as they review and revalidate their curricula. The authors believe that incorporating ethics into accounting and tax education is essential at every level in higher education and that reflection on ethical behavior should be considered within most modules.

The results of this study suggest that taxpayer education should be introduced at least as part of University education – and arguably not just for those studying business, economics or accounting. While the UK Government and the CIOT are already actively engaged in improving the tax literacy of young people, there is more that could be done in this area that may also positively impact taxpayer compliance and morale.

Four recommendations to the CIOT were made by the academics commissioned to the conduct this research:

1. Enhance the *Tax Guide for Students* (provided by the Low Income Tax Reform Group - LITRG) to include a general introduction to public finance to highlight the link between good citizenship and good tax morale and increase its exposure;
2. Collaborate with other professional organisations on developing a web-based, interactive mechanism to engender a better understanding of the interconnection between tax and public expenditure;
3. Collaborate with the National Union for Students and the National Association of Student Money Matters in designing, developing and delivering extra-curricular tax courses in higher education;
4. Collaborate with HMRC in evaluating, expanding and enhancing their *Tax Facts* initiative in secondary schools.

The website offering a *Tax Guide for Students*, is an excellent source of reliable information and helpful links. It suffers however from restricted exposure. Last year (11 July 2017 to 11 July 2018), the site had 552,080 users viewing 874,403 pages between them, according to Sophia Bell, Digital Content Manager of the CIOT. While this may appear to be a

considerable number of hits, there are well over 5 million 18-24 year olds in the UK⁵ with 2 million students in higher education⁶. That equates to less than 10% seeking the free and reliable advice provided by the CIOT.

Ten percent of the students surveyed did not know where to turn to for advice (other than their parents) and nearly 30% identified the internet, without specifying a reliable source such as the CIOT or the Government websites.

Alexis Drayson, Advice Manager of the Student Union at Bournemouth University (SUBU) says, “The Students’ Union Advice Service at Bournemouth University signposts students to the Tax Guide for Students website, with most enquiries related to refunds and international students applying for a NI number. Having a reputable source of information is essential when providing advice, and having something solely dedicated for students makes the information far more accessible and meaningful.” Unfortunately, the researchers have since found that other student unions are either not aware or do not readily signpost to the CIOT *Tax Guide for Students*.

The second recommendation made by the researchers is for the provision of nationwide, extracurricular tax tuition in higher education. This may be done in conjunction with providing more general personal financial guidance and support for all students at University. The National Union of Students and the CIOT might consider a collaboration to undertake this. The LITRG would appear to be well placed to assist in the development of suitable training materials and linking to the resources provided on their website. CIOT members or local branches might consider working with their local University Student Unions to better educate students on tax matters.

The third recommendation, and to ensure the greatest impact of raising the general financial and tax literacy of young people is achieved, a comprehensive programme should be embedded in secondary schools’ curricula. This will target all young people before they enter the job market, regardless of whether they go on to higher education.

The development and dissemination of *Junior Tax Facts*⁷ and *Tax Facts* have been admirable initiatives taken by HMRC in raising tax awareness in primary and secondary school-children, respectively. There remains, however, a gap in the desired knowledge and understanding of young people entering the job market. Of particular concern are those that will opt for self-employment and be required to engage with HMRC through *Making Tax Digital* from 2019.

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/timeseries/jn5q/lms>

⁶ <https://www.universitiesuk.ac.uk/facts-and-stats/Pages/higher-education-data.aspx>

⁷ https://www.youtube.com/watch?v=C3_VwZ-Cmac

The inherent obstacles to overcome with respect to our third recommendation are time limitations within the national school curricula, limitations of public finances that would be required for effective programme design and the limitations of human resources for delivery. The last limitation may be effectively addressed with further development of the use of technology and building on the *Junior Tax Facts* and *Tax Facts* Programmes. These programmes, while excellent starting points for introducing concepts, would benefit from interactive enhancements, expansion and 'next-stage' initiatives. Taxpayer education is most likely to be recognised as a continuous process and further development and new initiatives are warranted.

Modern media offers a number of opportunities. HMRC, the CIOT and its members should continue to broadcast webinars and tax tutorials through their respective websites and through YouTube. Twitter is being used as an effective tool to timely communicate updates and signpost to sites providing more information and promote online services. These tools, while excellent, are only effective if there exists a wide spread general awareness of tax issues and the available and reliable help tools.

The implementation of *Making Tax Digital* next year necessitates tax-awareness across the UK, and the place to start is with the younger generation: the future employees, apprentices and entrepreneurs, while they are still in the classroom.