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Towards an understanding of the tax practitioner-client role relationship:
A role analysis

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Doctor of Philosophy
of
The Australian National University

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Declaration

This thesis is the product of my own work. All sources used have been acknowledged within the text and in the references.

Lin Mei Tan

2009
 Acknowledgements

Pursuing a PhD part time requires not only hard work from the candidate but also a lot of moral support from family members, friends and colleagues. Therefore, I would like to say thanks to all who have, in one way or another, offered me some encouraging words towards my accomplishment of this degree.

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single-handedly brought up eight of us after my father passed away when I was only three years old. The amount of sacrifice she had made for all of us is beyond imagination. My sisters and brothers who in the past had worked hard to support the younger members of the family are not forgotten and I am grateful to each of them for their continuous support.

"The love of a family is life's greatest blessing!"
Abstract

Over the years, as tax law has increased in complexity, an increasing number of taxpayers are consulting tax practitioners for help with tax affairs. Yet many tax compliance studies have not incorporated the practitioners’ impact on taxpaying behaviour. To bridge the gap in the literature, this thesis investigates the practitioners’ and the business taxpayers’ roles and relationship using a Tax Practitioner-Client Role Model. This Model is used as a framework for developing a mail survey sent to a sample of business taxpayers and an independent sample of tax practitioners to collect data on their role expectations, experiences and practices, and factors affecting their roles in a tax setting.

The findings show that aggressive tax decisions arise from complex interplay between taxpayer and tax practitioner. Practitioners adapted their decision making to suit cautious or aggressive clients. Their assessment of the likelihood of clients being audited or sanctioned was associated with giving advice that is more conservative or more aggressive, but these effects disappeared when practitioners’ own risk propensity was taken into account. Practitioners’ firm size was also associated with more cautious or more aggressive advice giving. In comparison, taxpayers’ own risk propensity and perceived risk of sanctions predicted their decisions to accept or reject their practitioners’ aggressive advice.

While individual characteristics of taxpayers and practitioners were important in making particular decisions, interactions between them took place against a background of shared understandings of roles as well as some misunderstandings. The strongest evidence of shared understandings was found through the dimensions that defined expectations, experiences and practices. Both practitioners and taxpayers conceptualised the other in terms of three dimensions of ‘demands’ and ‘responses’: technical proficiency, cautious advice giving, and aggressive advice giving in this order of importance. Both practitioners and taxpayers concurred on the order, but when it came to deciding whether taxpayers received what they expect from their practitioners and whether practitioners delivered on what they perceived to be their clients’ expectations, some interesting ambiguities and conflicts emerged.
Taxpayers want all three types of advice, but considered that practitioners fell short of the performance standards expected. Only the technically proficient gap and trust in practitioners affected satisfaction with practitioners’ services. This finding implies that a trusting relationship coupled with a competent practitioner is what helps to establish a good practitioner-client relationship.

Tax practitioners perceived themselves differently from the way taxpayers perceived them. They saw themselves as being technically competent, more cautious, and less aggressive in giving tax advice than expected. This finding possibly reflects that practitioners are adept at adapting to their clients, and perhaps even weeding out clients who are not likely to work cooperatively. Qualitative data showed that practitioners are well versed in persuading, listening to, and negotiating with clients. Interactions between a practitioner and client not only affected the ultimate decision made by the client but also helped to resolve role conflict. Interaction is indeed part and parcel of the whole decision making process.

Future research that delves into the dynamics of the practitioner-client relationship might focus on a set of dyads where two specific questions are asked: how is the trust relationship built and maintained from the perspective of each actor and how is the risk taking and uncertainty of each negotiated while preserving this relationship. This thesis was unable to draw on practitioner-client pairs for data collection and had to rely on independent, albeit much larger random samples. Having established the importance of both trust and risk taking in this thesis, the next step is to return to a more limited set of dyads to tease out complexities in the ways in which these variables interact with each other.
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Chapter 1
The Role Demands and Behaviour of Taxpayers
and Tax Practitioners

1.1 Background to the study

Tax noncompliance is an area of worldwide concern, as it not only widens the gap between the budgeted and actual tax revenue, but also undermines the government’s capacity to achieve other fiscal aims such as economic growth and income redistribution. With a self assessment tax system in place in many countries, the amount of tax revenue collected depends on the compliance behaviour of taxpayers. For those who engage the assistance of a tax practitioner, taxpayers’ behaviour could also be influenced by him/her.

Prior studies on tax practitioners, conducted predominantly in the United States (US),\(^1\) indicate that they exert considerable influence on taxpayers in the tax compliance process. By assuming an advisory role, they have a unique opportunity to enhance or dampen taxpayers’ propensity to be aggressive (Kaplan, Reckers, West and Boyd 1988; LaRue and Reckers 1989). When aspects of tax law are unambiguous, they tend to adopt the role of “enforcers” but when aspects of the law are ambiguous, they tend to be more “exploiters” (Klepper, Mazur and Nagin 1991).

However, tax practitioners’ willingness to exploit the tax law may be driven by various factors such as clients’ preference for type of advice, clients’ characteristics and practitioners’ characteristics (Cruz, Shafer and Strawser 2000; Milliron 1988). For instance, tax practitioners were found to provide aggressive (or conservative) advice to aggressive (or conservative) clients (LaRue and Reckers 1989; Schisler 1994). Such insights elicited from tax practitioners suggest that taxpayers are the instigators of aggressive tax advice. It is interesting to note that, in studies in which the views of taxpayers have been assessed it is reported that they prefer conservative rather than

\(^1\) More recently, several researchers (for example, Braithwaite 2003; Braithwaite 2005; Murphy and Byng 2001; Sakurai and Braithwaite 2003) from the Centre for Tax System Integrity at the Australian National University have conducted a number of studies which relate to tax practitioners’ role in taxing paying behaviour.
aggressive advice (Hite and McGill 1992; Sakurai and Braithwaite 2001; Tan 1999). Preference for conservative advice appears to be consistent with the literature, which indicates that one of the main reasons why taxpayers engage a tax practitioner is to file a correct tax return. Ironically, in spite of this motive, some studies show that taxpayers who prefer conservative advice still accept whatever types of advice their practitioner recommends (Tan 1999). Braithwaite (2005), who interviewed tax promoters and advisers in Australia and the US, provides an explanation of how aggressive advice can at times be demand driven and at times supply driven. His data support the view that aggressive advice can be demand driven for boutique shelter products (that is, those that are crafted in response to demand articulated by wealthier clients). However, when they are finessed to the point of being suitable as mass marketed schemes, they have a roller-coaster history. Initially they are supply driven and become demand driven when other taxpayers come to know about these schemes and how well they work. Whether aggressive advice is demand or supply driven, it further affirms the key role practitioners play in taxpaying behaviour.

In addition to analysing taxpayer preferences for conservative or aggressive advice, researchers have investigated characteristics of practitioners and the environments in which they operate. The results, however, are inconclusive as to whether or not for instance, those affiliated with a professional body (such as Certified Public Accountants (CPAs) in the US) are more aggressive than those who are not (Ayres, Jackson and Hite 1989; Cuccia 1994), or whether client importance, probability of audit and severity of penalty have an effect on practitioners’ willingness to recommend aggressive tax positions (Bandy, Betancourt and Kelliher 1994; Reckers, Sanders and Wyndels 1991).

The diversity of these findings implies that not only do the needs or expectations of taxpayers differ but also the types of advice given by practitioners differ. What the literature to date tells us is that aggressive tax advice can be both supply and demand driven. Taxpayers’ decisions to adopt aggressive advice and tax practitioners’ willingness to provide aggressive advice could further be mediated by a number of other factors. It also appears that both parties can exert influence on each other and that the tax position adopted by the taxpayer is likely to be determined to a considerable degree by the “team play” between taxpayers and their practitioners (Sakurai and Braithwaite 2003). However, the lack of a conceptual framework in many studies and the lack of studies conducted outside
the US and Australia make it difficult to draw generalisations about the working relationships between taxpayers and tax practitioners, and the influences on each other of their behaviour. To contribute to the literature in this area, this study focuses on New Zealand taxpayers, tax practitioners, and their roles and relationships.

1.2 Research problem, aims and objectives

In New Zealand (NZ), the absence of regulatory control over who can prepare a tax return allows taxpayers a number of options. They may prepare their tax returns themselves (with or without any help from unpaid third parties), or engage a tax practitioner such as an accountant (who may, or may not, be a Chartered Accountant), a tax lawyer or other types of tax practitioners to assist them. With the complexity of the New Zealand tax system, particularly since the mid-1980s, it is not surprising to find that the number of taxpayers seeking the assistance of tax practitioners has grown (NZ Inland Revenue Department 2001).

In a competitive market, practitioners certainly would want to act in the interests of their clients. Therefore, most practitioners would see their primary role as assisting their clients to manage their taxation affairs in such a way that they pay no more tax than the law requires. How each practitioner arrives at the point where his/her clients ‘pay no more tax than the law requires’ clearly requires judgement, particularly in cases where the tax law is ambiguous. For instance, some practitioners may consider creative compliance, which is complying with the letter of the law but not its spirit or purpose, as perfectly legitimate whereas some may not (Marshall, Armstrong and Smith 1998; McBarnet 2003).

Practitioners who are members of a professional body (for example, the NZ Law Society or the NZ Institute of Chartered Accountants) have an additional obligation to comply with their institution’s code of ethical conduct. This means that they are not to provide any unethical advice. However, most professional organisations’ codes of ethics and guidelines serve only as a minimum standard of conduct. As anyone can be a tax practitioner, increased competition may increase pressure on some practitioners to satisfy and maintain
the client to the point of even being unethical (Braithwaite 2005; Fisher 1994).\footnote{A recent case of practitioners’ unethical behaviour reported in the US involved 19 individuals from KPMG who were charged with conspiracy to defraud the IRS through the use of illegal tax shelters, resulting in at least $2.5 billion in tax being evaded by wealthy individuals (Department of Justice 2005).} Two New Zealand studies conducted by Tooley (1992) and Attrwell and Sawyer (2001) showed that tax practitioners’ level of ethics was indeed barely satisfactory. However, Braithwaite (2005:13) observes that aggressive tax planning is more of a cyclical phenomenon than constant competition driving down practitioners’ ethical standards. The competition recedes as tax authorities ratchet up their enforcement activities. Presumably, at these times, ethical commitment of tax practitioners strengthens as it does in the general population (Braithwaite, Murphy and Reinhart 2007).

All these issues coupled with prior findings from research conducted overseas bring into question the role played by tax practitioners in tax compliance in New Zealand and the demands made by taxpayers on their practitioners. This thesis addresses a set of research questions and issues: What do taxpayers expect of their practitioners? Do they get what they expect? If their expectations are not met, it could mean that they are not communicating their needs clearly to the practitioners, resulting in role ambiguity, or their needs are in conflict with practitioners’ ethics or values giving rise to role conflict. Any expectation-experience gap may also have an effect on their satisfaction with, and retention of, their practitioners. If they still retain their practitioners even if they are not getting what they expected, there must be something more that helps to stabilise their relationship. Prior studies have not provided insights into the basis for accepting services that do not entirely meet expectations.

One of the reasons taxpayers engage practitioners is for advice on the tax position they should take when tax law is unclear to them. Where tax law is ambiguous, practitioners are known to exploit tax loopholes to the advantage of their clients, and aggressive reporting is an area of concern to the tax authorities. What will be interesting to discover is whether or not taxpayers will subscribe to their practitioners’ aggressive advice. Are there other factors that may influence their decisions? The findings of this study will help to identify which characteristics of taxpayers and features of decision contexts contribute to their decision making.
A premise that underlies this study is that the taxpayer and tax practitioner form a dyad for decision making. Thus, the following research questions are also raised: What are the practitioners’ perceptions of their clients’ needs and do they experience role conflict? If so, how do they respond to role conflict? Will practitioners provide aggressive advice to all clients where tax law is ambiguous, or are their recommendations influenced by other factors? Investigating these issues will provide a better understanding of the practitioners’ role in their clients’ taxing behaviour particularly the extent and nature of their influence on taxing behaviour.

To address these questions, this thesis aims to investigate the practitioners’ and the taxpayers’ roles and relationships by focusing on their expectations, experiences, evaluations of, and commitment to their relationships. The empirical focus is not on individual dyads, as interesting as these may be. A study of dyads in the New Zealand context presented two practical and insurmountable problems. First, a study of dyads meant obtaining consent from both a taxpayer and his/her tax practitioner. Second, the questions raised in this study were such that a broad cross-section of both taxpayers and tax practitioners was required. Practically, it was not feasible to attract a sufficiently large sample of dyads. Thus, a sample of taxpayers was drawn and an independent sample of tax practitioners was drawn to address the research questions outlined above.

This decision has implications for how the data collected in this study should be interpreted. The role of tax practitioner is understood as a ‘typical practitioner’ assessed through taking an average over a sample of practitioners. This is set against the role of a ‘typical taxpayer’ averaged over a sample of taxpayers. In order to restrict the variability and heterogeneity that can make it difficult to consider meaningfully the ‘averaged’ roles of tax practitioners and taxpayers, two restrictions are imposed on the study. First, this study investigates the factors that may affect one particular aspect of the tax practitioner-taxpayer roles, that is, giving and accepting aggressive tax advice. Second, the taxpayers under study here are business taxpayers who are not only most likely to seek the services of a tax practitioner but who are also more likely to have the opportunity to benefit from aggressive advice. Focussing on one particular group of taxpayers helps to reduce variability that is attributable to extraneous variables such as ‘class of taxpayers’. For this
reason, researchers (such as James 2006; Milliron 1988) warn against surveying diverse
groups and encourage focus on more specific well defined groups.

An understanding of the roles played by tax practitioners and taxpayers requires an
examination of the meaning behind specific roles as well as the behaviour and expectations
associated with those roles. As pointed out by Troyer and Younts (1997:697), “roles are
not merely labels but rather sets of expectations defining the rights and obligations of
persons occupying particular positions in the group.”

Since this study concerns roles played by the practitioner and the client in a tax setting, a
role theoretic approach is adopted. Accordingly, a Tax Practitioner-Client Role Model,
which is grounded in role theory, is developed and used as a framework for analysing
the roles of both parties and the factors affecting their roles. The model is adapted from
the Role Episode Model (REM) developed by Kahn, Wolfe, Quinn, and Snoek (1964)
which revolves around four concepts: role expectations, sent role, received role, and
role behaviour. The Tax Practitioner-Client Role Model developed in Chapter 3 takes
into account mutual expectations, perceptions and their consequent response and
behaviour in relation to aggressive tax advice. It is recognised that expectations and
behaviour are moderated by the characteristics of practitioners and clients, the decision
context and their interpersonal relations.

1.2.1 Justification for the research
In New Zealand, the self-assessment system relies on taxpayers to take responsibility for
reporting and paying the correct amount of tax. Although this approach helps to simplify
the government’s tax assessment system, it also provides taxpayers with opportunities for
aggressive tax minimisation or evasion, as well as unintentional errors. The absence of a
regulation system for those who prepare tax returns or give tax planning advice in New
Zealand provides opportunities for practitioners to exacerbate all these problems. But most
opportunity is presented to the more aggressive players to carve out a niche market in
sophisticated tax minimisation (Braithwaite and Braithwaite 2006).

The 2004 Annual Report of the New Zealand Inland Revenue Department (NZIRD)
disclosed that for the year 2003 - 2004, 74% of income tax returns were filed by tax agents
on behalf of their clients. In its 2005 Annual Report, further statistics showed that there were around 4,700 tax agents\(^3\) who represented about 1.5 million taxpayers for all, or some, aspects of their taxation in 2004 - 2005 (NZ IRD 2005:31). With such a substantial percentage of taxpayers using the services of tax practitioners, the type of advice provided by the practitioners will be crucially important to the effective operation of the system of self assessment.

If tax practitioners provide taxpayers with aggressive advice which is later challenged by the NZ IRD, the authorities or the Courts may rule either in favour of or against the taxpayers. Aggressive advice, therefore, may not necessarily constitute noncompliance, as it depends on whether one assumes a narrower or wider interpretation. Many scholars, however, have adopted a broader definition of aggressiveness. Braithwaite (2005:16), for instance, defines aggressive tax planning as “a scheme or arrangement put in place with the dominant purpose of avoiding tax.” James and Alley (1999) consider noncompliance to encompass tax avoidance where the act of avoiding tax is against the spirit and letter of the law. McBarnet (2003) sees noncompliance as a range of levels of aggressiveness exhibited by taxpayers (in many cases fuelled by practitioners) based on varying degrees of uncertainty about the rules. This type of “creative compliance”, if undetected, is considered to be even more destructive of the integrity of the law and therefore poses a much larger problem than outright evasion (Braithwaite and Braithwaite 2006:411; Kirchler 2007).

For these reasons, tax authorities are wary of aggressive advice provided by practitioners to their clients. As such, considerable enforcement resources are utilised by tax authorities to prevent abusive expansion of questionable interpretation (Roth, Scholz and Witte 1989). Indeed, in 2006, the NZ IRD utilised about 850,000 hours in tax audits of small and medium sized enterprises (SMEs) and about 195,000 hours in corporate tax audits (about 825,000 hours and 199,000 hours respectively in 2005). Out of $996 million in audit discrepancies,\(^4\) $247 million related to aggressive tax issues (NZ IRD 2006). Aggressive

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\(^3\) As indicated in the NZ IRD website, a tax agent is a person who “prepares annual returns for 10 or more taxpayers and who conducts a professional public practice, or any business that prepares mandatory annual returns.” Although registration with the NZ IRD is voluntary, it provides certain benefits such as the option to spread clients’ return filing, and access to the NZ IRD’s automated services, etc.

\(^4\) Audit discrepancies refer to the difference between the tax ascertained as a result of audit activity and that previously returned or ascertained by the taxpayer, plus penalties and interest (NZ IRD Annual Report 2006:20).
tax advice therefore can be a threat to the sustainability of the tax system as the government loses the tax revenue from undetected blatant creative tax schemes.

In addition, the knowledge that tax practitioners can reduce taxes for those who can afford their services may adversely affect the tax commitment of other taxpayers who cannot afford to pay for such services. Prior literature suggests that taxpayers’ compliance behaviour may be influenced by their beliefs about the actions of other taxpayers, such as high income taxpayers and corporations, who are perceived as not paying their fair share of taxes\(^5\) (Roth et al. 1989:177).

Business taxpayers (small, medium, or large enterprises) are an important subset of taxpayers, but research relating to their behaviour is limited (James 2006). Their tax affairs are more complicated, and the tax treatment of business income and expenses is more often subject to legal ambiguity as compared to employment income derived by salary or wage earners\(^6\) (Bankman and Karlinsky 2002; Hite, Stock, and Cloyd 1992; Kirchler 2007; Klepper et al. 1991; McBarnet 2003; Slemrod 1985). They are also more likely to seek a tax practitioner to help them with their tax affairs (Christian, Gupta and Lin 1993; Dubin, Graetz, Udell and Wilde 1992; Erard 1993; Klepper et al. 1991; Long and Caudill 1987). Prior research (for example, Hite and McGill 1992; Sakurai and Braithwaite 2003; Schisler 1995) tends to focus on taxpayers in general rather than only on those who engage the services of tax practitioners. As variability attributable to “class of taxpayers” may swamp the more subtle differences associated with roles, this study focused only on business taxpayers who engaged the services of tax practitioners.

The mixed results from prior studies regarding who (that is, tax practitioner or client) is the instigator for aggressive advice further signals a gap in knowledge relating to their respective roles and their working relationships. In most studies (conducted primarily in the US) data were elicited from one particular group only, that is, from either taxpayers or practitioners. To better understand their roles and relationships, it is important to capture

\(^5\) High wealth individuals, no doubt, are another group of taxpayers perceived by the public as not paying their share of tax (Braithwaite, Reinhart, Mearns and Graham 2001; Jackson and Milliron 1986).

\(^6\) From the 1999/2000 income year onwards, a huge percentage of these groups were no longer required to file a tax return. This does not rule out the possibility that some who are salary or wage earners may have derived income from other sources. Some of them may still fall under the business group of taxpayers as well.
both the taxpayers’ and tax practitioners’ perspectives with regard to their expectations, perceptions, and evaluations of tax advisory services provided by practitioners. The development of a Tax Practitioner-Client Role Model, which is grounded in role theory, therefore provides a useful framework for explicating how taxpayers and tax practitioners are likely to affect each other’s tax decisions. It further provides a better understanding of what characteristics, contextual factors or interpersonal relations drive tax reporting decisions made by taxpayers and tax practitioners.

In summary, this thesis contributes on two fronts. First, the practitioner-client relationships and roles are examined together with a focus on giving equal weight to both perspectives. While the data for taxpayers and tax practitioners cannot be paired, the sample of taxpayers and the sample of tax practitioners are the best samples that could be practically obtained to represent the views of each side of the tax practitioner-taxpayer relationship. Tan’s (1999) preliminary study on New Zealand taxpayers’ preference for advice and their willingness to retain a practitioner even if they receive advice at odds with their preference suggests the importance of the tax practitioner-taxpayer working relationship. An examination of the views of both the tax practitioners and business taxpayers provides opportunity to flesh out the dimensions of the working relationship from each perspective and helps to bridge the gap in the tax literature.

Second, the tax setting is New Zealand. With most prior findings on tax practitioners’ role originating from studies conducted in the US (and more recently from Australia), the generalisability of the results is limited (Hite, Hasseldine, Al-Khoury, James, Toms and Toumi 2003; Kirchler 2007; Tan 2006). As compared to other countries, New Zealand is particularly interesting as a site for this research because there are relatively fewer institutional constraints on the practice of tax advising. Tax practitioners are not regulated by the government and their services, unlike those offered in many other countries, are geared toward business returns, since many salary and wage earners now do not have to file tax returns.7

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7 Generally, one needs to file a return if the income earned is other than salary, wages, interest, dividends, and/or taxable Maori authority distributions.
strengths of association between the many variables implicated in the research question. Quantitative data provides opportunity for statistical modelling and for making generalisations about the population. However, the disadvantage of this method is that it averages individual responses to decision making and action and may conceal individual narratives of how a sequence of events comes about. To redress this disadvantage, both quantitative and qualitative data were collected. This was done by incorporating both closed-ended and open-ended questions in the questionnaire. Responses to the open-ended questions were used to provide further insights and deeper understanding of the practitioners’ and taxpayers’ perceptions, experiences and behaviour arising from their working relationships and their roles.

Given the interactive nature of a tax service, it was pertinent to examine the views of both parties participating in the exchange to gain a better understanding of their roles and relationships. Accordingly, the questionnaire was sent to a sample of tax practitioners and business taxpayers nationwide. The sample of tax practitioners consists of accountants (Chartered Accountants and non-Chartered Accountants) and lawyers. The sample of business taxpayers consists of those who engaged the services of a tax practitioner.

The Statistical Package for the Social Sciences (SPSS) data analysis program was used for empirically testing the hypotheses with the survey data set. Univariate, bivariate and multivariate analyses were conducted to examine the profile of the respondents and the relationships between variables. Content analysis was used to analyse the responses to the open-ended questions.

1.3 Definitions

1.3.1 Tax Practitioners
In the tax literature, different terms are used to describe a person who is paid to help taxpayers with their tax obligations. The terms used include tax practitioners, tax preparers, tax professionals, professional tax advisers, accountants, tax consultants, tax specialists, tax agents, and lawyers. For the purposes of this thesis, the term tax practitioner is adopted and it refers to all those who are paid by their clients (taxpayers) to assist them with their
compliance work or to provide advice on tax planning. They may not necessarily be associated with a professional organisation. Good examples of practitioners in New Zealand are Chartered Accountants (who are members of the NZ Institute of Chartered Accountants - NZICA), accountants (some may be affiliated with the TaxAgents’ Institute of New Zealand - TINZ), lawyers (who may, or may not, be members of the New Zealand Law Society - NZLS), and any others who provide tax services for a fee.

1.3.2 Aggressive vs. conservative

The terms ‘conservative’ and ‘aggressive’ have a subjective element in them. They refer to the meaning that is attached to law. Moreover, they have become highly value laden terms with connotations of legality associated with ‘conservative’ and questionable legality associated with ‘aggressive.’ This heightening of moral sensitivity around the term ‘aggressive’ has accompanied a growth in the tax avoidance industry globally which has challenged the authority of tax administrators everywhere (Braithwaite and Braithwaite 2006). Its usage in this research context therefore needs clarification.

Interpretations of ‘aggressiveness’ offered by researchers (such as Hite and McGill 1992; Schisler 1995) tend to reflect consideration of the tax authorities’ stance on the position taken, for example, whether there is a reasonable probability that a claim made will be upheld by the tax authorities, or whether it will be easily defended upon a tax audit. It also means that a pro-taxpayers’ position is taken on a questionable item.

Another way of interpreting aggressiveness is to adopt the “about as likely as not to be correct” principle specified in the New Zealand Tax Administration Act (TAA) 1994. Based on this principle, there must be about an equal chance (that is, about a 50% chance) of being likely to be correct as there is to be incorrect. The use of the word “about” makes the test less stringent, but the objective interpretation still needs to be close to, or around 50% likely to be correct (NZ IRD 2005). Those who contravene this principle will be penalised – 20% penalty for taking an unacceptable tax position or 100% penalty for an abusive tax position (section 141B TAA 1994). This implies that if the standard is not met, an aggressive stance is taken. In practice, when it is a borderline case, the judgement of “about as likely as not to be correct” can be rather subjective.
To overcome the different interpretations of aggressiveness used in various studies, Carnes, Harwood and Sawyers (1996a:4) define aggressiveness in a relative fashion, that is, those "being more likely than other tax professionals to take pro-taxpayer positions for the same situation" are more aggressive.

In this study the meaning of aggressive which has been adopted is "taking a pro-taxpayer position on a questionable item" where that position is not justified clearly by the facts and relevant professional literature (Cuccia, Hackenbrack and Nelson 1995; Hite and McGill 1992). Whether tax practitioners and taxpayers adopt similar or different interpretations of aggressiveness is another question. The survey data provide an opportunity to examine the perspectives of practitioners and taxpayers on what constitutes aggressiveness in tax advice.

1.3.3 Ambiguous items
Tax law is complex and many rules are subject to an individual's interpretation. Hence, tax authorities and taxpayers or their practitioners could well disagree over the correct treatment of an item or transaction. In this study the term unambiguous items is used to denote those items where the amount that should be reported is legally deterministic, given the facts and circumstances (Klepper et al. 1991:211). In contrast, ambiguous items refer to those where the amount that should be reported is not unequivocally prescribed by statute, regulation, or case law (Klepper et al. 1991) or where there is no shared understanding of what the rule that applies to particular items is (Picciotto 2007). These are the types of items that are most open to creative accounting and aggressive reporting (Andreoni, Erard and Feinstein 1998).

1.3.4 Tax advice
The tax practitioner's literature generally categorises the types of services sought by taxpayers into two main categories, that is, tax compliance and tax advisory/consulting work. Tax compliance work refers to the process of reporting past transactions whereas tax advisory or consultation work involves planning for future transactions. Hence, advice tends to be perceived as relating to consulting work and not compliance work (such as assisting clients in filing a tax return). Such a claim is difficult to sustain on closer analysis. According to the Cambridge Advanced Learner's Dictionary, advice refers to "an opinion
which someone offers you about what you should do or how you should act in a particular situation.” Therefore, even if practitioners are asked to provide some assistance with the filing of a tax return, they may still provide advice regarding the most favourable interpretation of claims that can be made or the income that is assessable or non-assessable. In other situations, they may provide advice to clients in structuring their transactions in such a way as to minimise tax liability (Dabner 2008). At times, these two functions are intertwined and the same tax practitioner provides both services to the same client, often in the same context (for example, preparing to file a tax return).

The term tax advice used in this study carries a wider connotation than common professional usage. It refers to both the tax practitioner’s involvement with compliance and tax advisory and tax planning work.

1.3.5 Taxpayers/clients
The term taxpayer normally refers to a person or organisation that pays taxes. For those who engage a practitioner, they are viewed by practitioners as their clients. For the purpose of this study, the terms clients and taxpayers (those who engage a tax practitioner) are used interchangeably.

1.3.6 Tax compliance vs. noncompliance
Tax compliance describes a taxpayer’s willingness to pay tax (James and Alley 2002; Kirchler 2007) and that includes not only the filing of all required returns at the proper time but also that the returns filed accurately report the tax liability in accordance with legislation (Long and Swingen 1991). In contrast, noncompliance describes taxpayers who underreport (or overreport) their taxable income, whether intentionally or unintentionally. Tax evasion, which is a deliberate act to reduce tax liability by illegal means, is clearly a form of noncompliance. Forgetting to declare some income or miscalculating income unintentionally is noncompliance, but does not necessarily qualify as tax evasion (Webley, Robben, Elffers and Hessing 1991).

If willingness to pay tax is extended to mean acting in accordance with the spirit and the letter of tax law and administration without application of any enforcement, then the act of tax avoidance, even though legal, can be considered as noncompliance (James and Alley
1999). Adopting this wider interpretation of noncompliance means that the act of taking an aggressive tax position is also noncompliance. This interpretation of noncompliance is in accord with the different forms of compliance distinguished by McBarnet (2003).

Not everyone may share this wider definition of noncompliance and not all researchers have clarified the interpretation that they have adopted. This lack of clarification, also noted by Richardson and Sawyer (2001) in their review of tax compliance studies, has produced inconsistencies in the research findings of those seeking to uncover the determinants of compliance.

1.4 Delimitations

Clients have a wide range of expectations of their practitioners that can be broadly categorised as either technical or functional, drawing on the marketing literature (Christensen 1992). The technical expectations include for instance, tax savings, reduction of probability of audit and accuracy of tax returns. Functional expectations include efficient service, understanding clients' needs, willingness to help clients, good communication skills, (Christensen 1992) and appointments made easily and quickly (Chang and Bird 1993:22). As there is such a wide array of expectations, it is not possible to consider all of them in this study. Rather, a list of 17 technical and functional expectations for study was drawn from the tax literature.

Prior literature has indicated a number of possible variables which may play a part in shaping attitudes and behaviours of taxpayers and practitioners. Again, it is not possible to consider all the factors in one study. Rather, for this study a conceptual model was developed to prioritise explanation of the giving and receiving of aggressive tax advice.

There are varieties of contexts in which tax advice is given in practice. It was not feasible to consider all possible contexts and all possible tax issues in this study. To have attempted to have done so would have increased the complexity of the questionnaire design as well as lengthening the questionnaire to an unacceptable degree. The ultimate effect of a lengthy questionnaire is that potential participants will be deterred from responding due to
its sheer complexity and time required to understand and complete the task. The approach adopted in this study was to define hypothetical contexts for practitioners and taxpayers within the survey instrument. Two hypothetical scenarios were developed for the survey to proxy an expense situation and an income situation.

1.5 Overview of the thesis

Although the extant literature on tax practitioners provided some insights into the reasons for engaging tax practitioners, and the factors affecting the type of advice provided, most of the research has proceeded without an explicit theoretical framework to support the chosen variables. Additionally, many researchers have not considered either the views of both parties, (that is, the practitioners as well as the taxpayers) or their working relationships. The most common concession to recognising the views of the other party has been through reviewing past research and arriving at a generalised statement about the position of the other.

These shortcomings made it difficult to integrate and synthesise empirical research findings to generate a better understanding of the roles and relationships of the practitioners and clients in tax compliance. Drawing from the literature on role theory, this study develops a Tax Practitioner-Client Role Model to provide a better understanding of their working relationships and their roles. Specifically, the expectations, behaviour, and the factors that might drive different aspects of their relationships were examined.

Chapter 2 expands on the background provided in this chapter with a review of the literature that relates to the factors that have the potential to drive taxpayers’ compliance behaviour and type of advice provided by tax practitioners. Attention is drawn to the way in which the taxpayers’ and tax practitioners’ perspectives have been segregated in the literature, with the result that many of the findings present one side of the picture only. It points out also that the inconsistency in findings may be due to a communication gap or miscommunication between clients and their tax practitioners. To achieve a better understanding of the role of tax practitioners in tax compliance, it is argued that there is a need to examine the role behaviour as well as the role demands and expectations of
both the client and the practitioner. Both views should be considered due to the interactive nature of the transaction between the tax practitioner and the client.

Chapter 3 provides an overview of role theory and role concepts, and Kahn, Wolfe, Quinn and Snoeks' (1964) Role Episode Model. Based on their model, a theoretical framework by which the tax practitioner and client role and relationship can be understood and analysed is developed.

Chapter 4 details the development of the Tax Practitioner-Client Role Model. The first part discusses and formulates eight research hypotheses from the taxpayers' perspective. The first three hypotheses examine what it takes to establish a stable relationship between the practitioner and client. The next five hypotheses focus on taxpayers' agreement with aggressive advice and the drivers of their agreement. The drivers tested in this study are aggressive advice expectations, personal tax ethics, business tax ethics, risk propensity, and sanction risk perception. The second part develops five research hypotheses from the tax practitioners' perspective. The first hypothesis examines the conflicting demands placed on practitioners, giving rise to role conflict. The next four hypotheses focus on tax practitioners' aggressive advice recommendations and the potential influence of four factors on the aggressiveness of their advice. The four factors considered in this study are practitioners' perception of clients' risk propensity and clients' sanction risk, and practitioners' personal tax ethics and risk propensity.

The procedures for collecting data from taxpayers are described in Chapter 5. This chapter includes a discussion of the sample, also the measurement of concepts and methods of data analysis. The background information about the respondents and the research concepts are also presented in this chapter.

Chapter 6 provides and discusses the results pertaining to the analysis of quantitative data elicited from taxpayers supplemented by qualitative data collected from replies to the open-ended questions. This chapter examines the gap between experiences and expectations for taxpayers, and what this means for the taxpayers' relationship with their practitioners; in particular, what makes for a stable and positive relationship. It
also examines what drives taxpayers to agree with practitioners’ aggressive advice where the tax law is ambiguous.

Procedures for data collection from tax practitioners are described in Chapter 7. This chapter includes a discussion of the sample, the research concepts that have been measured, and the data analysis. The practitioners’ social-demographic profile and the initial psychometric analysis of the measures are also reviewed in this chapter.

Chapter 8 presents the quantitative and qualitative results from the perspective of the tax practitioners. It examines the gap between practitioners’ perceptions of clients’ expectations and their practice. Their experiences with role conflict and their coping responses to such conflicts are also explored. Chapter 8 then discusses what drives practitioners to provide aggressive advice to their clients where the tax law is ambiguous.

Finally, Chapter 9 provides an overall summary of the results, implications of the findings, limitations of the study and avenues for future research.
Chapter 2
Influences on Taxpayers’ Compliance Behaviour
and Tax Practitioners’ Advice

2.1 Introduction

More than two decades ago, Jackson and Milliron, (1986) in their review of tax compliance research in the US, highlighted the many factors that influence how honest people are when it comes to paying tax. Despite the awareness of practitioners as important ‘gatekeepers’ to the tax system, in many compliance studies their potential impact on taxpayer compliance decisions had not been considered (Hite and McGill 1992; Roth et al. 1989). Not until the 1980s did interest in this area gain momentum with researchers setting out to examine the practitioners’ role. This chapter initially highlights the key empirical findings of factors affecting taxpayer compliance. An overview of the extant literature pertaining to the role of tax practitioners in tax compliance follows. Factors influencing practitioners’ advice (conservative or aggressive) are then reviewed.

2.2 Factors affecting taxpayer compliance

Since the 1970s, research conducted on taxpayers’ compliance behaviour has flourished and a vast literature on this topic now exists. Moreover, different research paradigms have been adopted by researchers as they set out to investigate the factors that might influence taxpaying behaviour (Kirchler 2007).

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In the first comprehensive review of studies on tax compliance, Jackson and Milliron (1986) identified 14 key variables. These variables were broadly categorised by Fischer, Wartick and Mark (1992) into four main types as shown in Figure 2.1: demographic (for example, age, gender), noncompliance opportunity (for example, income level, education, occupation, and source), structural (for example, complexity, audit probability, tax rates) and attitudinal (for example, ethics, perceived fairness, peer influence). There are certainly many ways of classifying the diverse set of factors affecting tax compliance as can be seen in numerous literature reviews (see for example, Kirchler 2007; Niemirowski, Baldwin and Wearing 2003; Richardson and Sawyer 2001; Webley et al. 1991). In the most recent review by Kirchler (2007), the tax compliance literature is approached from an economic-psychological perspective. This approach can be accommodated within the four main categories of variables shown in Figure 2.1. The overview of the literature on taxpayers’ compliance in this chapter follows the framework as displayed in Figure 2.1.\footnote{Some of the variables are discussed further in Chapter 4.}

\subsection{Overview}

Numerous studies have been undertaken to test the effect of these different types of variables on tax compliance. In relation to demographic variables, age, as compared to others, has been a relatively consistent predictor (Andreoni et al. 1998). Even so, Jackson
and Milliron (1986) concluded that the influences of age and other variables such as sex, education, income and occupation were complicated by possible interactions with other variables.

The influence of noncompliance opportunity (for example, education, income level, income source, occupation, tax knowledge) has been a more consistent explanatory factor in noncompliance studies (Kirchler 2007). Certainly, self-employed taxpayers or cash business owners have more opportunities to conceal income or overstate deductions. In comparison, employees whose main source of income is from salaries or wages have fewer, or no, opportunities as their taxes are usually deducted at source. The effect of this variable on compliance is well supported by numerous studies, in which it has been shown that a higher proportion of evaders are indeed self-employed, whereas a higher percentage of wage earners are compliant (Ahmed and Braithwaite 2005; Clotfelter 1983; Hite and McGill 1992; Kirchler 2007; Webley 2004).

Examination of structural factors in tax compliance stems from the classic economic model espoused by Allingham and Sandmo (1972). In this model the taxpayer is treated as a "perfectly amoral, risk-neutral or risk-averse, utility maximising individual who chose to evade tax whenever the expected gain exceeded the cost" (Milliron and Toy 1988:85). It is assumed that individuals weigh the "uncertain benefits of successful evasion against the risk of detection" (Fisher et al. 1992:2). Therefore, variables such as the probability of detection, severity of tax penalties and tax rates are predicted to affect compliance behaviour. This model’s prediction stands up well in numerous studies (for example, Clotfelter 1983; Grasmick and Scott 1982; Richardson 1998; Schwartz and Orleans 1967; Tittle 1980; Webley et al. 1991; Witte and Woodbury 1985; Worsham 1996) but not in others (for example, Jackson and Milliron 1986; Slemrod 1985; Spicer and Lundstedt 1976). Of these variables, the most consistent finding is the positive relationship between probability of detection and compliance, although the magnitude of the effect is debatable (Alm, Sanchez and De Juan 1995; Andreoni et al. 1998; Kirchler 2007; Webley 2004). In comparison, there is less evidence of severity of penalties deterring noncompliance (Klepper and Nagin 1989a).

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10 See Sandmo (2005) for a follow up discussion of the extent the traditional economic model explains tax compliance and the issues that arise in formulating models of optimal taxation in the presence of tax evasion.
This self-interested economics model has been criticised, particularly by social scientists, for its lack of realism and humanity (Alm et al. 1995; Cullis and Lewis 1997; Kirchler 2007). Although not ruling out the fact that both penalties and audit probabilities have some deterrent effect on taxpayers’ compliance behaviour, many researchers have viewed noneconomic factors as important determinants of tax compliance. A number of studies have provided evidence that individuals in many circumstances do not focus only on maximising expected utility (Alm 1991). Rather, taxpayers’ decisions between compliance and evasion are affected also by attitudes toward the fiscal system (Spicer and Lundstedt 1976).

Attitudinal factors identified in the compliance literature as having an influence on taxpayers’ behaviour include perceptions of fairness, morality, personal norms, social norms, and peer group pressures (see for example, Kirchler 2007; Spicer and Lundstedt 1976; Wenzel 2002). For instance, the effect of fairness or equity on tax compliance has generated considerable interest amongst researchers. Although in some studies it has been established that there is a link between perceptions of fairness and compliance behaviour, some researchers have argued that they may not necessarily be causal factors; rather injustice may be a mere rationalisation for illegal and socially undesirable behaviour (Spicer and Lundstedt 1976). In addition, different taxpayers have different perceptions of fairness. As pointed out by Kirchler (2007), one’s perception of fairness can be based on one’s perception of tax burden relative to other taxpayers’ burdens, an unbalanced exchange relationship between taxpayers and the government, or an evaluation of procedural issues. As a result, studies on the effect of this variable have inconsistent findings as these aspects have not been clearly differentiated (Kirchler 2007; Wenzel 2003).

Empirical support for the importance of taxpayers’ concern for social duty or personal responsibility in shaping compliance is more evident (Reckers et al. 1991; Schwartz and Orleans 1967; Wenzel 2002). Some taxpayers pay taxes because they believe it is the right thing to do, irrespective of sanctions (Alm 1991; McGraw and Scholz 1991; Richardson and Sawyer 2001). Individual moral beliefs have been found to be highly significant in tax compliance decisions (Reckers et al. 1991; Torgler and Murphy 2004; Wallschutzky 1984; Wenzel 2002). Spicer and Lundstedt (1976:297) posit that human behaviour in the
area of taxation can be affected by internalised norms of role expectations and that these norms may be affected by the behaviour of individuals’ reference groups (such as friends, relatives, work associates and so on). Consequently, if taxpayers know that many people in groups important to them are evading taxes, then their commitment to the social norm of tax compliance will be weaker (Kirchler 2007). Wenzel’s (2002:551) study comparing personal norms (that is, people’s own moral standards, acquired, for instance, through the internalisation of social norms) and social norms (that is, moral standards attributed to a social group) showed that personal internalised norms of tax honesty were negatively related to tax evasion. Moreover, personal internalised norms interacted with sanction severity; sanctions had an effect only when personal internalised norms were weak.

2.2.2 Summary

A significant amount of research contributed by a number of disciplines over at least three decades has provided evidence of multiple determinants of compliance. Psychologists and sociologists have aptly pointed out that the economic model does not fully capture all of the many factors that affect compliance behaviour; others, such as social psychological factors, are also important. Moreover, the social context appears to play an important role in defining when models apply and when they do not (Collins, Milliron and Toy 1990). This is considered to be one explanation for why findings in this area are not readily replicated from one study to another.

Researchers (for example, Braithwaite 2003; Kirchler 2007) have further pointed out that when measuring compliance, attitudes are not necessarily a convincing proxy for behaviour, as evidenced in the studies conducted by Braithwaite (2003), HESSING, ELLFERS and WEIGEL (1988) and Weigel, HESSING and ELLFERS (1987). For example, Braithwaite’s study (2003) showed that even though taxpayers have different motivational postures reflecting cooperation and defiance, they were not necessarily as compliant as their postures suggested. Possible reasons for the incongruence between attitudes and behaviour, as offered by her, are that there are circumstances that provide opportunities for noncompliance, tempting people to do (or not do) things that they would not (or would) normally do. In addition, “any single act is shaped by multiple factors, and any small

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11 She identified 5 motivational postures as important in the context of tax compliance. They are commitment, capitulation, resistance, disengagement, and game playing (see Braithwaite 2003).
change in context can be a factor that changes specific behaviour” (Braithwaite 2003:17). These insights further indicate that human behaviour and relationships are indeed complex and there are ample avenues for further research to provide a better understanding of compliance behaviour.

One interesting explanation of attitude-behaviour incongruence in a taxpayer is the influence of the tax practitioner. Indeed, tax practitioners may moderate many of the relationships described above in the tax compliance literature. Many researchers appear to assume that the effect of the factors under consideration is the same irrespective of whether taxpayers file their own tax returns or seek the help of tax practitioners. An underlying assumption made, particularly in the standard tax compliance model, is that all taxpayers are fully informed and understand all relevant aspects of their tax obligations and enforcements (Andreoni et al. 1998). In practice, many are not and those with complicated tax affairs usually rely on the expert knowledge of a tax practitioner.

Tax morale has emerged as one of the most consistent predictors of tax compliance and it appears to be an important factor at the level of tax jurisdictions (Torgler 2007). Tax morale may be low because taxpayers are not well socialised into the taxpaying tradition. It could also be due to their disapproval of government action, or their different set of ethical values that oppose taxpaying (Kohlberg 1976). Interesting questions are: what sustains and nurtures taxpayers' morale, and does the tax practitioner play any role in it? Furthermore, if tax practitioners serve as intermediaries between the taxpayer and the tax authorities, will some factors identified in the literature as influencing taxpaying behaviour wax and wane, depending on how tax practitioners see their role?

Although there is a dearth of literature in which tax practitioners are considered, particularly outside the US, their importance is becoming more accepted and recent researchers have started to explore their roles in taxpaying behaviour (Tan 2006; Tan and Sawyer 2003). In the next section an overview of these developments is provided.
2.3 Literature relating to the role of tax practitioners in tax compliance

The literature relating to the role of tax practitioners in tax compliance is classified into four categories in this section: reasons for using practitioners; preference for type of advice; evaluation of services; and effect of a practitioner on client compliance. Factors affecting the type of advice provided by tax practitioners are considered separately under Section 2.4. As there are more than 50 studies that relate to the role of practitioners in tax compliance, a summary of these studies is provided in Appendix A.\textsuperscript{12}

2.3.1 Reasons for using tax practitioners

There are a number of reasons why taxpayers engage tax practitioners. Table 2.1 provides a summary of findings from research conducted to ascertain what motivates taxpayers to hire tax practitioners and the characteristics of this group of taxpayers. A number of studies are either archival studies\textsuperscript{13} or surveys conducted in the US. Each source of data provides special insights into the characteristics and factors associated with the demand for tax practitioners’ services.

As shown in Table 2.1, the findings from studies carried out by means of surveys are generally consistent with the results from archival studies for the four variables mentioned. Expenditure on professional assistance is positively associated with being older and self-employed, and with having tax obligations that bring into play tax law complexity and time cost (Dubin et al. 1992; Long and Caudill 1987).

\textsuperscript{12} The studies considered in Appendix A are not exhaustive as there may be other studies which might have been published in a foreign language or in working papers/theses/dissertation which are not easily accessible.

\textsuperscript{13} That is, studies in which data derived from official files such as from the Taxpayer Compliance Measurement Program (TCMP) in the US were used.
<table>
<thead>
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<th>Table 2.1 Factors associated with the use of tax practitioners</th>
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<td>Effort minimisation</td>
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<td>Social responsibility</td>
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+ve = positive effects  
ns = no significant effects  
# = did not statistically test for association  
n/a= not considered in the study

In contrast, studies in which audit anxiety, tax rates, and to a lesser extent income level were examined showed inconsistent results across methods. Other variables examined using only one method, that is either archival or survey, showed that sources of income, number of exemptions, low tax knowledge, complexity of the tax laws and being less
educated and unmarried have a positive association with tax practitioner usage by taxpayers (Dubin et al. 1992; Frischmann and Frees 1999; Long and Caudill 1987).

Other survey studies were carried out to provide insight into the relative importance of reasons for using a tax practitioner. For instance, Hite et al. (1992) surveyed small business organisations (SBOs) and found that the most important reason was (i) to have their tax return prepared correctly, followed by (ii) to avoid serious penalties, (iii) to pay the least tax required and (iv) to reduce chances of being audited. Tan’s (1999) New Zealand study produced similar findings. Collins et al.’s (1990) study also showed that the vast majority of taxpayers used practitioners to help them file an accurate return, with only 25% stating minimising tax as the primary goal. In addition, Collins et al. (1990) did not find audit anxiety and effort minimisation to be reasons given for use of practitioners.

If taxpayers have their own reasons for engaging a tax practitioner, will they set out to select the type of practitioner who will meet their expectations? Studies suggest that taxpayers do seek out practitioners who match their risk-taking postures (Bankman and Karlinsky 2002; Coyne and Smith 1987; Marshall et al. 1998; Sakurai and Braithwaite 2003). Coyne and Smith (1987) pointed out that those who are risk averse tend to use small to medium sized accounting firms to help them file a safe return. Conversely, clients are more likely to seek a large accounting firm when their primary goal is to reduce their tax bill. Similarly, taxpayers who are interested in taking an aggressive stance within the tax system are more likely to seek practitioners who have demonstrated a willingness to decide ambiguous issues in their clients’ favour and have the ability to defend those positions if challenged (Marshall et al. 1998). These findings are in accord with the study by Sakurai and Braithwaite (2003) which indicated that taxpayers choose a tax practitioner who reflects their attitudes toward compliance. Among these ordinary taxpayers, an aggressive tax-planning agent was by far the least desirable option.

The insights gained from these studies are that the reasons for using a tax practitioner seem to gravitate toward safety and economy. It appears that taxpayers do not want to get into trouble with the law and using a practitioner helps them to resolve uncertainty (Blumenthal and Christian 2004; Sakurai and Braithwaite 2003). There could also be taxpayers who feel

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that they have a social responsibility. They want to pay the correct amount of tax but do not know how; therefore they consult a tax practitioner. By the same token, taxpayers want to pay no more tax than is required and need practitioners to help them to achieve this aim. One could assume that those most inclined to use a practitioner would be those with most to gain on the safety and economy criteria. Once taxpayers know what they want, they set out to look for practitioners that match their needs. From there on, a partnership develops between the dyads, with each exerting some influence over the other in their tax decision making. Understanding practitioner-client working relationships is therefore pertinent to understanding the roles they both play in tax compliance.

2.3.2 Preference for type of advice

Various studies, which indicate that taxpayers are concerned with filing an accurate return, suggest that most taxpayers who seek the assistance of a tax practitioner prefer conservative advice. This preference is well supported in several survey studies (for example, Hite and McGill 1992; Sakurai and Braithwaite 2003; Tan 1999) which showed that taxpayers agreed with conservative advice from a practitioner but disagreed with aggressive advice; thus confirming clients’ preference to be on the ‘safe’ side. On this basis, it would appear that if practitioners provide advice that is inconsistent with their clients’ preference, the clients would change their practitioner, at least in the near future. It is interesting that this does not appear to be the case; clients’ intentions to retain or dismiss their practitioners were not influenced by their preference for type of advice\(^\text{15}\) (Hite and McGill 1992; Tan 1999).

This finding signals taxpayers’ dependence or reliance on their practitioners for tax advice. Taxpayers perhaps placed a lot of trust in their practitioners as they are deemed the tax experts. Therefore, even though taxpayers know their preferences, they are prepared to be swayed by their practitioners’ advice. This body of literature raises the question of who instigates and who prevails in the advice that guides action. Murphy’s (2001) interviews with a small group of scheme investors revealed that most of them indicated that a tax expert approached them to invest in tax schemes. This insight appears to point to

\(^{15}\) Hite and McGill’s (1992) sample consisted of those who engaged (58%) and those who did not engage (42%) a paid preparer. When they focused on only those who usually engaged a paid preparer, their results implied that taxpayers tended to be loyal to their preparer regardless of the type of advice received.
practitioners as the instigators of aggressive tax reporting. However, it is not clear whether these investors were pursuing their practitioners to look at ways to minimise tax, and therefore indirectly elicited these offers of advice. Murphy and Byng’s (2001) findings that 44% of investors did not blame their practitioners for amended tax returns implied that they could be aware of the risks involved and were willing to take the risks. On the other hand, those who placed at least some blame on their practitioners perhaps might not have realised the risk. Possibly the promoters or their practitioners failed to explain the potential risk to them.

It is also interesting to note that the results from studies in which the opinions of practitioners regarding the instigation of aggressive advice have been sought suggest otherwise (Ayres et al. 1989; Braithwaite 2005; Erard 1993; Hite et al. 1992; Kaplan et al. 1988; Schisler 1995). Accountants generally perceived that their clients’ proposals for tax alteration, tax fraud or tax evasion were the major ethical problems confronting them (Finn, Chonko and Hunt 1988; Leung and Cooper 2005; Sandford and Dean 1972).

Taken together, these findings suggest that drawing information from one perspective, that is that of either the taxpayer or the tax practitioner, fails to provide a complete picture of the working relationship between the dyads in a tax setting. As indicated earlier, it is likely that both parties have some influence over each other in their tax-related decision making.

2.3.3 Evaluation of tax services

Of relevance to the discussion of how taxpayers use practitioners is the issue of how they view the services that practitioners provide. Not many researchers have examined this issue. Christensen’s study (1992) on taxpayers (and practitioners) reported that a client’s satisfaction with a service was more dependent on what s/he actually received (advice or a completed tax return) than the way in which the service was delivered. In particular, taxpayers liked their practitioners to provide more tax planning assistance. Her findings further showed that taxpayers expressed disappointment in practitioners who did not adequately understand their individual needs with regard to tax services. Overall, clients had higher service expectations than their practitioners were willing or able to offer. In another study, conducted by Chang and Bird (1993), the tax service quality of tax practitioner was examined. Their findings showed a significant gap (that is, expectation-
experience gap) between what clients expected to save by using an adviser and what they felt their adviser actually helped them to save.

One implication of these expectation-experience gaps is that clients are not satisfied with the advice they received from their practitioners, particularly with regard to saving taxes, and tax planning advice. However, it is not clear whether those who were dissatisfied with the service in fact changed practitioners or would change practitioners in the future.

It is also not clear from these studies whether clients preferred more aggressive reporting than what the practitioners had offered. Sakurai and Braithwaite’s (2003) study provided some useful insights in this area. Their findings suggest that there are taxpayers who want to play safe but at the same time are also open to aggressive advice. Taxpayers also liked practitioners who are creative and knowledgeable about aggressive tax planning (Ahmed and Braithwaite 2005). Ultimately, whether or not taxpayers will pursue risky strategies may depend on how much risk they are willing to take.

The mismatch between the expectations of both parties may also be due to the possibility that practitioners may have misapprehended the risk preference of their clients, or misinterpreted their clients’ demand for tax minimisation as a preference for illegal or aggressive advice. As such, practitioners may not be willing to compromise their ethical standards to comply with a client’s unrealistically aggressive expectations. Clients, on the other hand, may believe that there are legal benefits to be gained which they are missing and they expect their practitioners to know them. Tax practitioners may have picked up these signals, but they may see nothing more that can be done to reduce the tax liability in a legitimate way. There appears to be a more dynamic exchange going on in their working relationship than prior studies have managed to capture.

2.3.4 Effect of practitioners on compliance
Numerous studies have been focused on whether or not the use of a tax practitioner by a taxpayer results in lower compliance. However, the results obtained from these various studies are inconsistent.
Earlier research (such as that by Christian et al. 1994; Erard 1993; Smith and Kinsey 1987) indicated that returns prepared by practitioners had lower tax liabilities, required higher dollar adjustments or exhibited greater noncompliance. Although these findings suggested that taxpayers’ use of tax practitioners had a negative effect on tax compliance, it does not indicate who influences whom in their tax decisions. If taxpayers are interested only in filing a correct return, then practitioners could be regarded as instigators of aggressive advice. If taxpayers are also interested in paying the least amount of tax possible, they could instigate aggressive advice from their practitioner. In contrast, other studies (for example, by Hasseldine, Kaplan and Fuller 1994) suggest no significant relationship between the use of a practitioner and tax noncompliance. Tomasic and Pentony (1991) reported that tax practitioners assisted clients in improving compliance with existing laws rather than exploiting grey areas of tax law or devising artificial paper schemes. This view is consistent with the findings of a recent study by Hite and Hasseldine (2003) in which returns prepared by practitioners were found to have fewer tax adjustments than did returns prepared by taxpayers themselves.

There is also the possibility that some taxpayers may not disclose all information about their tax affairs to their practitioners. Under such a circumstance, the practitioners should not be blamed for the incorrect tax return (Book 2009). The qualitative study by Bankman and Karlinsky (2002) is interesting as their study on cash business owners indicated that some admitted to having underreported income themselves, whereas others reported that their practitioners helped to facilitate noncompliance.

In New Zealand, the IRD appears to subscribe to the positive role played by tax practitioners as they recognise the practitioners’ ability to educate taxpayers and improve compliance. The Inland Revenue’s Compliance Improvement Strategy indicates that, on average, taxpayers represented by an agent are more compliant in meeting their filing obligations than are nonrepresented taxpayers (NZ IRD 2001).

These conflicting results that is, practitioners having a positive, negative or no effect on tax compliance, do not offer much in-depth understanding of the role played by tax practitioners. The literature could be enriched through greater knowledge of the role
expectations of taxpayers of their practitioners and the reactions and behaviour of practitioners in response to clients’ expectations.

2.3.5 Summary
Research indicates that taxpayers engage a tax practitioner for several reasons, which include (a) helping them resolve uncertainties (b) filing an accurate return and (c) minimising their taxes. It appears that once they have engaged a tax practitioner, they rely very much on his/her advice. However, different taxpayers are bound to have different motivations, expectations and preferences. Preference for type of advice may differ from one taxpayer to another, reflecting the heterogeneity of the taxpaying population. Their preferred type of advice could be influenced by various economic and social psychological factors. The literature to date is not clear as to whether or not taxpayers are the instigators of aggressive advice and whether or not tax practitioners comply with such demands. Also unclear is the extent to which the practitioner influences his/her clients’ tax compliance behaviour. Given their reliance on their tax practitioners, practitioners may lead some clients who prefer conservative (or aggressive) advice into accepting aggressive (or conservative) advice. It is also possible that practitioners have incorrectly inferred the preferences of their clients. It is interesting that a mismatch between advice desired and advice received does not necessarily mean that the services of the practitioner will be terminated. There may be other considerations which clients take into account when deciding whether to retain or change their practitioners. Indeed, more research is warranted to provide further insights into roles and expectations of taxpayers and tax practitioners.

2.4 Factors influencing practitioners’ type of advice
Research findings leave little doubt that aggressive positions are common among tax practitioners (Ayres et al. 1989; Braithwaite 2005; Kaplan et al. 1988; Roberts 1998). In various studies in which practitioners’ willingness to advocate client positions in the grey area have been examined, a number of factors that could potentially influence practitioners’ aggressiveness have been identified (Cruz et al. 2000; Milliron 1988). As developed by Milliron (1988), the variables can be classified into three main categories: decision context features, client characteristics and practitioner characteristics. This
framework (see Figure 2.2) is adopted in this study to analyse and synthesise the literature on practitioners’ advice or recommendations made to clients. Each of these categories is discussed below.

![Factors influencing practitioners' type of advice: aggressive vs. conservative](image)

**Figure 2.2: Practitioners' type of advice framework**

### 2.4.1 Decision context features

Decision context features are an important influence on the type of advice provided by tax practitioners. Milliron’s study (1988) showed that participants from the (then) Big 8 firms rated decision context features to be most influential (45%) in comparison to client-related features (30%) and preparer-related features (25%). The main decision context features are discussed below.

*Ambiguity of tax law* – Legal factors such as tax law ambiguity can influence a tax practitioner's actions or conduct (Song and Yarbrough 1978). Klepper and Nagin (1989b) produced some evidence that tax practitioners contribute to compliance by enforcing legally clear requirements. Using an economic model to test the relationship, Klepper et al.

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16 See also the review on tax accountants’ judgment/decision-making research by Roberts (1998).
probability of detection exerts the strongest influence. Kaplan et al. (1988) also reported that experimentally manipulated probability of audit (of 50%) registered a significant influence on the type of advice rendered by tax practitioners. LaRue and Reckers (1989), however, found that the perceived likelihood of an IRS audit (of 10% and 25%) had no effect on Certified Public Accountants’ (CPA) willingness to encourage aggressive reporting for a real estate tax shelter. The inconsistency of these findings suggests that sanctioning effects do not bear a simple linear relationship to practitioners’ compliance. Possibly, audit probability effects kick in only when the risk is perceived as high. Subjective probabilities may have to reach a critical level before they impact on practitioners’ reporting decisions.

On the issue of penalties, research indicates that they may, or may not, be an effective deterrent. From interviews of Big 8 tax managers and partners, Milliron (1988) concluded that preparer penalties were one of the important or essential factors influencing tax return preparation. While tax practitioners considered practitioners’ penalties very serious, studies (such as those by Jackson et al. 1988; Milliron and Toy 1988) indicate that penalties are for the most part ineffective in altering their behaviour. Results from later studies also suggest that increased penalties imposed on paid practitioners (both CPAs and non-CPAs) had little effect on how aggressively they interpreted ambiguous issues, and CPAs were more conservative only when the threat of penalties was made explicit (Cuccia 1994; Reckers et al. 1991).

Bankman and Karlinsky (2002) argued that preparer penalties are limited as civil penalties are quite modest and the audit rate is far too low. In addition, criminal penalties require proof that practitioners knew that the returns they filed were false; consequently, criminal investigations are rare. Their study on preparers who served misreporting cash businesses showed that most of the preparers’ clients were not audited. Neither had they any civil or criminal penalty levied against them. Their view was that a more effective deterrent might involve concentrating on auditing taxpayers and penalising those who are found to be noncompliant.
2.4.2 Client characteristics

A number of studies have shown that practitioners can be heavily influenced by the characteristics of their clients, including client risk attitude, payment or withholding status and importance of client to the practitioner. These factors are discussed below.

Client risk preference/attitudes – An important factor identified as having an influence on tax practitioners’ decisions is client risk preference (Milliron 1988). From the tax practitioners’ perspective, clients are generally perceived by them to be overly aggressive or are instigators of aggressive advice. An early study by Sandford and Dean (1972) in the UK found that 42 out of the 60 accountants they interviewed believed that clients encouraged them to discover methods of tax minimisation or that clients were very much in favour of tax savings. Similarly, Finn et al. (1988) found from their survey of AICPA\(^{18}\) members that the most often cited ethical problems confronting the members was client proposals of tax alteration and/or tax fraud. A recent Australian study by Leung and Cooper (2005) indicated that 47% of their respondents who were members of the Australia CPA encountered client proposals for tax evasion, while 50% had encountered client requests to manipulate financial statements. Tooley’s (1992) examination of the attitudes of tax practitioners in New Zealand revealed that 71% of the practitioners indicated that their clients were aggressive with the intention of understating income and overstating deductions. This view is confirmed by Attwell and Sawyer (2001) as 52% of their respondents indicated that they encountered client dishonesty.

Previous studies have been focused on practitioners’ answers to the question: “Have you encountered tax evasion requests from clients?” These studies, however, did not provide insights into what the practitioners’ responses were to such demands. Moreover, there is uncertainty as to the percentage of clients who demanded the help of practitioners in concealing their tax related affairs.

Clients’ risk preference has also been linked to practitioners’ advice (Cloyd 1995; Cuccia, et al. 1995; Schisler 1994). Practitioners tend to act in empathy with taxpayers by offering different advice to a risk-seeking client and a risk-averse client (LaRue and Reckers 1989, Schisler 1994). For instance, practitioners most likely would recommend

\(^{18}\) American Institute of Certified Public Accountants.
aggressive tax positions to aggressive clients (Cloyd 1995) although such actions could be affected by other factors such as the practitioners’ perception of audit probability. In contrast, Helleloid (1989) did not find practitioners’ decisions to be influenced by clients’ attitudes toward risk.

A different picture of tax practitioners’ responsiveness emerged from the studies conducted by Duncan et al. (1989) and Pei, Reckers and Wyndels (1992). In these studies, practitioners gave advice that was more conservative even to aggressive clients, suggesting that they were adopting the role of “enforcers” of tax law. However, in both of these studies highly litigated issues were used. Possibly the practitioners were acting as enforcers to limit negligence concerns, audit probabilities and possible taxpayer penalties. These findings further suggest that there was a mismatch between the type of advice practitioners provided and what their clients were seeking. Other research has shown clients’ perceptions of practitioners as understanding their actual levels of aggressiveness. Using a matched-sample, Stephenson (2007) explored the match between clients’ perceptions of practitioners’ (all from non-Big 4 firms) aggressiveness and practitioners’ perceptions of their own aggressiveness. Although her results showed that practitioners were more aggressive than their clients perceived them to be, it is not clear what type of advice clients actually wanted or preferred.

*Payment/withholding status* - Studies of clients’ payment or withholding status addressed the effects of being in a tax due versus a refund position on tax practitioner aggressiveness. According to prospect theory developed by Kahneman and Tversky (1979), decisions are framed in terms of gains and losses. That is, people’s attitudes toward risks are different depending on whether it concerns gains or losses. Based on this theory, taxpayers would behave differently depending on whether they are due to receive a refund (which is a gain) or owe tax (which is a loss). Those in a gain situation would behave in a risk-averse manner whereas those in a loss situation would behave in a risk-seeking manner (Schisler 1994). Several studies in which practitioners’ aggressiveness has been examined using a prospect theory framework, have produced mixed findings. Sanders and Wyndels (1989) found that payment status did not affect tax practitioners’ recommendations. On the other hand, Duncan et al. (1989) found that clients’ payment status had a marginal effect on CPAs’ willingness to encourage
aggressive reporting. LaRue and Reckers’ study (1989) showed no significant main effect for payment status on CPA aggressiveness, although there was a significant interaction between experience, payment status and tax savings. When the opportunity for tax savings was low, less experienced tax practitioners provided more aggressive recommendations for clients who were in a tax due situation. Similarly, Schisler’s studies (1994; 1995) produced no significant main effects for withholding status, although there was a significant interaction between withholding status and client risk attitude. Practitioners’ aggressive recommendations were not driven by their clients’ gain or loss situation perhaps due to the fact that they (the practitioners) were not the ones who were going to be affected financially. However, if practitioners perceived that contradicting clients’ wishes (depending on clients’ risk preferences) might result in a possible financial loss to them such as losing the clients, then they would recommend more aggressive tax positions with aggressive clients especially those expecting a tax liability. Prospect theory, therefore, is supported under certain conditions only.

It appears from the literature that this variable itself is less likely to have a direct effect on practitioners’ advice but instead may interact with other variables to influence advice. In particular, self-employment status may be confounded with prepayment status.

Client importance — Client importance may affect practitioners’ willingness to recommend aggressive tax positions (Reckers et al. 1991). Client importance has been operationalised in terms of the size of client firms based on income, turnover or fees received, existing or potential clients, and client tenure. Jackson and Milliron (1987) suggest that practitioners may have different degrees of influence over their clients’ decisions. Practitioners may be more likely to represent the government’s position where their influence over a client is strongest, that is, clients with lower income and less tax sophistication. However, they may recommend a different reporting position for clients who are in a higher income bracket and are more sophisticated in tax and financial matters. Consistent with these views, Tomasic and Pentony’s (1991) interviews of tax practitioners provided evidence that large clients expected them to be more aggressive than did smaller clients. Kinsey (1999) also concluded from her practitioner interviews that the most aggressive firms were associated with the highest
income individual taxpayers. In contrast, Bandy et al. (1994) did not find any significant relationship between client importance and the advice given to the client.

Client importance reflects the power that the taxpayer would wield in the tax practitioner–client relationship. Having power, however, is not the same as using power to ‘demand’ aggressive advice as their tax decisions may be influenced by their practitioners. As practitioners are the tax experts, they are in the position to convince their clients that their advice, conservative or aggressive, is appropriate.

Client tenure is another potential factor in determining the type of advice proffered, as practitioners may lose clients if they do not agree with their preferred tax reporting position. Some studies have shown significant associations between client tenure and tax accounting decisions (Newberry, Reckers and Wyndelts 1993; Milliron 1988). Newberry et al. (1993) found that practitioners provided advice that is more aggressive when they were dealing with existing clients than when dealing with potential new clients. These findings may reflect greater value or importance placed on established clients. Alternatively, it may reflect greater intimacy and trust between practitioner and taxpayer. Established clients are in partnership with their tax practitioners, whereas new clients are not yet in such a relationship.

In the foregoing studies, the focus is on how much one party needs or values the other. It is possible, however, that the observed relationships have a structural base. The aggressive stance taken by practitioners could be due to the fact that influential clients tend to have more convoluted transactions; therefore they have more opportunity to avoid tax and be more aggressive in expecting their practitioners to minimise their tax as much as possible.

2.4.3 Practitioner characteristics

Investigations into the effects of various CPA characteristics on advocacy judgments have focused on demographic characteristics such as gender, age, education, experience level, attitudes, professional identity and size of establishment. Previous studies have generally found weak, or little, effect for demographic characteristics on CPA aggressiveness (for example, Cuccia 1994; Duncan et al. 1989; Schisler 1994). Sanders
and Wyndelts (1989) found that male professionals tended to be more aggressive than female professionals but Ayres et al. (1989) and Cuccia (1994) found no such relationship.

The advice given by tax practitioners may also be influenced by the experience of the practitioners themselves. In the case of an ambiguous tax matter, aggressiveness was related to experience levels (Kaplan et al. 1988). For inexperienced tax practitioners, higher audit probability reduced aggressiveness. This was not the case for experienced practitioners. Other studies found little, or no, relation between experience and aggressiveness (Ayres et al. 1989; Cuccia 1994; Duncan et al. 1989).

Cruz et al. (2000) argued that in most of the extant literature a strong economic focus had been adopted as a number of these researchers assumed that the practitioner’s judgment is primarily influenced by economic considerations. Although not ruling out the potential influence of economic factors, ethical considerations, such as perceived morality, fairness, cultural acceptability of their actions or their risk propensities may also have an influence on practitioners’ judgment (Carnes et al. 1996a; Cruz et al. 2000; LaRue and Reckers 1989; Milliron 1988). In only a few studies has the relationship between practitioners’ ethical considerations and the advice offered to clients been addressed. That said, some interesting findings have emerged from research examining how others judged the giving of aggressive advice. For instance, Burns and Kiecker’s (1995) investigation of CPAs’ attitudes toward unethical actions taken by tax practitioners shows that unethical behaviour was viewed more leniently if the behaviour had favourable consequences for the CPA’s firm.

Although prior literature suggests that tax practitioners have encountered ethical problems in discharging their responsibilities, it is not clear how they have resolved such problems.

Professional identity - As any one can practise as a tax practitioner in New Zealand, questions arise as to whether advice differs depending on whether or not practitioners are affiliated with professional organisations. Some studies conducted in the US (Ayres et al. 1989; Cuccia 1994; Erard 1993) have shown a difference – those who were affiliated with a professional organisation (for example, CPA) provided clients with
recommendations that were more aggressive than those who were not (for example, non-CPAs or unlicensed practitioners). A recent study by Hite and Hasseldine (2003), on the contrary, found that CPA-prepared returns resulted in fewer audit adjustments than non-CPA returns.

The New Zealand studies also produced mixed results. Although Tooley (1992) found other tax agents to be considerably more disapproving of avoidance measures than both the accountants and the lawyers, he did not find any significant differences in aggressiveness amongst the three groups. In contrast, a later study conducted by Attwell and Sawyer (2001) identified tax agents as the group (compared to other groups such as lawyers or chartered accountants) that least disapproved of tax avoidance.

The mixed results perhaps denote that practitioners are influenced by factors more closely associated with the decision context.

**Size of the establishment** – Smaller practitioner firms may feel greater pressure to provide aggressive advice to aggressive clients as these clients are important to the firm, and the firm may feel more vulnerable to losing clients (Coyne and Smith 1987). Within the professional class of CPAs in the US, significant differences in reporting recommendations (for example, expenses, capital gains etc.) were found between CPAs employed by large versus small firms (Carnes et al. 1996b; Helleloid 1989; Saunders and Wyndels 1989). Other findings showed that there were attitudinal differences between CPAs employed by different sized firms (Cuccia 1995) and that those working for the (then) Big 6 firms were more aggressive on tax issues involving high ambiguity (Carnes et al. 1996a). Braithwaite’s fieldwork (2005) further confirmed the aggressiveness of the Big 5 accounting firms who were the big players in the corporate tax shelter market. In contrast, Ayres et al. (1989) reported no difference in professionals’ judgments across firm type (that is, the (then) Big 8 versus non-Big 8 firms).

2.4.4 Summary

Previous research points to a number of constraints affecting a tax practitioner’s degree of aggressiveness in the advice given to clients. Penalties imposed by tax law, audit
probabilities, and client characteristics (such as their risk preference or importance) are some of the external factors that may influence their advice. In addition, there is reason to believe that tax practitioners' characteristics (such as professional identity - lawyer, accountant, others) and professional group membership, size of firm and importance of their clientele to the firm, shape levels of aggressiveness in the advice they provide. Finally, the aggressiveness of the advice given to clients could also depend on the number of years of experience the practitioners have and their attitudes towards taxation.

A possible account of the inconsistency in findings is that there may be a communication gap or miscommunication between the client and his/her tax practitioner. Practitioners might have inferred their client's demand for tax minimisation as desiring aggressive advice (Hite and McGill 1992). Clients, on the other hand, might have different risk preferences from others. In Christensen's (1992) finding she alludes to the mismatch between the expectations of both parties. Her results showed that practitioners' beliefs about what the client wanted often differed from what was actually wanted; clients had significantly higher expectations than practitioners realised on nearly every item covered in her survey. The literature also indicates that there appears to be a conflict between what type of advice clients prefer and their tendency to accept whatever advice their practitioner provides. This conflict poses the question of who influences whom. Is it the practitioner who influences his/her client's tax compliance behaviour or the other way round? Alternatively, does the leadership role change hands, with the baton being passed as circumstances change? Another possibility is that taxpayers and tax practitioners are in partnership with both responsible for aggressive tax planning decisions.

2.5 Chapter summary

This chapter draws attention to the way taxpayers’ and tax practitioners’ perspectives have been segregated in the literature. Nowhere is this more apparent than in the preferred methodologies. The studies reviewed in this chapter can be categorised into three groups based on their chosen sample. In the first category of studies information was elicited from taxpayers only and in the second category of studies information was elicited from tax practitioners only. These two categories of studies therefore each present only one side of
the picture. In very few studies has information been elicited from both perspectives at the same time, that is, from both practitioners and taxpayers. Three notable exceptions have been a springboard for the research presented in this thesis. Christensen (1992) in her study discussed in Section 2.3.3 did not use a random sample but had the participation of practitioners from four international accounting firms including their clients, and focused her attention on taxpayers' evaluations of tax services and how these differed from what practitioners offered. Schisler (1995) elicited information from two separate samples, taxpayers and practitioners, and focused on their tax aggressiveness preferences. Stephenson (2007), on the other hand, drew a sample of practitioners and their clients and matched the dyads' views on practitioners' aggressiveness. As some responses could not be matched due to inadequate identification, she carried out two separate analyses, one based on the matched sample and the other on two independent samples. Her results showed there was a gap between views – practitioners were more aggressive than taxpayers thought they were. A wider gap was found in the matched sample than with the independent samples. In all of these studies, investigation was limited to measuring differences in expectations and services, with little attention being paid to understanding how these differences may come about.

As a first step to capturing the dynamic interdependence of taxpayers and tax practitioners, this present research draws on some of the insights provided by the literature discussed above. Taxpayers' primary aims in using a practitioner are to reduce uncertainty and to file a correct tax return. However, clients may also demand, or be curious about, aggressive strategies. As they themselves do not have the 'know-how' to go about it, they have to rely on their practitioners’ expertise in devising an appropriate tax strategy for them. Some practitioners, on the other hand, may or may not be willing to give in to the demands of their clients, or they may not feel that they have the capability of responding satisfactorily to their clients’ wishes. Others are willing to develop aggressive tax planning strategies knowing that there is a market for them. The effect of practitioners on taxpayer compliance is less clear, but compelling evidence suggests that they are both enforcers and exploiters depending on whether the rules are clear or ambiguous (Blumenthal and Christian 2004:217; Kleppers et al. 1991).
To gain a better understanding of the role of tax practitioners in taxpayers’ behaviour, this research examines the role demands and expectations of the client and the role behaviour of both the client and the practitioner. Both views are considered important due to the interactive nature of the transaction between the tax practitioner and the client. The study is grounded in role theory and relies on a social psychological model to provide a theoretical framework for analysing the expectations, perceptions, attitudes, and behaviour of the two parties. In order to provide breadth to the study from both the taxpayers’ and tax practitioners’ perspectives, an independent sample methodology was used. The questions asked were: How does a sample of taxpayers see and act toward their practitioners? And how does a sample of tax practitioners respond to their clients? The next chapter develops a Tax Practitioner-Client Role Model which is adopted as the framework for this study.
Chapter 3
Conceptual Framework

3.1 Introduction

The literature review discussed in the previous chapter shows that the role of tax practitioners in tax compliance has been considered to a limited extent but that researchers using traditional approaches have not managed to capture the dynamic nature of the working relationship between the practitioner and the client. Furthermore, researchers who conducted studies on practitioners have made no attempt to discuss the concept of ‘role.’

According to Parsons (1951:23), a role is,

that organized sector of an actor’s orientation which constitutes and defines his participation in an interactive process. It involves a set of complementary expectations concerning his own actions and those of others with whom he interacts.

Therefore, in considering the role of tax practitioners in tax compliance, the clients’ needs and expectations, as well as the practitioners’ perceptions of and their response to their clients’ expectations must be considered. Certainly, tax practitioners interact with their clients, although the extent of interaction (such as frequency or duration) varies among practitioners and clients.

Drawing on the social psychology literature, this chapter introduces the theory of role dynamics posited by Kahn, Wolfe, Quinn and Snoek (1964). Their model is frequently referred to in studies of role conflict and has been used as a framework for studies in various domains including accounting (see Beck 1974; Cameron 1992; Kleinman and Palmon 2001; Senatra 1976). Based on this model, a preliminary role framework for tax practitioner and client is proposed, and used for the development of hypotheses for this thesis.
3.2 The concept of role

Role theory, according to Turner (2001:233), "deals with the organization of social behaviour at both the individual and the collective levels" and is "a key element in understanding the relationships among the micro-, macro-, and intermediate levels of society." Roles can be viewed as having a corresponding set of expectations and obligations, and they define the appropriate behaviours for a person to perform in the role (Anderson and Kitchener 1998:97). In this functionalist/structural approach to the concept of role it is posited that roles are prescribed by society as a whole, and individuals simply adopt them. This approach is considered to be overly deterministic and static and proponents of it fail to recognise the vast differences in how individuals conceive of their roles. In contrast, the fundamental premise of interactionist social theory is that individuals and groups of individuals interact. Turner (2001:235) posits that individuals,

shape their own roles so as to interact effectively with the role they attribute to the relevant others. Sometime this is a matter of conforming to expectations, but more fundamentally it is a matter of collaboration, oppositions, or any of many other possible relationships.

Role is therefore more fluid and subtle and the process involves not only role-taking and role-playing but also role-making (Turner 2001).

Prior research that has tapped into role theory tends to ascribe different meanings to the concept of role. Some studies have been focussed on the norms associated with roles, (that is, prescriptive in nature), whilst others have been focussed on beliefs (that is, subjective probability) or preferences (that is, attitudes) (Biddle 1986). As a result, role theory has been criticised for being "vague, nebulous and non-definitive" (Biddle 1986; Morris 1971; Rodham 2000:72).

To clarify the different perspectives used by different role theorists, Biddle (1995) distinguished the concept of role into three types: role as behaviour, role as social position and role as expectation. One does not preclude the others. Role as behaviour refers to behaviours that are characteristic of people who are in similar occupations and professions. Although not everyone in the same occupation or profession will behave
identically, there is a pattern of behaviour exhibited by the occupant and they have the potential for affecting, and being affected by, the behaviour of others who interact with them (Biddle 1995; Morris 1971). Role as a social position generally refers to the identity or social position that is shared by those in similar occupations or professions. Role as expectations refers to the expectations held by others of those who are in certain occupations or professions. Some expectations may be widely shared, while others may reflect divergent opinions, and as a result generate role conflicts for the person (Biddle 1995:62).

3.3 Role dynamics

Based primarily on the concept of role as behaviour and role as expectations, and recognising the effects of interaction between individuals, Kahn et al. (1964) developed a more dynamic, contextual framework for understanding the relationships between role expectations and role behaviours within an organisational setting. Their Role Episode Model is used to examine role ambiguity, role conflict, and stress.

As described by Kahn et al. (1964), the role set consists of different people (termed role senders) with whom the focal person has contact. Role senders have a stake in the focal person’s performance as they can benefit or be disadvantaged by it. They may also be dependent on the focal person’s performance as they may require it to perform their own tasks. Accordingly, they develop beliefs and attitudes about what the focal person should or should not do. The prescriptions and proscriptions held by members of a role set are termed role expectations and they represent the standards for evaluating the performance of the focal person (Kahn et al. 1964). The numerous acts which make up the process of role sending are not merely informational, but are also attempts by senders to influence the focal person to conform to their expectations.

As shown in Figure 3.1, each of the four boxes represents an event that forms a role episode. The expectations/pressures described above are being sent to the focal person and affects the immediate experience of the focal person. This experience typically has

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19 And, to a lesser extent, role as social position.
both perceptual and cognitive aspects and the focal person's reactions are determined by the nature of his/her experience. Focal persons are also self-senders as they too have a conception of their work and a set of attitudes and beliefs about what they should and should not do while in that position. They have some awareness of what behaviours will fulfil their responsibilities and lead to the accomplishments of their work. Through a long process of socialisation and formal training, they have acquired a set of values and expectations about their own behaviour and abilities. The focal person is thus conceived of as "having an occupational self-identity and is motivated to behave in ways which affirm and enhance the valued attributes of that identity" (Kahn et al. 1964:17).

![Figure 3.1: Role Episode Model (Kahn et al. 1964:26)](image)

When role pressures are seen as illegitimate or coercive, the focal person may resist the demands of the role sender giving rise to role conflict. Focal persons may respond to role conflict in several ways. For instance, when they find that they cannot realistically conform to an expectation, they may persuade the role senders to modify the incompatible demands (Kahn et al. 1964:29). Alternatively, they may reject or avoid those role senders whose demands they find they cannot meet.

The feedback communicated to role senders may or may not lead to immediate modifications in the demands that role senders make of them. Role conflict, as indicated in the literature on organisational behaviour and theory, cannot be taken too lightly in an organisation as it can lead to disastrous consequences such as work stress or termination of service (Kahn et al. 1964; Schuler 1977a). However, House and Rizzo (1972) argued
that the experience of role conflict by the focal persons could be regarded as an indicator that they are performing effectively, particularly people who are occupying high level supervisory roles or boundary-spanning roles in an organisation. In other words, any conflict associated with the coordination of highly differentiated constituencies must be borne in order to achieve successful role performance (Miles 1976:26).

In an organisation, role ambiguity may also arise when there is a discrepancy between the information available to focal persons and that which is required for adequate performance of the focal persons’ role. Role ambiguity is generally associated with satisfaction, tension, strain, and anxiety in an organisation context (Miles 1976; Schuler 1977).

In Kahn et al.’s model, the role episode is abstracted from a process which is cyclical and ongoing: the focal person provides feedback to the sender, in a way that either alters or reinforces the demands made of him/her. The next role sending will depend on the sender’s evaluation of the response to his/her last feedback and thus a new episode begins.

As indicated by Kahn et al. (1964), the whole process does not occur in isolation; expectations or behaviours are shaped by additional or contextual factors such as organisational characteristics, personality, and the interpersonal relations between the role senders and the focal person.

Organisational characteristics include organisational structure, specialisation, and the formal reward system, and determine in part the role senders’ experience, expectations, and the pressures they impose. Personality factors, on the other hand, are those factors which describe a person’s propensities to behave in certain ways. They tend to evoke or facilitate certain responses from role senders and shape the focal person’s interpretation of the pressures. Also personality dispositions may lead to the use of certain kinds of coping responses. Therefore, they are important determinants of differential reactions to role pressures. Interpersonal relations refer to the more or less stable patterns of interaction between the focal person and the role sender and to their orientations toward
each other. They include the power or ability to influence, affective bonds (such as respect and trust), dependence of one on the other, and style of communication. The role perception literature has shown the importance of communication; for instance, the more communication and feedback available to the role sender or focal person, the better s/he is able to cope with role ambiguity and conflict (Schuler 1977b). The kinds of pressures exerted by the role sender upon the focal person therefore depends to some degree upon the nature of relations between them. Pressures will also be interpreted differently depending on the relationship between the focal person and the role sender. Furthermore, any changes in the focal person’s feelings and behaviour (for example, loss of trust or respect) are likely to affect their relations, their future role behaviours, and responses to the behaviour.

Although Kahn et al.’s (1964) model is used to examine the dyadic interactions between role senders and focal persons within the same organisation, it can be adapted for studies of other role sets. As the tax practitioner and the taxpayer (the client) are two independent parties (dyads) in a role set, the model could be adapted to provide a suitable theoretical framework for understanding the role of tax practitioners and their clients in a tax setting. The next section explains the development of the Tax Practitioner-Client Role Model.

3.4 Tax Practitioner-Client Role Model

In the context of the provision of tax services, the role set primarily consists of the tax practitioner, the taxpayers, the government, the practitioner’s affiliated professional bodies and society. However, since this study sets out to provide an understanding of the tax practitioner-client relationship and their roles in tax compliance, the role set is focused on the tax practitioner who is presented as the focal person and the taxpayer who is presented as the role sender.

Drawing on the tax compliance literature and Kahn et al.’s (1964) role model, a conceptual framework of the role of the practitioner and client in a tax setting was developed and is shown in Figure 3.2. It is based on their perceptions of each other and
indicates that each one's decisions or actions can be influenced by his/her characteristics, and environmental and interpersonal relationship factors. The development of this framework involves two stages. First, the application of the role concept to how taxpayers and their practitioners interact needs to be articulated. Once the notion of a taxpayer-tax practitioner episode is accepted, the question arises of patterning of role performance and responsiveness across episodes. For taxpayers, there are repeated exposures to tax practitioners; sometimes one practitioner, that contributes to this patterned manifestation of role expectation and performance. For tax practitioners, patterning in the roles they adopt comes about through repeated exposures to different clients. It is this trans situational model of role expectation and performance that is the subject of this thesis.

The first stage in adapting Kahn et al.'s work was to consider what a snapshot of each encounter (or episode) that takes place between the practitioner and the client might look like. Each encounter involves a sequence of activities that takes place as follows: expectations (or activities that s/he requires the practitioner to perform) are sent from the client to the practitioner; these are perceived and evaluated by the practitioner in relation to the expectations of the client, which then leads to responses by the practitioner.

![Figure 3.2: Tax Practitioner-Client Role Model in a tax setting and factors affecting their role](image-url)
The client observes and evaluates the practitioner’s response in relation to his/her expectations and needs, and reacts to the practitioner’s response. Taxpayers who find that practitioners are not conforming to their expectations may accept the practitioner’s response or may put pressure on him/her to conform. The whole process of sending and responding is cyclical and ongoing and the number of encounters depends on the number and complexity of the tax issues involved - the more complex the issue, the more likely the number of encounters will increase.

Over time, taxpayers and practitioners settle into their preferred modes of engagement. While some elements will be peculiar to a particular interaction between a taxpayer and his/her practitioner, other elements of the role will generalise across encounters. Taxpayers become aware of their own expectations and can articulate how they perceive their practitioner. It is possible to ask, ‘What are the messages sent to practitioners by taxpayers?’ and ‘How do these messages vary by person, context and relationship?’ Similarly, the question can be asked, ‘How do practitioners interpret the messages of their clients?’ and ‘How do these perceptions differ by person, context and with the perceived characteristics of the role sender?’

A number of outcomes of role messages sent and received, and of roles performed are important in this analysis. An outcome from a client’s evaluation of a practitioner’s services is satisfaction or dissatisfaction with the fulfilment of role expectations. Another is the willingness of the client to either retain or terminate the practitioner’s services in the future and to accept or reject advice.

Among the most important outcomes for practitioners are role conflict, role ambiguity, and advice given. Practitioners may encounter problems with their roles, especially when they are subject to incompatible role expectations (role conflict) where, for instance, they are required to provide advice in accordance with their clients’ conflicting demands. A good example is where clients expect their practitioners to help them file a safe tax return as well as to help them exploit tax loopholes. What some clients demand of their practitioners can also be inconsistent with the practitioners’ ethics or moral values (Biddle 1979). These types of demands place the practitioners in an awkward
situation; they want to establish good relations with clients so as to maintain the client base but the goals and values of their clients do not match their professional integrity.

If role conflict exists, then practitioners must have ways to resolve it. For example, they could comply with clients’ demands, as otherwise they may lose clients. Or they may persuade clients to modify the incompatible demands so as not to breach professional values and conduct. Practitioners may also reject some clients’ demands, if they believed economic harm would result for either or both of them. Such a reaction means that they are willing to terminate their relationship, especially with those who want to evade tax. Another approach that practitioners may use is to communicate effectively with their client and engage in solving the problem jointly (Kahn et al. 1964). Therefore, depending on the practitioners, their coping response could take a number of forms: from succumbing, to adapting to clients’ demands, to solving problems jointly, to terminating the client relationship.

Apart from role conflict, practitioners may experience role ambiguity which arises when the demands or expectations of taxpayers are not explicitly communicated (Kahn et al. 1964). Practitioners who misread what their clients really want may inadvertently provide advice that is contrary to their clients’ preferences. Therefore, there could be a mismatch between the expectations perceived by both parties giving rise to role ambiguity. As pointed out in Section 2.4.4, a possible consequence of role ambiguity is that practitioners may provide aggressive (or conservative) advice to conservative (or aggressive) clients thinking that they wanted this type of advice. Another potential consequence of miscommunication is that it may affect clients’ evaluation of practitioners’ services, as practitioners act in accordance with their perceptions of clients’ expectations (Christensen 1992; Hite et al. 2003; Spilker, Worsham and Prawitt 1999).

In the Tax Practitioner-Client Role Model it is recognised that the two parties’ expectations and behaviours are dynamic. They are a function of the interaction of different characteristics, different motives, and values, different sensitivities and fears, different habits and the like (Kahn et al. 1964). As practitioner and client interact over time, mutual learning and understanding takes place, which can help ease the initial
conflicts they have. As these conflicts give way to increased mutual understanding, the outcomes of their interactions tend to be influenced by other factors such as the decision maker characteristics and behavioural norms (Kleinman and Palmon 2000).

This framework is in accord with the tax literature which indicates that the characteristics of the client and tax practitioner, their interpersonal relations and extrinsic or situational factors or what Milliron (1988) categorised as decision context features, influence tax decisions. Personal characteristics and interpersonal relations essentially reflect psychological and social development, whereas decision context features arise outside the dyads in the taxpaying environment.

Based on the Tax Practitioner-Client Role Model discussed above, this study drew on two perspectives, that of business taxpayers and that of tax practitioners. From the business taxpayers’ perspective, this study examined their expectations and perceptions of practitioners’ services and their tax reporting decisions. From the tax practitioners’ perspective, their perceptions of role expectations and practice, role conflict, role ambiguity, and tax reporting decisions will be examined. The study further investigated the effects of the following factors on practitioners’ and clients’ tax decisions where the tax law is ambiguous: characteristics of practitioners and clients, features of decision context, and the interpersonal relationship between practitioners and clients. The potential effects of these factors are examined in the following chapter in which a set of research hypotheses are developed.

3.5 Chapter summary

The Role Episode Model developed by Kahn et al. (1964) provides a suitable theoretical framework for research on the roles of tax practitioners and their clients in tax compliance as it recognises the relevance of the interactions between parties within a role set. Prior studies which considered factors that may influence taxpayers’ or tax practitioners’ tax decision making researchers failed to take into account such interactions. Tax practitioners interact with their clients, although there may be variations in frequency, duration, medium, and diversity of contacts.
Adapting this framework, the Tax Practitioner-Client Role Model was developed. The model is focused on the two independent parties, the service provider (the tax practitioner) and the client (the taxpayer). The role process consists of a set of demands made by taxpayers on their practitioners. On the basis of their perceptions of the clients' demands, practitioners have their own views of what demands they should try to meet, given their type of social position. In keeping with Kahn et al.'s theoretical formulation, in the framework the characteristics of taxpayers and of tax practitioners, their interpersonal relations, and features of decision context that may have an impact on their decision making are all taken into consideration. The concept of practitioner-client role in this thesis is considered in terms of an umbrella concept covering (a) the demands placed on practitioners by clients and their evaluation of practitioners' response, (b) practitioners' perception of clients' demands and their response, and (c) the drivers of practitioners' and taxpayers' behaviour.

A major implication of this role model is that the perceptions and behaviours of the tax practitioners need to be measured independently of the perceptions and behaviours of the taxpayers. The research strategy adopted in this study therefore involves observing the role expectations, role performance, and behaviours as reported by a sample of taxpayers and a sample of tax practitioners. Each of the taxpayers in the sample would serve as the data source for him/herself as well as being the informant about the behaviour of his or her practitioner. Similarly, each of the practitioners in the sample would provide an account of his/her role, and as well as being the informant about the role demands and behaviour of his or her clients. These observations will help us to make better sense of the taxpayers' motives and goals in engaging a practitioner and their willingness to accept their practitioners' advice. It will also help us to gain further insights into how practitioners see their own role and the challenges they face.

The next chapter discusses the factors that affect their decision making in more detail and develop research hypotheses for testing.
Chapter 4
Research Hypotheses

4.1 Introduction

In Chapter 3, a Tax Practitioner-Client Role framework was developed to serve as a guide for hypothesis development. The formulation of the research hypotheses to represent the taxpayers’ and tax practitioners’ perspectives are discussed in Part I and Part II respectively. The hypotheses are specified at the outset and subsequently justified. In this chapter, it is important to note that business taxpayers are playing a role in response to their conceptualisation of their tax practitioner and practitioners are playing a role in response to their conceptualisation of their clients.

Part I: Expectations and responses of business taxpayers

4.2 Hypotheses representing the business taxpayers’ perspective

From the business taxpayers’ perspective, this study focused on two main aspects of their role relationships with their tax practitioners. In the first set of hypotheses taxpayers’ expectations, experiences, evaluation, and commitment to their practitioners were examined by testing the following hypotheses:

H1 (taxpayers): There will be an expectation/experience gap between taxpayers’ expectations and experiences with the services provided by practitioners.

H2 (taxpayers): The expectation-experience gap will have a negative effect on satisfaction with, and intention to retain, practitioners’ services.

H3 (taxpayers): Taxpayers’ trust in practitioners will have a positive effect on satisfaction and intention to retain practitioners’ services.
Expectations represent the messages that taxpayers send to their tax practitioners, that is, their own focal persons. Experience represents the responses from these persons. Trust represents the role senders' generalised understanding of the kind of relationship they have with the focal person that extends across time and context. These three hypotheses are summarised in the research model in Figure 4.1 below:

![Figure 4.1: Representing Hypotheses 1, 2 and 3 (taxpayers) within the Tax Practitioner-Client Role Model](image)

The second set of hypotheses examined whether variations in taxpayers’ tax reporting decisions when their practitioners provided aggressive advice was explained by their expectations of aggressive advice, personal tax ethics, business tax ethics, risk propensity and sanction risk perceptions. The hypotheses that were tested are as follows:

H4 (taxpayers): In an ambiguous tax situation, expectations of aggressive advice will be positively associated with taxpayers’ agreement with practitioners’ aggressive advice.
H5 (taxpayers): In an ambiguous tax situation, personal tax ethics will influence taxpayers' agreement with practitioners' aggressive advice.

H6 (taxpayers): In an ambiguous tax situation, perceived business tax ethics will influence taxpayers' agreement with practitioners' aggressive advice.

H7 (taxpayers): Taxpayers with a higher risk propensity will agree more with their practitioners' aggressive advice on an ambiguous tax situation than will those with a lower risk propensity.

H8 (taxpayers): Taxpayers with low sanction risk perceptions (perceived probability of detection and of severe tax penalties) will agree more with their practitioners' aggressive advice on an ambiguous tax situation than will those with high sanction risk perceptions.

These five hypotheses are summarised in the research model in Figure 4.2 below:

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**Figure 4.2: Representing Hypotheses 4, 5, 6, 7 and 8 (taxpayers) within the Tax Practitioner-Client Role Model**
clients expected to save from tax by using an adviser and what clients felt their adviser actually helped them save.

Support for the expectation gap hypothesis emerges from other studies (such as those conducted by Duncan et al. 1989; Hite et al. 1992; Murphy and Byng 2001; Pei et al. 1992). Taxpayers have been found to be more risk averse than their practitioners overall (Hite et al. 1992; Tan 1999) - which may be why they rely on practitioners for help to minimise their taxes legitimately. There are also practitioners who gave more conservative advice even to clients who expected aggressive advice (Duncan et al. 1989; Pei et al. 1992). The mounting evidence in the marketing literature further supports the mismatch between clients’ expectations and service providers’ performance. Service providers, in general, may not always understand what consumers expect from their service (Parasuraman, Zeithaml and Berry 1985) because expectations are not clearly communicated to practitioners, or taxpayers themselves have conflicting expectations (Sakurai and Braithwaite 2003). Even if practitioners understand what clients expect of them, they may not be willing to meet clients’ demands because they conflict with their professionalism. Overall, these studies suggest that taxpayers’ expectations may not always be congruent with their experiences of practitioners’ service.20 Therefore, the first research hypothesis for taxpayers posits that:

H1 (taxpayers): There will be an expectation/experience gap between the taxpayers’ expectations and experiences with the services provided by practitioners.

What is even more interesting is what happens when taxpayers’ expectations are not met. There are two possible outcomes. The taxpayers could resort to putting more pressure on the practitioner to comply with their requirements. Should this fail, then the outcome may be dissatisfaction with the service and as a consequence termination of the practitioner as a tax service provider. But this may not necessarily be the case. As shown in the studies by Tan (1999) and Murphy (2001), the intention of clients to retain or dismiss their practitioners was not influenced by the type of advice provided by the practitioners even if it was contrary to their preferred advice. It appears that other factors may have an impact on the outcomes of their evaluations, but there is not much empirical

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20 It is also possible that taxpayers themselves, by human nature, may expect too much from their practitioners.
research that explores the effects of the expectation-experience gap further. Christensen’s study (1992) on tax services merely indicated that clients were satisfied when their expectations for tax service quality were met or exceeded. Chang and Bird’s (1993) study suggested that clients experienced an expectation gap but they did not examine the repercussions of the gap. Further, it is possible that even though taxpayers expect practitioners to meet their needs and demands, they are also open to influence from their practitioners (Sakurai and Braithwaite 2003). Ascertaining these outcomes would provide useful insights into the working relationship between the practitioner and the client.

Research in the marketing domain has indicated that there is a direct link between customer satisfaction (and service quality) and future retention (or commitment/loyalty) of service provider, and that satisfaction with services is related to confirmation or disconfirmation of expectations (Brown and Swartz 1989; Fullerton and Taylor 2002; Garbarino and Johnson 1999; McDougall and Levesque 2000; Smith and Houston 1982; Tosi 1966). Overall satisfaction (or cumulative satisfaction) is defined as “an overall evaluation based on the total purchase and consumption experience with a good or service over time” (Anderson, Fornell and Lehmann 1994:54; Jonas and Frey 2003). These findings suggest that a customer’s evaluation is not based on only one particular type of advice or recommendation. Rather, it is based on his/her summated experiences with the service provider. Tan (1999) and Murphy (2001) used only a hypothetical scenario to gauge whether or not taxpayers would retain their practitioner. Consequently, the survey instrument may not have captured other expectations of clients which may be considered equally important in their decision to retain or switch practitioners.

These interesting insights into the practitioner-client relationship raised the following research questions: what happens when taxpayers find that their expectations are not met, that is, when there is an expectation/experience gap? Will such a gap influence satisfaction with services and future retention of practitioner? To test these research questions, the following hypothesis was developed:

H2 (taxpayers): The expectation-experience gap will have a negative effect on satisfaction with, and intention to retain, practitioners’ services.
Apart from the possible influence of an expectation-experience gap on client satisfaction and retention of practitioner, the interpersonal relations between the two parties are also considered an essential ingredient for a successful relationship and continuity of a relationship (Garbarino and Johnson 1999). One important dimension of interpersonal relations that is singled out in the social psychology literature is trust (Kahn et al. 1964).

As pointed out by Sniezek and Van Swol (2001:289), one who depends on another for advice inevitably confronts “social uncertainty”, that is, an inability to predict perfectly whether or not the advisor is giving the best possible advice. In the context of tax advice, taxpayers solicit the advice of tax practitioners who are the tax experts to help them solve their tax problems. However, even with a detailed explanation of the advice from a tax practitioner, the taxpayer in most instances may still have insufficient understanding to eliminate all uncertainty about what is best. However, when the client trusts the practitioner, social uncertainty is reduced. Trust in contexts of information asymmetry of this kind is described by Scholz (1998) as the “trust heuristic”. The client relies on the trust heuristic to move forward in the belief that the practitioner is acting in the client’s best interests.

Trusting the practitioner is therefore an important factor in a relationship as it signifies that taxpayers confidently believe that the tax practitioner is not only competent but can be relied upon to behave in such a manner that the long-term interests of the taxpayer will be served (Barber 1983; Braithwaite and Levi 1998; Crosby, Evans and Cowles 1990:70; Sniezek and Van Swol 2001).

Taxpayers also tend to be more open and cooperative if they trust their advisers (Boccaccini, Boothby and Brodsky 2004). Trustworthiness is more broadly associated with having greater capacity to influence and change the way in which individuals behave (Makkai and Braithwaite 1993). Trust in the practitioner may therefore cause taxpayers to modify or compromise their expectations to bring them in line with what practitioners have to offer. Since clients’ trust in their practitioners could play a critical role in their working relationship, it is hypothesised that even if there are differences in opinion, trust is associated with satisfaction and retention of practitioners as follows:
H3 (taxpayers): Taxpayers' trust in the practitioner will have a positive effect on satisfaction with, and intention to retain, practitioners' services.

4.2.2 Evaluation of practitioners' aggressive advice and outcome

One of the reasons why taxpayers engage the service of tax practitioners is to help them to arrive at a satisfactory tax position where the tax law is uncertain. As the literature suggests, tax practitioners contribute to compliance by enforcing legally clear requirements stipulated in the tax law (Klepper and Nagar 1989a). However in ambiguous situations, different practitioners appeared to resolve the issue in different ways (Carnes et al. 1996b), with some being more aggressive than others. With many aspects of the tax law not clear cut, there are indeed ample opportunities for practitioners to exploit them to their clients' advantage. Aggressive advice provided by practitioners is therefore of particular concern to the tax authorities. Hence, an interesting research question here is, 'Will taxpayers subscribe to the practitioners' aggressive advice where the tax law is unclear, or will their decisions be driven by other factors?'

Figure 4.2 shows a part of the Tax Practitioner-Client Role Model that focused specifically on this particular aspect of their role relationships, that is, their agreement with aggressive tax advice provided by their practitioners.

Taxpayers may seek the advice of practitioners, but in the eyes of the law, they (and not the practitioners) bear the full responsibility of paying the correct amount of tax. Accordingly, when practitioners provide feedback on their recommendations, taxpayers as shown in the Tax Practitioner-Client Role Model in Figure 4.2 will have to make a tax reporting decision. That is, they have to evaluate and respond to the practitioners' recommendation. The outcome of such an evaluation is to agree or disagree with the aggressive advice and in the model several factors that could potentially influence the taxpayers' decision are posited. The factors considered in this study are: (a) expectation of aggressive advice, (b) personal tax ethics, (c) business tax ethics, (d) personal risk propensity, and (e) sanction risk perceptions. The influences of these factors are examined as the literature indicates that these economic and social psychological factors are
important contributors toward taxpaying behaviour. Five hypotheses were developed and are discussed below.

Since the Role Model is interactive in nature, their manner of communication must also play an important role in the practitioners’ decision making (see dotted line in Figure 4.2). Because of variability in communication methods and the relatively unexplained nature of this aspect of practitioner-client interaction, interpersonal relations are explored qualitatively from the data elicited from the open-ended questions.

**Taxpayers’ expectation of aggressive advice**

From a role perspective, taxpayers have expectations of their practitioners which are discussed in Section 4.2.1. An expectation is “an anticipation of future consequences” (Grover and Vriens 2006:576), and the content of these expectations may include preferences with respect to specific acts (Kahn et al. 1964:14). Studies have shown that taxpayers’ preference for type of advice might influence their agreement with their practitioners’ advice and the literature indicates that taxpayers’ preference for type of advice varies. Some taxpayers prefer conservative advice while others prefer aggressive advice (see for example, Hite and McGill 1992; Leung and Cooper 2005; Sandford and Dean 1972; Tan 1999). However, in some studies no attempt has been made to examine whether or not taxpayers’ preferences are dependent on the ambiguity of tax law. The literature which indicates that taxpayers’ preference is to be on the safe side of the law (see for example, Sakurai and Braithwaite 2003) suggests that if the tax law is clear, taxpayers would prefer conservative advice; whereas if the tax law is ambiguous, they might prefer aggressive advice.

Therefore, drawing from the findings on taxpayers’ preference for type of advice, together with practitioners’ responses to tax law ambiguity, it was hypothesised that those who expect aggressive advice, where the tax law is ambiguous, will be more likely to agree with practitioners’ recommended aggressive advice. The fourth hypothesis is stated as follows:

H4 (taxpayers): In an ambiguous tax situation, expectations of aggressive advice will be positively associated with taxpayers’ agreement with practitioners’ aggressive advice.
Taxpayers' personal and business tax ethics

As a person's behavioural intentions to comply or not comply with tax law are posited to depend on the norm (Ajzen 1991; Fishbein and Ajzen 1975), this factor has received considerable attention in tax research (Kirchler 2007; Reckers, Sanders and Roark 1994; Torgler and Murphy 2004; Wallschutzky 1984; Wenzel 2002). Personal norms or tax ethics refer to "privately held ethical and moral convictions" (Wenzel 2005a:213) and have been identified as an important determinant of taxpaying behaviour (Alm, Sanchez and De Juan 1995; Wenzel 2005a). Studies have also shown that taxpayer ethics play a mediating role between compliance variables such as opportunity, probability of detection (Smith, 1990; Wenzel 2002), tax rate, taxpayer's withholding status (Reckers et al. 1994), and probability and severity of consequences (Wenzel 2002).

A social norm represents "a pattern of behavior that is judged in a similar way by others and that is sustained in part by social approval or disapproval" (Alm et al. 1995:6). As pointed out by Spicer and Lundstedt (1976), human behaviour in the area of taxation can be affected by internalised norms of role expectations and these norms may be affected by the behaviour of an individual's reference groups (such as friends, relatives, work associates etc.). Consequently, if taxpayers know that many people in groups important to them evade taxes, then their commitment to the social norm of tax compliance will be weaker (Alm et al. 1999). Although some studies have shown that social norms indeed play a role in shaping taxpayers' behaviour (Alm et al. 1995; Wenzel 2005b), their relevance appears less clear, at least compared to the effects of personal norms on tax compliance (Kirchler 2007; Wenzel 2005a). For instance, taxpayers who view tax evasion as immoral (personal norms) may not necessarily evade tax even if others do (social norms). The explanation for this behaviour offered by Wenzel (2005b) is that social norms can be effective only when taxpayers identify with the group to whom the norms are attributed. This reasoning perhaps explains why some taxpayers are affected by social norms (Vogel 1974) while others adhere to their own tax ethics (Braithwaite 2000; Grasmick and Bursick 1990; Reckers et al. 1994; Sheffrin and Triest 1992).

The literature on the effect of taxpayers' personal and social norms on taxpayers' compliance behaviour suggests that these norms could also play a part in business taxpayers' reporting decisions. That is, the extent to which business taxpayers are willing
to accept aggressive advice from practitioners could be influenced by their own personal norms (termed here as personal tax ethics). In addition, they could also be influenced by their perceptions of other businesses' social norms (termed here as business tax ethics). Accordingly, the following hypotheses posit that:

H5 (taxpayers): In an ambiguous tax situation, personal tax ethics will influence taxpayers' agreement with practitioners' aggressive advice.

H6 (taxpayers): In an ambiguous tax situation, perceived business tax ethics will influence taxpayers' agreement with practitioners' aggressive advice.

**Taxpayers' risk propensity**

As the tax treatment of certain income and expenses is not always clear cut, taxpayers who are confronted with such uncertainties will have to make a choice as to whether or not to accept their practitioner's advice. Decisions they make could be characterised as risky when they are faced with high uncertainty "about whether potentially significant and/or disappointing outcomes of decisions will be realised" (Sitkin and Pablo 1992:10). The decision making behaviour literature identified risk propensity as having an impact on decision makers' behaviour (Sitkin and Pablo 1992; Sitkin and Weingart 1995). Risk propensity refers to an individual's tendency, on average, to take or avoid risks. While there is some evidence that willingness to take risks is situationally determined (see for example, prospect theory), risk propensity is also seen as a personality trait. The psychological and criminological literature shows that there are people with high and people with low risk propensity (Sitkin and Pablo 1992). Compared to those with a propensity to avoid risks (risk averters), those who are willing to take risks (risk takers or risk seekers) are more likely to construe a relatively risky situation as one of low risk, and thus have a higher tendency to take risks (Wong 2005).

The decision makers considered in this study are business taxpayers. As entrepreneurs they would have experienced different types of risks. That said, individual differences in willingness to take risks are still likely to exist. For instance, some taxpayers may claim an expense only when they are very certain that the expense is deductible. This group may be considered as taxpayers with low risk propensity, that is, they are risk averters. On the other hand, there may be taxpayers who do not require a very high level of certainty that an expense is deductible. They may think that they have a plausible story for why it should be
and they will give it a go and see if it is accepted. This group of taxpayers have the characteristics of risk takers. Risk propensity is therefore a relevant factor that could affect willingness to accept practitioners’ aggressive advice. In Tan’s (1999) study, which showed that taxpayers accepted whatever advice their practitioners gave, she did not consider the possible impact of individual taxpayers’ risk propensity. Several studies suggest that risk propensity varies among taxpayers (Chang et al. 1987; Collins et al. 1990; Hite and McGill 1992; Sakurai and Braithwaite 2003). Accordingly, it was hypothesised that when practitioners offer aggressive advice, it is likely that those business taxpayers who are risk takers will be more willing to accept aggressive advice than will those who are risk averters. The hypothesis is stated as:

H7 (taxpayers): Taxpayers with a higher risk propensity will agree more with their practitioners’ aggressive advice on an ambiguous tax situation than will those with a lower risk propensity.

**Taxpayers’ sanction risk perception**

The effects of audit probability as compared to severity of penalty have consistently been shown to affect taxpaying behaviour (see for example, De Juan, Lasheras and Mayo 1994; Friedland 1982; Kinsey and Grasmick 1993; Klepper and Nagin 1989a; Mason and Calvin 1978; Schwartz and Orleans 1967; Webley and Halstead 1986). These results support the economic model, in which the assumption is that taxpayers are self-interested, and generally engage in tax evasion if it pays (Kirchler 2007). Studies have indicated that the probability of detection is the most significant factor to affect tax positions adopted on contentious tax issues, and tax evasion (Kaplan et al. 1988; Modeo et al. 1987; Webley et al. 1991). However, many researchers have argued that it is the perceived likelihood of detection rather than the actual probability of detection that has an impact on compliance behaviour (Braithwaite et al. 2001; Christensen and Hite 1997; Jackson and Milliron 1986; Mason and Calvin 1978). Taxpayers’ compliance is likely to be higher when they perceive a high probability of being caught and suffering severe consequences (De Juan et al. 1994; Friedland, Maital and Rutenberg 1978; Grasmick and Bursik 1990; Klepper and Nagin 1989; Lewis 1982; Richardson and Sawyer 2001; Schwartz and Orleans 1967).
These views are in accord with the perceptual deterrence literature, which has shown that people differ in how likely they think it is that negative sanctions will impact on them in both economic and social domains (Nagin 2000; Zaleskiewicz 2001:106). Risk perception refers to a decision maker’s assessment of the risk inherent in a situation, that is, how risky a situation is in terms of probability estimates of the degree of situational uncertainty (Sitkin and Weingart 1995:1575). Those who perceive a situation to be high risk tend to be more risk averse and those who perceive a situation to be low risk tend to be more risk seeking.

Drawing from both these literatures, taxpayers who are faced with a decision as to whether to agree or disagree with their practitioners’ aggressive advice when the tax law is ambiguous may also be influenced by their own assessment of sanction risk, that is, the certainty and severity of punishment (Nagin 2000). This effect would operate above and beyond the overall risk-taking propensity discussed in the previous section. It is a situational measure of risk taking when an ambiguous tax issue is involved (Christensen and Hite 1997). The following research hypothesis tests the effects of sanction risk perceptions as follows:

H8 (taxpayers): Taxpayers with low sanction risk perceptions (perceived probability of detection and of severe tax penalties) will agree more with their practitioners’ aggressive advice on an ambiguous tax situation than will those with high sanction risk perceptions.

4.2.3 Control Variables

Taxpayers’ firm size

One factor that has a marked influence on the taxpaying of business taxpayers is firm size. In particular, small businesses have been identified as major contributors to the US income tax gap (Hite et al. 1992; Slemrod 2004). To some extent, such findings imply that small businesses are more aggressive than large corporations, but other studies call into question this inference. This aggressive characteristic of small businesses in some ways appears inconsistent with results from studies indicating that a small business organisation’s (SBOs) most important aim is to file an accurate tax return (Collins et al. 1990; Hite et al. 1992; Tomasic and Pentony 1991). Other researchers (for example, McBarnet 2003) adopt the view that creative compliance is more pervasive in large corporate practice. Tax practitioners also indicated that, compared to small clients, large clients expected them to
be more aggressive (Tomasic and Pentony 1991). Possibly, evasion is the method of reducing tax that is more commonly identified in small businesses, especially those involved in the cash economy (Morse, Karlinsky and Bankman 2009). Large businesses are more likely to use avoidance measures effectively to reduce their tax.

Apart from these inconsistent findings, there are very few research studies focusing on the effect of firm size on agreement with practitioners’ advice. Tan’s (1999) sample consisted of mainly small businesses and her results suggested that small businesses tended to have a preference for conservative rather than aggressive advice. Hite et al.’s (1992) findings showed that a huge majority of SBOs were risk averse as they would claim a deduction only if they were 70% certain that it would be allowed. Although this study points towards the conservativeness of small firms, no comparisons could be made with large firms as they were not included in their sample. It is interesting that a recent study by Ahmed and Braithwaite (2005) showed that small businesses preferred a tax practitioner who is creative and knowledgeable about aggressive tax planning, and they admitted greater tax evasion than those employed in the nonprofit sector.

Taking into consideration the literature on the potential relation between size of business and decision making, firm’s size was used as a control variable in this study.

**Taxpayers’ audit experience**

It has been further suggested in the literature on decision making that decision makers’ experience or familiarity with a situation can have an impact on their subsequent behaviour (Kirchler 2007). In a tax context, it is possible that taxpayers’ audit experiences may have an effect on their tax decisions. However, taxpayers who have been audited before could experience either a negative (sanctions imposed) or positive (no sanctions imposed) outcome. As Tittle (1980) suggested, the type of outcome experienced before could affect future tax compliance behaviour. A positive (or negative) audit experience may encourage (or discourage) future tax compliance. For instance, strategic tax evaders exposed to tax audits may learn to develop more effective noncompliance strategies (Erard 1992). As a result, they might be more willing to undertake risks that

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21 Her sample consisted of 80% of firms with a turnover of less than $2 million and 90% of the firms employed fewer than 50 employees.
less experienced individuals would usually avoid. Other researchers have argued that taxpayers who have been audited before might not necessarily react in this manner (Andreoni et al. 1998). It is possible that taxpayers whose audits failed to detect noncompliance may conclude that they may not be so lucky next time (Klepper and Nagin 1989a:131). Drawing on this literature, those who are deciding on whether or not to accept their practitioner’s aggressive advice may also reflect on their audit experience. Since the results appeared mixed, audit experience was also used as a control variable in this study.

Part II: Expectations and responses of practitioners

4.3 Hypotheses representing the tax practitioners’ perspective

From the tax practitioners’ perspective, this study was focused on two main aspects of their role relationships with taxpayers. The Tax Practitioner-Client Role framework demonstrates that the actions of practitioners are a product of messages sent by the client and interpreted and acted upon by the practitioner in the context of his/her own beliefs and practices. In this thesis, two aspects of the practitioners’ world are of interest: (a) role conflict and how it is managed and (b) the giving of aggressive as opposed to conservative advice to clients on ambiguous tax decisions.

Following the format of the previous sections on taxpayers, the practitioners’ hypotheses are first summarised and illustrated diagrammatically and then discussed individually as relevant literature is reviewed. First, the tax practitioners’ perspective is examined in relation to role conflict tested through the following hypothesis:

H1 (practitioners): Practitioners experience role conflict as there will be gaps between their perceptions of what their clients expect of them and what they actually do for their clients in practice.
This hypothesis is summarised in the research model in Figure 4.3 below.

![Figure 4.3: Representing Hypothesis 1 (practitioners) within the Tax Practitioner-Client Role Model]

An interesting question raised in this thesis is, ‘If practitioners experience role conflict, how do they cope with it?’ The model postulates that their interpersonal relations, particularly their way of communicating with clients, may mediate role conflict. Because of variability in communication methods and because this is relatively unexplored territory, data were not collected on this issue through closed-ended questions. Instead, this study drew on the responses provided by the practitioners from the open-ended questions and explored the relationship between this aspect of interpersonal relations and role conflict qualitatively (see dotted line in Figure 4.3).

The second aspect of the practitioners’ role relationships was focused on the type of advice given in ambiguous tax situations. A set of hypotheses were developed in which variation in tax practitioners’ tax advice is explained by variation in practitioners’ perceptions of clients and their own personal characteristics. The perceived client characteristics considered important were personal risk propensity, and the clients’ sanction risk given the decision context. The practitioners’ characteristics considered
important were practitioners’ ethics and practitioners’ risk propensity. The hypotheses that were tested are as follows:

H2 (practitioners): Practitioners’ perceptions of clients’ risk propensity (aggressive or conservative) will have an effect on their recommended advice in an ambiguous tax situation, with aggressive advice being given to clients who are perceived as risk taking and conservative advice being given to clients perceived as risk averse.

H3 (practitioners): Practitioners’ perceptions of clients’ sanction risk (audit probabilities and severity of tax penalties) will have an effect on their recommended advice in an ambiguous tax situation, with aggressive advice being given if they perceived low sanction risk and conservative advice given if they perceived high sanction risk.

H4 (practitioners): Practitioners’ personal tax ethics will have an effect on the type of advice (aggressive or conservative) recommended by them to clients in an ambiguous tax setting, with those who compromise their ethics offering more aggressive advice.

H5 (practitioners): Practitioners’ risk propensity will have an effect on the advice recommended by them to clients in an ambiguous tax setting, with aggressive advice being given by those with a higher risk propensity and conservative advice being given by those with a lower risk propensity.

Since interpersonal relations are an important aspect of the practitioner-client relationship as suggested in the Role Model (see dotted line), the manner of communication with each other may influence their decision making. For the same reasons mentioned earlier, that is, due to its interactive nature, their manner of communication cannot be examined directly, but must be teased out from the qualitative data obtained from the open-ended questions.
These four hypotheses are summarised in the research model in Figure 4.4 below:

![Research Model Diagram]

**Figure 4.4: Representing Hypotheses 2, 3, 4 and 5 (practitioners) within the Tax Practitioner-Client Role Model**

### 4.3.1 Expectation-practice gap - role conflict

In the practitioner-client tax setting modelled in Figure 4.3, expectations sent by clients are perceived and evaluated by the practitioner. Central to the Tax Practitioner-Client Role Model is the notion that practitioners can be subject to incompatible role expectations (role conflict) and possibly miscommunication (role ambiguity).

Taxpayers, as discussed in Section 4.2.1, have several expectations or demands of practitioners. However, some of the role expectations may not be compatible with others. For instance, taxpayers may expect practitioners to help their firm avoid tax penalties. At the same time, they may expect practitioners to provide them with aggressive advice to minimise tax. Sakurai and Braithwaite’s (2003) study provides some evidence of the conflicting needs of taxpayers. This type of role conflict is termed
intra-sender conflict, that is, where different prescripts from a single member of the role set are incompatible (Kahn et al. 1964).

Another type of conflict, person-role conflict may be experienced by the practitioner when expectations of others and personal expectations fail to coincide. As tax service providers, practitioners are expected to deliver their service in accordance with their clients' expectations. However, practitioners' perceptions of clients' expectations may not always coincide with what they practise as they have their own perceptions of what their role entails. They have to consider their legal responsibilities and their professional code of ethics, in the case of those affiliated with a professional body, when recommending a tax position for their clients. If taxpayers' demands are overly aggressive, practitioners may not be willing to meet those demands, as they may be illegitimate or violate their professional integrity.

Therefore, practitioners may be aware of clients' expectations but may consider them to be overly demanding or outside the letter of the law. Practitioners are faced with role conflict if, on the one hand, they do not want to succumb to taxpayers' demands, but on the other, they want to maintain a good relationship with their clients. They try to fulfil the role of client advocate while adhering to the demands of other constituencies such as the IRD and the accounting profession (Yetmar and Eastman 2000). Such situations would not be uncommon in a tax setting, as the literature indicates. Therefore, it is hypothesised that there will be inconsistencies between what their clients expect of them and what they do in practice.

H1 (practitioners): Practitioners experience role conflict as there will be gaps between their perceptions of what their clients expect of them and what they actually do for their clients in practice.

When tax practitioners experience role conflict, it invokes a feeling of internal emotional distress that they will attempt to resolve or reduce (Grover 1993:254). There are a number of ways in which practitioners could cope with role conflicts. For instance, they may view some of their clients' expectations as overly demanding or outside the legal boundaries of the tax law and attempt to convince their clients to change their expectations. On the other hand, some may accommodate their clients' expectations by
changing their own expectations of their role. Another conflicting resolution is to terminate their working relationship. How role conflict unfolds can be influenced by interpersonal dimensions such as communication (Kahn et al. 1964). In this study, insights into how communication might influence outcome were teased out from tax practitioners’ responses to open-ended questions.

4.3.2 Practitioners’ tax advice and its influences

As shown in the Role Model, clients seek the advice of tax practitioners when they are unsure of the appropriate treatment of an income or expense. When the tax law is ambiguous, tax practitioners help their clients to resolve the issue in hand. As tax service providers and client advocates, practitioners would most likely resolve ambiguous tax issues in their clients’ favour. However, as the compliance literature suggests, there are a number of practitioner-specific factors that could influence practitioners’ decisions or recommendations when faced with ambiguous tax issues (Carnes et al. 1996a; Kaplan et al. 1988; Roberts 1998). Figure 4.4 shows these factors in a partial Tax Practitioner-Client Role Model: perception of clients’ risk propensity, and practitioners’ own assessments of clients’ sanction risk, tax ethics and risk propensity.

The following hypotheses were developed to test whether any of these factors explain the variation in practitioner tax reporting decisions/recommendations in an ambiguous tax setting.

Perceptions of clients’ risk propensity

Studies performed on tax practitioners suggest that they view their clients as the initiators of aggressive tax reporting (Attwell and Sawyer 2001; Klepper and Nagin 1989a; Schisler 1994; Tooley 1992). However, in these studies there was no examination of whether or not practitioners comply with such requests. In other studies the effects of client factors on tax practitioners’ reporting decisions or recommendations have been examined. In some studies (for example, Duncan et al. 1989; Helluloid 1989, Pei et al. 1992), tax preparers’ decisions were found not to be influenced by clients’ attitudes toward risk. Others (for example Cloyd 1995; Cuccia et al. 1995; Milliron 1988; Schisler 1994) showed that client aggressiveness influenced practitioners’ advice. The implication of these findings is that if clients expect aggressive (or conservative)
advice, practitioners provide that type of advice (LaRue and Reckers 1989). Perhaps such a strategy is used by practitioners to manage the risk propensity of their clients. Practitioners are well aware that they could easily lose a dissatisfied client to other tax service providers if they do not respond in accordance with their clients’ wishes.

That said, it is unlikely that they will yield to clients who demand aggressive advice if the tax law is clear cut. To do so will only make their clients unnecessarily vulnerable to tax penalties and cause themselves to be seen as irresponsible. But where the tax law is ambiguous, they may use their professional judgement to exploit tax loopholes to satisfy clients’ wishes. After all, aggressive advice is not tax evasion, and some clients are willing to take risks. Since the literature suggests that practitioners may act in empathy with taxpayers and tailor their advice to suit their clients (LaRue and Reckers 1989, Roberts 1998; Schisler 1994), the following hypothesis was tested:

**H2 (practitioners): Practitioners’ perceptions of clients’ risk propensity (aggressive or conservative) will have an effect on their recommended advice in an ambiguous tax situation, with aggressive advice being given to clients who are perceived as risk taking and conservative advice being given to clients perceived as risk averse.**

*Tax practitioners’ assessment of clients’ sanction risk*

Two types of decision context features relate to clients’ sanction risk, that is, probability of audit and severity of tax penalties (Carnes et al. 1996a; Milliron 1988). Both have the potential to affect tax practitioners’ tax reporting decisions where the tax law is ambiguous. However, the effects of sanction threats on tax practitioners have produced mixed results (see, for example, Duncan et al. 1989; Kaplan et al. 1988; LaRue and Reckers 1989; Newberry et al. 1993). For instance, in the study conducted by Madeo et al. (1987) on tax practitioners’ reactions to experimentally manipulated income levels, tax rate progressivity, size of penalty and likelihood of detection suggest that the probability of detection exerts the strongest influence. Kaplan et al. (1988) reported that experimentally manipulated probability of audit (of 50%) significantly influenced the type of advice rendered by professional tax practitioners. LaRue and Reckers (1989), however, found that the perceived likelihood of an IRS audit (of 10% and 25%) had no effect on CPAs’ willingness to encourage aggressive reporting for a real estate tax shelter. The inconsistent results could be due to the way the audit probability and
severity of penalty were operationalised. For example, some probability of audit rates used in these studies were weaker (such as 5%, 10% or 25% chance of audit) than others (40% or 50% chance of audit). As such, the differently rated probability of IRS audit makes it difficult to compare their results and draw inferences for hypothesis generation. In addition, the penalty examined in these studies is the preparers’ penalty in the US and there is no such penalty in New Zealand. In this sense, practitioners in these studies are reporting on the risks to themselves (since they can be penalised under US law).

In contrast, this study was focused on practitioners’ perceptions of sanction risks to their clients. As discussed earlier for taxpayers’ sanction risk in Section 4.2, it is argued that perceptions of sanction risk are more influential on aggressive decisions than the actual risks. This perceptual approach is also well supported by researchers in deterrence (Simpson 2002). As noted by Paternoster (1987:174), “deterrence was most likely to depend on what the certainty and severity of punishment were thought to be rather than on their objective or actual levels.”

Practitioners with their experience in tax work may have their own perceptions of the probability that their clients would be audited and would face severe penalties. On this basis, when faced with a grey area or an ambiguous decision, practitioners may respond in an economically rational manner, that is, they may weigh the perceived costs and benefits of recommending an aggressive tax position (Roberts 1998). Even though it is their clients and not they themselves who may be audited and penalised, they are likely to feel that the occurrence of such sanctions may damage the client-practitioner relationship (Marshall et al. 2006) or the practitioner-revenue authority relationship. Practitioners’ perceived likelihood of audit and penalties could therefore have an impact on the type of advice they provide to clients. Accordingly, the hypothesis is stated as follows:

H3 (practitioners): Practitioners’ perceptions of clients’ sanction risk (audit probabilities and severity of tax penalties) will have an effect on their recommended advice in an ambiguous tax situation, with aggressive advice being given if they perceive low sanction risk and conservative advice being given if they perceive high sanction risk.
**Practitioners’ personal tax ethics**

As Kahn et al. (1964:17) posit, each practitioner has some awareness of what behaviours will fulfil their responsibilities and lead to goal accomplishment. Practitioners have a set of attitudes and beliefs about what they should, and should not, do in their role. Through a long process of socialisation and formal training, practitioners would have acquired a set of values and expectations about their own behaviour and abilities.

The link between personal ethics and decision making is not immune from pressure. Duty to the client may be perceived to conflict with personal values as may duty to the government or duty to their professional body’s ethical guidelines. As a client’s expectations or preference for advice moves along the continuum from conservative to aggressive to clearly fraudulent, it is not always obvious at which point the practitioner should abandon advocacy and insist on less aggressive reporting. The fear of losing clients to competitors will intensify their personal moral dilemma (Pilkington 1998). As indicated by Cruz et al. (2000), client pressure for aggressive reporting creates a complex professional judgment involving both technical and ethical considerations. The increasing importance of retaining the client may cause tax practitioners to put their values to one side and to adopt those of the client, or take other action to neutralize their own ethical behaviour (Yetmar, Cooper and Frank 1998:9).

Practitioners who are affiliated to an institution such as the NZICA, NZLS, or TINZ have to comply with the stipulated code of ethics of these organisations. Nevertheless, it is often difficult to judge if the standards have been met due to the uncertainties surrounding many tax issues. For instance, practitioners who are members of the NZICA have to adhere to their code of ethics which stipulates that:

“A member performing tax work is entitled to put forward the best position in favour of a client, or an employer, provided the work is performed with competence, does not in any way impair integrity and objectivity, and is in the opinion of the member, consistent with the law. The member may resolve doubt in favour of the client or the employer if in the member’s opinion there is reasonable support for the position” (Para 49).
What constitutes “reasonable support” is not defined and appears to be left to the individual practitioner’s professional judgement. The findings of Tooley’s study (1992) and Attwell and Sawyer’s study (2001) which indicated that the majority of practitioners had encountered ethical problems in discharging their responsibilities raised concerns about the level of ethics shown by tax practitioners.

Ethics can be viewed in a hierarchical pyramid according to Schweikart (1992:475). If a practitioner uses legally binding rules or statutes (externally defined) as a yardstick, then his/her ethics are at the lowest level. The next step up the ethics pyramid is where practitioners’ decisions are made within a professional code of conduct and are not necessarily based on following a rule book. The highest level of ethics is displayed when practitioners’ decisions are made within a highly defined narrative of right and wrong developed through moral and philosophical reasoning. For taxation, this could mean that legal rules are interpreted not necessarily literally, but rather through the spirit of those rules. However, practitioners in carrying out their role have different perceptions of behaviour that are considered moral or ethical (Karcher 1996). Therefore, practitioners’ personal tax ethics could influence their aggressiveness in terms of tax advice to clients. Song and Yarbrough (1978) provided empirical evidence to support the mediating role of ethics on behaviour. Their study showed that attitudinal factors, which encompassed the moral beliefs of tax practitioners, influenced their professional conduct. Since tax practitioners’ personal ethics have the potential to influence their tax advice, the following research hypothesis was tested:

H4 (practitioners): Practitioners’ personal tax ethics will have an effect on the type of advice (aggressive or conservative) recommended by them to clients in an ambiguous tax setting, with those who compromise their ethics offering more aggressive advice.

**Practitioners’ risk propensity**

Tax practitioners’ risk propensity is a potential determinant of the type of advice they will offer to their clients. The literature on risk propensity has been discussed in Section 4.2.2 and will not be repeated here. Tax practitioners who resolve ambiguous tax issues in their clients’ favour certainly take more risks as there is the possibility that the tax position may not be upheld by the tax authority or the courts. Although earlier studies (for example, Milliron 1988) suggest that risk attitudes only weakly influence aggressiveness, later
studies indicate significant effects. These studies showed that tax professionals’ advice was markedly more aggressive when the professionals indicated that they were willing to accept more risk with respect to decisions made for their clients (Carnes et al. 1996b; Pei et al. 1990).

Since there is substantial evidence that shows risk propensity has some influence on practitioners’ judgements or recommendations, the research hypothesis was set out as follows:

H5 (practitioners): Practitioners’ risk propensity will have an effect on the advice recommended by them to clients in an ambiguous tax setting, with aggressive advice being given by those with a higher risk propensity and conservative advice being given by those with a lower risk propensity.

4.3.3 Control variables

Practitioners’ firm size

Prior researchers have investigated the effects of various socio-demographics on tax reporting decisions by practitioners. One of the characteristics examined is the size of their firms, and the findings suggest that this may have an influence on the role they play in taxpaying behaviour. Bigger firms, as compared to smaller firms, are generally perceived to be more likely to comply with their clients’ aggressive requests (see for example, Kinsey 1999; Tomasic and Pentony 1991). Perhaps bigger firms have more resources to support their practitioners, making them more experienced in dealing with tax law ambiguity than practitioners from smaller firms.

Research results show that within the professional class of CPAs in the US, significant differences in reporting recommendations are found between those employed by large versus small firms (Carnes et al. 1996b; Helleloid 1989; Sanders and Wyndelts 1989). Other findings show that there are attitudinal differences between CPAs employed by different sized firms (Cuccia 1995). Those working for the (then) Big 6 firms were more aggressive for high ambiguity scenarios (Carnes et al. 1996b) when compared to non-Big 6 firms. Ayres et al. (1989) reported no difference in professionals’ judgements across firm type (that is, the (then) Big 8 versus non-Big 8). Perhaps the mixed results reflect differences in competitiveness in different contexts. It might be argued that smaller practitioner firms may feel greater pressure from clients and ignore ethical
standards in contexts of high competition for clients' business (Coyne and Smith 1987; Roth et al. 1989). Based on these mixed research results, firm size was used as a control variable in this study.

**Practitioners' firm identification**

Although practitioners act as individuals, they also act as members of groups. The identities gained from membership of professional groups can be particularly influential in affecting behaviour (Biddle 1979). Some studies (Ayres et al. 1989; Carnes et al. 1996a; Cuccia 1994; Erard 1993; McGill 1988) suggest that those who are affiliated with a professional body such as CPAs are more aggressive or more pro-taxpayer than non-CPAs in their interpretation of the law (primarily in the deduction cases). However, other studies generally have revealed weak or no effect of CPA membership on aggressiveness (for example, Ayres et al. 1989; Cuccia 1994; Duncan et al. 1989; Schisler 1994; Stephenson 2007). A recent study by Hite and Hasseldine (2003) showed that CPA-prepared returns resulted in fewer audit adjustments for deduction items, but not for income items, than non-CPA returns, suggesting that CPAs are not consistently more aggressive as suggested in prior research.

The New Zealand studies are particularly interesting in relation to professional group membership because anyone can practise as a tax practitioner in New Zealand. Thus, practitioners may be affiliated with the NZICA (New Zealand Institute of Chartered Accountants), the TINZ (TaxAgents Institute of New Zealand Incorporated), the NZLS (New Zealand Law Society), each having its own code of ethics, or may not belong to any professional bodies. Studies in which the influence of professional membership on advice has been examined have produced mixed results. Tooley's (1992) study, for instance, showed both accountants and lawyers as being considerably less disapproving of avoidance measures than were other tax agents, but no significant differences were found between the groups in aggressive tax decisions/recommendations. In contrast, Attwell and Sawyer (2001) showed that tax agents, as compared to lawyers and Chartered Accountants, were the group that least disapproved of tax avoidance. Despite lack of clarity in findings, membership of a professional organisation, that is, firm identification could be a potentially important factor shaping the giving of aggressive advice, and therefore it was used as a control variable in this study.
Practitioners’ tax experience

The literature has indicated the potential impact of experience on tax practitioner judgements (Duncan et al. 1989; Jackson et al. 1988; Kaplan et al. 1988, Reckers et al. 1991). Carnes et al. (1996a) argued that more experienced professionals have better-developed knowledge structures, and may be more conservative as they look beyond client factors such as importance. Instead, their advice is based on the facts and circumstances of each case (Gibbins 1984). Where tax law is ambiguous, studies have shown that increased aggressiveness is positively related to experience levels. For instance, Hite and McGill’s (1992) study showed that more experienced tax professionals from the (then) Big 8 accounting firms tended to be more aggressive. Similarly, more experienced tax managers of the (then) Big 6 firms were found to show greater tax minimisation tendencies than were less experienced managers in Pei et al.’s (1992) study.

Other studies have shown little, or no, relation between the number of years of experience and aggressiveness (Ayres et al. 1989; Cuccia 1994; Duncan et al. 1989). The inconsistent findings could be due to the varying ranges of practitioners’ experience adopted in those studies (see for example, Carnes et al. 1996a).

It could be argued that practitioners who have had more years of experience would have encountered a greater diversity of tax situations, including ambiguous situations. They would also have had more experience in obtaining feedback and judging the legitimacy of their recommendations. However, it could also be that experienced practitioners from smaller firms have been involved in routine and straightforward tax services and despite their years have not been involved in more sophisticated tax problems. For these reasons, it is possible that experience would have no impact. Due to these different possibilities, experience is introduced as a control variable.

4.4 Chapter summary

The literature reviewed in Chapter 2 provided insights into the role played by tax practitioners in taxpayers' behaviour. However, the lack of a conceptual framework
makes it difficult to generalise predictions or explain the roles played by the taxpayer and tax practitioner in tax compliance. This chapter draws on the Tax Practitioner-Client Role Model developed in Chapter 3 and formulated several research hypotheses to test the model.

Taxpayers generally have some idea of the role that tax practitioners should play when they engage their services. The Tax Practitioner-Client Role Model posits that taxpayers have certain expectations of their tax practitioners and that when their experience with practitioners’ services falls short of expectations, it will give rise to an expectation-experience gap. It was hypothesised that there would be an expectation-experience gap as taxpayers’ general perception is that practitioners can do much more to save tax or provide tax planning advice (Chang and Bird 1993; Christensen 1992). Such a gap can also arise when clients’ expectations are not clearly communicated to practitioners or when taxpayers themselves have conflicting expectations (Sakurai and Braithwaite 2003).

When evaluating the services provided by practitioners, it was hypothesised that taxpayers with the proposed expectation-experience gap would feel dissatisfied with practitioners’ services. Consequently, taxpayers may terminate the services of the practitioner. This thesis asserted that a gap would be negatively related to satisfaction and retention of practitioners. However, if taxpayers and practitioners had built up good interpersonal relationships, this may alter taxpayers’ evaluations of their practitioners’ services. The interpersonal relations variable considered important in this study is taxpayers’ trust in their practitioners, that is, the more taxpayers trust their practitioners, the more likely they are to feel satisfied with their practitioners’ services, and the more likely they are to retain their services. This means that the practitioner-taxpayer relationship is not necessarily destabilised by the gap alone.

As the Tax Practitioner-Client Role Model shows, client expectations are perceived and evaluated by practitioners. They have perceptions of what their clients expect of them, some of which they may share, while others may violate the practitioners’ beliefs and values and their professional integrity. For these reasons, it was hypothesised that practitioners would experience role conflict. How practitioners cope with role conflict is
an interesting area to explore and their qualitative feedback provided some insights into coping responses that can be explored more systematically in the future.

The second way in which this study advances current understanding of how practitioners and taxpayers influence each other is through examining the factors that predict the giving and taking of aggressive advice. Taxpayers seek practitioners’ advice to help them resolve uncertainties, and practitioners are known to exploit tax loopholes to the taxpayers’ advantage. If practitioners provide aggressive advice, will taxpayers agree with them? What influences their decision? The literature suggests that it depends on the expectations or preferences of taxpayers, that is, whether they prefer aggressive or conservative advice (Hite and McGill 1992; Tan 1999). The Tax Practitioner-Client Role Model posits that apart from taxpayers’ expectations, the characteristics of the individual taxpayer (personal tax ethics, business tax ethics, and risk propensity) and features of the decision (sanction risk perception in relation to audit probability and penalty severity) all have a role to play in taxpayer decision making.

Drawn from the literature on taxpayer compliance is the fact that taxpayers’ ethics have the potential to influence their tax decisions, that is, their approval or disapproval of aggressive advice could depend on their tax ethics. Furthermore, their decisions concerning aggressive advice could also be affected by their perception of the ethics of other businesses. If taxpayers believe that other businesses are aggressive in tax matters, then they may also adopt aggressive postures. Furthermore, those who are in business may be more prepared to take risks although the level of risks they are willing to take may differ. Therefore, the risk propensity of business taxpayers is likely to have an impact on their tax reporting decisions. It was hypothesised that those with higher risk propensity would be more willing to accept aggressive advice from their practitioners than would those with lower risk propensity. Apart from these characteristics, taxpayers are likely to consider the chance of being audited and the severity of the penalty should their tax reporting decisions be challenged by the tax authority. If they perceived the likelihood of sanction risk as high, it is hypothesised that they may be less likely to accept aggressive advice. As there is potential for firm size and audit experience to impact on taxpayers’ decisions, these variables are used as control variables.
firm size, professional affiliation, and tax experience to impact on decisions. These three variables, therefore, are used as control variables.

The next two chapters focus on understanding the process of dealing with advice from the taxpayers’ perspective. Chapter 5 discusses the collection of data from taxpayers and the measurement of concepts. Chapter 6 provides a discussion of the results from testing the set of taxpayer hypotheses. Data collection from tax practitioners and the results of hypotheses testing from the practitioners’ perspective are presented in Chapters 7 and 8 respectively.
Chapter 5
Data Collection From Business Taxpayers

5.1 Introduction

The previous chapter developed the research hypotheses and highlighted the theoretical concepts that might affect how taxpayers and tax practitioners engage with the process of tax advising. This chapter describes the method used to gather data from the business taxpayers. The data collection from tax practitioners is discussed in Chapter 7. Descriptive statistics and the initial psychometric analyses are presented in this chapter so as to provide some background information about the respondents and the measures. More detailed analysis for the purpose of testing the hypotheses is discussed in Chapter 6.

This chapter is organised in the following manner. First, the method of data collection is explained. This is followed by a description of the respondents’ profile and background. Then, a discussion of how the conceptual model was operationalised is recorded, detailing and evaluating measures in readiness for hypothesis testing in the next chapter.

5.2 Data collection

There are various ways to collect data and each method has its own advantages and disadvantages. In this study, essential questions involved the relative importance of various aspects of role definition and conflict resolution in explaining how tax practitioners and taxpayers came to support aggressive tax planning. This meant that a large sample (over 100) was required for hypothesis testing with multiple regression analysis. The most economical way of obtaining such a sample was through a mail or telephone survey. A self-administered mail questionnaire was selected for reasons of cost and convenience for respondents. Face-to-face interviewing would probably have been more expensive for the researcher and telephone interviewing would have been difficult given that business taxpayers and practitioners are likely to be busy people who are difficult to contact. Even so, respondents would need to set aside time to think about
the questions that were posed to them and business owners and tax practitioners would have been unlikely to have been able to have devoted time and effort if they had been asked to respond over the telephone. The use of a mail survey meant that they could choose a time that fitted in with the other demands on their time. Second, a mail survey can capture a broad range of explanatory variables such as taxpayers’ perceptions, beliefs and attitudes, and expectations.

Like any method of data collection, mail questionnaires have disadvantages. Poor response rates are one of them and the concern over this drawback is that it may result in nonresponse bias (Kerlinger 1986). Poor quality response is another concern as respondents may either misinterpret or misunderstand the questionnaire, or attempt to conceal their behaviour by responding in a socially desirable manner (Collins et al. 1990; Roth et al. 1989). For this study, various precautions as suggested by Oppenheim (1992) were taken to minimise the potential adverse effects of using self-administered questionnaires.

Closed-ended questions are usually used in self-administered questionnaires, as they are more specific, suited to comparisons, and easy to code and analyse. Generally, closed-ended questions attract higher response rates than open-ended questions as the latter consume more of the participants’ time and effort. However, closed-ended questions have limitations. They have been criticised for limiting respondents’ answers to the survey, as their predetermined answers may not cover all possible responses. Neuman and Kreuger (2003) point out that something important may be lost when an individual’s beliefs and feelings are forced into a few fixed categories. As a result of these limitations, in this study closed-ended questions were supplemented with some open-ended questions.

Open-ended questions produce qualitative data and allow respondents the most opportunity to explain their answers and reactions to the question. Accordingly, data collected in this manner provide more detail and are richer in description. They are also most useful when it is not possible to compile a comprehensive list of options for

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22 Some of Oppenheim’s (1992:104-105) suggestions include an explanation of sample selection, sponsorship of the study, assurance of confidentiality of information, anonymity, and sending of reminders.
respondents. Feedback received from open-ended questions can be used to supplement or substantiate findings from the quantitative analysis and provide a platform for developing quantitative measures for future research.

For this study, a structured questionnaire was developed with approval granted from the Australian National University (ANU) Human Research Ethics Committee. The questionnaire for taxpayers consisted of 105 questions set out in an 11 page booklet. A mixture of open-ended and closed-ended questions was used. Measures of the central concepts are discussed in Section 5.7 below. Data on demographic characteristics and other background information were also collected and are described in Section 5.6.

The questionnaire was initially pilot tested\(^{23}\) and on this basis, changes were made to improve it. As this study was focused only on taxpayers who engaged the services of a tax practitioner, a filter question was used at the beginning of the questionnaire to identify those who did not use a tax practitioner. Those who indicated that they used a practitioner were asked to complete the questionnaire. Those who did not use a practitioner were asked to return the questionnaire using the reply paid envelope and were given the option of disclosing their firm’s name so that a reminder would not be sent.

Copies of the questionnaire and the cover letter are provided in Appendix B.

### 5.3 Sample

The New Zealand Yellow Pages\(^{TM}\) with contact details of businesses in New Zealand was used as the sampling frame. A random sample of 1,400 business taxpayers’ addresses was obtained from the Yellow Pages business search service. It was expected that most businesses would provide their contact information there. Although it would have been

\(^{23}\) The pilot sample considered questionnaires for both taxpayers and practitioners. The practitioners consisted of a team of experts from one of the Big 4 accounting firms, another tax expert from the NZICA who was previously the National Tax Director of another Big 4 accounting firm, and one regional tax practitioner. The PhD students were from the Centre for Tax System Integrity, Australian National University. Two small regional business taxpayers also assisted with the pilot test.
ideal to have selected a random sample to represent different sized businesses that is, small, medium and large, the business search database did not have this facility. Since a huge majority (96%) of businesses in New Zealand are small and medium enterprises (SMEs), it was expected that the majority of respondents would represent SMEs. To ensure that there would be some representation from large enterprises, another 100 companies were randomly selected from the New Zealand Exchange Market (NZX). The total number of companies listed on the NZX at the time the sample was drawn was 221.

The questionnaire was addressed to the managers or business owners of the firm. For the listed companies, it was addressed to the Chief Financial Controller. A cover letter (see Appendix B) explaining the purpose of the survey and a reply-paid envelope were enclosed. The letter assured participants that their responses were confidential and anonymous and that only summarised results would be reported. One reminder, containing a further copy of the questionnaire was sent three weeks after the first mailing.

The original intention in the study was to supplement the data obtained from the self-administered questionnaire by interviewing both dyad members, that is, the business taxpayer and his/her practitioner. This would have provided the richest kind of qualitative data on how the taxpayer-practitioner role relationship was negotiated. Accordingly, respondents were asked whether they would be willing to be interviewed along with their practitioners. A separate card was enclosed to elicit their response to the request and to provide contact details if they were agreeable. However, since none of the respondents wanted to disclose their tax practitioners' contact details,24 no interviews were carried out on the dyads as had been originally planned. The design of the study therefore involved a sample of business taxpayers and an independently drawn sample of tax practitioners described in Chapter 7.

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24 Some respondents indicated that they have no time for interviews.
5.4 Response rates

Of the 1,500 questionnaires sent out, 262 respondents returned completed questionnaires.25 About 204 of the questionnaires sent out to businesses were identified as out of frame Those that were out of frame were either no longer in business, not known at the address, or did not use a practitioner. This gave an effective sample size of 1,296, with a response rate of 20%.

The response rate, although not high, is comparable to many other tax surveys carried out in Australia and New Zealand. As indicated by Neuman and Kreuger (2003), a response rate of 10 to 50 per cent is common for a mail survey. Sandford and Hasseldine (1992) achieved a response rate of 39.8% from employers and 31% from GST registered persons in their survey on tax compliance costs in New Zealand. Their study further showed that responses from small business enterprises were the lowest amongst business groups (Sandford and Hasseldine 1992). Another survey by Hasseldine et al. (1994) achieved a 22% response rate. Recent studies using a random sample of small and medium sized New Zealand enterprises also had a low response rate, usually between 20-25% (Jackson 2000; Tweed and Chen 2006).

It is possible that the relatively low response rate was due to the length of the questionnaire. Tan’s (1999) study, which elicited information from business taxpayers, achieved a response rate of about 43%, but the questionnaire was very much shorter26 than the one used in this study. Additionally, some of the questions posed may be considered by the respondents as sensitive questions. Putting sensitivity aside, most people tend to be less interested in completing questionnaires related to tax than other topics (Ahmed and Braithwaite 2005). Although a high response rate is always ideal, the low response rate achieved in this study is not considered to be too far from the norm achieved for this type of survey in Australasia.27

25 Out of this total, 40 respondents were from the listed companies.
26 The questionnaire consisted of only 12 questions set out in a six-page booklet.
27 For Australian studies, see for example, Mearns and Braithwaite (2001) and Wenzel, Murphy, Ahmed and Mearns (2004).
5.5 Exploratory data analysis

Data cleaning of the survey responses was initially conducted to check for outliers, values outside the range, and missing data, and initial analyses revealed whether or not distributional assumptions for later statistical testing had been met. Of note is that the variables measuring taxpayers’ expectations were more skewed than other variables. Most of the skewness, however, falls within the acceptable range of plus or minus one (Leech et al. 2005). These distributions therefore could be considered at least approximately normal. Missing values were also checked and were negligible. The majority of variables had less than 5% ($n \leq 10$) of missing values.

The respondents were divided into two groups to check for nonresponse bias. Those respondents who sent in their questionnaires from the first batch sent out were grouped as early respondents ($n = 157$), and those who sent their questionnaires in after the reminder were grouped as late respondents ($n = 105$). This test was carried out as late respondents are usually regarded to be most similar to nonrespondents (Armstrong and Overton, 1977). Mann-Whitney tests were carried out to test for differences in the ordinal data and independent $t$ tests were carried for interval data. As a negligible number of variables (9%) showed a significant difference between early and late respondents, the data set is considered free of detectable and systemic response bias. None of the differences between early and late respondents was related to the social demographic characteristics of the respondents.

This finding is reassuring in that it suggests that there is value in looking at this sample of taxpayers in more descriptive detail. This chapter provides a profile of business taxpayers, and the way in which they engaged with practitioners and the advice they gave.

5.6 Content analysis

Content analysis was used to systematically examine the responses to the open-ended questions. Each respondent was allocated a respondent number and his/her responses to
each question were skimmed to get a gist of what each was saying. A coding system was used to note those responses that shared similar or consistent ideas and those that did not. These notes were reread to connect and interpret data themes and patterns.

About 58% \((n = 152)\) of business taxpayers responded at least once to the several open-ended questions. Many of the responses were brief, written by the taxpayers to comment on or clarify particular issues raised in the questionnaire. The highest overall number of responses touched on reasons for changing tax practitioners. Next most common were thoughts about their tax practitioners’ services. The data that emerged from these open-ended questions were used to help interpret quantitative survey findings. The qualitative data appear throughout the thesis often through the use of quotations. Quotations are accompanied by respondent numbers (RN).

5.7 Business taxpayer profile

Table 5.1 shows the breakdown of the taxpayer sample in terms of business size, business structure, position held, and their practitioners’ affiliation with professional bodies.
| Table 5.1: Respondents' profile - business taxpayers’ firm characteristics and their practitioners’ affiliation |
|------------------------------------------------------|--------|--------|
| **Full time employees**                              | Frequency | %     |
| 0                                                    | 29     | 11.4  |
| 1- 5                                                 | 91     | 35.5  |
| 6-19                                                 | 61     | 23.1  |
| 20-49                                                | 23     | 8.6   |
| 50-99                                                | 16     | 5.9   |
| 100+                                                 | 42     | 16.5  |
| **Total**                                            | 262    | 100.0 |
| **Turnover**                                         |         |       |
| Up to $40000                                         | 13     | 5.1   |
| >$40000-$100,000                                     | 18     | 7.1   |
| >$100,000-$500,000                                   | 56     | 22.0  |
| >$500000-$1 million                                  | 26     | 10.2  |
| >1 million-5 million                                 | 65     | 25.6  |
| >5 million-$20 million                               | 30     | 11.8  |
| >$20 million-$50 million                             | 46     | 18.1  |
| **Total**                                            | 254    | 100.0 |
| **Business structure**                               |         |       |
| Sole proprietor                                      | 30     | 11.5  |
| Company                                              | 209    | 80.4  |
| Partnership                                          | 18     | 6.9   |
| Other                                                | 3      | 1.2   |
| **Total**                                            | 260    | 100.0 |
| **Position in firm**                                 |         |       |
| Director                                             | 87     | 33.6  |
| Owner-manager                                        | 76     | 29.3  |
| CEO/CFO                                              | 24     | 9.2   |
| Accountant                                           | 21     | 8.1   |
| Financial Controller                                 | 29     | 11.2  |
| Partner                                              | 9      | 3.5   |
| Other                                                | 13     | 5.0   |
| **Total**                                            | 259    | 100.0 |
| **Practitioners’ affiliation**                       |         |       |
| Big 4 CA firm                                        | 75     | 28.7  |
| A local or regional CA firm                          | 174    | 66.7  |
| A non CA firm                                        | 6      | 2.3   |
| An attorney/law firm                                 | 6      | 2.3   |
| **Total**                                            | 261    | 100.0 |
5.7.1 Size of business

The majority of the business taxpayers were from firms that employed not more than 20 full time employees. About 70% of taxpayers were from SMEs (fewer than 20 employees), of which 47% were from microenterprises. In terms of turnover, the vast majority (70%) of business taxpayers came from firms with an annual turnover of not more than $5 million. This profile shows that although respondents represented different sized businesses, the majority were from small and medium businesses as expected.

As firm size was used as a control variable, the firms were dichotomised in accordance with the national statistics classification of SME sized enterprises. Those with fewer than 20 employees were coded as 1 to represent SME. Those with 20 or more employees were coded as 2 to represent large firms. Accordingly, the SMEs comprised 70% ($n = 181$) and the large businesses comprised 30% ($n = 81$) of the sample.

5.7.2 Business structure, position held, and affiliation with professional bodies

With regard to business structure, most respondents’ businesses (80%) were structured in the form of companies. Out of 209 companies, 41 (20%) were listed companies. As for partnerships, one (7%) had three to five partners while the remainder had one to two partners. The other businesses were, in the main, sole proprietorships (almost 12%).

New Zealand business statistics for 2006 showed that 52% of businesses were carried out in the form of companies, 22% sole proprietorships, 13% partnerships and 13% under other categories (for example, government departments). In comparison, the sample in this study comprised a much higher proportion of companies and a lower proportion of partnerships and sole proprietorships. This is likely to reflect the criteria (or sample selection) in part. The sample under study here involved only those who had engaged a tax practitioner. It is very likely that the 78 taxpayers who indicated that they did not engage the services of a tax practitioner were structured as sole proprietorships or partnerships. Moreover, special attention was given to sampling large companies because of concerns that they would be underrepresented in the final sample.

With regard to their position within the firm, the majority of the respondents (63%) were either company directors or owner-managers of the firm. About two thirds of the
businesses employed a local or regional Chartered Accountant (CA) firm to help them with their tax work and about 29% used a Big 4 CA firm.

Table 5.2 provides a breakdown of the business taxpayers' use of a tax practitioner, and familiarity with tax matters and taxation authorities.

5.7.3 Use of tax practitioner
About 42% of the business taxpayers had used the services of their current practitioner for five years or less, 27% for six to 10 years, 22% for 11 to 20 years, and 9% for more than 20 years. This profile shows that more than half of this sample of business taxpayers had established a good long-term working relationship with their practitioners. A majority of taxpayers (60%) did not use their practitioners’ firm for nontax services. Among those who did, most sought business advisory services (21%) followed by audit services (13%). Further investigation of this group who used other services revealed that it was mainly the SMEs that sought business advisory services whereas the large enterprises sought audit services.

5.7.4 Engagement letter
About 59% of the business taxpayers did not receive an engagement letter from their practitioners’ firm specifying the work to be performed, the security, and confidentiality of private and personal information and the cost of the tax services. This is rather surprising since most of the practitioners serving the business taxpayers were Chartered Accounting firms. One would expect that these professional firms would want to spell out their terms and conditions with their clients to safeguard their firms. It is possible that some of these firms might have received a letter from their practitioner specifying the terms but were not aware that the letter is termed an ‘engagement letter’, or perhaps over time they had simply forgotten and had no reason to search for it.
Table 5.2: Respondents’ profile - business taxpayers’ use of practitioner, knowledge, and audit and penalty experience

<table>
<thead>
<tr>
<th>No of years with current practitioner</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1- 5</td>
<td>108</td>
<td>41.2</td>
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<tr>
<td>6-10</td>
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<td>11-20</td>
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<tr>
<td>&gt;20</td>
<td>28</td>
<td>10.7</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>262</strong></td>
<td><strong>100.0</strong></td>
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<table>
<thead>
<tr>
<th>Use of other services</th>
<th>Frequency</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>No</td>
<td>157</td>
<td>59.9</td>
</tr>
<tr>
<td>Audit</td>
<td>35</td>
<td>13.4</td>
</tr>
<tr>
<td>Business advisory</td>
<td>54</td>
<td>20.6</td>
</tr>
<tr>
<td>Other services</td>
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<td>2.3</td>
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<tr>
<td>Combination of the above</td>
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<td>3.8</td>
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<tr>
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<td><strong>100.0</strong></td>
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<tr>
<th>Received engagement letter</th>
<th>Frequency</th>
<th>%</th>
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<tr>
<td>Yes</td>
<td>151</td>
<td>59.4</td>
</tr>
<tr>
<td>No</td>
<td>103</td>
<td>40.6</td>
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<td><strong>Total</strong></td>
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<td><strong>100.0</strong></td>
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<tr>
<th>Level of tax knowledge</th>
<th>Frequency</th>
<th>%</th>
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<tr>
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<td>8</td>
<td>3.1</td>
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<tr>
<td>Low</td>
<td>46</td>
<td>17.7</td>
</tr>
<tr>
<td>Medium</td>
<td>150</td>
<td>57.7</td>
</tr>
<tr>
<td>High</td>
<td>48</td>
<td>18.5</td>
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<tr>
<td>Very High</td>
<td>8</td>
<td>3.1</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>260</strong></td>
<td><strong>100.0</strong></td>
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<tr>
<th>Familiarity with penalties</th>
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<tr>
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<td><strong>100.0</strong></td>
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<th>Experience of tax penalties*</th>
<th>Frequency</th>
<th>%</th>
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<tbody>
<tr>
<td>Late filing penalty</td>
<td>60</td>
<td>23.7</td>
</tr>
<tr>
<td>Late payment penalty</td>
<td>91</td>
<td>35.4</td>
</tr>
<tr>
<td>Shortfall penalty</td>
<td>26</td>
<td>10.4</td>
</tr>
<tr>
<td>Non electronic filing penalty</td>
<td>3</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>258</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Experience of IRD audit</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>120</td>
<td>46.2</td>
</tr>
<tr>
<td>Once</td>
<td>84</td>
<td>32.3</td>
</tr>
<tr>
<td>More than once</td>
<td>56</td>
<td>21.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>260</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*shows respondents who indicated that such a penalty had been imposed on their firm in the last three years
5.7.5  **Level of tax knowledge and familiarity with tax penalties**  
The tax literature indicates that taxpayers' knowledge about taxes is generally poor (Kirchler 2007). In order to ascertain the respondents' level of tax knowledge, two items were used measuring tax knowledge in general and familiarity with tax penalties as follows:

Overall, how do you rate (a) your own level of tax knowledge and (b) your familiarity with tax penalties?

A rating scale of 1 = "very low" to 5 = "very high" was used for these two measures. The vast majority of taxpayers reported they had at least a medium level of tax knowledge ($M = 3.0; SD = .78$) and some familiarity with tax penalties ($M = 2.9; SD = .89$). This finding shows that business taxpayers, unlike taxpayers in general, have a fair bit of tax knowledge and therefore provides some assurance that those who responded should have understood the various tax issues raised in the questionnaire.

5.7.6  **Experience with tax penalties and IRD audit**

The most common experience of a penalty by the firms was a late payment penalty (reported by 35%) followed by a late filing penalty (reported by 24%). A significant portion of respondents had experiences with the New Zealand Inland Revenue Department (IRD) that had resulted in the imposition of a fine. Possibly reliance on a tax practitioner is a way of avoiding future trouble for at least some of the taxpayers.

5.7.7  **Audit experience**

There was variation in the sample in terms of experience with an IRD audit. Slightly more than half (54%) of the business taxpayers had been audited at least once by the IRD (32% of the respondents had been audited once and 22% more than once). As audit experience is used as a control variable, the results were dichotomised so that "1" represented those who had not been audited before (46%) and "2" represented those who had been audited (54%).
5.8 Business taxpayers’ approach to tax advice

5.8.1 Preference for type of tax advice and readiness to acquiesce

Information from business taxpayers about their working relationships with practitioners was elicited. Of interest were their style of communication with their practitioner, the type of advice they wanted and the extent to which they acquiesced to their practitioner’s advice. The descriptive statistics (see Table 5.3) showed that 34% of taxpayers assumed that their practitioners knew their preferences and 40% indicated that they made their preferences explicitly clear to them. Another 22% indicated that they let their practitioners decide what was best for their firm irrespective of their personal preferences. This latter group appeared to rely heavily on practitioners as ‘the tax experts’, which is consistent with results from the qualitative study recently conducted by Ashby and Webley (2008) where the very small business sector in the UK also indicated that they just leave it to their accountant to sort it out for them. Overall, these data support the view that different groups of taxpayers have different ways of communicating with their practitioners regarding the type of advice which they prefer.

<table>
<thead>
<tr>
<th>Table 5.3: Distribution of business taxpayers’ preferences for type of tax advice</th>
<th>n</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>I assume they know my preferences</td>
<td>86</td>
<td>34</td>
</tr>
<tr>
<td>I make my preferences explicitly clear to them</td>
<td>103</td>
<td>40</td>
</tr>
<tr>
<td>I let my practitioner decide what is best for my firm</td>
<td>56</td>
<td>22</td>
</tr>
<tr>
<td>Other*</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>256</td>
<td>100</td>
</tr>
</tbody>
</table>

* Other represents a combination of the first three types of preferences

Furthermore, as shown in Table 5.4, the vast majority (85%) indicated that they frequently accepted whatever advice was given. Almost all taxpayers (96%) indicated that they would also discuss alternative measures. About 64% indicated that they had expressed, on occasion, disappointment with the recommendations received. It is interesting that, the majority (61%) indicated that they had occasionally checked the advice out with someone else. These findings indicate that the course of action taken by taxpayers following advice from their practitioner varies, perhaps depending on the
context. As some respondents commented, their course of action might depend on the amount of tax savings under consideration. If the amount were immaterial, they would most likely accept whatever advice was given. However, if the amount were material, they would be more likely to seek a second opinion. Taxpayers' decisions, therefore, can be seen to involve a cycle of role sending and responding on the part of both practitioner and client as depicted in the Tax Practitioner-Client Role Model. In the words of a respondent from a small business who never accepts whatever advice is given by the practitioner: "the whole exercise should be a mutual teaching learning experience for both parties and dialogue is important" (RN 238). According to another respondent from a listed company, whose practitioner is from one of the Big 4 CA firms: "Up and down, all firms can typically provide good advice. It then comes down to relationships and the ability to work together" (RN 225).

These findings provide insight into how the interactions are most likely to proceed. Most times, taxpayers acquiesce. Occasionally, however, they express dissatisfaction, seek advice elsewhere, and discuss alternatives. There is indeed a more dynamic exchange going on in their working relationship than prior studies have managed to capture.

Table 5.4: Distribution of business taxpayers' readiness to acquiesce
(n ranges from 240 to 251)

<table>
<thead>
<tr>
<th>Approaches</th>
<th>Never</th>
<th>Occasionally</th>
<th>Frequently</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept whatever advice is given</td>
<td>3.2%</td>
<td>11.6%</td>
<td>85.3%</td>
</tr>
<tr>
<td>Discuss alternative measures</td>
<td>4.0%</td>
<td>55.5%</td>
<td>40.5%</td>
</tr>
</tbody>
</table>
| Express disappointment with
commendations                        | 36.3% | 60.0%        | 3.8%       |
| Check advice with someone else    | 38.6% | 58.1%        | 3.3%       |

5.8.2 Disclosure of information to practitioners

For practitioners to assist their clients with tax compliance, they would need them to disclose all tax-related information held by the firm. However, clients may not always disclose all information. The majority of the respondents in this study indicated that they disclosed all the necessary information (94%). This response suggests that most taxpayers are open and honest with their practitioners. It is interesting to note some of
the reasons offered by those respondents who indicated that they did not disclose everything:

- “he does not need to know everything.” (RN 26 – from a very small firm).
- “because sometimes the practitioner is too keen to follow the letter of the law.” (RN 50 – from a very small firm).
- “immaterial and would be costly alerting them to the IRD.” (RN 52 – from a very small firm).
- “relevance, materiality, and time constraints in dealing with too much detail.” (RN 74 – from a large company with a practitioner from one of the Big 4 firms).
- “not his responsibility, can’t get into trouble if they don’t know.” (RN 107 – from a very small firm).
- “lack of time/opportunity to communicate.” (RN 133 – from a medium sized firm).
- “he is not up to speed so need not know.” (RN 150 – from a small firm).
- “like to retain control internally and only get advice involved or required.” (RN 225 – from a listed company with a practitioner from one of the Big 4 firms).
- “we have minimal contact, can’t be bothered.” (RN 256 – from a very small firm).

Not disclosing information does not necessarily mean that they are underreporting income or overstating deductions, intentionally or unintentionally, although these possibilities also cannot be completely ruled out. It does suggest, however, that a minority of business taxpayers maintain tight control over their financial decision making.

5.8.3 What constitutes aggressive advice?
As taxpayers may have perceived aggressiveness quite differently, their perceptions regarding various interpretations of aggressive advice were elicited. A rating scale of 1 = “strongly disagree” to 5 = “strongly agree” was used for this measure. As shown in Table 5.5, the mean score for each of the nominated interpretations of aggressive advice was more than 3. The highest percentage agreement were: favours a taxpayers’ tax position (73%), followed by not upheld if challenged by court (68%), goes against
intent of law (68%), higher chance of failure (65%), involves contrived arrangements (60%) and involves non-commercial arrangements (54%).

**Table 5.5: Means and standard deviations (SD) for what constitutes aggressive advice by business taxpayers (n ranges from 241 to 251)**

<table>
<thead>
<tr>
<th>Aggressive advice refers to advice that:</th>
<th>M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Favours a taxpayer’s tax position on a questionable item</td>
<td>3.7</td>
<td>.83</td>
</tr>
<tr>
<td>2. Involves arrangements which are contrived and artificial in their method of execution</td>
<td>3.6</td>
<td>1.25</td>
</tr>
<tr>
<td>3. Involves arrangements which are not commercial from a business or economic perspective</td>
<td>3.5</td>
<td>1.18</td>
</tr>
<tr>
<td>4. Has a higher chance of failure than success if challenged by IRD</td>
<td>3.7</td>
<td>1.12</td>
</tr>
<tr>
<td>5. May not be upheld if challenged by court</td>
<td>3.7</td>
<td>1.07</td>
</tr>
<tr>
<td>6. Goes against policy intent of tax law but still within letter of law</td>
<td>3.7</td>
<td>.93</td>
</tr>
</tbody>
</table>

This indicates that the majority of taxpayers agreed that these types of advice were considered as aggressive. It is interesting to note that taxpayers agreed that any advice that goes against the policy intent of the tax law is also aggressive advice. These views are generally consistent with the literature and with the views of the tax practitioners (see discussion in Chapter 7).

**5.9 Core research concepts and their measurement**

This section describes how the conceptual design was operationalised. It includes how the following core concepts were measured in the survey: expectation-experience gap, satisfaction, practitioner retention, trust, personal and business tax ethics, risk propensity, sanction risk perception. Multi-item scales were developed where possible to increase the reliability and validity of the measures.

**5.9.1 Expectations and experiences of tax services**

As taxpayers may have different expectations of and experiences with their practitioners, the following seventeen measures of expectations were used in this study:
1. Help my firm file an accurate return;
2. Help my firm minimise tax;
3. Help my firm avoid serious penalties;
4. Explain the tax law and regulations using words that I/we understand;
5. Know many ways to save taxes;
6. Be able to exploit tax loopholes to the advantage of my firm;
7. Be creative in dealing with my firm’s tax matters;
8. Reduce uncertainties in tax matters that concern my firm;
9. Be up to date with the latest changes in tax law;
10. Save my firm considerable time in dealing with tax matters;
11. Advise my firm not to take deductions that fall within any grey areas of the tax law;
12. Be clear about the risks associated with the recommended advice;
13. Provide my firm with conservative advice in areas where the tax law is not ambiguous;
14. Provide my firm with aggressive advice in areas where the tax law is ambiguous;
15. Promote any tax effective schemes to my firm so that I/we don’t have to pay too much tax;
16. Assist my firm to make claims only when they are clearly legitimate;
17. Just deal with my firm’s tax matters with minimum fuss and without bothering us too much with it.

This list of expectation statements was drawn up after reviewing the literature, with some adaptation from the work of Braithwaite (2000), Chang and Bird (1993), Christensen (1992), Collins et al. (1990), and Hite et al. (1992).

To enable comparison between what taxpayers expected and experienced from practitioners’ services, the experience statements were based on the same 17 items mentioned above. Some phrasing was slightly different in order to measure experience rather than expectation. A scale from 1 = “strongly disagree” to 5 = “strongly agree” was used for rating each item in terms of expectations and experiences.
Table 5.6 shows the means (M) and standard deviations (SD) for expectations and experiences. Out of the 17 items, nine types of expectation had a mean score of 4.5 or higher. Most importantly, taxpayers expected their practitioners to be up to date with changes in the tax law. This finding is not surprising as in recent years the government has reformed various parts of tax law. Undoubtedly, every taxpayer who seeks the assistance of a tax practitioner would like one who is up to speed with tax law changes; otherwise their other expectations may not be met! The next most essential service after being up to date with changes in tax law are filing an accurate return, minimising tax and avoiding serious penalties which appear to be most important to them. These findings are consistent with those from prior studies, which suggest that these considerations are important motivators for engaging the services of a tax practitioner (for example, Collins et al. 1990; Hite et al. 1992).

Table 5.6: Means (SD) for business taxpayers’ expectations and experiences
(n ranges from 250 to 262)

<table>
<thead>
<tr>
<th>Items</th>
<th>Expectation Mean (SD)</th>
<th>Experience Mean (SD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. File accurate return***</td>
<td>4.7 (.47)</td>
<td>4.4 (.61)</td>
</tr>
<tr>
<td>2. Minimise tax***</td>
<td>4.7 (.56)</td>
<td>4.0 (.84)</td>
</tr>
<tr>
<td>3. Avoid tax penalties***</td>
<td>4.7 (.56)</td>
<td>4.2 (.74)</td>
</tr>
<tr>
<td>4. Explain the tax law &amp; regulations clearly***</td>
<td>4.6 (.58)</td>
<td>4.1 (.81)</td>
</tr>
<tr>
<td>5. Know many ways to save taxes***</td>
<td>4.5 (.65)</td>
<td>3.8 (.84)</td>
</tr>
<tr>
<td>6. Exploit tax loopholes***</td>
<td>3.8 (1.01)</td>
<td>3.2 (.93)</td>
</tr>
<tr>
<td>7. Creative with tax matters***</td>
<td>3.9 (1.01)</td>
<td>3.4 (.96)</td>
</tr>
<tr>
<td>8. Reduce uncertainties***</td>
<td>4.5 (.55)</td>
<td>4.0 (.86)</td>
</tr>
<tr>
<td>9. Up to date with the latest changes in tax law***</td>
<td>4.8 (.40)</td>
<td>4.3 (.69)</td>
</tr>
<tr>
<td>10. Save time in dealing with tax matters***</td>
<td>4.6 (.62)</td>
<td>4.0 (.86)</td>
</tr>
<tr>
<td>11. Not to take deductions in grey areas of law***</td>
<td>3.9 (.96)</td>
<td>3.7 (.89)</td>
</tr>
<tr>
<td>12. Mention risks associated with the advice***</td>
<td>4.5 (.59)</td>
<td>4.0 (.74)</td>
</tr>
<tr>
<td>13. Give conservative advice where unambiguous</td>
<td>3.7 (1.06)</td>
<td>3.7 (.88)</td>
</tr>
<tr>
<td>14. Give aggressive advice where ambiguous*</td>
<td>3.2 (1.10)</td>
<td>3.0 (.97)</td>
</tr>
<tr>
<td>15. Promote tax effective schemes***</td>
<td>4.1 (.93)</td>
<td>3.4 (.99)</td>
</tr>
<tr>
<td>16. Make claims only when clearly legitimate***</td>
<td>4.3 (.78)</td>
<td>4.1 (.66)</td>
</tr>
<tr>
<td>17. With minimum fuss and not too much bother***</td>
<td>3.3 (1.23)</td>
<td>3.6 (1.02)</td>
</tr>
</tbody>
</table>

* p < 0.05  ** p < 0.01  *** p < 0.001

28 All items with an asterisk indicate significant differences between expectation and practice.
Two expectations are of note because they had the lowest agreement and highest variation. They are giving "aggressive advice" ($M = 3.2; SD = 1.10$) and advising with "minimum fuss" ($M = 3.3; SD = 1.23$). About 40% of taxpayers expected their practitioners to provide aggressive advice where the tax law was ambiguous. Consistent with a 40:60 split on aggressive advice was the finding that just over half (52%) agreed that their practitioner should deal with their firms' tax matters with minimum fuss and not bother them too much with it. It appears that taxpayers are divided on whether their practitioners should be noninterventionist and whether they should offer aggressive advice. Clearly, there is no agreed norm for this sample of taxpayers. That said, the correlation coefficient between what clients wanted and what they experienced were relatively high. On aggressive advice, the correlation between expectation and experience was 0.53 ($p < .001$). On minimum fuss, the expectation-experience correlation was even higher ($r = .62; p < .001$). This 'pleasant surprise' was not anticipated on the basis of previous research, but explains a basic benefit experienced by clients in their relationship with practitioners. Overall, these findings suggest that taxpayers found practitioners who suited their requirements.

5.9.2 Dimension of business taxpayers' expectations

The 17 kinds of expectations that taxpayers had of practitioners, while interesting in their own right, were likely to be unwieldy for hypothesis testing later on. Therefore, a decision was made to reduce them to a limited set of dimensions. A principal component factor analysis with varimax rotation was carried out to uncover the key dimensions of taxpayer expectations. Since the purpose of factor analysis is to account for associations between variables, the initial correlation matrix (R-matrix) was inspected to identify variables that were not correlated with others. Two items of expectations, that is, "minimum fuss" and "conservative advice" did not have at least one correlation of the order of .3 with other items. Because of their low shared variance with other items (low communalities), they were removed from the item set (Kinnear and Gray 2006). The factor analysis was re-run and produced three factors with eigenvalues greater than one, accounting for 57% of variance in the item set (see Table 5.7).

After rotation, the results revealed three distinctive dimensions of expectations. The results of the analysis appear in Table 5.7. The first factor, "Technically Proficient",

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included nine types of expectations which centred on the technical proficiency or competency of the practitioner. Examples of technical proficiency from Table 5.7 are being up to date with changes in tax law, file accurate tax return, know ways to save tax, and save time. The second factor, “Aggressive Advice”, was composed of four types of expectations which signified aggressive postures including exploiting tax loopholes and promoting tax schemes Two items, representing taxpayers’ preference to remain cautious and not play with grey areas of tax law comprised “Cautious Advice”.

Table 5.7: Factor loadings from a principal component analysis and varimax rotation for business taxpayers’ expectations of practitioners

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Factor 1 Technically Proficient</th>
<th>Factor 2 Aggressive Advice</th>
<th>Factor 3 Cautious Advice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to date with latest changes in tax law</td>
<td>.760</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avoid tax penalties</td>
<td>.726</td>
<td></td>
<td></td>
</tr>
<tr>
<td>File accurate return</td>
<td>.697</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce uncertainties</td>
<td>.661</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Explain tax law &amp; regulations clearly</td>
<td>.635</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimise tax</td>
<td>.595</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Save time in dealing with tax matters</td>
<td>.588</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mention risks associated with advice</td>
<td>.579</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Know many ways to save taxes</td>
<td>.535</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creative with tax matters</td>
<td></td>
<td></td>
<td>.816</td>
</tr>
<tr>
<td>Exploit tax loopholes</td>
<td></td>
<td></td>
<td>.812</td>
</tr>
<tr>
<td>Give aggressive advice where ambiguous</td>
<td></td>
<td></td>
<td>.740</td>
</tr>
<tr>
<td>Promote tax effective schemes</td>
<td></td>
<td></td>
<td>.616</td>
</tr>
<tr>
<td>Not to take deductions in grey areas of law</td>
<td></td>
<td></td>
<td>.801</td>
</tr>
<tr>
<td>Make claims only when clearly legitimate</td>
<td></td>
<td></td>
<td>.780</td>
</tr>
<tr>
<td>Explained variance (before rotation)</td>
<td>25%</td>
<td>19%</td>
<td>12%</td>
</tr>
</tbody>
</table>

The items defining each factor in Table 5.7 were used to develop scales representing technically proficient expectations, aggressive advice expectations, and cautious advice expectations. A mean score was obtained for each scale by summing responses to the items under each factor and dividing the total by the number of items in the scale to bring the scores back to their original item metric of 1 to 5.
Table 5.8 shows the scale means (M) and standard deviations (SD), scale intercorrelations and scale Cronbach’s alpha. The scales used to measure expectations were the model for constructing scales to measure experiences. The internal consistency coefficients (Cronbach’s alpha) for the technically proficient and aggressive advice scales were stronger than that observed for the cautious advice scales. Given that the cautious advice scales had only two items, the alpha coefficient is considered strong (Field 2005). Of particular note is the way in which scales representing technically proficient, aggressive advice and cautious advice are positively correlated, more so for experiences than for expectations. These findings suggest that taxpayers see no inconsistency in expecting all these qualities in their practitioners. Moreover, their experiences suggest that these qualities coexist in tax practitioners.

Table 5.8: Means, SDs, Pearson intercorrelations, and alpha reliability coefficients (Cronbach’s alpha) for business taxpayers’ expectations and experiences

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPECTATIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Technically proficient</td>
<td>4.62</td>
<td>.38</td>
<td>-</td>
<td>-</td>
<td>.864</td>
</tr>
<tr>
<td>2. Aggressive advice</td>
<td>3.75</td>
<td>.79</td>
<td>.414***</td>
<td>-</td>
<td>.777</td>
</tr>
<tr>
<td>3. Cautious advice</td>
<td>4.13</td>
<td>.74</td>
<td>.476***</td>
<td>.273***</td>
<td>.619</td>
</tr>
<tr>
<td><strong>EXPERIENCES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Technically proficient</td>
<td>4.07</td>
<td>.57</td>
<td>-</td>
<td>-</td>
<td>.885</td>
</tr>
<tr>
<td>2. Aggressive advice</td>
<td>3.24</td>
<td>.75</td>
<td>.593***</td>
<td>-</td>
<td>.790</td>
</tr>
<tr>
<td>3. Cautious advice</td>
<td>3.90</td>
<td>.67</td>
<td>.645***</td>
<td>.397***</td>
<td>.644</td>
</tr>
</tbody>
</table>

*** p < .001

Overall, taxpayers’ priorities were for their practitioners to be technically proficient and provide cautious advice with aggressive advice lagging behind. This pattern described experiences as well as expectations. An implication of these results is that although taxpayers want to be cautious, that is, they want their practitioners to ‘play safe’, they are also open to aggressive advice. It appears that, ideally, they do not want to miss any opportunity to minimise tax within the letter of the law. This finding is consistent with those from the study conducted by Sakurai and Braithwaite (2001) which showed that
Table 5.9: Means, SDs, and Pearson intercorrelations for two measures of business taxpayers’ satisfaction - overall satisfaction with services and retention of practitioner (n = 262)

<table>
<thead>
<tr>
<th>Satisfaction Measures</th>
<th>% Agree</th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Overall satisfaction</td>
<td>86%</td>
<td>4.01</td>
<td>.97</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2. Retention</td>
<td>90%</td>
<td>4.12</td>
<td>.70</td>
<td>.707***</td>
<td>-</td>
</tr>
</tbody>
</table>

***p < .001

The association between these two variables, as indicated by the Pearson correlation coefficient, was strongly significant and positive. The results showed that those with a high level of satisfaction were more likely to express willingness to retain their practitioners’ services. Accordingly the two items were summed and averaged to arrive at a single scale labelled ‘satisfaction’ denoting the combined outcome of satisfaction with services and retention of services (\(M = 4.1; SD = .67; \alpha = .827\)). This scale was used to test Hypothesis 2 in Chapter 6, that is, if taxpayers’ experiences do not match their expectations of practitioners’ services, they will consider practitioners’ services as unsatisfactory.

5.9.4 Trust in practitioner

As depicted in the Tax Practitioner-Client Role Model, interpersonal relations between the practitioner and client are crucial to the relationship. This study was focused on trust as the measure of quality of interpersonal relations. Taxpayers’ trust in their practitioner was measured by using a 4-item scale, which was adapted from Braithwaite (2001):

My tax practitioner:

1. Is open and honest with me in dealing with my firm’s tax matters;
2. Is a trustworthy person;
3. Acts in the interest of my firm rather than his/her own interests;
4. Has high integrity.

The items were rated on a 5-point Likert scale ranging from 1 = “strongly disagree” to 5 = “strongly agree”.

109
More than 90% of taxpayers indicated that their practitioner was open and honest, trustworthy, and had high integrity. About 85% of taxpayers perceived their practitioners to act in the interests of their firms. This finding is also well supported by the following comments received from taxpayers:

- “despite my accountant not meeting some expectations, he provides a reliable and trustworthy service and knows our business well.” (RN 257 – a respondent who expressed satisfaction with, and trust in, the practitioner).
- “we have total confidence in our tax practitioner and have an open relationship where anything can be discussed” (RN 92 - a respondent from a SME who is very satisfied with, and fully trusted the practitioner).

Table 5.10 shows the Pearson’s product-moment correlations for the items in the trust scale. The correlations, which ranged from moderately strong to strong, were all statistically significant.

<table>
<thead>
<tr>
<th>Trust Measures</th>
<th>M</th>
<th>S.D.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is open and honest</td>
<td>4.48</td>
<td>.58</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Is trustworthy</td>
<td>4.51</td>
<td>.57</td>
<td>.80**</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Acts in firm’s interest</td>
<td>4.21</td>
<td>.81</td>
<td>.63**</td>
<td>.63**</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>4. Has high integrity</td>
<td>4.46</td>
<td>.62</td>
<td>.70**</td>
<td>.76**</td>
<td>.73**</td>
<td>1.00</td>
</tr>
</tbody>
</table>

** p < .01

A reliability analysis was performed on the four items of trust. Cronbach’s alpha was .90 indicating that the 4-item scale was reliable in terms of internal consistency. Accordingly, responses to the four items were summed and averaged to obtain for each taxpayer a single scale score for trust \((M = 4.42; SD = .57)\). The trust scale was used to test Hypothesis 3: taxpayers’ trust in their practitioners will be positively associated with their satisfaction with practitioners’ services.
5.9.5 Agreement with advice

One of the aims in this study was to examine the factors that affect taxpayers' reporting decisions in an ambiguous setting (income and expense) as this is an area which has potential for practitioners to exploit the tax law to their clients' advantage (see Klepper and Nagin 1989). The close match of taxpayers' expectation and experience in the giving of conservative advice when the tax law is unambiguous (as shown in Table 5.6), lends further support for this study to be focused on taxpayers' behaviour when their practitioners recommend aggressive advice in areas where tax law is ambiguous.

Although legal ambiguity is an important factor in tax reporting decisions, it is not feasible to consider all types of ambiguous tax issues in one questionnaire. As a result, two generic hypothetical scenarios, one concerning deductions and the other concerning classification of income, were provided to examine taxpayers' tax reporting decisions and whether decisions will be different in different contexts. Hypothetical scenarios were used to avoid self-report bias as some participants may have considered these issues to be 'sensitive.' The scenarios were therefore used as an indirect measure of taxpayers' tendency toward aggressive tax reporting decisions.

Long and Swingen (1991:646) noted that ambiguity exists at three levels. There are ambiguity and uncertainty in the precise meaning of the statutory language, in determining how the law specifically applies to an individual situation and in the type(s) of evidence sufficient to establish that the alleged facts are true. Taking these features into consideration, the first scenario that involved an ambiguous area in tax deduction was stated as follows:

Say your firm has incurred an expense of a **considerable** sum and you seek your tax practitioner's advice as to whether the expense is deductible. Your practitioner tells you that the tax law relating to this expense is **rather ambiguous** but thinks that it should be deductible. However, if the deduction is challenged by the IRD, your practitioner tells you that there is a 50% chance that it may not be upheld by the court in your favour. If your practitioner advises you to **claim** the deduction in your firm's tax return, will you agree with his/her advice?
The second scenario mirrored that of the first scenario but it involved an ambiguous area in the classification of income and was stated as:

Say your firm has received a considerable amount of income and you seek your tax practitioner’s advice as to whether the income is taxable. Your practitioner tells you that the tax law relating to this type of receipt is rather ambiguous. It is arguable as to whether the income is of a capital (non-taxable) or a revenue nature (taxable), but your practitioner thinks that it should be regarded as capital. However, if this income is challenged, your practitioner tells you that there is a 50% chance that it may not be upheld by the court in your favour. If your practitioner advises you to regard the income as capital, will you agree with his/her advice?

These two scenarios were adapted from Braithwaite (2000), Christensen and Hite (1997), Hite and McGill (1992), and Tan (1999). The chance that it will not be upheld by the court was stated as 50% to depict an element of uncertainty. Since both scenarios are ambiguous and the practitioner’s advice is pro-taxpayers, the advice given is considered of the aggressive type. This categorisation is in accord with taxpayers’ interpretations shown in Table 5.5 where most agreed that aggressive advice involved favouring a taxpayer’s tax position on a questionable item which may not be upheld if challenged by the court.

The amount under consideration could also have an impact on taxpayers’ tax reporting decisions. When amounts are trivial, taxpayers may not be too concerned about the consequences of their decisions. However if the amount is considerable, other factors may come to bear on the taxpayers’ decisions as they are likely to consider more carefully the consequences of their decisions. In both scenarios above, therefore, it was stated that the amount of expense and income is considerable.

A rating scale from 1 = “definitely no” to 5 = “definitely yes” was used to measure the extent of taxpayers’ agreement with their practitioner’s aggressive advice. Their agreement or disagreement with their practitioner’s advice in the hypothetical scenarios represented the dependent variable.
As displayed in Table 5.11, the mean scores show a greater tendency to agree than disagree with practitioners, with both means above the midpoint. There appears to be higher agreement with practitioners' aggressive income advice ($M = 3.52; SD = .94$) than deduction recommendation ($M = 3.48; SD = 1.02$). However, the result of a paired samples $t$ test shows that there was no significant difference in taxpayers' responses to the deduction and income situation ($t = -0.851, p = .396, 2$-tailed).

To test the realism of the described tax scenarios, taxpayers were also asked whether they had experienced such a situation before. Actual experience with such a scenario would support the validity of the scenario. About 21% ($n = 55$) of the respondents indicated that they had experienced such a deduction situation. For the income situation, about 15% ($n = 40$) of respondents had experienced such a situation. The scenarios, although hypothetical, therefore appeared to resonate with experience and were considered reflective of real situations.

<table>
<thead>
<tr>
<th>Taxpayers' response</th>
<th>M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree with aggressive advice on ambiguous deduction item</td>
<td>3.48</td>
<td>1.02</td>
</tr>
<tr>
<td>Agree with aggressive advice on ambiguous income item</td>
<td>3.52</td>
<td>0.94</td>
</tr>
</tbody>
</table>
1 = definitely no to 5 = definitely yes

The association between the deduction situation and the income situation, as indicated by the Pearson correlation coefficient, was strongly significant and positive ($r = .67, p < .001$). That is, those who accepted aggressive advice on income were also likely to accept aggressive advice on deductions. Accordingly, the responses to the two scenarios were summed and averaged to produce a single scale representing agreement with aggressive advice ($M = 3.56; SD = .856; \alpha = 0.797$).

5.9.6 Expectation of aggressive advice

As observed previously (see Table 5.6), the mean and standard deviation scores ($M = \ldots$

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29 About 61% agreed with the deduction situation and 63% agreed with the income situation.
3.2; $SD = 1.10$) suggest variability in opinions about how taxpayers approach aggressive advice where tax law is ambiguous. However, the single item measure, expectation of aggressive advice (item 14 as shown in Table 5.6) was correlated with three other measures of aggressive advice shown in Table 5.7. Consequently, the scale based on expectation of aggressive advice in the factor analysis (made up of four-items) was considered the more appropriate measure as the independent variable to test Hypothesis 4; that is, taxpayers who expect aggressive advice tend to agree with their practitioners’ recommended aggressive advice. As shown in Table 5.8, the mean for this scale was 3.75 and standard deviation .79 ($alpha = .78$).

5.9.7 Personal and business tax ethics

Because of concerns that some business taxpayers may want to present an artificially pro-social image of their personal ethics (Hite et al., Stock and Cloyd 1992), an attempt was made in this study to measure personal ethics by eliciting the information in a more indirect manner. The question asked was:

Do you think your firm should declare all taxable income in the tax return?

This measure was adapted from Wenzel’s (2002) work and was used to test Hypothesis 5, that is, personal tax ethics will have an effect on their agreement with practitioners’ aggressive advice. The rating scale from 1 = “definitely no” to 5 = “definitely yes” was used to measure this norm.

A huge majority (91%) responded affirmatively ($M = 4.26; SD = .72$). In comparison, Braithwaite et al.’s (2001) results showed that 72% of taxpayers agreed that they should honestly declare their cash earnings. Hite et al. (1992) had 75% who indicated that they never knowingly failed to report income. This group of respondents therefore saw themselves as highly ethical although there is a possibility of socially desirable responding. Possibly other items in the survey about approaches to aggressive advice made them particularly sensitive. Another possibility is that strictly following the letter of the law has gained support precisely because there are so many possibilities for playing with grey areas of law which open opportunities for tax avoidance. If taxpayers can avoid, and do so legally in their own eyes, then there is no need for them to engage in tax evasion.
Business tax ethics were measured by asking taxpayers their perceptions of what they thought other business firms would ask their practitioners to do to help them minimise taxes. An 8-item scale was used as follows:

1. Exaggerate deductible expenditure;
2. Underreport taxable income;
3. Manipulate accounts receivable;
4. Manipulate accounts payable;
5. Manipulate inventory figures;
6. Claim private expenses as business expenses;
7. Claim capital expenses as revenue expenses;
8. Manipulate work in progress figures.

Some of these items were adapted from Atwell and Sawyer (2001). The requests generally depict unethical or aggressive types of requests. The rating scale used for these measures of business tax ethics ranged from 1 = “never” to 4 = “frequently”.

Table 5.12: Means, and SDs for items in the perceptions of business tax ethics scale (no. ranges from 246 to 248)

<table>
<thead>
<tr>
<th>Practitioners helped other firms to</th>
<th>Occasionally%</th>
<th>Frequently</th>
<th>M</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Inflated expenditure</td>
<td>42</td>
<td>7</td>
<td>2.48</td>
<td>.72</td>
</tr>
<tr>
<td>2. Understatement of income</td>
<td>43</td>
<td>3</td>
<td>2.37</td>
<td>.71</td>
</tr>
<tr>
<td>3. Manipulate accounts payable</td>
<td>32</td>
<td>2</td>
<td>2.26</td>
<td>.71</td>
</tr>
<tr>
<td>4. Manipulate accounts receivable</td>
<td>31</td>
<td>3</td>
<td>2.23</td>
<td>.72</td>
</tr>
<tr>
<td>5. Manipulate inventory figures</td>
<td>37</td>
<td>8</td>
<td>2.44</td>
<td>.75</td>
</tr>
<tr>
<td>6. Claim private expenses as business</td>
<td>37</td>
<td>19</td>
<td>2.69</td>
<td>.85</td>
</tr>
<tr>
<td>7. Claim capital expenditure as revenue</td>
<td>39</td>
<td>10</td>
<td>2.53</td>
<td>.76</td>
</tr>
<tr>
<td>8. Manipulate work in progress</td>
<td>36</td>
<td>20</td>
<td>2.49</td>
<td>.75</td>
</tr>
</tbody>
</table>

The results in Table 5.12 show how this sample of business taxpayers perceived other business firms’ tax ethics. While all eight requests appeared to occur, the statistics suggest that they were thought to be made occasionally but not frequently. Claiming private expense as a business expense (37% mentioned “occasionally” and 19%
mentioned "frequently"), and capital expenditure as revenue (39% mentioned "occasionally" and 10% mentioned "frequently") were the two most common bases for departure from ethical standards perceived to be made by other firms. A Cronbach’s alpha of .90 was calculated for the eight types of requests indicating that they were consistently recognised as measures of ways to minimise taxes. Accordingly, the mean scores for the eight requests were averaged to derive a single scale for business tax ethics ($M = 2.45, SD = .57$). This scale was used as an independent variable to test Hypothesis 6, that is, taxpayers’ perceptions of usual business tax ethics will influence their agreement with practitioners’ aggressive advice.

As a particular practitioner will serve a range of clients, and competing firms may have other practitioners, it is important to examine the views of respondents regarding the kinds of requests likely to be accommodated. If they perceive that most practitioners would not help other firms with such requests, they may conclude that a social norm of honesty or caution is operating. Tax practitioners may be seen as gatekeepers preventing tax abuses. To examine this further, taxpayers were asked whether they thought that the practitioners serving other firms would help them with any one of the eight requests to reduce tax:

If you are aware that some firms ask their practitioners to help them with one or more of the above, how likely do you think it is that their practitioners will help them?

A rating scale of 1 = “very unlikely” to 5 = “very likely” was used to measure these perceptions. Those who were not aware were not required to respond to this question.

In addition, taxpayers were asked the following question:

Say if you ever asked your practitioner to help your firm to exaggerate expenditure, how likely do you think it is that your practitioner will help you with your request?

Again, a rating scale of 1 = “very unlikely” to 5 = “very likely” was used for responses.

Table 5.13 shows that taxpayers perceived that their practitioners were more unlikely to help them with those requests as compared to other firms’ practitioners. Even then, the
perception of the likelihood of assistance from other firms’ practitioners was low. The findings suggest that taxpayers perceived practitioners as having integrity to prevent abuse of the tax system.\textsuperscript{30} Responses received from some business taxpayers indicated that they would never ask their practitioners to help with such requests in the first place, as what they are interested in is to pay the minimum tax within the law. It is also possible that some of them have no knowledge of other practitioners’ practices as there were quite a number (34%; \( n = 90 \)) who did not respond to this question.

\textbf{Table 5.13: Means, and SDs for likelihood of practitioners’ help with requests relating to unethical ways of minimising taxes}

<table>
<thead>
<tr>
<th>Help with requests</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other taxpayers’ practitioners will help with those requests</td>
<td>2.83</td>
<td>.97</td>
</tr>
<tr>
<td>Your practitioners will help you with those requests</td>
<td>1.76</td>
<td>.82</td>
</tr>
</tbody>
</table>

Taxpayers’ understanding of business tax ethics was further gauged by posing to them the following question:

\textbf{Do you think other firms honestly declare all their taxable income in their tax returns?}

This measure was also adapted from Wenzel’s (2002) work on social norms and rated by using a scale of 1 = “definitely no” to 5 = “definitely yes”.

About 35\% of taxpayers did not think that other firms honestly declared all their taxable income in their tax returns. In comparison, only about 17\% of taxpayers thought that others did and the rest had no idea about other firms’ attitudes toward reporting all income. This finding is comparable to Braithwaite et al.’s (2001) Community, Hopes, Fears and Action Survey, which showed that only 20\% of Australian taxpayers believed that others honestly declared their cash earnings, 58\% did not think so and the rest had no idea.

\textsuperscript{30} This insight of taxpayers who do not believe other tax practitioners gave in to their clients is interesting. Perhaps this belief probably is in part set up by their own practitioners who could have indicated to them that they would not help with those requests and that very likely most other practitioners would not do so either.
These results show taxpayers perceiving a substantial amount of unethical taxpaying behaviour among business taxpayers but not among practitioners. As some respondents commented:

- "Practitioners have good standing with the IRD and would not jeopardize our relationship with the IRD to meet the needs of one single client." (RN 257 – from a medium sized firm).

- "Neither would they compromise their reputation as Chartered Accountants." (RN 261 – from a medium sized firm).

- "Practitioners are generally honest and law abiding and would not take stupid risks." (RN 104 – from a large firm).

Possibly some business taxpayers were concealing their taxable income from their tax practitioners. A taxpayer (RN 5) from a very small firm who often disclosed all business information to his/her practitioner pointed out that: “if the business was manipulating the figures, they would do so without their tax practitioner’s knowledge.” This view is shared by another taxpayer also from a small firm (RN 133) who indicated that, “often these are in the everyday expenses and hidden or accounted for before, or at an earlier stage, than the tax practitioner stage”. As noted in Section 5.7 on disclosure of information, some taxpayers did not disclose all information regarding their firm’s tax matters to their tax practitioners.

5.9.8 Personal risk propensity

Risk propensity is a person’s general tendency to take or avoid risk or the likelihood that s/he will engage in a particular activity. This concept (adapted from Hite et al.’s 1992 study) was measured by asking taxpayers the following question:

Say your firm has incurred an expense of $300, and the tax law on the deductibility of this expense is rather ambiguous. How certain will you have to be (on a scale of 0% to 100%) that the IRD will allow the deduction before you will make a claim?

Another similar question was asked but the amount indicated was increased from $300 to $3,000. Taxpayers’ responses to these questions would provide an indication of the extent of risk they were willing to take. The two different amounts used were to test whether materiality had any impact on their decisions.
Percentage scores were averaged and a standard deviation was calculated. The mean scores for the immaterial and material amounts were 63 and 69 (on a 1-100 per cent scale) respectively with standard deviations of .23 and .22. These statistics are comparable to the findings of Hite et al., (1992) which showed that small business taxpayers required 70% certainty before they would claim a deduction.

About 57% ($n = 239$) of the respondents indicated that they needed to be more than 50% certain before they would make the $300 claim. As a higher percentage of certainty denotes a lower level of risk propensity, this indicates that slightly less than a majority (43%) of the respondents were the more risk taking type. When the amount of expense was material, that is, $3,000, about 66% ($n = 166$) of respondents indicated that they required more than a 50% level of certainty before they would claim the expense as recommended by their practitioner. While the sum of money had some effect in the expected direction, it was not a major factor in taxpayers’ calculations.

The bivariate Pearson correlation between the ratings for certainty for the $300 and $3000 expense claims showed a moderately strong positive relationship ($r = .56; p < .001$). Since the Cronbach’s alpha is .72, the 2-item measures were considered reliable measures of propensity. Accordingly, the taxpayers’ responses to the two items were averaged to derive a single scale for risk propensity ($M= 65.6; SD = 20.1$).

A mixture of taxpayers who have high and low risk tendencies comprised the sample of respondents in this study. It was interesting to examine whether those who have higher risk tendencies were more willing to accept aggressive advice than those who have lower risk tendencies. The effect of this independent variable on their agreement with aggressive advice was tested in Hypothesis 7 and is discussed in Chapter 6.
5.9.9 Sanction risk perceptions

Perception of sanctioning risk was measured by using a hypothetical scenario and asking respondents two questions to assess audit probability and the likelihood of severe penalties:

Say your firm claimed an ambiguous deduction of a considerable sum following your practitioner’s advice, what do you think are the chances (on a scale of 0% to 100%) that your firm (a) will be audited and (b) will face severe penalties if the amount is ruled as not deductible?

About 44% (n = 116) of the respondents perceived that there would be a more than 50% chance of audit.\textsuperscript{31} As for chance of severe penalties, about 39% (n = 105) of the respondents perceived that there would be a more than 50% chance of severe penalties being imposed. The mean score for audit and penalties was 55 (SD = 26.4) and 52 (SD = 29.4) respectively. Perceptions of audit risk and severe penalty risk were also positively correlated (r = .47; p < .001). Since the Cronbach’s alpha is .7, the two items were combined through averaging scores, thereby producing a reliable measure of the perception of sanction risk (M = 53.5; SD = 24.5). This scale was used as an independent variable to test Hypothesis 8, that is, taxpayers who perceived a low sanction risk will be more agreeable with their practitioners’ aggressive advice on an ambiguous tax situation that those who perceived a high sanction risk.

For these questions, personal risk propensity and perception of sanction risk were focused on deduction of expenses and not income. The reason for focusing only on deduction was to prevent the questionnaire from becoming too lengthy, which may have discouraged people from responding. Since there were no significant differences in taxpayers’ agreement on income and deduction issues discussed in Section 5.6, it was assumed in this study that taxpayers’ risk propensity and sanction risk perceptions with regard to income items were not significantly different from those for expense items.

A summary of all the variables from the business taxpayers’ sample that were tested in the Tax Practitioner-Client Role Model are provided in Appendix D.

\textsuperscript{31} Interestingly, those who have been audited before perceived a higher chance of audit (r = .178; p < .01).
5.10 Chapter summary

This chapter details the research design and methods used for collecting data for the business taxpayers’ role. The instrument used to collect the data was designed to provide information which was as credible and accurate as possible. For instance, to prevent or reduce the occurrence of socially desirable responding, respondents were assured of their anonymity, and no codes were used to identify them. Where concepts were perceived to have more than one dimension, multiple item scales were used to measure the concept. Overall, the majority of the measures were considered reliable as most of them had internal consistency coefficients (Cronbach’s alpha) of at least .70. The response rate was 20% and is considered to be in line with those of other studies carried out on small businesses and on taxpayers in Australasia.

The incorporation of open-ended questions generated more detailed data and gave respondents the opportunity to express themselves or clarify their responses. About 58% of business taxpayers responded at least once in the open-ended questions. This showed that the majority of the respondents were keen to provide clarification or make comments on issues raised in the questionnaire. These qualitative data enhanced the interpretation of research findings and provided evidence that often converged with quantitative data, thereby strengthening confidence in the conclusions.

The data collection was conducted nationwide in New Zealand and about 70% of the respondents were from SMEs. A comparison with the statistics disclosed by the Ministry of Economic Development showed that this percentage is lower than the 96% of SMEs as at February 2006. The shortfall could perhaps be explained by the type of sampling used which was not completely random but rather stratified so that a reasonable number of bigger firms could be represented. The sample was also more selective as only those who used the services of a tax practitioner were included. This is an important criterion as the aim in the study was to examine the relationship between the taxpayer and the practitioner.

Most small businesses with not more than 20 employees were structured in the form of companies. Of note is that the respondents (company directors or owner-managers) who
participated in the survey were the ones who made the tax decisions for the firm and had a reasonably good knowledge of tax. Therefore, they were in a good position to identify with the issues raised in the survey questionnaire and respond accordingly. Most employed a regional or local CA, although a significant minority (almost a third) used the Big 4 CA firms.

Under half (42%) of the business taxpayers had been with their practitioner for five years or less revealing that most were in stable taxpayer-practitioner relationships. The majority (59%), however, did not have a letter specifying the terms of engagement with their practitioner, suggesting considerable opportunity for negotiating the services to be provided. Without a letter specifying clearly the clients’ needs and the practitioners’ services, the potential problem arises of inadequate information being provided by taxpayers or a misunderstanding of clients’ needs by practitioners. Another possibility is that clients might even misunderstand what the practitioner can do for them. Most taxpayers in this sample used their practitioners for tax matters only, but around 40% sought business advice or audit services.

Overall, business taxpayers had a reasonable knowledge of tax issues and the penalties associated with noncompliance. About 24% had been penalised for late filing, 35% for late payment, and just over half had been audited at least once.

A number of questions were used to reveal the kind of relationship business taxpayers had with their practitioners. Responses were surprisingly quite evenly divided between assuming the tax practitioner knew the taxpayer’s preference, being explicit in stating preferences and leaving it to the practitioner to decide what was best. Most times, taxpayers accepted their practitioners’ advice but over half reported having occasion to express disappointment. Taxpayers acknowledged that on occasion they would seek advice elsewhere and discuss alternatives with their practitioner. In other words, business taxpayers were willing and able to question – they did not always acquiesce.

The vast majority of taxpayers indicated that the practitioner was a trusted confidant insofar as they disclosed all of the firms’ tax related information to them. Most business taxpayers were familiar with the concept of aggressive advice and agreed that such
advice: (a) favoured a taxpayer’s tax position on a questionable item (73%), (b) may not be upheld if challenged by a court (68%), (c) goes against the policy intent of tax law but is still within the letter of the law (58%), (d) had a higher chance of failure than success if challenged by IRD (65%), (e) involves contrived arrangements (60%), and (f) involves noncommercial arrangements (54%).

The last part of the chapter described the development and construction of measures of the core concepts for hypotheses testing – the expectation-experience gap, satisfaction with and retention of practitioners, trust in practitioners, agreement with practitioners’ advice, expectation of aggressive advice, personal and business tax ethics, personal risk propensity, and perceptions of sanction risk.

While describing and demonstrating the psychometric soundness of these measures, mean scores, standard deviations and percentages in agreement have also been reported to round out the picture of the profile of business taxpayers involved in this study.

The expectation-experience gap was measured in terms of three dimensions – technically proficient, aggressive advice and cautious advice. Most importantly, taxpayers expected their practitioners to be technically proficient (that is, help to file an accurate return, minimise tax, avoid serious penalties, explain tax law and regulations clearly, know many ways to save taxes, reduce uncertainties, keep up to date with changes, save time, and mention risks). This is followed by cautious advice (that is, not to take deductions that fall within any grey areas of tax law and assist firm to make legitimate claims). Third most important on average for this group was the expectation that their practitioners would provide aggressive advice (that is, help to exploit tax loopholes, be creative in dealing with tax matters, provide aggressive advice where tax law is ambiguous and promote tax effective schemes).

These technically proficient and cautious advice expectations are generally consistent with the literature on the reasons taxpayers engage tax practitioners. However, aggressive advice expectations appeared inconsistent with findings from numerous studies, which indicated that taxpayers preferred conservative advice (Hite & McGill, 1992; Tan, 1999). It needs to be noted that this is the first study in which a multi-item
scale has been used for the expectation construct, thereby providing a more reliable and valid measure. It is important to emphasise also that in this study taxpayers were encouraged to express their ‘cautious’ side and their ‘aggressive’ side. One did not exclude the other.

Taxpayers play their role with many “faces” (Goffman 1971) and in partnership with a trusted practitioner, the “face” of caution may change to one of aggression. Taxpayers clearly agreed on wanting practitioner proficiency. However, it appeared that some taxpayers wanted more aggressive advice than others, particularly when the law was not clear-cut. Also, some wanted more cautious advice than others in that they did not want to get into trouble with the law. It is interesting that the 3 expectation dimensions were positively and not negatively correlated. The results imply that taxpayers are saying, “Yes, keep me safe; yes, be aggressive; and yes, save me money!” There is a lack of simplicity in how taxpayers think about what their practitioners can deliver. If these conflicting expectations are simultaneously sent to practitioners, practitioners are bound to experience role ambiguity and role conflict. It will be interesting to see whether tax practitioners experienced role ambiguity and role conflict and if so, how they cope with it. Chapter 8 explores this area in further depth.

For the three scales discussed above, the gap was in the expected direction – expectations were generally higher than the experience of the service offered. Whether these apparent differences in perception are statistically significant will be tested in the next chapter.

In spite of their differences, satisfaction with practitioners was high (86% were happy with services and 90% wished to retain their practitioners). Trust in practitioners was also high (with 96% falling above the midpoint of the trust scale) suggesting that most respondents had a good relationship with their practitioners. An interesting question that can be raised here is what helps to establish a good relationship between the practitioner and client? If experience falls short of expectations, will this have an adverse effect on the relationship? These relationships will also be explored further in the next chapter.
Since taxpayers wanted to stay safe and also to save tax, it was interesting to find out how they would respond to aggressive advice from their practitioners. Two hypothetical scenarios were used to test whether these business taxpayers would actually accept aggressive advice from their practitioners if given in a situation where the law was ambiguous. It is interesting that more than half (about 62%) agreed that they would accept it. It appears that business taxpayers will be led if their practitioners advise them to allow this. Supporting this idea that a substantial proportion (although not all) of business taxpayers rely heavily on their practitioners are the data on business ethics, risk propensity and perceived sanction risk.

The measures of personal tax ethics and business tax ethics were interesting in suggesting that respondents considered themselves as being more ethical than other business taxpayers. There is a possibility of a social desirability bias exacerbated by the use of a one-item scale, but it is more likely that taxpayers really believe this about themselves. Taxpayers have many coping mechanisms for convincing themselves that they are honest and good people, even if the data prove otherwise (Braithwaite 2009).

As the respondents presented themselves as being more cautious and law abiding than other business taxpayers, it is not surprising that they considered it highly likely that other business taxpayers would ask their accountants to take illegitimate measures to minimise tax. However, they were of the view that neither others’ practitioners nor their own would oblige. Based on this feedback, it appears that business taxpayers have high regard for the professionalism of practitioners. It is interesting that the majority of the firms used by the respondents were Chartered Accounting firms.

Risk propensity and perceived sanction risk varied among respondents. In general, however, this sample of business taxpayers were not high scorers on risk taking. About 70% of respondents indicated that they needed more than 50% certainty to make an ambiguous expense claim. About 40% of respondents perceived that there was more than a 50% chance that they would be audited and would suffer a severe penalty. When one considers that only 54% reported ever having an audit, out of which only 10% suffered shortfall penalties, the expectation of being audited and severely penalised on the occasion of one specific misdemeanour is somewhat exaggerated.
This chapter discussed the research method and provided background information about the respondents and the concepts. However, the relationships between the concepts have not been considered in further depth. The next chapter describes the testing of a set of eight hypotheses through which the following themes in understanding the client-practitioner relationship, from the taxpayers' perspective, were addressed:

- the role of tax practitioners as perceived and experienced by business taxpayers and the fulfilment of their expectations;
- the contributing factors that helped establish a positive and stable practitioner-client relationship; in particular, the effect of any mismatch between the three dimensions of expectations and experiences, and trust on their relationships; and
- the acceptance of aggressive advice from tax practitioners and what drives their acceptance.
Chapter 6
Taxpayers' Role Relations With Their Practitioners
and Agreement With Aggressive Advice

6.1 Introduction

The previous chapter showed that there were three distinct dimensions of expectations which taxpayers hold concerning their practitioners who, they expect, will be technically proficient, and able to offer both aggressive advice and cautious advice. A clear majority of taxpayers expected their practitioners to be technically proficient and cautious. The sample was divided more evenly on aggressive advice. Several hypotheses were developed for this study to provide some insights into how and when these dimensions of expectations helped establish a stable relationship between practitioners and clients, and what factors influenced taxpayers’ agreement with aggressive advice. The central idea was that if a practitioner met the role expectations of the client and was considered trustworthy, the relationship would be valued by the taxpayer. Should aggressive tax advice be given, it would be accepted or rejected by the taxpayer depending on the taxpayer’s expectation of the practitioner as well as the taxpayer’s assessment of risk, personal norms and social norms. The results of the hypotheses testing are reported in this chapter.

The first hypothesis sets out to examine whether or not taxpayers received what they expected from their practitioners; that is, whether or not there is an expectation-experience gap. With expectations reduced to three underlying factors (see Chapter 5), Hypothesis 1 was refined for testing as follows:

H1 (taxpayers): There will be an expectation/experience gap between taxpayers’ expectations and experiences with regard to the proficiency, caution and aggressiveness in the services provided by their practitioners.

With the merging and averaging of the scale for overall satisfaction with services and intention to retain practitioners, Hypotheses 2 and 3 were also restated as follows:
H2 (taxpayers): The expectation-experience gap will have a negative effect on satisfaction.

H3 (taxpayers): Taxpayers’ trust in the practitioner will have a positive effect on satisfaction.

The other hypotheses that were tested remained the same as developed in Chapter 4:

H4 (taxpayers): In an ambiguous tax situation, expectations of aggressive advice will be positively associated with taxpayers’ agreement with practitioners’ aggressive advice.

H5 (taxpayers): In an ambiguous tax situation, personal tax ethics will influence taxpayers’ agreement with practitioners’ aggressive advice.

H6 (taxpayers): In an ambiguous tax situation, perceived business tax ethics will influence taxpayers’ agreement with practitioners’ aggressive advice.

H7 (taxpayers) – Taxpayers with a higher risk propensity will agree more with their practitioners’ aggressive advice on an ambiguous tax situation than will those with a lower risk propensity.

H8 (taxpayers) – Taxpayers with low sanction risk perceptions (perceived probability of detection and of severe tax penalties) will agree more with their practitioners’ aggressive advice on an ambiguous tax situation than will those with high sanction risk perceptions.

The variables developed in Chapter 5 and used to test the eight hypotheses are summarised in Table 6.1 below.
Table 6.1: Summary of hypotheses and variables used

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Variable (No of Items)</th>
<th>Item scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Expectation – Experience = gap</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Technically proficient (9)</td>
<td>1 = strongly disagree</td>
</tr>
<tr>
<td></td>
<td>-Aggressive advice (4)</td>
<td>5 = strongly agree</td>
</tr>
<tr>
<td></td>
<td>-Cautious advice (2)</td>
<td></td>
</tr>
<tr>
<td>H2</td>
<td>Satisfaction (2)</td>
<td>1 = strongly disagree</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5 = strongly agree</td>
</tr>
<tr>
<td>H3</td>
<td>Trust (4)</td>
<td>1 = strongly disagree</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5 = strongly agree</td>
</tr>
<tr>
<td></td>
<td>Agreement with aggressive advice (2)</td>
<td>1 = definitely no</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5 = definitely yes</td>
</tr>
<tr>
<td>H4</td>
<td>Expectation of aggressive advice (4)</td>
<td>1 = strongly disagree</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5 = strongly agree</td>
</tr>
<tr>
<td>H5</td>
<td>Personal tax ethics (1)</td>
<td>1 = definitely no</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5 = definitely yes</td>
</tr>
<tr>
<td>H6</td>
<td>Perceived business tax ethics (8)</td>
<td>1 = never</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 = frequently</td>
</tr>
<tr>
<td>H7</td>
<td>Risk propensity (2)</td>
<td>0 = 0% certainty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10 = 100% certainty</td>
</tr>
<tr>
<td>H8</td>
<td>Perceived sanction risk (2)</td>
<td>0 = 0% chance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10 = 100% chance</td>
</tr>
<tr>
<td>Control Variable 1: Firm size</td>
<td>Firm size (1)</td>
<td>1 = SMEs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 = large firms</td>
</tr>
<tr>
<td>Control Variable 2: Audit experience</td>
<td>Audit experience (1)</td>
<td>1 = never audited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 = audited before</td>
</tr>
</tbody>
</table>

6.2 Business taxpayers’ role relations with practitioners

6.2.1 Expectation-experience gap

To examine whether or not there is an expectation-experience gap, the difference between the clients’ expectations and experiences on the scales “technically proficient”, “aggressive advice” and “cautious advice” were computed.\(^{32}\)

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\(^{32}\) For example, the technically proficient expectation score minus the technically proficient experience score was obtained for each individual to arrive at the gap for technically proficient. The same was done for the other two gaps, aggressive advice and cautious advice.
A paired-samples t-test was conducted and the results showed that there was a statistically significant difference on all three dimensions (see Table 6.2). Therefore, the first hypothesis that there is an expectation/experience gap between clients’ expectations and their experiences with the services provided by their practitioners is well supported.

Table 6.2: Means (SDs) and t-tests for business taxpayers’ expectation–experience gaps

<table>
<thead>
<tr>
<th>Factors</th>
<th>Expectation – Experience Gap Mean (SD)</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technically Proficient</td>
<td>.56 (.54)</td>
<td>16.185***</td>
</tr>
<tr>
<td>Aggressive Advice</td>
<td>.51 (.78)</td>
<td>10.162***</td>
</tr>
<tr>
<td>Cautious Advice</td>
<td>.23 (.71)</td>
<td>5.188***</td>
</tr>
</tbody>
</table>

*** p < .001

These results suggest that practitioners were not as technically proficient as taxpayers expected. It is interesting that, practitioners were perceived as being neither sufficiently aggressive nor sufficiently cautious. Taxpayers, as a group, appeared to be sending out mixed messages to practitioners. Overall, on the basis of their experience, taxpayers perceived that their practitioners could have done better in all dimensions!

Comments received from some respondents converged with these findings. As pointed out by a number of respondents:

- “The practitioner is expected to be creative in dealing with tax matters provided as long as it is not to the extent of testing the tax law and best practice.” (RN 198 – from a listed company with a practitioner from one of the Big 4 CA firms).

- “Although practitioners are expected to be able to exploit tax loopholes to the advantage of our firms, it also depends on the “legitimacy of loopholes” and “its general acceptance as a reasonable tax position.” (RN 198).

- “Sometimes the practitioner is too keen to follow the letter of the law.” (RN 47 – from a very small firm).

- “It feels as though he is actually working for the IRD, not me; does not give any advice regarding tax loopholes etc. keeps his nose clear.” (RN 66 – from a small firm).
- "Would have liked him to be more able to find loopholes." (RN 139 – from a very small firm).
- "I expect him to operate within the law." (RN 28 – from a medium firm).
- "His job is to keep me on the right side of the law." (RN 180 – from a very small firm).
- "...has limited knowledge of legitimate claims and tax law – more interested in their own business than assisting our inaccuracy." (RN 160 – from a very small firm).

It is clear from these responses that taxpayers used a tax practitioner to keep them safe as well as to help them to minimise taxes within the boundaries of the law. Some perceived no tension between using loopholes and being law abiding. A practitioner, on the other hand, might aspire to being cautious in choosing the tax loopholes available for exploitation.

6.2.2 Effect of gap and trust on satisfaction

If there is a significant gap between role expectations and actual experience, will taxpayers feel dissatisfied with practitioners' services and will they dissociate themselves from the working relationship? If not, why not? It was hypothesised in this study that the gap would adversely affect taxpayers' working relationships with practitioners while an important aspect of interpersonal relations, that is, trust would positively affect their relationships.

To test this hypothesis, relationships among gaps in technically proficient, aggressive advice and cautious advice, trust, and practitioner satisfaction were examined by using the Pearson product-moment correlation coefficient. As shown in Table 6.3, all expectation-experience gaps showed a significant negative correlation with satisfaction (that is, overall satisfaction and retention). The results showed that the technically proficient gap had a stronger negative relationship with satisfaction ($r = -.509; p < .001$) in comparison to the aggressive advice ($r = -.371; p < .001$) and cautious advice gaps ($r = -.257; p < .001$). Trust was significantly and positively correlated with satisfaction ($r = .560; p < .001$).
Table 6.4: Standard error (SE), standardised beta coefficients (β), adjusted R² for an ordinary least squares regression analysis predicting satisfaction

<table>
<thead>
<tr>
<th>Predictors</th>
<th>SE</th>
<th>β</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technically proficient gap</td>
<td>.090</td>
<td>-.289***</td>
</tr>
<tr>
<td>Aggressive advice gap</td>
<td>.058</td>
<td>-.096</td>
</tr>
<tr>
<td>Cautious advice gap</td>
<td>.053</td>
<td>-.030</td>
</tr>
<tr>
<td>Trust</td>
<td>.065</td>
<td>.409***</td>
</tr>
<tr>
<td>Adjusted R² = .40</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** p < .001

From the regression analysis in Table 6.4, only the technically proficient gap and trust were significant predictors of satisfaction. Together the variables predicted 40% of the variability in satisfaction. Of the two significant variables, trust was the more important contributor as indicated by beta coefficients (β). This finding varied from the bivariate analysis as neither aggressive advice nor the cautious advice gap contributed significantly to the regression. It appears that gaps between the taxpayer and tax practitioner in the level of caution and aggressiveness in tax advice fade in significance if the taxpayer trusts the practitioner and regards the practitioner as technically proficient. Hypothesis 2 therefore was only partially supported when the relationships between the variables were analysed together.

The fact that an aggressive or cautious advice gap drops out of the equation in Table 6.4 raises the question of whether or not the variables have been dominated by the proficiency and trust variables. Before dismissing their predictive capacity, a reconceptualisation of the problem will allow a further probe of the importance of the gap between expectations and experiences of aggressive or cautious tax advice. This reconceptualisation has two components. First, both an aggressive and a cautious advice gap as shown in Table 6.3 had strong correlations with proficiency. Therefore an analysis which examined these variables without the influence of proficiency would prove interesting. Second, trust was strongly related to satisfaction. If trust and satisfaction were combined, a broader dependent variable could be used, that is, one representing a trusting stable relationship.
To investigate how successfully an aggressive or cautious advice gap (match) could predict a trusting stable relationship, a hierarchical linear regression analysis was carried out in which the aggressive advice and cautious advice gap were entered on the first and second step. A single scale for trusting, stable relationship was obtained by summing the items under trust and satisfaction and dividing by the number of items, that is, 6 ($M = 4.25; SD = .547; alpha = .71$).

Table 6.5 displays the results. When the aggressive advice gap variable was entered alone, it significantly predicted a negative trusting stable relationship ($F = 16.125, p < .001$). The $R^2$, however, was a relatively low 7% (adjusted $R^2 = 6\%$). When cautious advice was added, it improved the prediction slightly by 7% ($F = 18.388, p < .001$). When the two variables were entered together in the regression model, the cautious advice gap was a stronger predictor than the aggressive advice gap. Lastly, when the technically proficient gap was considered together with the other two gap variables, it significantly improved the prediction. The $R^2$ change was 11% ($F = 25.482, p < .001$) and the regression model explained 25% (adjusted $R^2 = 24\%$) of the variance in trusting, stable relationship. The size of the technically proficient gap appears to be the most important factor in predicting a trusting, stable relationship. The qualitative data analysis also converges with the above analyses. For instance, one respondent from a very small firm pointed out, “we have recently changed accountant for the previous one had made many mistakes” (RN 164). The technical competence of the practitioner is certainly of utmost importance to taxpayers’ commitment to the working relationship.
Table 6.5: Hierarchical multiple regression analysis summary for technically proficient, aggressive advice, and cautious advice gap, predicting trusting, stable relationship

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>SE</th>
<th>β</th>
<th>R²</th>
<th>R² change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggressive advice gap</td>
<td>-1.97</td>
<td>0.049</td>
<td>-0.257***</td>
<td>0.066</td>
<td>0.066***</td>
</tr>
<tr>
<td>Constant</td>
<td>4.269</td>
<td>0.037</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Step 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggressive advice gap</td>
<td>-1.134</td>
<td>0.049</td>
<td>-0.175**</td>
<td>0.139</td>
<td>0.073***</td>
</tr>
<tr>
<td>Cautious advice gap</td>
<td>-1.198</td>
<td>0.045</td>
<td>-0.283***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>4.354</td>
<td>0.041</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Step 3</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggressive advice gap</td>
<td>-0.042</td>
<td>0.049</td>
<td>-0.054</td>
<td>0.253</td>
<td>0.113***</td>
</tr>
<tr>
<td>Cautious advice gap</td>
<td>-0.016</td>
<td>0.052</td>
<td>-0.023</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technically Proficient gap</td>
<td>-0.461</td>
<td>0.079</td>
<td>-0.462***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>4.501</td>
<td>0.046</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

6.2.3 Summary of findings on effect of expectation-experience gap, trust and satisfaction

The implications of these findings shift attention from taxpayer preferences for aggressive or cautious advice toward assessment of their tax practitioners’ overall competence, knowledge, and willingness to look after their clients’ interests. Chapter 5 tells us that a technically proficient practitioner is what most taxpayers primarily aim for. Taxpayers who report an expectation-experience match on proficiency also are inclined to report a match on cautious and aggressive advice expectations and experiences. These cross-sectional data, however, cannot tell us how the three gap variables are interconnected. For instance, does an aggressive advice gap predispose individuals to judge their practitioner as incompetent or does a perception of competence allow taxpayers to bring their expectations for aggressive advice in line with what the practitioner is offering? What can be concluded from these data is that the most important determinant of a trusting, stable relationship is being technically proficient.

The interpretation that perceived proficiency could overrule an aggressive expectation-experience gap, in particular, is plausible when considered against the background information provided in Chapter 5. Although taxpayers perceived a gap in aggressive
and cautious advice, their practitioners might have explained to them their tax situation and why the advice provided was not in accordance with what they expected. An understanding of the reasons behind the advice might have built trust and made such gaps less salient in their practitioner satisfaction/retention decision. Practitioners, as indicated in the literature, can exert influence over taxpayers’ tax reporting decisions. Taxpayers, on the other hand, may also influence their practitioners regarding the type of advice they prefer. The interactions and communication between them create opportunities for each to influence the other’s decisions.

Taxpayers’ comments were also useful for reinforcing the point that these taxpayers routinely discussed their “situations”, the “options”, the “grey areas”, and the “risk, case by case” with their practitioners. These views are supported by the quantitative responses shown in Table 5.4 (in Chapter 5) where a majority indicated that they discussed alternative measures with practitioners. These insights suggest that the partnership between the practitioner and client has an important influence on the latter’s evaluation of the type of advice provided by practitioners. As indicated by Sakurai and Braithwaite (2001), it is a team play between taxpayers and practitioners to a considerable degree when tax decisions are made, and this view is also supported by the comments received from taxpayers as discussed in the previous chapter (see Section 5.8).

To have such an open relationship, it is of utmost importance that taxpayers are able to trust their practitioners. As the findings of this study show, trust in practitioner emerged as an important interpersonal factor in the quantitative as well as the qualitative analyses (see Section 5.9.4). Trust certainly helps to build a good relationship between taxpayers and practitioners.

These findings perhaps explained why prior studies (for example, Hite et al. 1992; Murphy 2001; Tan 1999) found that taxpayers wished to retain their practitioners even if they disagreed with particular advice on treatment of items where tax law was ambiguous. Most taxpayers do not make such decisions based on one criterion or based on the outcome of one expectation not met. For instance, even though fees charged by tax practitioners were a concern expressed by a number of taxpayers in this study, the majority were still willing to retain their services. They would change their practitioners
only if they could be assured that they would be better off with another practitioner. Within this context, it is interesting to draw on the findings in Chapter 5 showing that this sample of business taxpayers considered that others would be pushing for more aggressive advice, but their views that the practitioners would not oblige were fairly uniform.

In summary, trust in, satisfaction with, and retention of, a tax practitioner among business taxpayers seems to be driven predominantly by the perception that the tax practitioner matches their expectations of technical proficiency. Meeting expectations on cautious or aggressive advice matters to some extent, but both fade in importance against the proficiency gap.

To provide further insights into the role relationships of taxpayers and practitioners, this study explored one hypothetical role episode in which taxpayers were asked to respond to the aggressive advice provided by their practitioner. This is a pertinent area to investigate as practitioners, when presented by their clients with ambiguous tax issues, may resolve the issue in quite different ways (Carnes et al. 1996a). One of the ways is to exploit the tax law to their clients’ advantage. The next section therefore examines the taxpayers’ agreement with practitioners’ aggressive advice and the factors that may impact on their decisions. Whether the expectation-experience gaps and the trusting, stable relationship discussed earlier have any part to play in taxpayers’ agreement with aggressive advice are also explored by conducting a hierarchical regression analysis.

6.3 Business taxpayers’ agreement with practitioners’ aggressive advice

6.3.1 Factors associated with agreement with aggressive advice
The correlation matrix between the independent variables of interest and the dependent variable is shown in Table 6.6. The results were initially checked for multicollinearity, which indicated that there was no problem. None of the tolerance statistics was below .2 indicating that collinearity was not likely to be a problem (Field 2005).
Preliminary results showed that there were significant relationships between five variables and agreement with aggressive advice. A trusting, stable relationship \((r = .138; p < .05)\), risk propensity \((r = -.229; p < .001)\) and aggressive expectation \((r = .142; p < .05)\) were directly related to agreement with aggressive advice. The cautious advice gap \((r = -.138; p < .05)\), and perception of sanction risk \((r = -.290; p < .001)\), on the other hand, were negatively related to agreement with aggressive advice. That is, both taxpayers who had established a positive trusting, stable relationship with their practitioner, and those with higher risk propensity and expectation of aggressive advice were more agreeable to accepting aggressive advice. In contrast, taxpayers with a higher cautious advice gap and higher perception of sanction risk were less agreeable to aggressive advice.

An hierarchical multiple regression analysis with agreement with aggressive advice as the dependent variable was used to explore the relative importance of the predictor variables. Variables were entered into the equation in three steps. First, size of business and audit experience were entered into the equation as control variables because it was postulated that these background characteristics could influence a taxpayer’s general approach to aggressive advice. Results displayed in Table 6.7 show that these two control variables accounted for only .5% of the variance in agreement with aggressive advice and there was no significant differences \((F = .480, p > .05)\). At the level of individual variables, neither size\(^{33}\) nor audit experience had any significant impact on agreement with aggressive advice in this New Zealand sample.

\(^{33}\) Even when the control for firm size was used as a categorical variable (instead of dichotomous), there was no change in the results. Length of relationship with practitioners was also checked but the results also showed no effect on agreement with advice.
Table 6.6: Intercorrelations among study variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agg advice</td>
<td>1.000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2. Firm size</td>
<td>-.012</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3. Audited before</td>
<td>-.067</td>
<td>.337***</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4. Stable</td>
<td>.138*</td>
<td>.039</td>
<td>.002</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5. Agg gap</td>
<td>-.090</td>
<td>-.194**</td>
<td>.041</td>
<td>-.332***</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>6. Cautious gap</td>
<td>-.138*</td>
<td>-.141*</td>
<td>-.093</td>
<td>-.093***</td>
<td>.317***</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7. Tech gap</td>
<td>-.102</td>
<td>.053</td>
<td>.052</td>
<td>.052***</td>
<td>.663***</td>
<td>.439***</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8. Sanction risk</td>
<td>.290***</td>
<td>-.028</td>
<td>.156*</td>
<td>.156</td>
<td>.089</td>
<td>.057</td>
<td>.109</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>9. Risk prop</td>
<td>-.229***</td>
<td>-.147*</td>
<td>-.095</td>
<td>-.095</td>
<td>-.094</td>
<td>.024</td>
<td>-.126*</td>
<td>.261***</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10. Bus ethic</td>
<td>-.078</td>
<td>-.079</td>
<td>-.016</td>
<td>-.016</td>
<td>.188**</td>
<td>-.004</td>
<td>.083</td>
<td>.035</td>
<td>-.128*</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11. Per ethic</td>
<td>-.056</td>
<td>.188**</td>
<td>.106</td>
<td>.106***</td>
<td>-.286***</td>
<td>-.017</td>
<td>-.202**</td>
<td>.098</td>
<td>.200**</td>
<td>-.263***</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12. Agg exp</td>
<td>.142*</td>
<td>-.280***</td>
<td>-.103</td>
<td>-.193*</td>
<td>.523***</td>
<td>.187**</td>
<td>.203***</td>
<td>.018</td>
<td>.018</td>
<td>.117*</td>
<td>.175**</td>
<td>-</td>
</tr>
</tbody>
</table>

* p < 0.05  ** p < 0.01  *** p < 0.001

Agg advice – agreement with aggressive advice
Risk prop – risk propensity
Sanction risk – perceived sanction risk
Stable – trusting stable relationship
Bus ethic – business tax ethics
Cautious gap – cautious advice gap
Par ethic – personal tax ethics
Tech gap – technically proficient gap
Agg exp – aggressive advice expectation
Table 6.7: Hierarchical multiple regression analysis summary for variables predicting taxpayers’ agreement with advice

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>SE</th>
<th>β</th>
<th>R²</th>
<th>R² change</th>
</tr>
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<tbody>
<tr>
<td><strong>Step 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business size</td>
<td>.021</td>
<td>.132</td>
<td>.012</td>
<td>-.005</td>
<td>.005</td>
</tr>
<tr>
<td>Audit before</td>
<td>-.122</td>
<td>.126</td>
<td>-.071</td>
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<td></td>
</tr>
<tr>
<td>Constant</td>
<td>3.728</td>
<td>.223</td>
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<td></td>
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<td><strong>Step 2</strong></td>
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<td></td>
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</tr>
<tr>
<td>Business size</td>
<td>.025</td>
<td>.135</td>
<td>-.014</td>
<td>.037</td>
<td>.032</td>
</tr>
<tr>
<td>Audit before</td>
<td>-.127</td>
<td>.127</td>
<td>-.074</td>
<td></td>
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<tr>
<td>Stable relationship</td>
<td>.178</td>
<td>.126</td>
<td>.111</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggressive advice gap</td>
<td>-.041</td>
<td>.104</td>
<td>-.037</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cautious Advice gap</td>
<td>-.143</td>
<td>.092</td>
<td>-.120</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical proficient gap</td>
<td>.051</td>
<td>.164</td>
<td>.032</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>3.070</td>
<td>.610</td>
<td></td>
<td></td>
<td></td>
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<td><strong>Step 3</strong></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Business size</td>
<td>-.049</td>
<td>.130</td>
<td>-.027</td>
<td>.192</td>
<td>.155***</td>
</tr>
<tr>
<td>Audit before</td>
<td>-.037</td>
<td>.120</td>
<td>-.021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stable relationship</td>
<td>.141</td>
<td>.129</td>
<td>.087</td>
<td></td>
<td></td>
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<tr>
<td>Aggressive Advice gap</td>
<td>-.210</td>
<td>.116</td>
<td>-.189</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cautious Advice gap</td>
<td>-.142</td>
<td>.087</td>
<td>-.119</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technically Proficient gap</td>
<td>.111</td>
<td>.155</td>
<td>.070</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanction risk perception</td>
<td>-.082</td>
<td>.025</td>
<td>-.224**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk propensity</td>
<td>-.084</td>
<td>.031</td>
<td>-.192**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business ethic</td>
<td>-.147</td>
<td>.102</td>
<td>-.096</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal ethic</td>
<td>-.051</td>
<td>.090</td>
<td>-.041</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggressive advice</td>
<td>.254</td>
<td>.091</td>
<td>.233**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>3.888</td>
<td>.753</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

** p < 0.01  *** p < 0.001

The second set of variables added were the trusting, stable relationship and expectation-experience gap variables from the previous set of analyses. The aggressive advice, cautious advice, and technically proficient gap were not significant predictors of agreement with aggressive tax advice. Results showed that they accounted for an additional 3% of the variance in agreement with advice scores ($F = 1.319; \ p > .05$), which was not statistically significant.

On the third step, the individual characteristics and decision making context features, which were hypothesised as being most likely to influence agreement with aggressive advice, were added to the equation: risk propensity, perceived sanction risk, personal
ethics, perceived business ethics and expectation of aggressive advice. The model was significant \( R^2 = 19\% \); adjusted \( R^2 = 15\% \) with a significant \( R^2 \) change of 16\% \( (F = 4.340; p < .001) \). Three variables were significant in the model. The beta weights suggested that expectation of aggressive advice contributed most to agreement with aggressive advice, followed by perceived sanction risk and risk propensity.

Therefore, only Hypotheses 4, 7 and 8 are well supported. As anticipated, when taxpayers expected aggressive advice, they were more likely to accept aggressive advice from their practitioners. Higher risk propensity and perception of relatively little likelihood of negative sanctioning also predicted agreement with a practitioner offering aggressive advice in an ambiguous tax situation. These findings are consistent with the results from studies carried out, for instance, by Hite and McGill (1972), Klepper and Nagin (1989), Tan (1999) and Webley et al. (1991). The finding that business tax ethics had no significant effect on agreement with aggressive advice appeared consistent with the findings of Braithwaite’s study (2000) conducted in Australia, where taxpayers reported that they were generally compliant even when they believed others were not. A further interesting finding was that personal tax ethics did not predict agreement with aggressive advice in an ambiguous situation. Most studies have shown that personal ethics are important in predicting tax evasion, but less is known about the effect of tax ethics in relation to avoidance activities.

The model explained 19\% of the variance in accepting aggressive tax advice. The relatively low \( R^2 \) value suggests that other factors not considered in this study could have influenced taxpayers’ reporting decisions.

6.3.2 Summary on taxpayers’ agreement with aggressive advice

In examining taxpayers’ agreement with practitioners’ aggressive advice, none of the expectation-experience gaps or a trusting, stable relationship exerted any influence. Although the bivariate analysis showed that the cautious advice gap and the stable relationship were significantly correlated to agreement with aggressive advice, these two variables faded in significance in the regression analysis. The finding that none of the expectation-experience gaps influenced agreement with aggressive advice perhaps tells us that they, in particular, the technically proficient dimension relate more to
comparisons of performance by practitioners and their standards of expectations. They do not play a salient part in taxpayers' individual tax decisions in accepting a tax position as recommended by the practitioner. The more surprising finding is that even if taxpayers have a good trusting, stable relationship with their practitioners, they did not just accept the practitioners' aggressive advice per se. It appeared other factors become more salient when they have to make a decision under uncertainty. As pointed out by Sitkin and Pablo (1992), when people are faced with uncertainty, decisions made are characterised as risky. In a tax situation, taxpayers are faced with the uncertainty of whether the tax position taken will hold up to any challenge by the tax authorities. If not, they - and not the practitioners - are the ones who have to bear the consequences. In these respects, taxpayers deciding whether or not to adopt the practitioners' recommendation particularly where the tax law is ambiguous on the treatment of a particular transaction would consider the risks involved. They do not just acquiesce to the practitioners' recommendations.

As this study shows, when faced with uncertainty of the intended tax position taxpayers were willing to take, their risks attitudes and sanction risk perceptions were salient factors of agreement with practitioners' aggressive advice. That is, taxpayers' aggressive advice expectations, their risk propensity and perception of sanction risk were significant factors in predicting their decisions. Aggressive advice expectation, which accounted for most of the variance, emerged as the most important factor, a finding that is consistent with the literature on taxpayers' preferences for aggressive advice. Taxpayers generally would accept practitioners' aggressive advice if they have such expectations. This finding also implies that taxpayers might have communicated with tax practitioners in such a way as to initiate a pattern of aggressive advice. They send signals to elicit aggressive advice from their practitioners, and they accept it when it is provided. In other words, aggressive advice can be demand driven by aggressive taxpayers — there is indeed a market for aggressive tax planning of which tax practitioners are very much aware.

As for risk propensity, those with a higher risk propensity were more willing to accept aggressive advice than were those who had lower risk tendencies. This is a personal characteristic of taxpayers; different taxpayers have different risk levels and as depicted
in the Tax Practitioner-Client Role Model, they shape taxpayers’ willingness to accept aggressive advice. Similarly, perception of the risk of audit and severe penalties had an impact on agreement with aggressive advice. Those who perceived less chance of being caught and penalised severely have a higher tendency to accept aggressive advice. These results are generally consistent with those in the literature (for example, Grasmick and Bryjak 1980; Christensen and Hite 1997) suggesting that clients not only use practitioners to help them comply with the law but also use practitioners as “gamesters” and “adversarialists”. Where there is an element of uncertainty in tax law, the degree of exploitation boils down to how far the practitioner is willing to stretch them and how much risk the taxpayers are willing to take.

The results further showed that other businesses’ tax ethics and personal ethics did not have an impact on taxpayers’ decisions. Taxpayers who were aware of other taxpayers’ aggressive attitudes did not appear to be affected by them when it came to making their firms’ tax decisions. This result appeared inconsistent with some findings. As prior research focused predominantly on taxpayers in general rather than a subset (that is, business taxpayers) used in this study, it is possible that social norms could be more influential on nonbusiness taxpayers who tend to have less knowledge of tax or who do not engage a tax practitioner. Wenzel’s (2005b) research on norms suggests that taxpayers need to identify with the group to whom the norms are attributed for social norms to be effective. One would expect the business taxpayers to identify with other business taxpayers’ attitudes. However, as discussed in Chapter 5, the respondents’ perception that it is very unlikely other businesses’ tax practitioners would assist with unethical requests perhaps has moderated the effect of this variable. There did not appear to be a shared pride in aligning with taxpayers who were prepared to behave illegally. There seemed to be greater pride in aligning with tax practitioners who did their job well.

Unlike numerous studies which have shown that personal tax ethics have a role to play in taxpayers’ compliance, this study did not reveal a significant impact on taxpayers’ decision to accept aggressive advice from the practitioner. Possibly, this finding is a consequence of using a single item to measure personal tax ethics. Taxpayers were asked: ‘Should your firm declare all taxable income?’ This item may not be well suited
to measuring personal ethics in relation to ambiguous tax law. Furthermore, it is possible for a taxpayer to agree strongly with this tax ethic question, but also believe that if the law is unclear, it can be exploited. As mentioned in the previous chapter (Section 5.9.7), taxpayers may regard creative compliance as totally legitimate.

Finally, there is no evidence to support the hypothesis that taxpayers from SMEs or larger firms are more likely to accept aggressive decisions than are others. Results from past studies on the effects of firm size on tax compliance have been inconsistent, suggesting that it could depend on the context of the issue under consideration. This study, for instance, concerned aggressive reporting whereas many studies on tax compliance have been focused on tax evasion. Furthermore, firms that operate in the cash economy have more opportunities to evade tax and tend to be linked to SMEs whereas those adopting aggressive avoidance measures tend to be linked to large businesses (Braithwaite 2005; Morse et al. 2009). Certainly large corporations, especially so for those with businesses that straddle over more than one country, have more opportunities for minimising their tax aggressively. The business sample used in this study perhaps did not capture these large conglomerates.

Audit experience also had no impact on taxpayers’ decisions. This finding appeared inconsistent with those from some prior studies. Chang et al.’s (1987) results, for instance, showed that those who were more experienced with IRD audits adopted a more contentious return position. However, other researchers who found no significant effects have noted that the quality of the audit outcome may also have a role to play. In this study, the quality of the audit was not elicited directly from the respondents. Instead, the information provided by respondents relating to the penalties imposed on their firm in the last three years provided some insights (see Section 5.6 in the previous chapter). Based on their profile, it appeared that although most respondents had experienced an audit before, they did not suffer severe consequences with respect to penalties imposed on their firms. The fact that most did not have a ‘bad’ audit experience perhaps explains why it had no impact on their decisions.

With a low $R^2$ from the multiple regression analysis, there could be other influences on taxpayers’ decisions which were not considered in this study. As the Tax Practitioner-
Client Role Model shows, the process of perception and evaluation is cyclical and involves feedback and responses. The interaction between the client and practitioner could therefore affect the clients' decisions; but the ongoing interactions are not easy to capture with data collected from independent samples of taxpayers and tax practitioners using a cross sectional study design. The qualitative data elicited from taxpayers, however, provided some evidence of the dynamic interaction that goes on in their working relationship with their practitioners.

6.4 Chapter summary

This chapter provided and discussed the results pertaining to the analysis of quantitative data elicited from taxpayers, supplemented by qualitative data collected from open-ended questions in the survey questionnaire. It examined what a gap between experiences and expectations means for taxpayers' relationship with their practitioners, and what helps to establish a stable and positive practitioner-client relationship. It then moved on to investigate what drives taxpayers to agree or disagree with practitioners' aggressive advice.

One interesting finding from the data elicited from taxpayers is the inconsistencies in taxpayers' expectations and experiences, that is, there is a simultaneous desire for a proficient, aggressive and cautious tax practitioner. This inconsistency is surely a creator of role ambiguity as taxpayers are sending mixed messages to practitioners. In addition, practitioners would most likely experience role conflict if they were expected to perform in accordance with their clients' competing demands. These issues will be examined in Chapter 8.

Trust in practitioner is considered by taxpayers to be the keystone of a satisfactory practitioner-client partnership and commitment to a long-term working relationship. A technically proficient gap, as compared to an aggressive advice or cautious advice gap, also contributes significantly to clients' level of satisfaction with services. This dimension of expectation stands out to be the norm for tax practitioners and the one that
best differentiates taxpayers who are satisfied from those who are not. It is also a key predictor of a trusting, stable practitioner-client relationship.

What is perhaps most interesting from the findings is that even though taxpayers are convinced of their practitioners’ competence, or if a trusting, stable relationship is established, they do not simply accept whatever advice is provided. Consistent with the literature on risk and uncertainty, their decisions to accept their practitioners’ aggressive advice are influenced by risk factors. Taxpayers differed in risk perception and risk taking and these characteristics influence their tax reporting decisions when they are faced with an element of uncertainty. Taxpayers who adopt aggressive reporting decisions are more likely to have high risk attitudes, that is, aggressive expectations, high risk propensity, and low perception of sanction risk. This finding supports classic economic theory. Taxpayers are perceived to maximise their outcome by weighing the uncertain benefits of successful avoidance against the risk of sanctions should the act be judged evasive (Kirchler 2007). Although other studies have found noneconomic factors to be influential on taxpaying behaviour, it appears that for business taxpayers, their risk attitude is the salient factor in their choice of tax reporting decisions in an ambiguous tax context. This finding is in line with Kirchler’s views (2007) of the self-employed, who tend to perceive taxation as limiting their freedom to invest their money in their businesses, whereas other white-collar workers and civil servants tend to consider taxation in terms of fairness and norms.

All these results trigger the following questions: How do practitioners perceive their clients’ expectations and how do they comply or cope with their role if they are faced with role conflict? What influences practitioners to provide aggressive advice, that is, are they demand or supply driven? These issues are considered in the following two chapters. Chapter 7 details the data collection from tax practitioners and provides a snapshot of the views of New Zealand practitioners at the time this study was conducted. Chapter 8 presents and discusses the results of the hypotheses testing.
Chapter 7
Data Collection From Tax Practitioners

7.1 Introduction

This chapter describes the method of data gathering from the sample of tax practitioners. Descriptive statistics and the initial psychometric data presented in this chapter provide background information about the respondents and the concepts that were subsequently used to test the practitioner hypotheses. More detailed analyses carried out for the purpose of testing the hypotheses are discussed in Chapter 8.

7.2 Data collection

Data were collected by means of a self-administered mail questionnaire. The pros and cons of using this method of collecting data were discussed in Chapter 5. The questionnaire was structured in a similar manner to that for taxpayers to enable comparison of responses. A mix of open and closed-ended questions was used for the same reasons as are indicated in Chapter 5. In particular, responses to the open-ended questions were of interest as a means of further validating the quantitative findings and providing insights into the nature and causes of the hypothesised associations.

Ninety-three questions set out in a 10 page booklet comprised the questionnaire for tax practitioners. How each concept was measured in the questionnaire is discussed in Section 7.9 below. Demographics of the respondents and other background information were also collected and are described in Sections 7.7 and 7.8.

The questionnaire was initially pilot tested with small groups of practitioners, PhD students, and business taxpayers.\(^{34}\) Constructive feedback to clarify questions and

\(^{34}\) The practitioners consisted of a team of tax experts from one of the Big 4 accounting firms, another tax expert from the NZICA who was previously the National Tax Director of another Big 4 accounting firm, and one regional tax practitioner. The PhD students were from the Centre for Tax System Integrity, Australian National University. Two small regional business taxpayers
improve the flow of the questionnaire was received and some changes were made on this basis. A copy of the questionnaire is provided in Appendix C.

7.3 Sample

As tax practitioners may be Chartered Accountants, lawyers, members of the TaxAgents’ Institute (TINZ) or others (that is, those who do not fall into any of these three groups), a random sample of 1,500 practitioners was obtained from the New Zealand Institute of Chartered Accountants’ (NZICA) database, and the yellow pages. It was expected that tax service providers would be highly likely to advertise their business in the New Zealand Yellow Pages™.

A cover letter (see Appendix C) explaining the purpose of the survey and a reply paid envelope were enclosed with the questionnaire. The letter assured participants that their responses were and would remain confidential and anonymous and that only summarised results would be reported. One reminder, containing a further copy of the questionnaire, was sent three weeks after the first mailing.

7.4 Response rates

Out of 1,500 questionnaires sent out, 441 completed questionnaires were returned. About 135 were identified as out of frame. Those that were out of frame were from addressees who were either no longer in business or not known at the nominated address. This gave an effective sample size of 1,365 and a response rate of 32%.

The response rate, although not high, is comparable to those of many other surveys carried out in Australia and New Zealand. Attwell and Sawyer (2001) for instance, achieved a response rate of 31% and they sampled only practitioners from the metropolitan centres of the three main cities in NZ. Marshall et al. (1998) achieved a rate of 23% from registered tax agents and 32% from agents in the (then) Big 6 firms in

also assisted with the pilot test.
Australia. The response rate in this study was probably also affected by the nature of the questionnaire as some of the questions might have been considered sensitive by some practitioners. The questionnaires were sent out at a time which was supposed to be least busy for most practitioners, but there were still a number who declined to participate due to heavy workloads. Prior studies have shown that, generally, response rates are low amongst the smallest businesses presumably because of the many demands on their time (Sandford and Hasseldine 1992).

7.5 Exploratory data analysis

An exploratory data analysis was conducted in a similar fashion to that carried out for the business taxpayers' data to check for any errors (outliers, outside the range, number of cases of missing data etc.) and the extent to which data assumptions for later hypotheses testing were met. Missing values were negligible. The number of cases with missing data totalled less than 5% (n ≤ 10) except for one variable, turnover, which had 6% missing values (n = 26). These respondents perhaps were more sensitive about disclosing their firms' revenue, or perhaps they did not know the amount.

The respondents were divided into two groups to check for nonresponse bias. Those respondents who sent in their questionnaires from the first mail-out were grouped as early responders (n = 278) and those who replied after the reminder were grouped as late responders (n = 163). A Mann-Whitney test was carried out to test for differences in ordinal data and an independent $t$ test was used for interval data. For categorical data, chi-square tests of independence were used to test for differences between the early and late responders. Responses to 9 of the 97 variables showed significant differences. None of the differences lies in the demographics of the respondents. As only a negligible number of variables used in the questionnaire showed a significant difference between early and late respondents, the data set is considered as not exhibiting any known systemic response bias.\footnote{The timing was worked out through conversations with a few practitioners to find out their least busy times.}

\footnote{Out of the 9 variables, only two concerned the expectation-practice gap, i.e. practitioners' perceptions of clients' expectations to help their firm to client to file an accurate return and
7.6 Content analysis

Content analysis was used to analyse the responses to the open-ended questions in a similar manner to that carried out for the taxpayers’ open-ended questions. Each respondent was given a respondent number (RN).

About 43% \( (n = 189) \) of tax practitioners made at least one comment in replying to the several open-ended questions posed. Although the proportion of responses from the open-ended questions was slightly smaller than that received from the business taxpayers, the written responses received were lengthier by comparison. Using content analysis, their responses were categorised to tease out further understandings of the concept under investigation.

The highest number of comments received from the practitioners fall under the categories of illegitimate or unethical requests (16%) and practitioners’ position (16%). This is followed by a number of comments that related to disclosure of information and clients’ preferences (15%). A relatively large number of practitioners (10%) also provided some feedback on their final thoughts about their role as a tax practitioner.

7.7 Tax practitioner profile

Table 7.1 shows the breakdown of the tax practitioner sample in terms of size, firm type, structure, and position held.
Table 7.1: Respondents’ profile – practitioners’ firm characteristics

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full time employees</td>
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<td></td>
</tr>
<tr>
<td>0</td>
<td>36</td>
<td>8.0</td>
</tr>
<tr>
<td>1-5</td>
<td>190</td>
<td>43.2</td>
</tr>
<tr>
<td>6-19</td>
<td>130</td>
<td>29.5</td>
</tr>
<tr>
<td>20-49</td>
<td>37</td>
<td>8.4</td>
</tr>
<tr>
<td>50-99</td>
<td>12</td>
<td>2.7</td>
</tr>
<tr>
<td>100+</td>
<td>36</td>
<td>8.2</td>
</tr>
<tr>
<td>Total</td>
<td>441</td>
<td>100.0</td>
</tr>
<tr>
<td>Turnover</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to $100000</td>
<td>53</td>
<td>12.8</td>
</tr>
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<td>&gt;$100000 - $250,000</td>
<td>73</td>
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<td>&gt;$250,000 - $500,000</td>
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<td>&gt;$500,000 - $1 million</td>
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<td>17.6</td>
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<td>&gt;1 million - 5 million</td>
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<td>&gt;5 million - $20 million</td>
<td>25</td>
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<td>&gt;$20 million</td>
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</tr>
<tr>
<td>Total</td>
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<td>Firm type</td>
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<td>Tax firm</td>
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<tr>
<td>Law firm</td>
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<td>4.1</td>
</tr>
<tr>
<td>Others</td>
<td>16</td>
<td>3.0</td>
</tr>
<tr>
<td>Total</td>
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<td>100.0</td>
</tr>
<tr>
<td>Firm structure</td>
<td></td>
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<tr>
<td>Sole proprietor</td>
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<td>29.4</td>
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<tr>
<td>Partnership 2-5</td>
<td>88</td>
<td>20.2</td>
</tr>
<tr>
<td>Partnership 6 or more partners</td>
<td>28</td>
<td>6.4</td>
</tr>
<tr>
<td>Company</td>
<td>192</td>
<td>44.0</td>
</tr>
<tr>
<td>Total</td>
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<td>100.0</td>
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<tr>
<td>Position in firm</td>
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<td></td>
</tr>
<tr>
<td>Tax partner</td>
<td>195</td>
<td>46.1</td>
</tr>
<tr>
<td>Tax senior/supervisor/CEO</td>
<td>61</td>
<td>14.4</td>
</tr>
<tr>
<td>Tax manager</td>
<td>39</td>
<td>9.2</td>
</tr>
<tr>
<td>Other</td>
<td>128</td>
<td>30.3</td>
</tr>
<tr>
<td>Total</td>
<td>423</td>
<td>100.0</td>
</tr>
</tbody>
</table>

7.7.1 Firm size

About half of the practitioners were in firms which employed not more than five full time employees (51%) with a further 30% from firms with between 6-19 employees. Although the majority of practitioners were from firms that employed not more than 20 full time employees, there was some representation from large firms. About 8% were
from firms with over 100 employees. Practitioners from firms with turnover of more than $5 million were a small minority (8%).

As firm size was used as a control variable, the practitioner firms were dichotomised in accordance with the national statistics classification of SME sized enterprises. Those with fewer than 20 employees were coded as 1 to represent SMEs. Those with 20 or more employees were coded as 2 to represent large firms. Accordingly, the SMEs comprised 80% \( (n = 356) \) and the large businesses comprised 20% \( (n = 85) \) of the sample.

### 7.7.2 Firm structure, firm type, position

With regard to business structure, a large proportion of practitioner businesses were structured as companies (44%), followed by sole proprietorships (29%) and partnerships (27%). There was a greater mix of different business structures in the practitioner sample than in the taxpayer sample (see Section 5.7, Chapter 5). Moreover, the mix was more in line with the proportion shown in the 2006 New Zealand business statistics.

The majority of practitioners (73%) were from Chartered Accountants' (CA) firms, with the balance (27%) from either law firms or other tax firms. Since firm type was used as a control variable, the practitioner firm type was dichotomised into CA and non-CA firms. Those who worked in CA firms were coded as 1 \( (n = 320) \) and those who worked in non-CA firms were coded as 2 \( (n = 121) \).

As for their position within the firm, the majority (70%) of the respondents were either directors, partners or managers of the firm. This profile provides further assurance that the questionnaires were indeed completed by tax practitioners, many of whom own or run the firm. Therefore, they were in a good position to understand the tax issues raised in the questionnaire and respond in an informed manner.

Table 7.2 shows the second part of the practitioners’ profile, describing their tax work experience and their professional affiliations.
7.7.3 Tax work, engagement letter

Although the vast majority of practitioners provided a mix of tax and nontax services, tax work took up most of their time. Since a large proportion of practitioners (71%) spent 50% or more of their time in tax work, the sample consists of practitioners who were very familiar with the tax system and should have been able to identify with the tax issues raised in the survey. The majority (72%) also indicated that their practice was to draw up engagement letters for their clients in order to clearly stipulate their role and avoid misunderstandings.

Table 7.2: Respondents' profile: practitioners' tax work experience and affiliation

<table>
<thead>
<tr>
<th>Time spent on tax work</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-24%</td>
<td>59</td>
<td>13.8</td>
</tr>
<tr>
<td>25-49%</td>
<td>66</td>
<td>15.5</td>
</tr>
<tr>
<td>50-74%</td>
<td>151</td>
<td>35.4</td>
</tr>
<tr>
<td>75-99%</td>
<td>119</td>
<td>27.9</td>
</tr>
<tr>
<td>100%</td>
<td>31</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>426</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Draw up engagement letter</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>44</td>
<td>10.1</td>
</tr>
<tr>
<td>Yes</td>
<td>314</td>
<td>72.2</td>
</tr>
<tr>
<td>Sometimes</td>
<td>77</td>
<td>17.7</td>
</tr>
<tr>
<td></td>
<td>435</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm affiliation</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not of any bodies</td>
<td>27</td>
<td>6.1</td>
</tr>
<tr>
<td>NZICA</td>
<td>328</td>
<td>74.5</td>
</tr>
<tr>
<td>NZLS</td>
<td>15</td>
<td>3.4</td>
</tr>
<tr>
<td>TINZ</td>
<td>59</td>
<td>13.4</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>440</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No of years experience in tax</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 2 years</td>
<td>8</td>
<td>1.8</td>
</tr>
<tr>
<td>&gt; 2 years to 5 years</td>
<td>28</td>
<td>6.5</td>
</tr>
<tr>
<td>&gt; 5 years to 10 years</td>
<td>60</td>
<td>13.9</td>
</tr>
<tr>
<td>&gt; 10 years</td>
<td>337</td>
<td>77.8</td>
</tr>
<tr>
<td></td>
<td>433</td>
<td>100.0</td>
</tr>
</tbody>
</table>
7.7.4 Firm affiliation, tax experience

The vast majority (75%) of respondents were members of the New Zealand Institute of Chartered Accountants (NZICA) followed by 13% who were members of the TaxAgents' Institute of New Zealand (TINZ). It is not surprising that only a small pool of respondents were members of the New Zealand Law Society (NZLS), as the majority of legal firms did not deal with tax work.

The respondents were also very experienced practitioners, with the majority (78%) having had more than 10 years' experience in tax work. As mentioned in Chapter 4, practitioners' experience was used as a control variable in this study. Kaplan et al. (1988) suggest that practitioners with more than five years' experience would have reviewed a sufficient number of tax returns to have acquired a comprehensive overview of the many facets of tax work and the experience gained would have an effect on their advice in specific contexts and situations. Accordingly, number of years' experience was dichotomised into two groups in a similar fashion as categorised by Kaplan et al. (1988); those with not more than five years' experience were coded as 1 \((n = 36)\) while those with more than five years' experience were coded as 2 \((n = 396)\).

7.8 Other information – clients' disclosure and practitioners' interpretation of aggressive advice

7.8.1 Disclosure of information by clients

Practitioners were also asked their views on the extent to which their clients disclosed all information to them. The results showed that only 22% of practitioners believed that their clients disclosed all information. This result is consistent with the findings of a study conducted in Australia (see Niemirowski et al. 2003) on Australian tax compliance behaviour which indicated that 71% of tax agents reported that their clients did not always tell the truth about their tax matters. It is interesting, from the taxpayers' perspectives (see Chapter 5), that 76% indicated that they disclosed all information all the time. The statistics from the taxpayers' and tax practitioners' perspectives therefore appeared to be inconsistent. Either there is a social desirability bias in the taxpayers' responses, or taxpayers believe that they disclose all necessary information while tax
cases, tax practitioners showed higher agreement than taxpayers. They agreed more strongly that aggressive advice meant tax arrangements which were contrived, not commercial, had a higher chance of failure if challenged by IRD or were unlikely to be upheld if challenged in court. Only one of the six indicators of aggressiveness failed to show a significant result, and that is, “goes against the policy intent of the tax law but within the letter of the law”. Both business taxpayers and tax practitioners agreed that this characterised “aggressive advice”, but practitioners were less strongly convinced on this than on other defining properties.

<table>
<thead>
<tr>
<th>Aggressive advice refers to advice that:</th>
<th>Practitioner M (SD)</th>
<th>Taxpayer M (SD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Favours a taxpayer’s tax position on a questionable item.</td>
<td>3.5 (.90)**</td>
<td>3.7 (.83)</td>
</tr>
<tr>
<td>2. Involves arrangements which are contrived and artificial in their method of execution.</td>
<td>4.2 (1.18)****</td>
<td>3.6 (1.25)</td>
</tr>
<tr>
<td>3. Involves arrangements which are not commercial from a business or economic perspective.</td>
<td>4.1 (1.17)*</td>
<td>3.5 (1.18)</td>
</tr>
<tr>
<td>4. Has a higher chance of failure than success if challenged by IRD.</td>
<td>4.1 (1.02)****</td>
<td>3.7 (1.12)</td>
</tr>
<tr>
<td>5. May not be upheld if challenged by court.</td>
<td>4.0 (1.03)**</td>
<td>3.7 (1.07)</td>
</tr>
<tr>
<td>6. Goes against policy intent of tax law but still within letter of law.</td>
<td>3.6 (1.09)</td>
<td>3.7 (.93)</td>
</tr>
</tbody>
</table>

1 = strongly disagree to 5 = strongly agree
* p < 0.5  ** p < 0.01  *** p < 0.001

Business taxpayers agreed more strongly than practitioners on only one indicator of aggressiveness; that aggressive advice means advice that favours a taxpayers’ tax position on a questionable item. Presumably, tax practitioners were wary of such an indicator for fear that it would reflect poorly on their professional standards. Practitioners’ technical knowledge, coupled with their experience and exposure to different tax situations and tax cases perhaps explains why, overall, they show stronger agreement in four of the indicators as to what aggressive advice means.

Further clarification was provided by practitioners who answered the open-ended question on how they interpreted aggressiveness. One practitioner from a very small
firm (RN 119) viewed aggressiveness as close to noncompliance or even evasion and therefore saw it as illegal. Another tax partner from a small CA firm took the other extreme interpretation that none of the listed attributes defined aggressive advice (RN 267). A practitioner from another small CA firm disagreed with the first two interpretations of aggressive advice and had this to say, “CAAs are agents for their clients and must have a ‘hawkish’ view on their behalf when ambiguity exists” (RN 71). Others viewed as aggressive advice “any reasoning that stretches an interpretation in the law” (RN 144 – practitioner from a small company) or pushes “the letter of the law to an extent still an argument but is weak, say 50%” (RN 268 – a tax partner from a big CA firm). A number of practitioners indicated that advice is not aggressive just because the law is not clear: what is important is that the advice has an acceptable or plausible interpretation in law to support their client’s case. This view suggests that the level of aggressiveness may differ among practitioners depending on how they support their interpretation of the tax law.

It appears from this feedback that the interpretation of aggressive advice is difficult to tie down in a way that is acceptable to all parties. Moreover, it is not always easy to capture in writing. One tax manager from a small tax firm pointed out, “This is a difficult one to answer as I am not sure that they [the list] reflect [s] the answer that I wanted” (RN 149). Possibly at times, it could be very much a perception-based concept, one that is based on the adage, “I know it when I see it”. Practitioners’ perceptions of aggressiveness could perhaps, at times, depend on the context under consideration.

7.9 Core research concepts and their measurement

This section describes how the conceptual design was operationalised, including how the following concepts were measured in the survey: role conflict, type of advice, taxpayers’ risk propensity, and sanction risk, practitioners’ risk propensity and personal tax ethics. Multi-item scales were developed where possible to increase the reliability of the measures.
7.9.1 Practitioners' perceptions of their role expectations and their practice

Practitioners may have their own perception of their clients’ expectations of them. Therefore, the list of expectations used in the taxpayers’ survey was also provided for practitioners so that they could indicate the extent of their agreement or disagreement with the list (using 1 = “strongly disagree” to 5 = “strongly agree”). In addition to what they believed clients expected, tax practitioners were asked what they did in practice. The same Likert scale was used for responses. It will be recalled from Chapter 5 that the list of 17 expectations was drawn up after reviewing the literature and some were adapted from those used in the study by Chang and Bird (1993), Christensen (1992), Collins et al. (1990), Hite et al. (1992), and the Community Hopes, Fears and Actions survey questionnaire developed by Braithwaite (2000). Table 7.4 shows the means (M) and standard deviations (SD) for each expectation and its practice.

It is interesting to note that in a descriptive sense (inferential statistics appear in Chapter 8), practitioners’ practice fell short of their perception of clients’ expectation for 9 items. However, they perceived that their performance matched expectations for three items and they performed beyond clients’ expectations for the other five items. The expectations on which they believed their performance fell short involved reducing the tax bill with certainty and cleverness and without taking up too much of the client’s time. By the same token, it is noteworthy that practitioners did not view their clients as being on the aggressive side when tax law was ambiguous. The mean for this item (the last item in Table 7.4) was only 2.8 whereas the mean from the taxpayers’ sample discussed in Chapter 5 was 3.2.

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37 7 items significantly differ between expectation and practice and are denoted by an asterisk in Table 7.4.
38 All 5 items significantly differ between expectations and practice and are denoted by an asterisk in Table 7.4.
Table 7.4: Means (SD) for client expectations and practitioners’ practice  
(n ranges from 433 to 441)

<table>
<thead>
<tr>
<th>Items</th>
<th>Expectation M (SD)</th>
<th>Practice M (SD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Help my clients to file an accurate return</td>
<td>4.7 (0.58)</td>
<td>4.7 (0.56)</td>
</tr>
<tr>
<td>Help my clients to avoid serious penalties</td>
<td>4.6 (0.60)</td>
<td>4.6 (0.52)</td>
</tr>
<tr>
<td>Help my clients to minimise tax</td>
<td>4.6 (0.64)</td>
<td>4.5 (0.59)</td>
</tr>
<tr>
<td>Be up to date with the latest changes in tax law***</td>
<td>4.6 (0.54)</td>
<td>4.3 (0.59)</td>
</tr>
<tr>
<td>Reduce uncertainties in tax matters that concern my clients*</td>
<td>4.4 (0.63)</td>
<td>4.3 (0.56)</td>
</tr>
<tr>
<td>Save my client considerable time in dealing with tax matters</td>
<td>4.4 (0.66)</td>
<td>4.3 (0.63)</td>
</tr>
<tr>
<td>Know many ways to save taxes***</td>
<td>4.4 (0.66)</td>
<td>4.2 (0.69)</td>
</tr>
<tr>
<td>Explain the tax law and regulations using words that my clients understand***</td>
<td>4.3 (0.67)</td>
<td>4.4 (0.56)</td>
</tr>
<tr>
<td>Mention any risks associated with the recommended advice***</td>
<td>4.2 (0.67)</td>
<td>4.5 (0.53)</td>
</tr>
<tr>
<td>Assist my clients to make claims only when they are clearly legitimate***</td>
<td>4.1 (0.79)</td>
<td>4.2 (0.77)</td>
</tr>
<tr>
<td>Provide my clients with conservative advice in areas where the tax law is unambiguous***</td>
<td>3.5 (1.02)</td>
<td>3.7 (1.02)</td>
</tr>
<tr>
<td>Just deal with my clients’ tax matters without bothering them too much with it</td>
<td>3.5 (1.10)</td>
<td>3.5 (1.17)</td>
</tr>
<tr>
<td>Am creative in dealing with my clients’ tax matters*</td>
<td>3.5 (1.02)</td>
<td>3.4 (1.09)</td>
</tr>
<tr>
<td>Be able to exploit tax loopholes to my clients’ advantage***</td>
<td>3.5 (0.96)</td>
<td>3.2 (1.08)</td>
</tr>
<tr>
<td>Advise my clients not to take deductions that fall within any grey areas of the tax law***</td>
<td>3.4 (0.94)</td>
<td>3.7 (0.97)</td>
</tr>
<tr>
<td>Promote any tax effective schemes to my clients so that they don’t have to pay too much tax***</td>
<td>3.4 (1.09)</td>
<td>3.2 (1.16)</td>
</tr>
<tr>
<td>Provide my clients with aggressive advice in areas where the tax law is ambiguous***</td>
<td>2.8 (0.96)</td>
<td>2.6 (1.03)</td>
</tr>
</tbody>
</table>

1 = strongly disagree to 5 = strongly agree  
* $p < 0.05$  ** $p < 0.01$  *** $p < 0.001$

However, taxpayers’ views that practitioners did not provide aggressive advice to the extent they expected paralleled the practitioners’ views of their own practice. Where there is an element of uncertainty in tax law, practitioners’ advice generally appeared less aggressive than that which they perceived that their clients expected. It seems that the message that practitioners took from clients was to “file an accurate return” and “to be up to date with the latest changes in tax law” with which they appeared to struggle given the numerous ongoing tax reforms in recent years.
From Table 7.4, the areas in which practitioners believed they exceeded expectations were in warning clients of risks, pushing clients back from playing with grey areas of tax law and providing conservative advice when the law was not ambiguous.

These findings are consistent with the results obtained by Hite and McGill (1992), Stephenson (2007) and Tan (1999), which suggest that tax practitioners are more aggressive than taxpayers. Of note is that these studies were based on taxpayers’ response to a scenario provided to elicit their preference for conservative or aggressive advice (in the case of Hite and McGill 1992 and Tan 1999), or based on what taxpayers thought their preparers’ tax minimisation efforts would be (in the case of Stephenson 2007). No attempt was made in those studies to elicit taxpayers’ and tax practitioners’ perceptions of expectations, experiences and practices. In contrast, this is a comprehensive study on the working relationship between tax practitioners and taxpayers.

Through answers to the open-ended questions, practitioners provided further insights into their perceptions of their clients’ needs. Some practitioners viewed their clients as mostly “just want[ing] compliance work done” (RN 92 – a tax manager from a big CA firm) - and believed that “average clients are at pains to get it right” (RN 96 – a CA who is a sole proprietor).

Other practitioners added, “most clients just want certainty and clarity; they are not interested in risky tax dodges” (RN 127 – a tax lawyer from a medium size law firm) and they are “just trying to run a successful business in the face of growing compliance costs and technical uncertainty” (RN 96 – a CA from a small firm). Some practitioners clarified their clients’ expectations of practitioners in these terms: “to promote legitimate tax effective schemes” (RN 63 – a CA from a small firm), “be creative in a legally allowable way” (RN 161 – a CA from a medium size firm), or “minimise taxes legally” (RN 250 – a practitioner from a small firm). The emphasis consistently was on what was legal and legitimate, to be contrasted with, for instance, purposely “tax driven schemes as they never work” (RN 63 – a CA from a small firm) or those that are illegal. Clients, according to one CA practitioner: from a small firm, “want to pay as little as possible in tax, which is what they say. But they don’t want to be audited and then have
to pay tax penalties. It is fear that is the main driver” (RN 237 – a CA from a small firm). This sentiment suggests that there are practitioners who well understand that their clients have almost conflicting needs, but the bottom line is that most clients are not willing to be exposed to audit and penalty risk.

7.9.2 Dimensions of practitioners’ perceptions of clients’ expectations

An exploratory factor analysis (using the principal component method with varimax rotation) was carried out to uncover the number of dimensions needed to represent tax practitioners’ perceptions of clients’ expectations. The purpose was to reduce the 17 items to a more manageable subset for hypothesis testing. One item of expectations, that is, “minimum fuss” did not have at least one correlation of the order of 0.3 and was therefore removed from the factor analysis (Kinnear and Gray 2006). The full factor analysis was then conducted. The analysis produced three factors accounting for 49% of the variance. Before rotation, the first factor accounted for 29% of the variance. The second and third factors accounted for 12% and 9% of the variance respectively.

After rotation, the results showed three distinct dimensions of client expectations as perceived by practitioners (see Table 7.5). The first factor was made up of nine types of expectations and they paralleled the sample of taxpayers’ expectations (see Chapter 5, Section 5.9.2). Since they were made up of the same items, the first factor was also labelled the “technically proficient” expectation. The second factor was made up of “aggressive advice”, “exploiting tax loopholes”, “creativity in tax matters”, and “promote tax effective schemes”. These expectations that practitioners believed were held by clients matched a factor that emerged in the analysis of taxpayers’ expectations from the taxpayers’ sample. The second factor, therefore, was labelled the “aggressive advice” expectation. The third factor was made up of three items: “not to take deductions within grey areas of tax law” “conservative advice” and “to make claims only when clearly legitimate”. Two of these three items defined the third factor of the taxpayers’ analysis. The extra item in the practitioner analysis, “conservative advice” strengthened the argument for this factor taking the label of its counterpart in Chapter 5, the “cautious advice” expectation.
Table 7.5: Principal component factor analysis and rotated factor loadings for practitioners’ perceptions of clients’ expectations

<table>
<thead>
<tr>
<th>Expectations</th>
<th>Factor 1 Technically Proficient</th>
<th>Factor 2 Aggressive Advice</th>
<th>Factor 3 Cautious Advice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to date with latest changes in tax law</td>
<td>.745</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avoid tax penalties</td>
<td>.738</td>
<td></td>
<td></td>
</tr>
<tr>
<td>File accurate return</td>
<td>.653</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce uncertainties</td>
<td>.642</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Explain tax law &amp; regulations clearly</td>
<td>.621</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimise tax</td>
<td>.619</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Save time in dealing with tax matters</td>
<td>.616</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mention risks associated with advice</td>
<td>.607</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Know many ways to save taxes</td>
<td>.593</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creative with tax matters</td>
<td></td>
<td>.747</td>
<td></td>
</tr>
<tr>
<td>Exploit tax loopholes</td>
<td></td>
<td>.726</td>
<td></td>
</tr>
<tr>
<td>Give aggressive advice where ambiguous</td>
<td></td>
<td>.650</td>
<td></td>
</tr>
<tr>
<td>Promote tax effective schemes</td>
<td></td>
<td>.570</td>
<td></td>
</tr>
<tr>
<td>Not to take deductions in grey areas of law</td>
<td></td>
<td></td>
<td>.726</td>
</tr>
<tr>
<td>Provide conservative advice where unambiguous</td>
<td></td>
<td></td>
<td>.716</td>
</tr>
<tr>
<td>Make claims only when clearly legitimate</td>
<td></td>
<td></td>
<td>.698</td>
</tr>
</tbody>
</table>

A reliability analysis was used to check the internal consistency of each of the three factors. The objective was to use items with significant loadings to form three scales for further analysis to represent perception of client expectations and three corresponding scales to represent practitioner practice. The Cronbach’s alpha coefficient for technically proficient was stronger than that observed for the aggressive advice and cautious advice scales, for both expectations and practice (see Table 7.6). The alpha coefficients are acceptable in all cases bearing in mind that some scales had only three or four items (Field 2005). A mean score was obtained for each of the scales by summing responses to the items under each factor and dividing the total by the number of items in the scale to bring the scores back to their original item metric of 1 to 5.
Table 7.6: Means, SDs, Pearson intercorrelations and alpha reliability coefficients (Cronbach’s alpha) for expectations and practice

<table>
<thead>
<tr>
<th></th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXPECTATIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Technically proficient</td>
<td>4.44</td>
<td>.42</td>
<td>-</td>
<td></td>
<td>.842</td>
</tr>
<tr>
<td>2. Aggressive advice</td>
<td>3.30</td>
<td>.69</td>
<td>.267***</td>
<td>-</td>
<td>.621</td>
</tr>
<tr>
<td>3. Cautious advice</td>
<td>3.69</td>
<td>.69</td>
<td>.365***</td>
<td>.065</td>
<td>.649</td>
</tr>
<tr>
<td><strong>PRACTICE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Technically proficient</td>
<td>4.46</td>
<td>.41</td>
<td>-</td>
<td></td>
<td>.857</td>
</tr>
<tr>
<td>2. Aggressive advice</td>
<td>3.10</td>
<td>.79</td>
<td>.202***</td>
<td>-</td>
<td>.698</td>
</tr>
<tr>
<td>3. Cautious advice</td>
<td>3.87</td>
<td>.71</td>
<td>.305***</td>
<td>.050</td>
<td>.649</td>
</tr>
</tbody>
</table>

*** p < 0.001

As shown by the mean scores in Table 7.6, practitioners perceived their clients as expecting them to be technically proficient above all else ($M = 4.4; SD = .42$); next most important were expectations of delivering cautious advice ($M = 3.7; SD = .69$) followed by aggressive advice ($M = 3.3; SD = .69$). Practice paralleled this ordering of service priority. It was the same ordering obtained with the business taxpayers’ sample in Chapter 5.

It is interesting to note that practitioners perceived their clients as wanting all three services (mean expectations > 3 in all cases) and the sample of business taxpayers in Chapter 5 also claimed that they expected all three services from their practitioners. These are the roles expected of tax practitioners but practitioners may not be able to fulfil these roles as expected by their clients. Tax practitioners, apart from having to act in their clients’ interests, also have to adhere to the demands of other constituencies such as the IRD and their professional organisations. Thus, this first hypothesis set for tax practitioners is that they experience role conflict as they will not be able to fully meet their clients’ expectations. The three distinct dimensions of expectations and practices were used to test the first hypothesis in Chapter 8. How they resolved any role conflict faced by them will be teased out from their replies to the open-ended questions.

Tensions among the dimensions of technical proficiency, aggressive advice and cautious advice are reflected in scale intercorrelations. From the business taxpayers’
perspective, all three services were compatible. Desiring one of the services was a sign of desiring the others. Taxpayers portrayed themselves as having a 'want it all' attitude. Practitioners' views of what their clients expected and received were organised differently. Practitioners who saw their clients as expecting technical proficiency from them also saw their clients as likely to be in need of cautious advice and aggressive advice. Practitioners reported acting in accordance with perceptions of client expectations. Those who were sensitive to technical proficiency demands were adaptable in this sense, ready to provide cautious or aggressive advice when appropriate. It is interesting that those who reported that their clients expected cautious advice were not more likely to report that their clients expected aggressive advice. Lack of a correlation between cautious and aggressive advice characterised practice as well as expectations. This suggests that in the tax practitioner population, there are some who adapt to a varied client base but that there is also a niche market of practitioners who expect their clients to want what they offer, that is cautious advice, or in other cases, aggressive advice.

In addition, practitioners viewed themselves as being more technically proficient than business taxpayers perceived them to be. These contrasting views suggest the possibility of role ambiguity faced by practitioners. They may not have fully understood their clients' needs. Perhaps their clients, knowingly or unknowingly, failed to communicate clearly what they wanted or did not provide adequate information, which many practitioners believed to be the case. Some taxpayers may be less explicit than others in their preferences or expectations, presenting a chorus of mixed messages to practitioners. Stephenson's (2007) research also suggests that practitioners experience role ambiguity; in fact she found a bigger difference in perceptions of practitioners' aggressiveness in the matched sample (taxpayers and their specific preparers) than in the unmatched sample (taxpayers and tax preparers in general).

Taxpayers' varied ways of communicating their preference discussed in Chapter 5 were well supported from the information elicited from tax practitioners. About 20% of

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It is interesting to note that when practitioners' perceptions of their clients' expectations and practice (shown in Table 7.6) were compared, in simple descriptive terms, to taxpayers' actual expectations and experiences as shown in Table 5.8, practitioners' perceptions were slightly lower for all three dimensions, except for "technically proficient".
practitioners indicated that their clients usually made their preferences explicitly clear to them. An interesting comment was made by a CA, a sole proprietor, who stated, “I start my relationship by stating that I am not aggressive in my tax planning. The client then responds to this and usually makes their preference known” (RN 138). Another perspective from a tax partner from a big CA firm was: “The ones that are aggressive make it known, for all others we assume conservative” (RN 186).

About 32% of practitioners indicated that their clients usually assumed that they knew their preferences. According to the practitioners, clients assumed that they knew their preferences because they had confidence that their advice was correct or they trusted them not to be aggressive to the point of putting them at risk.

A further 46% of practitioners indicated that their clients usually allowed them to decide what was best for their clients, but would question them about their decisions. One interesting comment made by a tax partner who is a CA regarding why clients allowed them to decide was because “most clients believe the tax law is without certainty” (RN 53). Two others indicated that clients relied on them as they were the experts. A CA from a medium sized firm further pointed out that their clients expected their practitioners to “make sure they get all possible deductions without exposing them to legal ramifications” (RN 381). A few others indicated that even though their clients left it to them to decide, they would explain and discuss the alternatives and risks involved, but would “never break the rules.” These insights were reinforced by a few other practitioners who stated that they made it clear at the very outset that they would not do anything illegal or questionable. As pointed out by one CA from a small firm, the “engagement letter asks quite clearly what service advice the client wants” (RN 227).

Data from the taxpayers’ group in Chapter 5 and from tax practitioners in this chapter confirm that there were indeed different groups of taxpayers with different tax preferences. If taxpayers do not communicate their preferences very clearly, and they appear not to, then practitioners may experience a degree of role ambiguity with some taxpayers.
Although practitioners may initially experience role ambiguity, it appears that they think they manage to resolve it by interacting further with their clients to clarify their preferences. A number of practitioners pointed out that even if clients did not explicitly state their preferences, they would ask them their preferences and the risks that they were willing to take. Some indicated that they could also ascertain their clients’ preferences based on their clients’ choice of the different alternatives put forward to them and the discussions held. A few practitioners emphasised that once a good professional working relationship had developed with clients, “you get a feel for their position” or “you will perceive their ability to handle the level of risk,” even if they do not mention their preferences explicitly. The feedback received from practitioners reinforced the importance of a good working relationship with their clients reinforcing the notion of “team play” in their decision making.

7.9.3 Practitioners’ type of advice to clients with different risk propensity

One of the aims in this study was to examine the factors that affect tax practitioners’ reporting decisions in an ambiguous setting (income and expense) as this is a potential area for practitioners to exploit the tax law to their clients’ advantage (Klepper and Nagin 1989).

As it was not feasible to consider all types of ambiguous tax issues in one questionnaire, two generic hypothetical scenarios, one concerning deductions and the other concerning classification of income, were provided to examine tax practitioners’ advice and whether or not advice would be different in different contexts. Hypothetical scenarios were used because some participants may have considered direct questions as inappropriate.

The hypothetical scenarios used in this section to examine practitioners’ tax reporting decisions/recommendations were similar to those used in the taxpayers’ questionnaire (see Section 5.9.5). To examine whether or not recommendations would differ for clients with different risk propensities, practitioners were asked whether they would advise their client to claim the deduction or not treat the income as taxable if their client was risk averse or risk taking.
Expense scenario:
Say one of your client's firms has incurred an expense of a considerable sum and your client seeks your advice as to whether the expense is deductible. You found out that the tax law relating to this expense is rather ambiguous but you think that it should be deductible. However, if the expense is claimed and is challenged by the IRD, you think that there is a 50% chance that it will not be upheld by the courts in your clients' favour. Would you advise your client to claim the deduction:

- if your client is the conservative, risk averse type?
- if your client is the aggressive, risk taking type?

Income scenario:
Say one of your clients has received a considerable amount of income and your client seeks your advice as to whether the income is taxable. As the tax law relating to this type of receipt is rather ambiguous, it is arguable as to whether the income is of a capital nature (non-taxable) or a revenue nature (taxable), but you think that it should be regarded as capital. However, if this income is challenged by the IRD, you think that there is a 50% chance that it will not be upheld by the court in your client's favour. Would you advise your client to treat the income as non-taxable income:

- if your client is the conservative, risk averse type?
- if your client is the aggressive, risk taking type?

A rating scale from 1 = "definitely no" to 5 = "definitely yes" was used to measure responses. To test the realism of the described tax scenarios, tax practitioners were asked whether or not they had experienced such a situation before. Actual experience with such a scenario would support the validity of the scenario.

The scenario was set with 50% chance of failure or success to denote that there was an element of uncertainty. It was assumed that a practitioner who recommended a deduction or income as deductible and nontaxable respectively favoured aggressive advice. One of the comments received from a CA of a small firm supported this assumption:

"since the rule is referring to “more likely than not”, it would appear that if there is more than 50% chance that it will be upheld by the court, it would be regarded as an acceptable tax position. The 50% chance in the scenario therefore is “not good enough” and implies that it is risky” (RN 96).
This view is reinforced by a tax partner from a large CA firm who said, “aggressive is pushing the letter of the law to an extent... It is still an argument but is weak, say 50%” (RN 268). As discussed in Chapter 1 (under aggressive advice interpretation), the IRD and the courts’ interpretation of “more likely than not” reflects a 50:50 chance of being likely to be correct as to be incorrect. In practice, it is not easy to gauge whether or not the standard is met. However, these practitioners’ perceptions reflect the stance adopted in this study, that is, recommending the claim when there is only 50% chance of success is an aggressive stance.

Table 7.7 shows the means score (SD) for practitioners’ responses when they were dealing with risk-averse and risk-taking types of clients. The midpoint of the response scale is three. Average scores above three indicate endorsement of the aggressive position. Average scores less than three indicate endorsement of a conservative position. Practitioners indicated that they would not advise their clients to make a claim if the client was the conservative, risk averse type \((M = 2.41; \ SD = .96)\). However, if the client was the aggressive risk taking type, practitioners indicated that they would recommend the claim \((M = 3.37; \ SD = .95)\).

For the second hypothetical scenario related to an ambiguous income setting, the results in Table 7.7 showed that practitioners would recommend their risk averse conservative types of clients to treat the income as taxable income \((M = 2.67; \ SD = 1.03)\). On the other hand, if their client was the aggressive risk taking type, practitioners would recommend the income be regarded as nontaxable \((M = 3.28; \ SD = .97)\).

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claim ambiguous deduction for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conservative, risk-averse client</td>
<td>2.41</td>
<td>.96</td>
</tr>
<tr>
<td>Aggressive, risk-taking client</td>
<td>3.37</td>
<td>.95</td>
</tr>
<tr>
<td>Regard income as capital (nontaxable) for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conservative, risk-averse client</td>
<td>2.67</td>
<td>1.03</td>
</tr>
<tr>
<td>Aggressive, risk-taking client</td>
<td>3.28</td>
<td>.97</td>
</tr>
</tbody>
</table>

1 = definitely no to 5 = definitely yes
In response to the question as to whether or not practitioners had experienced these kinds of situations, 74% of practitioners indicated that they had done so with the deduction type scenario and 62% had done so with the income type scenario. The hypothetical scenarios therefore reflect reality in practice for the majority of practitioners.

A reliability analysis produced a Cronbach’s alpha across the deduction and income items of .67 for advice to risk-averse clients, which was considered reliable given that it was a 2-item scale. Accordingly, the items were combined into an aggregate measure by calculating a simple average of the scores for the two items to represent practitioners’ advice for conservative clients ($M = 2.56; SD = .87$). Similarly, a reliability analysis of advice to risk-taking clients on the deduction and income items produced a Cronbach’s alpha of .78 which was considered reliable. Accordingly, responses to the two items were combined into an aggregate measure by calculating a simple average to represent practitioners’ advice for aggressive clients ($M = 3.32; SD = .87$). These scales reflect how practitioners manage clients they see as risk averse or risk taking in situations where they are asked to give advice on ambiguous tax items such as those used to test Hypothesis 2. This hypothesis stated that practitioners will favour conservative advice for clients they perceive as risk averse and aggressive advice for clients they perceive as risk taking where tax law is ambiguous.

### 7.9.4 Clients’ sanction risk – probability of audit and penalties

Practitioners’ perceptions of their clients’ audit and penalty risk were measured by asking them the following questions:

> Say if your client (think of an average client here) claimed an ambiguous deduction according to your advice, what do you think are the chances (on a scale of 0% to 100%):

(a) your client will be audited, and  
(b) will suffer severe penalties, if the amount is ruled as not deductible.\(^{40}\)

\(^{40}\) Similar to the taxpayers’ questionnaire, practitioners’ perceptions in relation to audit and penalty probability were elicited only for deduction situations for reasons of keeping the questionnaire to a reasonable length.
Only 11% \((n = 44)\) of the practitioners perceived that there was a more than 50% chance that their client would be audited. The mean score was 30 \((SD = 21.2)\). This finding contrasted sharply with the perceptions of the sample of taxpayers on this question, where 44% thought that there would be a more than 50% chance of being audited (see Chapter 5, Section 5.9.9). Practitioners, perhaps with their tax experience, are able to gauge more realistically the chance of audit which is not as high as a significant proportion of taxpayers think.

About 37\% \((n = 159)\) of practitioners perceived that there was greater than a 50% chance of their client facing severe penalties. The mean score was 49 \((SD = 29)\). This estimate is comparable to that of the taxpayer sample where 39% perceived that there would be a more than 50% chance of severe penalties being imposed (see Chapter 5, Section 5.9.9). A reliability analysis was carried out on the risk of audit and risk of severe penalty items. The Cronbach’s alpha was only .49. It was considered preferable to use clients’ audit risk and penalty risk as two separate variables in subsequent analyses.

These findings indicate that practitioners who are well aware of the low chance that their clients’ tax return will be audited and that the clients will be severely penalised may resort to playing the “audit lottery” to obtain and retain clients as the literature suggests (for example, Fisher 1994; Yetmar and Eastman 2000). The effect of these two independent variables on practitioners’ recommended advice in an ambiguous tax situation was therefore tested under Hypothesis 3 in the next chapter. That is, practitioners will provide aggressive advice if they perceive clients’ sanction risk to be low, and conservative advice if they perceive clients’ sanction risk to be high.

### 7.9.5 Practitioners’ risk propensity

Practitioners’ risk propensity was examined through two scenarios similar to those used with taxpayers. The first scenario shown below relates to claiming an ambiguous expense, and practitioners were asked to rate the level of certainty \((0 - 100\%)\) they required before they would recommend a deduction claim if the amount were $300.

Say your client (think of an average client) has incurred an expense of $300, and the tax law on this area is rather ambiguous. How certain will you have to be (on a
scale of 0% to 100%) that the IRD will allow the deduction before you will recommend your client to make a claim?

The second scenario was similar, except that the amount was changed to $3,000. Tax practitioners’ responses to these questions would provide an indication of the extent of risk they were willing to take. The two different amounts were used to test whether materiality had any impact on decisions.

The mean score on the 0 - 100% rating scale for the immaterial amount was 59 ($SD = 24.6$) and is slightly lower than taxpayers’ perceptions (discussed in Chapter 5, Section 5.9.8) where the mean was 63. The mean score for the material amount was 72 ($SD = 22$) and was slightly higher than the taxpayers’ mean which was 69.

About 55% ($n = 239$) of practitioners indicated that they need to be more than 50% certain that the $300 deduction would be allowed by the IRD before they would recommend to their clients that they should make a deduction claim. This finding is comparable to taxpayers’ risk propensity discussed in Chapter 5, where about 57% indicated at least a 50% certainty requirement. When the amount of deduction under consideration was material ($3,000), about 75% ($n = 322$) of the practitioners indicated that they required more than a 50% level of certainty before they would recommend the claim. In comparison, about 66% of taxpayers indicated at least a 50% requirement.

A reliability analysis was carried out on the two risk-propensity items. The Cronbach’s alpha was .7, indicating that they could be used as a reliable measure of practitioners’ risk propensity. Accordingly, their response to the 2-item measures was averaged to derive a single scale for practitioners’ risk propensity ($M = 65; SD = 20.4$). The results showed that practitioners’ risk propensity was comparable to taxpayers’ risk propensity which had a mean score of 66. There is a good mix of practitioners with high and low risk tendencies and the effect of this construct on aggressive advice was tested in this study under Hypothesis 5. That is, practitioners with a higher risk propensity will offer more aggressive advice to their clients than will those with a lower risk propensity.

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41 Similar to the taxpayers’ questionnaire, practitioners’ risk propensity was elicited only for the deduction scenario for reasons of keeping the questionnaire to a reasonable length.
7.9.6 Practitioners’ personal tax ethics

The tax ethics of practitioners were measured using a four-item scale which was based on the work of Marshall, Armstrong and Smith (1998) on ethical issues confronting tax practitioners in Australia. Practitioners were asked to indicate their views on various aspects that relate to tax ethics using the rating scale of 1 = “strongly disagree” to 5 = “strongly agree”.

From Table 7.8, it appears that the majority of practitioners (73%) would refuse to act for clients with a history of presenting incorrect information \( (M = 3.87; SD = .96) \). Moreover, only 6% indicated agreement in not making enquiries if clients’ information appears incorrect \( (M = 1.86; SD = .85) \). Also, a very small minority (8%) of practitioners would compromise their ethics \( (M = 1.86; SD = .96) \) to meet their clients’ expectations. Practitioners appeared equally divided (50%) in their views that their primary duty to clients is to ensure that the letter of the law is upheld \( (M = 3.25; SD = 1.12) \).

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>% Agree</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>I see my primary duty to my client as being limited only by a duty to uphold the letter of the law</td>
<td>50%</td>
<td>3.25</td>
<td>1.12</td>
</tr>
<tr>
<td>It is, sometimes, necessary for me to compromise my ethics to meet my clients’ expectations</td>
<td>8%</td>
<td>1.86</td>
<td>0.96</td>
</tr>
<tr>
<td>I do not see it as my duty to make enquiries when clients supply information or documentation that appears to be incorrect</td>
<td>6%</td>
<td>1.86</td>
<td>0.85</td>
</tr>
<tr>
<td>I will refuse to continue to act for a client in circumstances where incorrect or misleading information is not corrected by the client</td>
<td>73%</td>
<td>3.87</td>
<td>0.96</td>
</tr>
</tbody>
</table>

1 = strongly disagree to 5 = strongly agree

These findings are consistent with the results obtained by Marshall et al. (1998), that is, the tax profession perceive themselves as having high ethical standards. The Cronbach’s alpha for these four items was only 0.40\(^{42}\) indicating that they did not represent a

\(^{42}\) The score for ‘…refuse to continue to act for a client…’ was reverse coded so that a low score designates ethical attitudes.
consistent measure of personal tax ethics. Marshall et al. (1998) classified "compromising his or her ethics" under ethical behaviour whereas the others were classified under ethical duty which perhaps represented more of a work ethic than a personal ethic. For these reasons, it was decided that only "compromising my ethics" would be used as an indicator for practitioners' personal tax ethics for testing Hypothesis 4, that is, those who were less strongly resistant to compromising their personal ethics would offer more aggressive advice. It is of note that the vast majority were sympathetic to not compromising their ethics but they differed in how strongly they felt this way.

A summary of all the variables from the tax practitioners’ sample that were tested in the Tax Practitioner-Client Role Model is provided in Appendix E.

7.10 Chapter summary

This chapter detailed the research design and method for the collection of data from a sample of tax practitioners and provided background information about respondents and measurement of concepts for hypotheses testing. The questionnaire was designed in a similar manner to that for the business taxpayers so that comparisons, even if guarded because of sample differences, were possible. The response rate was 32% which was higher than the response rate of 20% obtained from the taxpayers’ sample. This rate, although not very high, is in line with those for comparable surveys on practitioners conducted in Australasia.

Multiple-item scales were used when possible to improve the reliability of the measures for testing hypotheses. Overall, the reliabilities for most scales appeared reasonable. For scales of more than three items, the internal consistency coefficients (Cronbach’s alpha) was at least .70 or above, which is the standard criterion used by most researchers. For scales with fewer items, such as the scales measuring aggressive and cautious advice in expectations and practice, the Cronbach’s alphas were slightly below .70 but were considered acceptable.
The incorporation of open-ended questions allowed respondents to pen their thoughts, feelings, experiences, or strong opinions regarding a particular tax issue. About 43% \((n = 189)\) of tax practitioners made at least one comment in response to the several open-ended questions. In comparison to those received from business taxpayers, the written responses were lengthier. These qualitative data provided more details and enhanced the validity of the research findings when they were merged with evidence generated from the quantitative data.

The data collection, as was the case for business taxpayers, was conducted nationwide. As anyone can be a tax practitioner in New Zealand, there is no recognised standard demographic profile for the sample. It is difficult, therefore, to know if the sample is representative of the population or not. For the purposes of this study, however, the sample seemed to reflect the social demographic profile expected and hoped for. The company was the most common structure used by the practitioners \((44\%)\), followed by operating their practice as a sole proprietor \((30\%)\); these proportions did not deviate significantly from the statistics on business structures in New Zealand. The vast majority of practitioners \((81\%)\) were from small, medium enterprises (SMEs) which is not unexpected as more than 95% of New Zealand businesses are of this firm size. The respondents who participated held responsible positions, with the majority \((71\%)\) spending more than 50% of their time dealing with tax matters. Most practitioners were also very experienced and belonged to a professional body; that is, 78% had more than 10 years’ tax experience and 75% were members of the New Zealand Institute of Chartered Accountants (NZICA). A high proportion \((72\%)\) indicated that there was an engagement letter drawn up for clients. This finding is in contrast to only 59% of taxpayers (see Chapter 5) who said they received an engagement letter. The profile of the practitioners suggest that the respondents were in a good position to respond to the questions raised in the questionnaire and to provide further views under the open-ended questions.

Tax practitioners shared similar understanding of the concept of aggressive advice with the business taxpayers, although they held their views more strongly as a group. They agreed that aggressive advice: (a) had a higher chance of failure than success if challenged by IRD \((84\%)\), (b) involves contrived arrangements \((82\%)\), (c) may not be
upheld if challenged by court (77%), and (d) involves noncommercial arrangements (77%). About 64% of practitioners also agreed that aggressive advice means advice that goes against the policy intent of the tax law but is still within the letter of the law. However, only 59% of practitioners as compared to 73% of taxpayers saw aggressive advice as favouring a taxpayer’s tax position on a questionable item. Perhaps practitioners were cautious with such an indicator as it may reflect poorly on their professional standards. By the same token, these responses are indicative of the role conflict that practitioners experience in their dealings with clients.

Of concern is the number of practitioners who believe that their clients do not disclose all information to them. Practitioners have the responsibility of making enquiries that pertain to the taxpayers’ tax affairs. Although a vast majority of practitioners agreed that it is their duty to make enquiries if they have reason to suspect that information or documentation appears to be incorrect (see Table 7.8), it is not clear whether they also adopt the “don’t ask, don’t tell” attitude if they suspect that clients are not disclosing all information to them. Morse et al. (2009) asserts that, in the cash sector, it is likely the practitioners and clients have a tacit understanding that they will not discuss cash income so that the practitioner is not placed in an uncomfortable situation of knowing that clients are indeed evading tax. Perhaps for some, this is one way of maintaining clientele.

Principal component analysis showed that tax practitioners’ perceptions of how their clients expected them to perform their role and how they actually behaved could be reduced to three basic dimensions that corresponded to those found for the sample of business taxpayers discussed in Chapter 5. They are: technically proficient, aggressive advising, and cautious advising. The items used to measure these scales for business taxpayers and tax practitioner corresponded except in one instance. The item, conservative advice, was part of the cautious advice scale for tax practitioners but not taxpayers.

Practitioners viewed that their clients expected them to be technically proficient (that is, help to file an accurate return, minimise tax, avoid serious penalties, explain tax law and regulations clearly, know many ways to save taxes, reduce uncertainties, be up to date
with changes, save time, and mention risks). This is followed by cautious advice (that is, not to take deductions that fall within any grey areas of tax law, assist firm to make legitimate claims and provide conservative advice where tax law is unambiguous), and then aggressive advice (that is, help to exploit tax loopholes, be creative in dealing with tax matters, provide aggressive advice where tax law is ambiguous, and promote any tax-effective schemes).

Based on the mean scores for practitioners’ practice, they perceived themselves to be more technically proficient, more cautious and less aggressive than they thought their clients expected of them. Of note is that they were relatively less aggressive than they perceived their clients wanted them to be. This converges with the data from Chapter 5 on business taxpayers’ perspectives which showed they wanted more aggressive advice, but were not getting it to the extent they expected. Practitioners also did not see their performance as falling short on all expectation standards; in contrast, business taxpayers’ perceptions suggest that practitioners fall short on all expectations (see Chapter 5). These misperceptions between practitioners and taxpayers suggest that practitioners experience role ambiguity due to the possible misunderstandings each has over the other’s intentions.

Responses received to the open-ended questions revealed their relationships with clients to a certain extent and provided some evidence of the possibility of miscommunication. The feedback indicates that the manner in which clients communicate with practitioners varies. There are clients who assume that practitioners know their preferences, reinforcing the suggestion of role ambiguity possibility. However, there are also clients who make their preferences explicitly clear – so role ambiguity could possibly be avoided, but then practitioners could be faced with role conflict if clients’ demand for advice conflicted with their professional values. Some practitioners disclosed the fact that they did not always succumb to clients’ preferences as they played by the letter of the law. Neither did they feel the need to second guess clients’ preferences as they usually are able to gauge, from their interactions with them, what type of advice their clients want. Furthermore, even though there were clients that prefer practitioners to decide what is best for them, feedback received from practitioners indicates that their clients did not always agree with their advice. In other words, clients would still
question them about their decisions, depending on the context under consideration. These views are consistent with that of taxpayers discussed in Chapter 5 and reflect the sending and responding process depicted in the Tax Practitioner-Client Role Model. Overall, these insights provide clear evidence of some interaction that goes on between practitioners and clients and their communication about risk preferences.

As noted earlier, even if practitioners are aware of clients’ expectations, they may not comply with their demands all the time. Tax practitioners wear many “hats” in their role as tax practitioners, that is, they are client advocates but they also have to exhibit professional integrity. Therefore, it is likely that they are subject to incompatible role expectations. This hypothesis will be tested in the following chapter.

One inconsistent finding from the taxpayers’ and practitioners’ perspectives relates to the relationship among the three dimensions for both expectations and practice. From the practitioners’ sample, technically proficient was positively correlated with cautious and aggressive advice but the latter two were not. This means that practitioners who reported that their clients expected and received aggressive advice were not systematically more likely to report that their clients expected and received cautious advice. This may reflect niche markets and differences in the client base that a practitioner attracts. More importantly, however, business taxpayers do not segment themselves in this way. Business taxpayers want it all - aggressive advice presumably when it is safe, cautious advice presumably when it is not safe, and proficiency.

Practitioners’ assessments of a client’s chance of audit are interesting as only 11% thought that there was greater than a 50% chance of being audited if an ambiguous deduction was claimed based on their advice. This figure was much lower than taxpayers’ own perceptions of chance of being audited in similar circumstances (44%) which could be exaggerated. Evidence of taxpayers overweighing the low probability of audit is also supported in other studies (for example, Alm et al. 1992; Ashby and Webley 2008). The percentage of practitioners (37%) who viewed their clients as facing a high chance (that is, > 50%) of severe penalty if caught is about the same as that of business taxpayers (39%). Overall, practitioners were aware that their clients faced a low chance of audit and of being penalised severely. Such perceptions may drive them
towards playing the “audit lottery” (Kaplan et al. 1988). However about 72% of practitioners identified themselves as having low risk propensity and this is comparable to that of taxpayers’ perceptions of their own risk propensity (70%). It appeared that most practitioners in this sample perceived themselves as of the more “cautious” type.

The majority of practitioners (87%) further viewed themselves as having high ethical standards. Only 8% said they would compromise their ethics to meet clients’ expectations. This finding is comparable to Marshall et al.’s (1998) study which showed that 79% of tax agents did not see themselves as needing to compromise their ethics to be successful in their tax practice. Similar to the taxpayers’ response, there is a possibility of social desirability bias by using a one-item scale. Of note is that the majority (75%) of practitioners are members of NZICA, and they are required to abide by its code of ethics. It is interesting that, just slightly more than half (51%) viewed their primary duty to their clients as being limited to upholding the letter of the law. Nevertheless, this attitude is in line with the NZICA code where practitioners can put forward the best position in favour of a client as long as it is consistent with the law. Therefore, even if practitioners are members of a professional body, it does not prevent them from providing aggressive advice. They can resolve doubt in favour of the client if there is reasonable support for the advice given.

These preliminary analyses showed that there is diversity in practitioners’ characteristics and their perceptions of clients’ sanction risks and risk propensity. It was interesting to examine their effects on type of advice provided by practitioners. In the next chapter, the results after testing a set of five hypotheses are presented. They address the following themes in understanding the practitioner-client relationship, from the practitioners’ perspective:

- tax practitioners’ perceptions of their role, their experience with role conflict and the way they go about managing it; and
- the type of advice they provide to clients where tax law is ambiguous, and what drives their recommendations.
Chapter 8
Tax Practitioners’ Role Relations With Clients and Tax Advice

8.1 Introduction

Several hypotheses were developed in Chapter 4 to provide some insights into the role played by practitioners in taxpaying behaviour, the conflict they face, and the variables that are influential in their tax advice.

In engaging a tax practitioner to assist and advise them on tax matters, taxpayers have some idea of what the role of practitioners entails. As discussed in Chapter 5, there are three distinct dimensions of taxpayers’ expectations: tax practitioners should be technically proficient, and able to offer aggressive advice and cautious advice. The Tax Practitioner-Client Role Model (see Figure 4.3) posits that practitioners too have their own perceptions of their clients’ expectations of them. As discussed in the previous chapter, they correspond well with the taxpayers’ perceptions, that is, three similar dimensions were also revealed. But do practitioners feel pressurised to conform in accordance with what they perceive that their clients want? Although practitioners would certainly like to maintain a good working relationship with their clients, this study hypothesised that they might not always accede to all their clients’ demands. As tax professionals, they are bound to experience role conflict, as they have to consider their obligations not only to their clients but also to other constituents such as the government or the professional body to which they belong.

In the previous chapter, a descriptive comparison of practitioners’ perceptions of clients’ expectations and their practices suggested some discrepancies. Practitioners seemed to view themselves as technically proficient, but were more cautious and less aggressive than they considered their clients wanted them to be. Whether these apparent deviations are statistically significant or not for the three dimensions of expectations was tested under Hypothesis 1, which was refined as follows:
H5 (practitioners): Practitioners’ risk propensity will have an effect on the advice recommended by them to clients in an ambiguous tax setting, with aggressive advice being given by those with a higher risk propensity and conservative advice being given by those with a lower risk propensity.

This chapter reports the results of the hypotheses testing. The variables developed in Chapter 7 used to test the hypotheses are summarised in Table 8.1.

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Variable (No of items in scale)</th>
<th>Item scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Expectation - Practice = role conflict - Technically proficient (9) - Aggressive advice (4) - Cautious advice (3)</td>
<td>1 = strongly disagree 5 = strongly agree</td>
</tr>
<tr>
<td>H2</td>
<td>Clients’ risk propensity (1): Aggressive advice for conservative clients Aggressive advice for aggressive clients</td>
<td>1 = strongly disagree 5 = strongly agree</td>
</tr>
<tr>
<td>H3</td>
<td>Perception of clients’ sanction risk - Audit probability (1) - Severity of sanctions (1)</td>
<td>0 = 0% certainty 10 = 100% certainty</td>
</tr>
<tr>
<td>H4</td>
<td>Personal tax ethics (1)</td>
<td>1 = strongly disagree 5 = strongly agree</td>
</tr>
<tr>
<td>H5</td>
<td>Practitioners’ risk propensity (2)</td>
<td>0 = 0% certainty 10 = 100% certainty</td>
</tr>
<tr>
<td>Control Variable 1: Firm size</td>
<td>Firm size (1)</td>
<td>1 = SMEs 2 = large firms</td>
</tr>
<tr>
<td>Control Variable 2: Firm identification</td>
<td>Firm identification (1)</td>
<td>1 = Chartered Accountants (CA) firm 2 = not CA firm</td>
</tr>
<tr>
<td>Control Variable 3: Tax experience</td>
<td>Tax experience (1)</td>
<td>1 = 5 years 2 = &gt;5 years</td>
</tr>
</tbody>
</table>

### 8.2 Expectation–practice gap and role conflict

To examine whether there is an expectation–practice gap for practitioners, a paired sample t test was conducted to compare the differences between the mean scores. As shown in Table 8.2, only two of the three dimensions of the expectation–practice gap showed significant differences in mean scores. There is a significant gap in aggressive and cautious advice but not in technically proficient advice. A positive sign for the
expectation-practice gap in aggressive advice indicates that practitioners provided less aggressive advice than they perceived their clients as wanting. This result partially supports Hypothesis 1 and is consistent with findings from the business taxpayers’ sample (discussed in Chapter 5, Section 5.9.2), where taxpayers indicated that practitioners provided less aggressive advice than they expected. On the other hand, a negative sign for the cautious advice gap indicated that practitioners viewed themselves as providing more cautious advice than they thought their clients were expecting. This is inconsistent with findings from the business taxpayers’ sample where they perceived practitioners providing less cautious advice than they had expected. Practitioners did not perceive tension in what taxpayers expected and what practitioners delivered in technically proficient advice. This result also differed from what was found from the taxpayers’ sample. They reported that the actual services they received from their practitioners did not measure up to their expectations even in the provision of technically proficient advice.

Table 8.2: Means (SDs) and results of paired t tests comparing perceptions of clients’ expectations and practitioners’ practice (n ranges from 429 to 433)

<table>
<thead>
<tr>
<th>Factors</th>
<th>Expectation – practice gap Mean (SD)</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technically Proficient</td>
<td>-.02 (.28)</td>
<td>-1.533</td>
</tr>
<tr>
<td>Aggressive Advice</td>
<td>.20 (.54)</td>
<td>7.748**</td>
</tr>
<tr>
<td>Cautious Advice</td>
<td>-.17 (.50)</td>
<td>-7.280**</td>
</tr>
</tbody>
</table>

*** p < .001

These findings are consistent with those in the literature (such as by Duncan et al. 1989; Pei et al. 1992; Schisler 1995). Practitioners perceived themselves as more conservative than their clients wanted and as less aggressive than their clients wanted. The impression was one of practitioners moderating the enthusiasm of taxpayers for aggressiveness. In this way, they portrayed themselves more as enforcers than as exploiters of tax law.

The comments received suggest that practitioners viewed their reputation with their clients, as well as with the IRD, as important, and many were keen to emphasise that
they were not prepared to put themselves or their clients at risk. According to a practitioner who is a CA from a medium sized firm, “In any matter where there is uncertainty, we err on the side of caution. We have a duty to not only our client but to uphold the law and ensure the integrity of our profession is not compromised” (RN 407). A few others mentioned that they will exploit the tax loopholes but only if it is within the letter of the law. A critic might claim that a practitioner might be expected to say this to a researcher. Undoubtedly so, but what this and similar quotations tell us is what tax practitioners as a group think society expects of them. A fundamental tenet of this work is that role expectations and social norms shape behaviour and mindset as much as legal sanctions do. But complying with the letter of the law does not rule out aggressiveness. As we can recall from Chapter 7 (Table 7.3), one of the practitioners’ interpretations of aggressive advice is advice that “goes against the policy intent of tax law but is still within the letter of the law.”

The gaps between client expectation and practice for both aggressive advice and cautious advice suggest that practitioners experience role conflict. In other words, what they perceived others wanting and what they delivered were different on these two dimensions. This implication is supported by other information provided by practitioners regarding illegitimate requests from clients as discussed below.

As shown in Table 8.3, a substantial number of practitioners had experienced their clients making illegitimate/unethical requests. In this study eight possible categories of illegitimate requests were posed which were similar to those posed to taxpayers. Over half of the practitioners were familiar with four of the eight categories. Over a third of the practitioners were familiar with all eight of the illegitimate requests. The most frequently encountered requests involved claiming private expenses as business expenses, capital expenses as revenue expenses, and manipulating inventory and work in progress figures. This finding is consistent with results from prior studies which indicate that accountants are commonly faced with such dilemmas (Attwell and Sawyer 2001; Finn, Chonko and Hunt 1988; Leung and Cooper 1995; Sandford and Dean 1972; Tooley 1992). These insights gathered from practitioners also matched the business taxpayers’ perception of other business firms’ unethical requests (see Section 5.9.7, Chapter 5).
Table 8.3: Frequency – Illegitimate/unethical requests by clients for tax minimisation
(n ranges from 430 to 434)

<table>
<thead>
<tr>
<th>Requests</th>
<th>Never %</th>
<th>Occasionally %</th>
<th>Frequently %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Inflate expenditure</td>
<td>60</td>
<td>38</td>
<td>2</td>
</tr>
<tr>
<td>2. Understate income</td>
<td>65</td>
<td>34</td>
<td>1</td>
</tr>
<tr>
<td>3. Manipulate accounts payable</td>
<td>54</td>
<td>44</td>
<td>2</td>
</tr>
<tr>
<td>4. Manipulate accounts receivable</td>
<td>58</td>
<td>41</td>
<td>2</td>
</tr>
<tr>
<td>5. Manipulate inventory figures</td>
<td>34</td>
<td>59</td>
<td>8</td>
</tr>
<tr>
<td>6. Claim private expenses as business expenses</td>
<td>26</td>
<td>65</td>
<td>10</td>
</tr>
<tr>
<td>7. Claim capital expenditure as revenue expenses</td>
<td>34</td>
<td>61</td>
<td>4</td>
</tr>
<tr>
<td>8. Manipulate work in progress</td>
<td>44</td>
<td>51</td>
<td>6</td>
</tr>
</tbody>
</table>

Numerous practitioners provided further insights into such requests. One of the biggest complaints was of clients manipulating “motor expenses where business use is exaggerated”, “Fringe Benefit Tax (don’t want to pay)”, and “mixing personal expenses with business” (RN 37, a CA of a small firm). Another practitioner, also from a small firm and who is a member of TINZ (TaxAgents’ Institute of NZ), pointed out that tax policies such as family support and child support were drivers for a lot of tax minimisation that occurs (RN 239). Some clients were motivated to reduce their income to a level at which they would be entitled to family support; or alternatively, they reduced their income so that they provided less child support. Practitioners hastened to point out that not all their clients made such requests, but “it does happen”. Their experiences showed that clients freely discussed some of these issues with their practitioners and that, at the very least, some asked, “how they can do it legitimately” (RN 328, a sole practitioner of a very small firm). Other comments from practitioners indicated that some clients did not ask explicitly about illegitimate requests. Rather they would present the information that was incorrect to the practitioners, hoping that they would not ask any further questions. If they did, the clients would allege that it was a mistake. Practitioners indicated that the incorrect figures would be fixed if they were aware of them. Otherwise, they usually accepted the figures (for example, for inventory, accounts receivable, work in progress) as supplied by the client.

According to some practitioners, unethical requests were most likely to occur because the firms did not have up-to-date and accurate records for items like inventory and work
in progress. Such manipulations, according to them, would not minimise tax as they were only timing issues, that is, any tax saved one year would be payable in the following year. Based on these qualitative data, it appears that practitioners are aware of how some of their clients go about not revealing their true tax situation. As discussed in the previous chapter, practitioners have the perception that clients do not always disclose all information to them.

A different perspective on clients was offered by other practitioners who seemed to have a more empathetic understanding of their clients’ situation. They viewed the majority of clients as honest with very few really wanting to cheat the tax system. Very often, illegitimate requests were due more to their clients’ lack of knowledge, ignorance, misunderstanding, or poor documentation, rather than to their deliberately wishing to evade tax. For instance, they might not know whether an item of expense or income was regarded as a revenue or capital item. As a sole practitioner who is a CA put it, “that is why they come to an accountant for help” (RN 62). With regard to claiming a private expense as a business expense, a sole practitioner from a CA firm commented, “[it is] usually where the areas are blurred that clients will want to claim it as business” (RN 237). In many situations, clients were either not aware of the parameters, or felt it would be fair to stretch them, and they relied on the practitioners to draw the inappropriateness of the “stretch” to their attention.

It also appears, from the practitioners’ perspectives, that clients from smaller firms, as compared to bigger firms, have a higher tendency to come up with such requests. A sole practitioner who is a CA mentioned, “owners of small firms often see getting away with suspect deduction as justification for their going into business (that is, they save tax). Larger (and more profitable) firms focus more on maximising their bottom line profit and accept that a correctly determined tax liability is simply a consequence of that profit. That is, their emphasis is on maximising profit rather than minimising tax” (RN 323).
Other remarks which supported this view include:

- "small firms as compared to larger firms have more inferior systems which required some end of year adjustments" (RN 75, a CA of a small partnership firm);

- "smaller firms tend to make greater demands due to a general lack of sophistication and commercial knowledge" (RN 206, a tax partner who is a CA);

- "with small firms, a manipulation of stock to under a $5000 value is commonplace" (RN 227, a CA of a small firm);

- "small firms often have lower debtors, stock on hand and WIP than larger firms, stock often not needing to be reported and possibility of reclassifying older stock as obsolete, so [it] is arguable [for them] to be more flexible to change their values" (RN 356, a sole practitioner who is a CA).

On the contrary, another sole practitioner who is a CA and whose clients are primarily small sized firms, commented that large firms are the ones that can “afford to take a more aggressive attitude” (RN 96). A more cynical view of small firms summed up by another sole practitioner who is a member of TINZ, is as follows: “Sometimes they disappoint me, sometimes they surprise me. But a few are really good and can make your day feel bright. On the whole, they are a bunch of crooks though” (RN 174).

These insights from practitioners suggest that taxpayers who have illegitimate/unethical requests in mind differ in how they go about progressing their interest in reducing their tax. Some may explicitly ask their practitioners to help them with one of the requests, some may conceal it from their practitioners with the hope that it is not discovered but capitulate when it is, and some keep issues well and truly hidden from their practitioners. Overall, however, the proportion of practitioners’ clients that frequently ask for help with illegal requests is low; ignorance is conceded as being a problem by practitioners rather than an intentional desire to evade, and small firms are more likely to make such requests than are larger firms.
8.3 Resolving role conflict

No doubt it is clear that tax practitioners or accountants experience role conflicts with at least some of their clients. This study shows that from the practitioners’ perspective, conflict arises only in relation to aggressive and cautious advice. What is interesting is how practitioners cope with it. Implicit in the Tax Practitioner-Client Role Model is that interpersonal relations would have a part to play, particularly their manner of communication with each other.

Table 8.4 provides a summary of practitioners’ responses when faced with illegitimate or illegal requests. Several responses were endorsed by the group: they ignored the requests totally, helped clients with some of the requests, suggested alternative means or persuaded them the request was not in their (the clients’) best interests. Persuasion was the approach most frequently used (79%) and the vast majority (80%) never helped them with all their requests. However, a large proportion of practitioners (55%) did at times help their clients with at least some of the requests. Persuasion, compromise, and finding alternatives suggest that the relationship between practitioner and client is highly dynamic, with each trying to influence the other. Moreover, these findings suggest that the course of action taken by tax practitioners could depend on a number of factors such as the tax issue involved, materiality of the amount, and perhaps the practitioners’ and their clients’ preferred level of tax aggressiveness.

Table 8.4: Distribution of practitioners’ responses to illegitimate requests
(n ranges from 341 to 378)

<table>
<thead>
<tr>
<th>Approaches</th>
<th>Never %</th>
<th>Occasionally %</th>
<th>Frequently %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ignore such requests</td>
<td>23</td>
<td>18</td>
<td>59</td>
</tr>
<tr>
<td>Help them with some requests</td>
<td>45</td>
<td>50</td>
<td>5</td>
</tr>
<tr>
<td>Help them with all their requests</td>
<td>80</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>Suggest alternative means</td>
<td>9</td>
<td>43</td>
<td>48</td>
</tr>
<tr>
<td>Persuade them not to, in their interests</td>
<td>2</td>
<td>19</td>
<td>79</td>
</tr>
</tbody>
</table>
To gain further insights into the interaction between practitioner and client, practitioners’ views regarding their clients’ reactions to their response were also elicited.

Table 8.5: Distribution of clients’ readiness to acquiesce to practitioners’ advice (n ranges from 354 to 384)

<table>
<thead>
<tr>
<th>Approaches</th>
<th>Never %</th>
<th>Occasionally %</th>
<th>Frequently %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept our advice</td>
<td>0.3</td>
<td>8</td>
<td>92</td>
</tr>
<tr>
<td>Want us to help them with alternative ways to save tax</td>
<td>2.0</td>
<td>45</td>
<td>54</td>
</tr>
<tr>
<td>Reject our advice</td>
<td>40</td>
<td>58</td>
<td>2</td>
</tr>
<tr>
<td>Insist we must help them with those measures</td>
<td>61</td>
<td>35</td>
<td>5</td>
</tr>
</tbody>
</table>

As displayed in Table 8.5, the vast majority (92%) indicated that clients frequently accept their advice. This finding compares well with the taxpayers’ sample where 92% also indicated that they frequently accept their practitioners’ advice (see Table 5.4). On the other hand, a majority (98%) also indicated that their clients frequently, or at least occasionally, want them to help with alternative ways to save tax: negotiation or mutual persuasion are common occurrences. This is also comparable to the taxpayers’ sample where 96% would discuss alternative measures. Within this context, it is of interest that only 40% of the practitioners had clients who never rejected their advice. The results further show that quite a large proportion of practitioners (40%) had encountered clients who insisted that they help them with those measures. Clients’ responses appeared to be dependent on the context of the tax issue involved. Responses by the practitioners to the open-ended questions provided further insights into the various ways they cope with role conflicts.

As indicated by some practitioners who had come across clients whom they deemed dishonest or using them as “fronts to the IRD”, their common response was not to work for that client or, as phrased by a CA from a small partnership firm, will “expel such clients from their practice” (RN 71). Others made it clear that even though they had clients who had made at least one of those unethical requests, they had not complied with their requests. Or at least, a tax manager from a small TINZ tax firm indicated,
they would have “talked them out of it” or suggested alternatives (RN 149). As pointed out by a CA from a small firm, “if the risks are explained to them, these requests ceased” (RN 120).

On a more specific note, one sole practitioner who is a CA suggested that there was a need to educate clients to “stop focusing on saving 33 cents tax and improve profitability” (RN 183) instead. Two others reinforced this view that their firms “conditioned” their clients to focus on maximising their tax paid income rather than simply reducing their tax liability. At the same time, not everyone was taking the advice. Another sole practitioner who is also a CA clarified that minimising tax is still important: “most clients are now looking at the bottom line. Tax is secondary to most clients now. They want to make money and minimise their taxes as long as it is within the Tax Act” (RN 323). These results are consistent with the Australian findings (see Braithwaite, 2003; Tomasic and Pentony 1991) and suggest that there is a role for education in reducing propensity to evade tax, and practitioners are practically the ‘perfect’ educators for their clients.

A few practitioners further mentioned that most of their clients were more of the conservative risk-averse type than the aggressive, risk-taking type. Taxpayers who are risk takers, according to a practitioner who is a member of TINZ (RN 85), usually go to other firms who promote aggressive advice, as their firms do not provide such advice. This view reflects prior literature that indicates clients seek a practitioner who reflects their attitudes (Sakurai and Braithwaite 2003) particularly those who want their practitioners to push the boundaries of the tax law to help them save more tax.

Practitioners generally perceived that the risk of penalty was too great for them and their client. For instance, a tax partner from a small firm said: “[We] try to explain that the risks are not worth it. In extreme cases, the client will be fired” (RN 48). Some other practitioners pointed out that they usually stated their preference or explained their ethics outright to reduce the number of these types of requests (shown in Table 8.3). If not, they would also dissociate themselves from the client. As one CA from a very small firm put it, “I had a client that asked me to do all of the above; needless to say they are no longer a client of mine” (RN 144).
Another CA from a very small tax firm took the view that "the tax penalty regime is so draconian that clients will not take risks except with cash (RN 241). It appears that, according to this CA, many taxpayers still did cash transactions (without telling their accountant) – there was a lot of "cash cheating" going on without the practitioners' knowledge. In such situations, as pointed out by another CA from a small partnership tax firm, it was the "integrity of the tax system that was more likely to be put at risk from information not provided" (RN 57) to them by their client, particularly cash sales. To protect themselves and their clients, one practitioner considered it important to have good risk management procedures in place. Some practitioners mentioned that they either sought help from other professionals in the tax area or obtained independent opinions from outside tax specialists.

Whether illegitimate or unethical requests by clients were actually ignored was unclear. However, qualitative data provided clarification. Requests from clients were never ignored but rather, according to a tax partner from a small firm, were "considered and analysed to determine whether there is any merit to their being actioned" (RN 206). Some indicated that their response depended on the facts of the situation and circumstances. Some were more cautious in dealing with their clients’ requests so as not to lose clientele. As one sole practitioner who is a member of TINZ pointed out, "we try not to shut the door or you will end up with no client base" (174). Some clients will leave "if you will not cheat for them", according to one CA who is a sole practitioner (RN 241). A number of practitioners added that they ran a very "personalised practice", had strong working relationships with all clients, and encouraged clients to communicate with them regarding any tax decision making.

Although not all practitioners are willing to push the boundaries, there will always be some who are willing to stretch the interpretation of the tax law. As one CA from a small firm (RN 270) commented, "we are inventive and liberal in interpretation as long as it is within the ambit of tax law." Another CA from a medium sized firm (RN 161) mentioned that, he/she is "creative in a legally allowable way in interpretive situations”, “will claim for the client,” and “will justify it if and when audited.” Some practitioners who participated in this study have also pointed out this stance. A practitioner from another small firm (RN 110) wrapped it up as:
"...[the] client makes many tax decisions themselves. Our approach to tax is that we recommend that clients claim everything that they are entitled to claim but never break the rules. As some rules are ambiguous, we allow that ambiguity to work in our clients’ favour – it is the job of the Parliament and tax department to make the rules, and to make them clear – anything that they do not specifically exclude we assume to be intentional and not accidental. It is my job to discover what they did say, not speculate on what they meant to say. We do not push the boundaries or take big risks. We do not enter into tax schemes.... In our opinion, most tax debates revolve around evidence rather than perception of fairness or the spirit of the law. We brief our clients as to the risks and rewards of our advice."

These comments from tax practitioners provide some insights into how they deal with role conflict. The coping strategies, which range from compliance to compromise/negotiation to resistance, are consistent with the literature on role conflict (Gross et al. 1958). Although some practitioners may succumb to their clients’ demands, it appears that the majority resort to adapting to clients’ demands and seek to solve the problem jointly. Drawing on the theoretical insights of Biddle (1979), adoption of one or another of these strategies could be dependent on the expected sanctions, legitimacy of the expectations held, characteristics of the person and the tax context.

### 8.4 Summary of findings on expectation-practice gap and role conflict

First, practitioners provide more cautious advice than they thought their clients expected and they offer less aggressive advice than they thought clients wanted. In this sense, they perceived that they were disappointing clients by being more conservative. These results indicate that practitioners experience role conflict with these types of advice in their dealings with clients. Role conflict is inevitable as practitioners in their role have to consider their clients’ expectations in the light of several factors such as their legality, sanctions, their ethics, and these may not always be congruent with one another. Consistent with the literature, they resolve clients’ perceived ambiguities in favour of tax authorities where tax law is clear cut for straightforward tax items but can be more aggressive where tax law is ambiguous (Jackson et al. 1988; Klepper and Nagin 1989; Roth et al. 1989, Klepper et al. 1991; Schisler 1994). As some practitioners reiterated,
they could exploit tax loopholes to their clients' advantage, but only with caution and where it was legitimate. Tax advisers have a conceptual map that arguably is more fine-grained than that of taxpayers. Supporting this claim is the intercorrelations between the dimensions of expectation-practice. For tax practitioners, technical proficiency is positively correlated with aggressive advice and cautious advice, but aggressive and cautious advice are not correlated with each other. However, they are all positively intercorrelated in the taxpayers' sample. Taxpayers tend not to see the tensions between the services that their advisor could offer. Due to their lack of tax expertise or ignorance, perhaps they rely on the practitioners to sort it out for them.

The content analysis of the practitioners' feedback to the open-ended question suggests that practitioners resort to several coping responses when dealing with role conflict. When it comes to requests from clients to assist them to minimise their taxes in an illegitimate manner, most practitioners will not comply with their clients' requests but will attempt to resolve the role conflict by means of compromise or negotiation. Compliance with clients' expectations, for most practitioners, does not appear to be an option when unethical or illegitimate requests are made. Rather, practitioners attempt to dissuade their clients by drawing their attention to the risks involved and/or suggest alternative legitimate means of minimising their taxes. In the event that clients are persistent with their illegitimate requests, the practitioner would terminate the working relationship with them as it was not worth the risk. Practitioners also want to be in the good books of the IRD; some were aware that if they allowed one of the clients to do something wrong, any audit could back lash to an audit on their other clients.

The role conflict of practitioners was further supported by data on taxpayers' expectations and experiences drawn from the taxpayers' sample. In Chapter 5, when taxpayers were asked what they thought of the services offered by their own practitioners, experience fell short of expectations on all three dimensions – technical proficiency, aggressive advice and cautious advice. If taxpayers want more of everything, and this can be generalised beyond the sample surveyed for Chapter 5, then they are likely to be sending signals of higher expectations that practitioners must interpret in some way that makes sense to them. These findings explain why the manner
of communication between the tax practitioner and the client plays such an important role in resolving role conflicts.

Implicated in these findings is also role ambiguity. The two independent data sets, with the taxpayers' sample showing higher expectations on all three dimensions as compared to the practitioners' sample indicates this possibility. It appears that taxpayers, knowingly or unknowingly, have not been clearly communicating their needs to practitioners or inadequate information has been passed on to practitioners. Further insights gained from both taxpayers and practitioners back up these possibilities. For instance, some taxpayers either assume that practitioners know what they want, or allow practitioners to decide for them. Others do not always disclose all information to practitioners. If practitioners were to segment their clients according to how they perceived or assumed their clients' needs to be and tailored their advice accordingly, then they might not deliver in accordance with what clients actually wanted. But as we can recall from Chapter 6, only the technical proficiency, not the aggressive advising or cautious advising dimension, influenced clients' satisfaction. Taxpayers may fail to see the tension between exploiting the tax law aggressively and being cautious and law abiding, and allow practitioners to sort these issues out for them. Practitioners, perhaps, are aware of this and know that these are areas in which they can exert most influence on taxpayers' decisions. In this regard, aggressive advice can be supply driven. In contrast to these two dimensions of expectations, practitioners thought they were up to scratch on proficiency. From the practitioners' perspective, the technically proficient advice gap would be of concern as it has the potential to destabilise the practitioner-client relationship. Taxpayers perceived just such a gap, with practitioners not meeting expectations. This raises the question of whether taxpayers are over-demanding in this respect or do they perceive technical proficiency in a different light? There is a need for clearer information and communication as to what taxpayers want in terms of technical proficiency for satisfactory role performance by practitioners.
8.5 Tax advice and clients’ risk propensity

This section is focused on tax practitioners’ tax decisions and the factors that may play a role in their decision-making process. It specifically examines the type of advice practitioners will give clients if it involves an area of tax law ambiguity, a situation which practitioners may exploit to their clients’ advantage. The Tax Practitioner-Client Role Model posits that practitioners’ and clients’ characteristics, features of decision context and interpersonal relations all have a part to play in practitioners’ types of advice. The first test, therefore, involved examining whether practitioners’ tax advice on an ambiguous tax situation was driven by clients’ risk propensity, that is, whether clients were the conservative risk-averse type or the aggressive risk-taking type. A paired sample t test was run on the two constructs, advice to conservative clients, and advice to aggressive clients. The results showed that there was a significant difference in practitioners’ type of advice ($t = -18.606; p < .000$). Practitioners offered conservative advice to clients of the risk-averse conservative type ($M = 2.56; SD = .86$). However, if their clients were the aggressive risk-taking type, practitioners recommended aggressive advice ($M = 3.32; SD = .87$). These findings support Hypothesis 2 and are consistent with the findings from other studies conducted, for example, by Cloyd (1995), La Rue and Reckers (1989) and Schisler (1994). Tax practitioners appear to use this strategy for managing the risk propensity of clients.

Feedback responses to the open-ended question were received from a number of practitioners. Many pointed out that their obligation was to act in their clients’ interests. For instance, a CA from a large partnership firm said: “We provide to clients what we think they want” (RN 257); or another sole practitioner mentioned that: “Matching what I do with what clients want is necessary” (RN 267). This view was shared by others; a tax partner from a medium sized firm acknowledged that: “To a certain degree you have to do what your client requests as long as it is not breaking the law or ethical guidelines and you advice your client of the repercussions” (RN 370). Two CAs from a small firm commented along the same lines, that is, their position was to “minimise client risk rather than ensuring adherences” (RN 86) and “the ultimate decision is up to the client but all the appropriate advice and consequences are provided to the client... I would inform the client of the potential risk, including shortfall penalties, on any stance taken
that is not clear cut under tax law” (RN 123). A tax manager from a medium sized partnership firm summed it up as:

“We provide to clients what we think they want, subject to our interpretation of the law. We set down the tax treatment and relative strengths of each alternative – the client makes the decisions of what to adopt” (RN 257).

These views converged with the empirical findings that practitioners provide conservative (or aggressive) advice to clients who prefer conservative (or aggressive) advice. It appears that practitioners also try to limit role conflict by following the client’s risk tendencies, but are cautious when providing aggressive advice.

8.6 Tax advice and other influences

As a number of variables were considered in this study, multiple regression was used for testing Hypotheses 3 to 5 as this technique allowed control for the whole set of variables simultaneously. Specifically, ordinary linear multiple regression was carried out to ascertain:

- how much of the variation in the dependent variable (advice to conservative clients or advice to aggressive clients) could be explained by the independent variables considered in this study and how much variation remained unexplained; and

- which were the most important determinants and which were less important or insignificant in explaining the advice given to conservative or aggressive clients.

Since there was a significant difference in type of advice recommended by practitioners to clients with different risk propensity, a hierarchical multiple regression analysis was carried out for conservative and aggressive clients separately. The results were initially checked for multicollinearity and an examination of the correlation matrix indicated that there was no problem (see Tables 8.6 and 8.7).

The first analysis was run with advice to conservative clients as the dependent variable. Variables were entered into the equation in two steps. First, the control variables: firm
size, firm identification and tax experience were entered into the equation. Results displayed in Table 8.8 showed that the model was statistically significant but accounted for only .5% (Adjusted $R^2 = .3\%$) of the variance. None of the three control variables had a significant impact on tax advice.

On the second step, the other variables, taxpayer’s chance of audit and severe penalty, practitioner’s risk propensity and tax ethics were entered into the equation. The results showed that the model was significant ($R^2 = 2.8\%$; Adjusted $R^2 = 1.1\%$) with a marginally significant $R^2$ change of 2.3% ($F = 2.362; p < .053$) but neither firm size, firm identification, nor tax experience were significant predictors.\(^{43}\) The only variable that was a significant predictor of managing conservative clients with conservative advice was practitioners’ risk propensity. The negative regression coefficient for risk propensity indicated the following relationships: high (or low) risk propensity level is associated with low (or high) level of conservativeness in tax practitioners’ advice. In other words, practitioners with high risk propensity gave advice that was less conservative than did those with lower risk tendencies. This finding supports part of Hypothesis 5, that part relating to advising conservative clients. Taxpayers’ audit and penalty risk had no significant impact on practitioners’ tax advice. Hypothesis 3 is not supported for conservative type clients, that is, practitioners’ tax advice is not affected by their perception of their clients’ audit and penalty risk. Practitioners’ ethics also had no significant impact on practitioners’ management of conservative clients through conservative tax advice; therefore Hypothesis 4 is not supported for conservative type clients.

\(^{43}\) When the test was run using ordinal data for firm size and tax experience (rather than dichotomised into 2 groups), the results were the same. Using practitioners’ type of affiliations (e.g. NZICA, NZLS etc) also did not change the results.
Table 8.6: Intercorrelations among study variables for management of conservative type clients through conservative advice (n = 408)

<table>
<thead>
<tr>
<th>Variable</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Con advice</td>
<td>1.000</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2. Firmsize</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>3. Firmidentity</td>
<td>-.027</td>
<td>-.163***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Taxexp</td>
<td>-.054</td>
<td>-.088*</td>
<td>-.112*</td>
<td></td>
<td></td>
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<tr>
<td>5. Audit chance</td>
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<td>-.025</td>
<td>.092*</td>
<td>-.088*</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>6. Penalty chance</td>
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<td>.004</td>
<td>-.061</td>
<td>.026</td>
<td>.328***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Pracpropensity</td>
<td>-.122**</td>
<td>.026</td>
<td>.060</td>
<td>-.015</td>
<td>.176***</td>
<td>.110*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Taxethics</td>
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<td>-.064</td>
<td>.077</td>
<td>-.027</td>
<td>-.016</td>
<td>-.003</td>
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</table>

*p < 0.05  ** p < 0.01  *** p < 0.001  Con advice – conservative advice  Audit chance – chance of audit
Firmsize – firm size  Penalty chance – chance of penalty  Firmidentity – firm identification
Pracpropensity – practitioners’ propensity  Taxexp – tax experience  Taxethics – tax ethics

Table 8.7: Intercorrelations among study variables for management of aggressive type clients through aggressive advice (n = 410)

<table>
<thead>
<tr>
<th>Variable</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agg advice</td>
<td>1.000</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Firmsize</td>
<td>.130**</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Firmidentity</td>
<td>-.099*</td>
<td>-.162***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Taxexp</td>
<td>-.076</td>
<td>-.088*</td>
<td>-.113*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Audit Chance</td>
<td>-.119**</td>
<td>-.023</td>
<td>.094*</td>
<td>-.089*</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Penalty chance</td>
<td>-.101*</td>
<td>.007</td>
<td>-.057</td>
<td>.024</td>
<td>.331***</td>
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<tr>
<td>7. Pracpropensity</td>
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<td>.026</td>
<td>.060</td>
<td>-.014</td>
<td>.176***</td>
<td>.110*</td>
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<td></td>
</tr>
<tr>
<td>8. Taxethics</td>
<td>.064</td>
<td>-.062</td>
<td>.080</td>
<td>-.029</td>
<td>-.012</td>
<td>.003**</td>
<td>-.033*</td>
<td></td>
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</table>

*p < 0.05  ** p < 0.01  *** p < 0.001  Agg advice – aggressive advice  Audit chance – chance of audit
Firmsize – firm size  Penalty chance – chance of penalty  Firmidentity – firm identification
Pracpropensity – practitioners’ propensity  Taxexp – tax experience  Taxethics – tax ethics

197
Table 8.8: Hierarchical multiple regression analysis summary for tax advice to conservative clients (n = 408)

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>SE</th>
<th>β</th>
<th>R²</th>
<th>R² Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Firmsize</td>
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<td>.025</td>
<td>.005</td>
<td>.005</td>
</tr>
<tr>
<td>Firmtype</td>
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<td>.099</td>
<td>-.029</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxexp</td>
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<tr>
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<td>.383</td>
<td>**</td>
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<td></td>
</tr>
<tr>
<td><strong>Step 2</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firmsize</td>
<td>.071</td>
<td>.114</td>
<td>.031</td>
<td>.028</td>
<td>.023</td>
</tr>
<tr>
<td>Firmidentity</td>
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<td>.099</td>
<td>-.029</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxexp</td>
<td>-.165</td>
<td>.154</td>
<td>-.054</td>
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<td></td>
</tr>
<tr>
<td>Taxpayer audit chance</td>
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<td>.022</td>
<td>-.004</td>
<td></td>
<td></td>
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<tr>
<td>Taxpayer penalty chance</td>
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<td>.016</td>
<td>-.072</td>
<td></td>
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</tr>
<tr>
<td>Practitioner propensity</td>
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<td>.021</td>
<td>-.112*</td>
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<td></td>
</tr>
<tr>
<td>Practitioner ethics</td>
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<td>.053</td>
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<tr>
<td>Constant</td>
<td>3.193</td>
<td>.418</td>
<td>**</td>
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</tr>
</tbody>
</table>

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

A hierarchical multiple regression analysis was carried out with management of aggressive clients with aggressive tax advice as the dependent variable. Variables were entered into the equation in two steps. First, the control variables, that is, firm size, firm identification and tax experience were entered into the equation. Results displayed in Table 8.9 show that the model is statistically significant but it accounts for only 3% of the variance (Adjusted $R^2 = 2%$; $F = 4.017, p < .01$). Two of the three control variables, firm identification and tax experience, had no significant impact on tax advice. However, firm size had a significant effect, suggesting that the larger the practitioners’ firm, the more aggressive the advice.
Table 8.9: Hierarchical multiple regression analysis summary for tax advice to aggressive clients (n = 410)

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>SE</th>
<th>β</th>
<th>R²</th>
<th>R² Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
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<td>.112</td>
<td>.108*</td>
<td>.029</td>
<td>.029**</td>
</tr>
<tr>
<td>Firmtype</td>
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<td>.097</td>
<td>-.090</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxexp</td>
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<td>.152</td>
<td>-.077</td>
<td></td>
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<tr>
<td>Constant</td>
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<td>.377***</td>
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<tr>
<td><strong>Step 2</strong></td>
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<td></td>
</tr>
<tr>
<td>Firmsize</td>
<td>.265</td>
<td>.110</td>
<td>.117*</td>
<td>.085</td>
<td>.056***</td>
</tr>
<tr>
<td>Firmtype</td>
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<td>.096</td>
<td>-.081</td>
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<tr>
<td>Taxidentity</td>
<td>-.245</td>
<td>.149</td>
<td>-.080</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxpayer audit chance</td>
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<td>.021</td>
<td>-.062</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxpayer penalty chance</td>
<td>-.019</td>
<td>.015</td>
<td>-.064</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Practitioner propensity</td>
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<td>.020</td>
<td>-.184***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Practitioner ethics</td>
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<td>.042</td>
<td>.069</td>
<td></td>
<td></td>
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<tr>
<td>Constant</td>
<td>4.253</td>
<td>.402***</td>
<td></td>
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</tbody>
</table>

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

On the second step, the other variables - taxpayer chance of audit and severe penalty, practitioners’ risk propensity and tax ethics were entered into the equation. The results showed that the model was significant and the model explained 8.5% of the variance (Adjusted $R^2 = 6.9\%$) in practitioners’ management of aggressive clients through aggressive advice. The change in $R^2$ of 5.7% was significant ($F = 5.339; p < .001$). Firm identification and tax experience were still not significant, but firm size remained significant. Consistent with the findings of several researchers such as Ayres et al. (1989), Duncan et al. (1989); Kaplan et al. (1988), Helleloid (1989), Cuccia (1994), and Tooley (1992), this result suggests that tax advice provided by practitioners is not influenced by practitioners’ number of years of experience or whether the practitioners were from CA or non-CA firms. However, the high (or low) level of aggressiveness in practitioners’ advice was associated with larger (or smaller) firms. These findings are consistent with prior results (for example, Carnes et al. 1996; Kinsey 1999; Tomasic and Pentony 1991) that different sized firms made different tax reporting decisions. Apart from firm size, practitioners’ risk propensity also significantly contributed to the type of tax advice recommended by practitioners. The negative regression coefficient for risk propensity

\[44\] When the test was run using ordinal data for firm size (rather than dichotomised into 2 groups), the results were the same. Using practitioners’ type of affiliations (e.g. NZICA, NZLS etc) also did not change the results.
indicates the following relationship: high (or low) risk propensity level is associated with high (or low) level of aggressiveness in tax practitioners’ advice to aggressive clients. As practitioners’ risk propensity stood out as the salient factor in their tax advice for aggressive clients, Hypothesis 5 is well supported.

Taxpayers’ chance of audit and penalties, on the other hand, had no significant impact on practitioners’ recommendations. Therefore, Hypothesis 3, which states that clients’ audit and penalty risk will have an effect on the advice recommend by tax practitioners in an ambiguous tax situation, is not supported even for aggressive clients. The results on taxpayers’ sanction risk are consistent with the literature (for example, Erard 1993; Marshall et al. 2006), suggesting that: practitioners’ perceptions of their clients’ probability of audit and penalty were not significant in explaining practitioners’ decisions. A possible explanation offered by Erard (1993) is that because practitioners are experienced and adept at finding an arguable basis in the tax laws for questionable reporting positions, their perceptions of clients’ sanction risks do not play an important part in their decisions or judgements. It is also possible that this factor is not salient in practitioners’ decisions as only a small percentage of practitioners in this sample perceived that there was more than 50% chance of their client being audited and would face severe penalties (reported in Chapter 7, Section 7.9.4).

Practitioners’ self-report of ethical orientation also had no significant effect on advice. Hypothesis 4, which states that practitioners’ personal tax ethics will have an effect on the advice recommended by them to clients in an ambiguous tax setting, is also not supported even for aggressive clients.

The low $R^2$ suggests that there could be other influences on tax practitioners’ advice apart from those considered in this study. The feedback from practitioners indicates that the interaction between the practitioner and client plays a significant role in their decisions which was not captured either in the regression model or quantitatively in the survey. Responses from the open-ended questions showed that practitioners perceived themselves as cautious when they made their recommendations. Although they were more likely to provide aggressive advice to clients whom they perceived to prefer aggressive advice, they stated that they would discuss with them the risks involved:
- "I would inform the client of the potential risk, including shortfall penalties, on any stance taken that is not clear cut under tax law. In the above situation, the client can then make a decision which would be documented" (RN 123 – a partner from a small CA firm).

- "I would explain the situation to the client and take their instructions" (RN 131 – a partner from a medium size CA firm).

- "Accountants’ role is to state the options and risk, clients make the choice" (RN 303 - a sole practitioner from a small CA firm).

- "It is generally not our role to advise the client whether or not to take a deduction. Our role is to provide our view on the deductibility of the expense and to advise on the consequences of not claiming the deduction and the consequences of claiming the deduction" (RN 221 – a tax partner from a big CA firm).

A sole practitioner further commented, "clients put a lot of trust in us and expects us to make the right decisions for them" (RN 292). Many pointed out that they “leave it to the clients to decide.” Clients, in their view, are the ultimate decision makers as they are personally responsible for filing accurate tax returns.

Their role, as one CA from a small firm saw it, was to

“try to educate clients that we do our best to minimise tax within law, and even if the matter is within law but unethical or outlawed, we will not do it unless they, in writing, acknowledge they do it at their own risk and understanding” (RN 304).

8.7 Summary of findings on type of tax advice to clients

The findings show that clients’ risk propensity has an effect on practitioners’ type of advice. Where the tax law is ambiguous, practitioners provide conservative advice to clients whom they assess as being conservative. On the other hand, if clients are judged to be aggressive, practitioners provide aggressive advice accordingly. This finding is in accord with those from prior studies (for example, LaRue and Reckers 1989; Schisler 1994; Cloyd 1995). It is also in accordance with the qualitative data collected from
practitioners which indicates that their perceptions of clients’ willingness to take risks are an important factor in their recommended advice.

Of note is that the analyses were conducted on advice to conservative clients and advice to aggressive clients separately. In prior studies (such as those by Kaplan et al. 1988; Tomasic and Pentony 1991) researchers have tended to make the assumption that clients’ risk propensity is homogeneous. They have also tended to assume that taxpayers’ primary motivation is tax minimisation (Spilker et al. 1999; Stephenson 2007). However, individual clients differ in their risk taking as do practitioners. Moreover, factors that shape the giving of conservative advice are likely to be different from the factors that shape the giving of aggressive advice; clients would be better served by matching practitioners’ advice to clients’ personal risk propensities (Stephenson 2007). The qualitative data also support the consideration of advice to conservative clients and to aggressive clients as two separate dependent variables.

Practitioners with high risk propensity were found to be more aggressive in their advice than those with low risk propensity for aggressive-type clients. Furthermore, practitioners’ perceptions of client audit and penalty risk have no impact on their tax advice irrespective of clients’ risk propensity. This finding may seem surprising as the imposition of any sanctions on clients by the tax authorities would be detrimental to their practitioner-client relationship. However, practitioners may reason that it is their clients who would have to decide how much risk they want to take as they are the ones ultimately responsible for their tax decisions. The amount of feedback from practitioners indicates that this is the stance that practitioners take but they do warn clients of the risk involved. This explanation is further supported by the data from the taxpayers’ sample where taxpayers’ own perception of sanction risk, their risk propensity and aggressive advice expectation were found to play an important part in their acceptance of aggressive advice. The aggressiveness of practitioners’ tax advice therefore relates more to the practitioners’ risk propensity rather than to their perception of clients’ sanction risks. Practitioners’ perceptions of there being a low chance of sanctioning of clients could be another possible reason why it is not a salient factor driving recommended advice.
When practitioners are faced with an aggressive client, the aggressiveness of their decisions is also associated with practitioners’ firm size. The finding that practitioners from larger firms provide more aggressive advice than do those from smaller firms is consistent with the findings from various studies such as those by Braithwaite (2005), Kinsey (1999) and Tomasic and Pentony (1991). Large firms tend to have more resources in aggressive tax planning. They are also conscious that if they do not promote aggressive strategies to substantially reduce the tax liabilities of their aggressive clients, then their competitors will (Braithwaite 2003).

However, neither firm identification nor tax experience has any significant impact on practitioners’ tax advice decisions for either conservative or aggressive type clients. Those who are CAs do not take aggressive stances any more often than do those who are not. This result is consistent with those from studies carried out by various researchers such as Ayres et al. (1989), Cuccia (1994), Duncan et al. (1989), Schisler (1994) and Stephenson (2007). The finding that experienced practitioners do not take aggressive stances more often than do less experienced practitioners is also consistent with the studies carried out, for instance, by Hite and McGill (1992) and Pei et al. (1992). Perhaps, as suggested by Carnes et al. (1996) and Kaplan et al., (1988), specific types of tax experience (such as recent outcome experience with tax authorities) rather than years of tax experience or difference in knowledge may better explain variation in practitioners’ advice to clients. In the case of the effect of personal ethics on practitioners’ decisions, several possible reasons could be offered to explain its lack of significance. First, it should be noted that only one scale item was ultimately used in the analysis which, perhaps, might not have fully captured the construct of personal ethics. Second, it may be due to too little diversity in practitioners’ self-assessment of their ethical orientations – only 6% indicated that they would compromise their ethics to meet their clients’ expectations. Third, practitioners may not be ethically sensitive to aggressive type advice as compared to tax evasion.

Overall, trust, respect and honesty were important criteria in a good working relationship between the practitioners and their clients. This is supported by a number of comments that were received from practitioners who pointed out that they were trusted and respected by their clients (see Section 8.3). Therefore, maintaining a good working
relationship was paramount to retaining clients. The qualitative data show that interpersonal relations involving trust and communication, as depicted in the Tax Practitioner-Client Role Model are indeed an important part of the whole process of feedback and response from both parties.

8.8 Chapter summary

This chapter provides and discusses the quantitative results and the qualitative data elicited from the tax practitioners’ perspective. It examines practitioners’ perceptions of clients’ needs, their experiences with role conflict and their coping responses, and what drives them to recommend aggressive advice. The findings were then compared to the findings obtained from the taxpayers’ perspective to see whether or not they matched up.

Whatever role identity one takes, there are certain demands and expectations that accompany that role. This study shows three dimensions of expectations of tax practitioners which parallel those identified by taxpayers. These are being technically proficient, and capable of giving both aggressive advice and cautious advice. Practitioners perceived that they provided technically proficient advice and cautious advice above clients’ expectations. This result was inconsistent with the findings generated from the taxpayers’ data where taxpayers perceived their practitioners as underperforming on both these dimensions of expectations. However, there was no disagreement on ‘underperformance’ on giving aggressive advice from either the practitioners’ or the taxpayers’ perspectives. Practitioners seem to present themselves as being less aggressive than their clients expect. They know that clients are disappointed on this front as clients want more aggressive advice than they are given.

These results are not surprising, as in a tax environment tax practitioners are confronted with a dilemma as they have a responsibility not only to their clients but also to the government and their profession. Although they have perceptions of what their clients expect of them, they may find that totally complying with clients’ demands conflicts with their own values, personal ethics, professional ethics, or the policy intent of the tax law.
is, to dissociate themselves from these clients. Practitioners view protecting the integrity of their firm as paramount if they want to continue as successful tax service providers. As a result, many are cautious when dealing with complex cases and seek a second opinion from another tax specialist if they are uncertain about an outcome. Others emphasised the importance of proper documentation especially if the client, for instance, insisted on making a deduction claim against their advice.

The way practitioners communicate with clients is therefore an important factor in the resolution of role conflict. It is of note that this was one attribute that was not factored into the regression model. It may explain some of the unexplained variance in the model. Communication might also help to resolve some of the role ambiguity experienced by practitioners.

In the presence of ambiguities in tax law, practitioners are known to exploit them to the advantage of the client as they have more leeway in interpreting the law. The Tax Practitioner-Client Role Model suggests that practitioners’ recommendations to clients as to what tax positions to take are influenced by various factors. This study shows that practitioners are sensitive to the risk propensity of their clients in the presence of ambiguity in tax law. Feedback from practitioners is consistent with this empirical result. Most practitioners indicated that the risk profile of each client is different: some are conservative and some aggressive. As a result, an assessment of the risk profile of the client was pertinent so that they could provide advice accordingly. Many would ask their clients what they wanted to do and how much risk they were willing to take or whether they wanted to be aggressive if their risk propensity was not explicitly stated. The finding that practitioners interpret and resolve ambiguity in tax rules in accordance with client propensities (or preferences) is a consistent finding in the tax literature (Spiker et al. 1999). This characteristic of clients is a salient factor in practitioners’ recommendations and it supports the Tax Practitioner-Client Role Model. Practitioners certainly are concerned over losing clients, and providing the type of advice (conservative or aggressive) in accordance with clients’ risk propensities is paramount to maintaining their clientele base. In other words, as tax service providers, they need to look after the needs of their clients.
It appears from the quantitative result that client aggression leads to practitioner aggression, and practitioners’ aggression is partly driven by their own risk propensity. Practitioners with higher personal risk propensity were more willing to stretch the boundaries of the tax law towards the extreme end of the aggressiveness continuum for aggressive clients. The same can be said of those practitioners from larger firms, irrespective of whether they are from CA firms or not, who perhaps have more resources to support their practitioners in devising aggressive forms of creative compliance for their clients. Also, bigger practitioner firms tend to have clients from larger firms which generally have more convoluted transactions than do smaller firms, thereby providing more opportunities to avoid tax. These findings appeared to contradict prior findings that aggressive advice is more supply driven (see for example, Braithwaite 2005; Murphy and Sakurai 2001). However, the qualitative data from taxpayers and practitioners provided further insights into their working relationship. For those who leave it totally to their practitioners to decide what is best for them, any aggressive advice provided by practitioners could possibly be supply driven. However, of note is that, based on the comments received from both sides, taxpayers do not always acquiesce to practitioners’ advice. So whether aggressive advice is demand driven or supply driven, the feedback from the practitioners’ perspective supports the stance that the final tax decision arises from the discussions held by the dyads and is determined jointly to a considerable extent.

Overall, as highlighted in the qualitative data, communication was indeed an area which many agreed was crucial in their role as practitioners. Interactions between the practitioner and the client have an effect on the ultimate decision made by the client and also help to resolve role conflict and perhaps role ambiguity to a certain extent. This interaction could take the form of mere feedback of information through to discussion and/or negotiation as required to resolve a tax problem or issue.
Chapter 9
Conclusion

9.1 Introduction

Taxpayers’ compliance behaviour towards the tax system is an area of ongoing interest to governments. The reason is obvious, as taxpayers’ behaviour, compliant or non-compliant, affects the amount of tax revenue collected. Therefore, governments have a pragmatic interest in learning why some people comply with their tax obligations and perhaps even more of an interest in learning why some people do not comply. Such knowledge will help them to develop appropriate strategies to enhance tax compliance.

Three decades of research have provided a substantial body of information on why people pay, or do not pay, their tax. Also, past researchers of taxing behaviour have tended to assume that taxpayers are a homogeneous group. To reduce the variability attributable to ‘class of taxpayers’, researchers (such as James 2006; Milliron 1988) have encouraged studies which have been focused on more specific well-defined groups. Nevertheless, the most common approach adopted by governments to deter people from noncompliance is simple and singular - to threaten sanctions. Over recent years in New Zealand, the tax penalty regime has been revamped and harsher penalties have been imposed. Such an approach, grounded in deterrence theory, posits that fear of punishment would deter people from noncompliance. However, researchers have argued that this approach may not always work for all taxpayers, as social psychological factors (for example, attitudinal and ‘others’ such as tax advisers, family, and friends) may also have an impact on their behaviour (Braithwaite and Wenzel 2008). Part of this more expansive view has been to consider the role of tax practitioners in taxpayers’ compliance. To date, work on this aspect is comparatively limited. In particular, very little is known about the taxpayers’ and practitioners’ roles and their relationship with each other.

Understanding the practitioner-taxpayer relationship grows in importance as an increasing number of taxpayers, who cannot cope with or understand the complexity of
tax requirements, engage the services of a tax practitioner to help them. Of particular interest to governments has been the influence which practitioners can exert over their clients. In recent years, this has resulted in efforts to regulate practitioners and introduce practitioner penalties (similar to the preparer penalties imposed in the US). Although to date no regulation has been introduced in New Zealand, it is likely to be an issue that could be revisited, if there is clear evidence that practitioners play a causal role in taxpayers’ misreporting.

This thesis has contributed a role perspective to understanding how tax practitioners come to have an influence on taxpayers and how taxpayers come to influence tax practitioners. Roles exist alongside purpose. An independent sample of 262 taxpayers and an independent sample of 441 tax practitioners provided their accounts of their purpose, actions and responsibilities as well as an account of how they perceived the purpose, actions and responsibilities of the other. The particular emphasis in this thesis was on the taxpayer as a sender of messages and on the tax practitioner as the focal person receiving those messages.

This chapter provides a summary and implications of the findings from the information elicited from taxpayers and tax practitioners. Lastly, avenues for future research and the limitations of this study are noted.

### 9.2 Summary of findings

The findings show that aggressive tax decisions arise out of a complex interplay between taxpayer and tax practitioner. Practitioners adapt their decision making to whether they have a cautious or an aggressive client. Paired t tests showed a difference between the stance that a practitioner would take on an ambiguous tax item depending on whether the client was risk averse or risk taking. The practitioner’s assessment of the likelihood of the client being audited or sanctioned was associated with giving more conservative advice or more aggressive advice, but these effects disappeared when the practitioner’s own risk propensity was taken into account. Practitioners who needed a high level of certainty about the tax effectiveness of a decision gave more conservative
advice to conservative clients. Practitioners who were comfortable with less certainty around their recommendations gave more aggressive advice to aggressive clients. In other words, the risk propensity of the tax practitioners themselves pushed them to be more cautious or more aggressive. Both the perceived expectations of clients and the qualities of practitioners shaped decision making. Practitioners from larger firms also made more aggressive decisions than did those from smaller firms.

From the taxpayers’ perspective, their decisions in accepting an aggressive stance are shaped by their own risk propensity characteristics and perceived risk of sanctions. Those with aggressive advice expectation, higher risk propensity and lower sanction risk perception were more willing to accept practitioners’ aggressive advice. Taxpayers know that they, and not the practitioner, are the ones fully responsible for paying the correct tax, and perhaps because of this, they are proactive in making decisions which reflect their risk preferences. These results suggest that there are clients who not only use practitioners to help them comply with the tax law but also use them as ‘gamesters’ and ‘adversarialists.’

While the individual characteristics of taxpayer and practitioner were important in making particular decisions, the interactions between them took place against a background of shared understandings of roles as well as some misunderstandings. The strongest evidence of shared understandings was found through the dimensions that defined expectations, experiences and practices. Both practitioners and taxpayers conceptualised the other in terms of three dimensions of “demands” and “responses”: technical proficiency, cautious advice giving, and aggressive advice giving - in this order of importance. Both practitioners and taxpayers concurred on the order, but when it came to whether taxpayers received what they expected from their practitioners and whether practitioners delivered on what they perceived to be their clients’ expectations, some interesting ambiguities and conflicts emerged.

Some indication of role ambiguity is evident from the two independent data sets, with the taxpayers’ sample showing higher expectations on all three dimensions as compared to the practitioners’ sample. Although practitioners’ perceptions of what clients expected of them in their role converged with the taxpayers’ perceptions, they
discriminated technical proficiency, cautious advice and aggressive advice more distinctly from each other. In the practitioner sample, aggressive advice and cautious advice, though both were positively associated with technical proficiency, were not associated with each other. In other words, practitioners perceived their clients as wanting them to be technically proficient and that technical proficiency was perceived to be associated with giving aggressive advice or giving cautious advice. Those who reported that their clients expected aggressive advice, however, were neither more nor less likely to report that their clients expected cautious advice. This was interpreted as reflecting variation in their client base. Some had niche markets, others had a mixed clientele.

Practitioners further believed that their practice met their clients’ expectations on the technical proficiency dimension. Certainly, technical proficiency is central to the role of tax practitioners and practitioners assuming such a role know that they must be technically proficient and competent in dealing with their clients’ tax matters. It remains for future researchers to delve into this intriguing finding that taxpayers expected greater proficiency. Practitioners also perceived themselves as being more cautious in their advice than they thought their clients expected, and that they would not realistically meet the aggressive advice expectations of some of their clients. Implicated in these findings is that practitioners felt the pressure to come up with aggressive advice but did not give in totally to such demands. They seemed to be signalling that they knew clients also wanted to be safe.

The taxpayers’ perspective suggested that they wanted all three types of advice, but taxpayers viewed practitioners as falling short of the performance standards expected. Aggressive and cautious advice, tended to bring elicit responses that were more divergent. Those with aggressive expectations wanted their practitioners to take advantage of the ambiguity in tax law or tax loopholes. Those with cautious expectations wanted their practitioners to provide advice that did not fall outside the boundaries of the tax law. It is interesting that there was a positive relationship between expecting aggressive advice and cautious advice, and both correlated with wanting technical proficiency. These findings indicated that taxpayers wanted the ‘best of all possible worlds!’ On the one hand, they did not want to miss out on any opportunities
they believed their practitioners could show them as ways to exploit or minimise taxes. On the other, they wanted their practitioners to 'play safe' for them so they were not in trouble with the law and made worse off by tax penalties. These results paralleled the findings of Sakurai and Braithwaite (2003). Taxpayers engaged a practitioner to give them confidence that their tax matters were under control and that decisions they made were within the bounds of the law. A practitioner who is technically proficient would give them that confidence. Furthermore, taxpayers in their ideal world seemed to make a distinction between “tax minimisation that is unlikely to lead to conflict, and tax minimisation that is more risky and likely to fuel conflict with tax authorities” (Sakurai and Braithwaite 2003:385). This could be due to their naivety, ignorance, or lack of expertise that they tended not to see the tensions between the different types of advice which the practitioners could offer. Or perhaps, wanting to take an aggressive posture and wanting to remain cautious reflected their hopes or desires rather than socially shared role obligations (Biddle 1986). The financial and tax planning industry specialises in promoting such hopes through their advertising (Braithwaite 2009). In such a circumstance, business taxpayers might see no harm in wanting all and relying on the practitioners to sort it out for them or draw the limits to their attention. Clearly, what taxpayers wanted was to gain most from the safety and economy criteria and they expected practitioners to help them to do so. These inconsistencies in expectations (that is, a simultaneous desire for proficient, aggressive and cautious advice) is surely a creator of role ambiguity and role conflict of which the taxpayers perhaps may not even be aware.

Comparing taxpayers and tax practitioners requires a degree of caution because the taxpayer group could not be paired with the practitioner group. But when these data are combined with those on taxpayers’ openness in sharing information and the qualitative data from both taxpayers and practitioners, it seems reasonable to propose that taxpayers had not been clearly communicating their needs to practitioners. If practitioners were to segment their clients according to how they perceived their needs and tailored their advice accordingly, there is a possibility that they might not deliver in accordance with what clients actually want. But even if they knew their clients’ needs, they might have reasons not to yield to them. Together, these possibilities imply that taxpayers would perceive an expectation-experience gap and tax practitioners would
experience an expectation-practice gap. Associated with this expectation-practice gap is role conflict. The results of this study supported both of these gap hypotheses. Conflict and ambiguity would pose special problems of adjustment for both practitioners and clients. So, overall, did the ambiguity and conflict lead to breakdown in relationships, that is, did practitioners really tell clients to move on, or did clients dismiss their practitioners? If not, then what held them together?

The findings showed that practitioners adopted several strategies to cope with such conflicts. When faced with role conflict, practitioners in most instances did not resist their clients’ requests or demands outright. The fact that aggressive or cautious advice giving was less important than proficiency possibly reflects the fact that practitioners are adept at adapting to their clients, and perhaps even weeding out clients who are not likely to work cooperatively with them at an early stage. Qualitative data showed that practitioners are well versed in persuading, listening to, and negotiating with clients. These interactions between the practitioner and the client not only had an effect on the ultimate decision made by the client but also helped to resolve role conflict. In this sense, practitioners saw themselves as mentors to their clients who were guided by them in tax matters. From the practitioners’ perspective, conflicts would lead to breakdowns in relationships only if clients persisted with their unrealistic or illegitimate demands.

From the clients’ standpoint, their gap experience is very likely, in the short or long run, to create significant tensions in their relationships with practitioners, such as dissatisfaction with, and termination of, practitioners’ services. And this is what most practitioners would fear, that is, being deserted by clients for not acting in accordance with their needs. The Role Model explained why an expectation-experience gap may not necessarily destabilise the practitioner-client relationship. Interpersonal relations, such as trust, have a part to play in settling or tolerating differences. The findings provided evidence of the significant role of trust and technical proficiency in establishing a good working relationship. Taxpayers’ satisfaction (that is, overall satisfaction and intention to retain practitioner) was inversely related only to the technically proficient gap. The degree to which practitioners lived up to the taxpayers’ expectations for giving cautious advice or aggressive advice bore no significant relationship to satisfaction when the proficiency gap and trust were taken into account.
Trust, which was positively associated with satisfaction, emerged as a more important factor.

These results tell us that taxpayers on the whole valued practitioners who were honest, competent, communicative, trustworthy and had an interest in their firms’ tax affairs. Together, these factors contributed to a trusting, stable practitioner-client relationship. Satisfaction with a tax practitioner, as this study showed, does not necessarily capture the thrill of risk taking. In other words, a taxpayer could be equally satisfied with a cautious adviser or an aggressive adviser. The experiences may be different. For instance, with the cautious adviser, a taxpayer may be ‘framed’ so as to be satisfied that s/he is being advised by someone whom s/he trusts and is competent. With the aggressive adviser, that same taxpayer may be ‘framed’ so as to be satisfied with this “aggressiveness” – s/he still trusts the practitioner and is influenced by his/her competence. Practitioners who fail on these qualities may easily lose out to competitors, as taxpayers may change practitioners if they come to know of a better one.

Overall, the quantitative and qualitative data provided evidence of how the dynamics of their relationship shaped decisions. The qualitative data provided by practitioners supported the importance that role communication played in their tax decisions. Their interactions enabled practitioners to assess the risk profile of each client and provide advice accordingly. As mentioned earlier, it also enabled them to resolve role conflicts by explaining the risks to the clients and perhaps offering an alternative solution, coming to a compromise, or solving the problem together, depending on the tax issue under consideration. There appears to be a fair bit of discussion and/or negotiation going on to resolve a tax problem or issue. These insights from tax practitioners converged well with the insights from the business taxpayers. Taxpayers also indicated that they discussed their situations, the options, the grey areas and the risks involved with their practitioners. Feedback from both parties also highlighted the point that taxpayers do not always acquiesce to the practitioners’ recommendations. Aggressive tax decisions arise out of a complex interplay between taxpayer and tax practitioner. This lends further support to the notion of a ‘team play’ between practitioner and client to a considerable degree when tax decisions are made.
9.3 Implications of the study

Several policy implications can be drawn from the results of this study.

First, the expectation-experience gap suggests that practitioners as perceived by taxpayers are not meeting their expectations in many areas. Clients expect to get the most out of their practitioners because they are charged for the tax advice; they want practitioners who are competent, who can help them to save as much tax as possible and also keep them within the limits of the tax law. When their minds are focused on saving tax, they think that their practitioners are not helping them enough to save more. But when their minds are focused on sanctions, they like more cautious advice from their practitioners. Despite such mindsets, what this study revealed that even if the experiences fell short of their expectations, taxpayers’ satisfaction and consequent decision to retain their practitioners are not made on an ad hoc basis. Rather, they are based on their overall evaluation of their practitioners’ services. What matters most in their evaluation of services is practitioners’ technical proficiency and trustworthiness. The fact that the giving of aggressive or cautious advice does not match expectations has no influence on taxpayers’ satisfaction. The qualities of good practitioners as perceived by taxpayers are competency, honesty, trustworthiness, good communication skills and acting in the interest of the client. Most important of all, a good trusting working relationship is what creates a bond between the practitioner and the client. Practitioners who fail on these qualities may easily lose out to a competitor, as taxpayers come to know of a better one who is reputed to be technically competent and trustworthy.

Second, implicated in the findings is role ambiguity. It seems likely that practitioners are unaware that they fall short of taxpayers’ expectations of them. The inadequate disclosure of information by taxpayers, and the taxpayers who assumed that their practitioners knew what they wanted perhaps further added to the ambiguity of their role. There is a need for clearer information and communication for satisfactory role performance by practitioners. Clear information is also required so that practitioners can help taxpayers comply with tax requirements. From the practitioners’ perspective, the technically proficient advice gap, rather than the aggressive or cautious advice gap, is of
concern as it has the potential to destabilise practitioner-client relationship. But are taxpayers overly demanding or unaware that their demands may be incompatible? If this is the case, then practitioners need to ask taxpayers to spell out clearly what they really want from their services and to disclose all relevant information to them. They could then explain the parameters of their advice clearly to taxpayers. An engagement letter from the practitioner, specifying his/her services in detail would be most useful to help clarify his/her role. With the majority of taxpayers in this sample reporting no knowledge of an engagement letter, there is a further signal of lack of clear information being communicated from one to the other.

Third, practitioners see themselves as playing multiple roles in discharging their tax services. Their role involves rendering advice to clients to help them with their compliance obligations and to minimise tax. However, the competitive market for practitioners’ services puts pressure on them to market themselves aggressively. That is, they satisfy the requirements of technical proficiency as well as being able to help clients save the maximum amount of tax. This might have given taxpayers the impression that practitioners are able to juggle both aggressive and cautious advice to their maximum advantage. Practitioners know that it is not illegal to provide aggressive advice and they know they can push their advice to the limits of what could conceivably be accepted as a well argued acceptable tax position (Braithwaite 2003). But they also need to balance client demands for aggressive tax strategies, their professional integrity, and tax law requirements. Role conflict is inevitable when they have to meet varied demands from clients, but practitioners resolve them in several ways. Where tax law is straight forward, they take up the educative and gatekeeper role. By explaining clearly the tax law and implications to clients, they are helping them to realise what they ‘can’ and ‘cannot’ do. In this sense, they help to enforce the tax law and enhance compliance. This explanation fits in well with the role of the ‘other’ identified by Braithwaite and Wenzel (2008) as a group that can lead taxpayers into and out of compliance. For business taxpayers, tax practitioners are the ones who are most influential.

Where tax law is ambiguous, practitioners adopt a strategy for giving aggressive advice to clients. They do so by managing the risk propensity of their clients. For aggressive types of clients, practitioners exploit law ambiguity more aggressively to their
advantage. To what extent they are willing to help clients stretch the boundaries of the law depends on a certain extent on their individual characteristics. Some practitioners have more aggressive postures than others, which drives their professional judgment. Large firms also have more resources, human and financial, to craft lucrative ways of minimizing tax. Qualitative data suggest that some practitioners may be willing to give in to the aggressive demands of clients if pressured by them, but practitioners will make them aware of the risks involved. In this way, practitioners are able to safeguard themselves in their role as practitioners: they make clients happy, but also make them aware of their responsibilities for the risks involved.

The important role tax practitioners play in business taxpayers’ behaviour needs no further mention. In devising strategies to enhance tax compliance by taxpayers who engage the services of practitioners, governments need to recognize that tax compliance involves a partnership between not only the practitioner and the client, but also with the government (Book 2009; Braithwaite 2003). Therefore, they need to have a responsive and cooperative attitude toward practitioners by continuously lending them support in their roles as an “educators” and “enforcers”.

What about practitioners as ‘exploiters’? The literature tends to suggest that if aggressive advice is demand driven, then strategies should be targeted at taxpayers whereas if it is supply driven, then practitioners should be targeted. Although results from this study indicate that clients’ aggression leads to practitioners’ aggression, this does not rule out practitioners’ ability to exert influence on clients’ taxing behaviour. Whether aggressive advice is demand driven or supply driven does not really matter as both the quantitative and qualitative data show that it is very much a ‘team play’ between the two parties. Since the relationship is dynamic, tax authorities would need to focus on both sides of the dyad. One way of going about it as proposed by several researchers is the creation of a practitioner database to monitor those with ‘good’ and ‘bad’ compliance records by tax authorities (Book 2009; Braithwaite 2003). Braithwaite (2003) further suggested that targeting audits on practitioners with ‘bad’ records (that is, they consistently defended their tax position using a weak arguable position) would help steer taxpayers away from engaging them for fear of audit.
A fourth implication of this research relates to deterrence theory. Deterrence theory is grounded in the self-interest economics model and posits that sanctions deter taxpayers from noncompliance, that is, increasing the probability of detection and penalty makes it less likely that people will take part in noncompliant behaviours. Although this theory has been supported in prior studies, it has also been criticised by social scientists for its narrow view, as it does not consider noneconomic or attitudinal factors are not taken into consideration. Several studies have since supported the impact of noneconomic factors on tax compliance (Kirchler 2007). It is interesting that one of the key issues that emerged from this study is that factors such as expectation of aggressive advice, risk propensity and sanction risk perception impacted on business taxpayers’ decisions on accepting aggressive advice, but personal norms (personal tax ethics) and social norms (business tax ethics) did not. In part, this may be because ethics are not regarded as relevant to aggressive decisions that are in keeping with the letter of the law. In these circumstances where the letter of the law and intentions of the law do not always coincide, deterrence may be a more important signal than ethics as to what is right or wrong.

An implication of the results of this study is that tax penalties are an important deterrent, but they need to be salient in taxpayers’ minds (Braithwaite 2005; Smith and Kinsey 1985). The tax authorities can raise business taxpayers’ perceptions of sanction risk by improving their communication about their audit activities and the severity of the penalty structure for taxpayers found to be noncompliant. As pointed out by Webley et al. (1991), people’s estimate of the chance of successfully evading taxes are influenced more by media coverage of cases prosecuted for evasion than by actual changes in auditing procedures. Some studies have shown that educational communication directed at taxpayers can successfully strengthen compliance (Hasseldine and Kaplan 1992; Hasseldine et al. 2007; Hite 1997; Violette 1989). For instance, Hasseldine et al.’s work (2007) showed that an increase in taxpayers’ reported income appeared in response to persuasive deterrence messages about the possibility of taxpayers being chosen for audit and charged penalties on incorrect returns.

Fifth, the findings of personal tax ethics and business tax ethics not playing a significant role in taxing behaviour are contrary to the literature. Of note is that in most prior
studies, in which these factors were examined, they were not considered in the context of taxpayers engaging the services of tax practitioners to help them with their tax affairs. Once a taxpayer engages the services of a practitioner, the practitioner is interposed between him/her and the tax authorities. As a result, it is possible that factors affecting a taxpayer who does not use a tax practitioner are different from factors affecting a taxpayer who uses one. Tax practitioners, in a sense, may become the ethics gatekeeper in the minds of taxpayers. Practitioners can influence their clients’ tax decisions by educating them about what ‘can’ and ‘cannot’ be done. As a result, variables that were once important when taxpayers made decisions alone are not salient when taxpayers are advised by the practitioner.

As a result of this study it is suggested that much of the time, practitioners assume the role of moral guardian and help taxpayers meet realistic expectations while discouraging unrealistic ones, especially those that are tantamount to tax evasion. Thus, if taxpayers trusted and relied on their practitioners, their personal ethics and business ethics may not be enrolled in their decisions. Although numerous respondents in this study are aware of other business firms’ intention to manipulate figures, many did not believe that other firms’s practitioners helped these firm in this way. Therefore, it is not surprising that a social norm of illegal tax activity had no significant effect on whether or not taxpayers agreed with their practitioners’ aggressive advice. This result suggests that an examination of the effects of social norms on taxing behaviour needs to be considered carefully in context.

A further way in which this study differs from other compliance studies is that tax practitioners and taxpayers have been asked to focus on tax avoidance, that is, the use of aggressive tax thinking or advice. Practitioners and taxpayers may not perceive anything wrong or unethical in providing and accepting aggressive advice where the tax law is ambiguous. Aggressive reporting is legal, unlike tax evasion, which is not. Instead, they may perceive that it is the government’s fault for not legislating clearly; hence they have every right to save the maximum amount of tax as the law allows. As pointed out by Braithwaite (2005), it is the uncertainty, and ambiguity of tax law that makes aggressive tax planning a lucrative area.
A final consideration in reflecting on the absence of tax ethics as a predictor of aggressive decision making is that this study was focused on business taxpayers. It is possible that entrepreneurs' perceptions and attitudes may be different from those of ordinary nonbusiness taxpayers, particularly with regard to the importance of personal tax ethics. Kirchler (2007) pointed out this difference where the self-employed tended to see taxes as hindering their freedom to invest money in the business, whereas groups such as white collar workers and civil servants associated taxes with fairness and norms. He observed that interindividual and situational differences may make the models of tax compliance in one context nongeneralisable to other contexts. Researchers like James (2006), Milliron (1988) and Richardson and Sawyer (2001) also cautioned that studies, in which attempts are made to develop a universal theory of compliance behaviour relevant to the entire taxpaying population may be overlooking important differences across subgroups. As pointed out earlier, the roles of taxpayer and practitioner in making tax decisions may not accommodate the expressions of personal tax norms and business norms. The context may be one of doing business within the law, not one of acting in accordance with one's personal ethics or others' ethics. Instead, business taxpayers are more affected by their risk characteristics and their perception of sanction risk within their more narrowly conceived business model.

So far, role ambiguity is being considered within the dyad of the taxpayer-practitioner relationship. The findings, however, go beyond the dyad and have further implications for policy. The news that taxpayers want to 'have it all' does not emerge in isolation. The tax and financial planning industry market itself as a service that cuts the tax bill honestly for taxpayers. Tax practitioners then take up the role of reining in the unrealistic expectations of taxpayers who have absorbed the industry advertisements. This supply-demand circle flourishes because tax law is open to interpretation. A number of scholars have argued that principle-based tax law would do much to clarify what is legal and what is not (Freedman 2004). This study of taxpayer-practitioner expectation gaps signals that further consideration of principle-based law might relieve some of the tensions in the taxpayer-practitioner relationship.
9.4 Limitations and future research

Like any study, this study has its limitations. These limitations have implications for researchers interested in the role of tax practitioners in taxpaying behaviour.

Any method of data gathering has its strengths and weaknesses. The findings elicited from the mail survey should be viewed with caution, due to the possibility of selection bias in the sample. It is not known for certain whether those who responded were different from those who did not. With the responses being anonymous (which was considered essential as some questions may have been perceived as sensitive), it was not possible to perform any sociodemographic checks. The low response rate for business taxpayers could therefore be of concern, although a comparison of the late and early respondents suggested no serious response-related problems. On the whole, it is still possible that those who participated might represent a less aggressive and more ethical group.

Other limitations of using a mail questionnaire are the social desirability bias and the possibility of respondents' misunderstanding questions. Self-reports can be biased by a respondent's motivations to (a) appear logically consistent, (b) comply with norms of social desirability or (c) not to incriminate him/herself, especially when questions relate to compliance. Attempts were made to mitigate these possible limitations by pilot testing the questions and assuring the subjects of the confidentiality and anonymity of their responses but the possibility of such a bias remains.

As in all experimental studies, any vignette used is a hypothetical decision context. It assumes that respondents will reflect how they would behave in an actual setting. To mitigate this limitation, efforts were made to develop a realistic case, by pilot testing the case with a few practitioners. The indication by most practitioners and some business taxpayers that they had experiences similar to the hypothetical case provided some assurance that the case was realistic. However, the hypothetical scenarios represented very general categories – there was no specific identification of a particular type of income or expense. There is a possibility that reporting behaviour can vary with specific income or deductions (Saunders and Wyndelt 1989). Nevertheless, to prevent the questionnaire from being too complex and lengthy, not every possible type of
ambiguous deduction and income classification were included in this study. Neither were varying levels of ambiguity used. For these reasons, there may be a possibility that respondents answered scenario questions picking up on specific and unintended issues implied by the scenarios. A slightly different scenario may perhaps produce different results.

Although there were many areas in which the findings from the tax practitioners' sample converged with the findings from the taxpayers' sample, it must be pointed out that the information was not elicited from a matched sample. Instead, a random sample of taxpayers and a random sample of practitioners were obtained separately. This study, in part, through necessity, but also through choice, opted for samples of taxpayers and tax practitioners which were as representative as possible so that the results could more confidently be generalised to the broader population. To elicit information from dyads required the approval of both parties. This proved not practically feasible in this research context. Originally in planning the study, the intention was to seek convergence of results by interviewing the practitioner who looked after the business taxpayers who responded to the survey. However, none of the taxpayers opted to volunteer the names of their practitioners so they could not be approached to and agree to their being interviewed. Consequently, the idea of a matched pair of dyad interviews was abandoned.

Such a study with matched samples could be executed, however, on a bigger scale by enrolling the assistance of a few large organisations. For example, all tax practitioners could be enrolled in the study (say 100 practitioners) and a client could be randomly sampled for each adviser to give 100 dyads. It might be possible for future researchers to contribute to the literature by surveying the dyads, that is, using matched samples, either by means of either a self-administered questionnaire or in-depth interviews to provide further insights into their working relationships.

Use of a static self-administered questionnaire is a further weakness of the study because it does not capture the nature of the changes to tax decisions on the basis of their interactions between the taxpayers and their tax practitioners. The insightful comments from the practitioners and business taxpayers implied that compromises in
decision making occurred with both parties seeking a tax position with which they could agree. However, it is also possible that for certain tax decisions, the practitioners' or the clients' view might have prevailed. The dynamics of the interaction process could be explored by observing the parties' interactions or by interviewing the two parties. It may be more difficult, in practice, to get the practitioner and client to allow such observation to take place due to practitioner/taxpayer confidentiality, than to conduct interviews with both parties after their private interaction.

Finally, further research could begin with an examination of the effect of other variables that are of potential relevance to tax decision making when there is an element of uncertainty. For instance, the Role Model did not take into account the possible effects of the organisational values and the nature of the organisational environment on the dyads. The reason for not including these factors is that the majority of the respondents were expected to be business taxpayers from SMEs. There was less variability in organisational structure and culture than might appear in other research contexts.

In spite of these above weaknesses, this research enables us to make progress in understanding the role that tax practitioners play in the tax decisions of business taxpayers. In this study a Role Model was used as a basis for understanding the relationship of business taxpayers and practitioners. The Tax Practitioner-Client Role Model placed the practitioners and clients in a social context and is very much a 'perceptual' and 'interactive' model. It represented a process of engagement between taxpayer and practitioner that is cyclical involving feedback and responses between the dyads.

This study therefore makes a significant contribution to the literature by providing insights into what business taxpayers expect of practitioners and what they experience and how they see the role of practitioners within the tax system. It also provides insights into how practitioners understand taxpayers’ needs and how practitioner and taxpayers manage each other, how taxpayers go about pursuing advice and reassurance, and how tax practitioners go about shaping taxpayer interests into a framework that is legally defensible. In the process both taxpayer and tax practitioner work to a point of satisfaction. Despite increasing research and interest in the role of practitioners in
taxpayers' compliance behaviour, research to date has broadly neglected the study of the dyad's relationship dynamics. Interaction is indeed part and parcel of the whole decision-making process. This study provides a conceptual and empirical springboard for future research into the working relationship between tax practitioners and taxpayers.
References


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Appendix A
Summary of Studies on the Role of Tax Practitioner in Taxpayers' Compliance
<table>
<thead>
<tr>
<th>Author(s) (year, country)</th>
<th>(1) Methodology</th>
<th>Focus of study or factors studied</th>
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<tbody>
<tr>
<td></td>
<td>(2) Sample frame</td>
<td><strong>DV = Dependent Variable</strong></td>
</tr>
<tr>
<td></td>
<td>(3) Response no. &amp; rate (%)</td>
<td><strong>IV = Independent Variable</strong></td>
</tr>
<tr>
<td><strong>DEMAND CHOICE FACTORS</strong></td>
<td></td>
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<tr>
<td>Frischmann, &amp; Frees</td>
<td>1) Archival – 1982-84; 1986-1989 data from University of Michigan tax research data base; modelling.</td>
<td>Examine factors that affect choice &amp; level of utilisation of service.</td>
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<tr>
<td>(1999, USA)</td>
<td>2) 5,933 taxpayers.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3) 258 taxpayers.</td>
<td></td>
</tr>
<tr>
<td>Christian, Gupta &amp; Lin</td>
<td>1) Archival - 1982-84 data from University of Michigan tax research data base; modelling.</td>
<td>Determinants of paid preparer usage from a panel of tax return filed by a group of taxpayers.</td>
</tr>
<tr>
<td>(1993, USA)</td>
<td>2) 7686 taxpayers.</td>
<td></td>
</tr>
<tr>
<td>Dubin, Graetz, Udell &amp; Wilde (1992, USA)</td>
<td>1) Archival - used 1979 TCMP.</td>
<td>Analyse taxpayer choices of return preparation services: practitioners (CPAs, attorney &amp; public accountants), other paid preparers (national and local tax services and others) and unpaid third party assistance.</td>
</tr>
<tr>
<td>Hite, Stock &amp; Cloyd</td>
<td>1) Mail survey.</td>
<td>Most important reasons were to have return prepared correctly, followed by to avoid serious penalties, to pay least tax required, and to reduce chances of being audited.</td>
</tr>
<tr>
<td>(1992, USA)</td>
<td>2) Over 1500 small business owners.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3) 300.</td>
<td></td>
</tr>
</tbody>
</table>
| Author(s) (year, country) | (1) Methodology  
(2) Sample frame  
(3) Response no. & rate (%) | Focus of study or factors studied  
DV = dependent variable  
IV= Independent variable | Main findings |
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<tr>
<td>Long &amp; Caudill (1987, USA)</td>
<td>1) Archival - Used 1983 Individual Tax Model File, a stratified random sample of federal individual income tax returns.</td>
<td>Identify important determinants of whether a taxpayer uses an accountant or other professional tax return preparer.</td>
<td>-Preparer usage positively related to marginal tax rate, income level, age, source of income, complexity and being self employed.</td>
</tr>
<tr>
<td>Coyne &amp; Smith (1987, USA), quoted in Tomasic &amp; Pentony (1991, p. 244)</td>
<td>2) 43 tax practitioners in Chicago and some from other parts of USA.</td>
<td>Explored the structure of tax practice and the factors influencing practitioners' attitude toward regulations governing their practices, and what is the nature of client expectations and preferences.</td>
<td>-Prevalent client attitude found to be a desire to avoid any possibility of problems with their tax returns (particularly those of clients of smaller practitioners; clients of larger practitioners expect to take risks to reduce tax liability); -Recent being used as agents for the IRS in seeking to achieve compliance; -IRS did not appreciate the positive role which the practitioners already played in supporting the achievement of goals of the tax system; -Major differences in attitudes were perceived to exist between different types of tax advisers.</td>
</tr>
</tbody>
</table>
| Collins et al, (1990, USA) | 1) Mail survey.  
2) 700 households (Oklahoma & Pennsylvania).  
3) 240 (34%). | Examines factors associated with demand for tax preparer services. | Primary objective is to file the most correct return  
Only 25% indicate minimising tax as primary objective. |
| Slemrod & Sorum (1984, USA) | 1) Mail survey.  
2) 2000.  
3) 600 (33%). | Estimate the magnitude and demographic patterns of the aggregate compliance cost of filing income tax returns. | Expenditure on professional tax assistance to be positively associated with older, unmarried, self-employed, level of income and less educated taxpayers. |
| EVALUATION OF TAX SERVICES  
Christensen (1992, USA) | 1) Mail survey.  
2) 441 clients and 31 preparers in 3 international a/c firms’ offices, Clients: individual partnership, corporate estate and trust tax.  
3) 235 (53%) clients, 31 (100%) preps. | Investigate differences in clients and preparers perceptions of the importance of specific tax services; Evaluate how such differences relate to clients judgments of quality tax services; Evaluate clients’ satisfaction with those services. | -Preparers’ perceptions of what clients expect from a quality tax service differ significantly from clients’ expectations; -Significant differences found in areas of reducing audit likelihood, improving communication (more informative newsletters), more tax savings strategies. |
<table>
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<tr>
<th>Author(s) (year, country)</th>
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<th>Focus of study or factors studied</th>
<th>Main findings</th>
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</thead>
</table>
| Change & Bird (1993, USA) | 1) Mail survey.  
2) 302 clients of 3 local accounting firms.  
3) 187(62%). | Examine what clients want from their preparers and the determinants of client satisfaction with tax services. | - Somewhat satisfied with services overall;  
- Most significant expectations gap was between expected and actual tax savings. |
| **EFFECT OF PRACTITIONER ON COMPLIANCE** | | | |
| Hite & Hasseldine (2003, USA) | 1) Archival - 2253 audit cases from the Examination Quality Measurement system database (71% self prepared, 19% hired CPA, 10% hired non CPA). | Whether there are more audit adjustments and penalty assessments on tax returns with paid preparer assistance than on tax return without paid preparer assistance. | - There are significantly fewer tax adjustments on paid preparer returns than on self prepared returns. CPA prepared returns resulted in fewer audit adjustments than non CPA prepared returns. |
2) A number of cash business owners (CBO) and tax preparers. | Examine the taxpayer/demand and tax preparer/supply side of the taxpayer-preparer relationship. | - CBO misreport income on their own wills but some also seek accountant who can assist them;  
- Tax preparer market more segmented with misreporting CBOs being concentrated on only a few preparers. |
2) Uses 7824 returns obtained from the University of Michigan tax research database for 1983 (7127 returns usable). | Relation between preparer usage and taxpayers’ prepayment position – refunded and total prepayments. | - Paid prepared returns have larger refunds and smaller total repayments implying that paid prepared returns have lower tax liabilities and reduction in tax liability is larger than reduction in total prepayments. |
| Tomasic & Pentony (1991, Australia) | 1) Interviews.  
2) 75 accountants, 33 solicitors and 33 Australian Taxation Office (ATO) officers (from 11 branch office) in 6 Australian cities. | Examines the role of tax advisers; Semi-structured Interviews conducted in 1989 and 1990. | - Developed a closer working relationship with ATO;  
- Played major role in increasing level of client compliance. |
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<tr>
<td><strong>TYPE OF PRACTITIONERS' ADVICE</strong></td>
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<td>Stephenson (2007, USA)</td>
<td>1) Mail survey. 2) Practitioners and their clients. 3) 18% (510) practitioners, 31% clients (512).</td>
<td>Preparer's perceptions of client advocacy and clients' perception of that advocacy.</td>
<td>Preparers more aggressive than clients. Bigger gap found in matched sample. No difference in perceptions between CPAs and non-CPAs, or CPA clients and non-CPA clients.</td>
</tr>
<tr>
<td>Braithwaite (2005, Australia)</td>
<td>1) Interview. 2) 105 participants for example, accountants, lawyers etc.</td>
<td>Whether aggressive tax planning is supply or demand driven.</td>
<td>Mass schemes market is more supply driven whereas boutique products market is more demand driven.</td>
</tr>
<tr>
<td>Sakurai &amp; Braithwaite (2003, Australia)</td>
<td>1) Mail survey. 2) 2,400. 3) 29%.</td>
<td>Taxpayers' perceptions of own understanding and competence in completing income tax returns; sources of support they commonly use; qualities look for in ideal tax practitioners; do they find those who meet their needs.</td>
<td>- Were comfortable with the system, reported confidence in the legitimacy of deduction they claim; - Relied on tax practitioners primarily; - Look for tax agent who is honest &amp; to comply with the law; - Found agents who matched their needs; - Those who prefer minimising tax found practitioners who could do the job and offering clever strategies and suggesting aggressive minimisation schemes.</td>
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<tr>
<td>Murphy &amp; Byng (2001, Australia)</td>
<td>1) Mail survey. 2) 2301 tax scheme investors. 3) 43%.</td>
<td>Preferences for types of tax agents; agreement with tax agents' recommendations.</td>
<td>- Prefers low risk with no fuss approach agent; - Agree with their tax agent's recommendation.</td>
</tr>
<tr>
<td>Atwell &amp; Sawyer (2001, NZ)</td>
<td>1) Mail survey. 2) 210 practitioners from 3 metropolitan centres of Auckland, Christchurch and Wellington. 3) 31%.</td>
<td>Encounter situations that pose ethical problems; Ascertain the ethical attitudes of practitioners.</td>
<td>- Level of tax ethics is 60.7%; - Accountants exhibiting a higher level of tax ethics than lawyers and agents; - Did not identify a responsibility to act in public interest.</td>
</tr>
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<td>Spilker, Worsham &amp; Prawitt (1999, USA)</td>
<td>1) Experiment. 2) 63 tax professionals from Big 6 firms. 3) 63.</td>
<td>Interpretation of ambiguity in compliance and planning decision contexts; DV – how likely they would make the recommendation and likelihood courts would uphold the taxable income reduction (aggressive) position. IV – tax rule form – precise or ambiguous and decision context – compliance or planning. Used a single tax scenario and manipulate ambiguity.</td>
<td>Practitioners:  - Interpret ambiguity to the benefit of clients in compliance decision contexts;  - Interpret ambiguity aggressively in compliance contexts but relatively conservatively in planning decision contexts;  - Exploit precise tax rules to achieve client preferred outcomes in planning decision contexts.</td>
</tr>
<tr>
<td>Tan (1999, NZ)</td>
<td>1) Mail survey. 2) 800 business firms. 3) 296 (43%).</td>
<td>Business firms’ preference for type of advice and retention of practitioner’s services; DV - agreement with practitioner’s advice; IV – practitioner’s recommendation, audit probability (high/low), sanction severity (mild/severe); 8 different scenarios with ambiguous tax deductions used.</td>
<td>- Firms agree with practitioner’s advice, although more strongly with conservative than aggressive advice;  - those who disagree with the advice would terminate their service although no clear evidence that this only occurs when desire for conservative advice is not met;  - No significant effect of probability of audit and severity of penalty on firm’s decisions.</td>
</tr>
<tr>
<td>Marshall, Armstrong &amp; Smith (1998, Australia)</td>
<td>1) Mail survey. 2) 1960 registered tax agents; 162 agents from Big 6 firms. 3) 409 (23%); 52 (32%).</td>
<td>Examines Australian tax agents’ perceptions of the ethical environment in which they practice.</td>
<td>Most frequent ethical problem: fail to make reasonable enquiries where information from client is inaccurate; Most important ethical problem: fail to ensure confidentiality, and technical competence; High frequency &amp; high importance issues: inadequate technical competence; fail to make reasonable enquiries; continue to act for a client even information is incorrect; conflicts in distinguish between tax planning &amp; tax avoidance.</td>
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<td>Brody &amp; Masselli (1996, USA)</td>
<td>1) Experiment. 2) 61 professionals attending a national tax training program. Used a tax case.</td>
<td>Client advocate or government agent on ambiguous situations.</td>
<td>Practitioners unwilling to take aggressive positions even where law is ambiguous; (May be attributed to practitioners and clients characteristics which they did not test).</td>
</tr>
<tr>
<td>Carnes, Harwood &amp; Sawyers (1996, USA)</td>
<td>1) Experiment. 2) 77 tax professionals at manager/partner level from Big 6 firms. 3) 68 for experiment 1 and 35 for experiment 2.</td>
<td>Effects of preparer characteristics on aggressive reporting for itemised deductions. DV – estimated probability of reporting in client favour; IV – experience, education, risk attitude, gender, firm type.</td>
<td>- Risk attitude was significant in explaining deduction decision across cases; education and firm type was significant for a subset of cases. - Group discussion may lead to either risky or conservative shifts in practitioner decisions - Experiment 1, discussion led to a risky pro taxpayer shift in all 3 high probability scenarios - Experiment 2 – a conservative pro IRS shift in 2 of 3 low probability scenarios</td>
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<tr>
<td>Carnes, Harwood &amp; Sawyers (1996, USA)</td>
<td>1) Experiment. 2) 77 tax managers and partners in accounting firm in a large Southern city.</td>
<td>Influence of tax professionals’ years of tax experience, education level, risk propensity, gender type, firm type, CPA status on aggressiveness of their recommendation; Used 18 tax scenarios of various ambiguity levels.</td>
<td>For high ambiguity scenarios, more aggressive positions were taken by those with high risk propensities, CPAs, those with more education and those working for Big 6 firms; - For low no scenario, only risk propensity was significant and for low yes, firm type and risk was significant; - For both types of low ambiguity scenarios, those with high risks propensity were more aggressive; - Individuals at non Big 6 firms were more aggressive than those at Big 6 firms for the low –yes scenarios</td>
</tr>
<tr>
<td>Burns &amp; Kiecker (1995, USA)</td>
<td>1) Mail survey. 2) 418 AICPA tax division committee chairs.</td>
<td>Effects of behaviour characteristics and benefits on CPA ethical judgments; DV- ethical judgment, intention to intervene; IV- behaviour type, benefit.</td>
<td>Unethical to encourage clients to overstate deductions and to oversell service to clients, but less so when firm benefited from unethical behaviours.</td>
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<td>Cloyd (1995, USA)</td>
<td>1) 90 distributed to Big 6 tax seniors and managers. 2) 72 Big 6 tax seniors and managers – 80%.</td>
<td>IV - financial reporting conformity on tax reporting positions re start-up costs and purchase price allocation and - clients attitudes towards risk; - used 2 hypothetical cases. DV - strength of recommendation, conformity, audit probability, likely success, extent to encourage client to accept aggressive position even though they prefer conservative position.</td>
<td>- Conformity of aggressive tax position with financial reporting position and client risk attitude significantly affected recommendations; - The strength with which practitioners recommended aggressive tax positions was significantly greater in the presence of conformity than in its absence; and - Greater when the client was described as aggressive rather than conservative with respect to tax matters; - Years of experience was a significant covariate for recommend, knowledge was significant covariate for conformity.</td>
</tr>
<tr>
<td>Cuccia (1995, USA)</td>
<td>1) Mail survey. 2) 45 CPAs 36 non CPA tax preparer.</td>
<td>Different attitudes by CPAs and non CPAs about compliance; DV – 11 point scale strongly agree to strongly disagree. IV professional status</td>
<td>- CPAs and non CPAs significant differed re effectiveness of penalties, importance of advocacy and job satisfaction from minimising taxes.</td>
</tr>
<tr>
<td>Cuccia et al (1995, USA)</td>
<td>1) Mail survey 2) 138 tax managers from Big 6 3) 65 Big 6 tax managers</td>
<td>Effects of verbal vs. numerical evidential standard on aggressive reporting re income from settlement; DV - reporting position, probability of success, interpretation of required authority; IV - client risk attitude, regulation standard (verbal vs. numerical).</td>
<td>- Tax accountants used the vagueness of verbal standard to report aggressively, when replaced by more stringent numerical standard, aggressive reporting was justified by interpreting the evidence as sufficient for higher standard.</td>
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<td>Schisler D L (1995, USA)</td>
<td>1) Experiment. 2) 125 Taxpayers – MBA students (in managerial or professional position) from a large metropolitan university 127 Tax practitioner – from Big 6 (60%), national, regional, and local CPA firms.</td>
<td>Effects of equity, aggressiveness and consensus on compliance reporting for taxpayers vs. preparers re itemised deductions; DV – equity probability of recommending deduction on 0-100 scale, consensus; IV – preparer status, withholding status, penalty -equity, ethics, self perceived risks, tax practitioner, taxpayer, refund, tax due.</td>
<td>Compared to practitioners, - taxpayers compared to preparers had lower equity perceptions; - taxpayers were more aggressive with tax due. - Practitioners exhibit higher degree of consensus compared to taxpayer's preparer status and withholding status significantly affected deduction decisions.</td>
</tr>
<tr>
<td>Bandy, Betancourt, &amp; Kelliher (1994, USA)</td>
<td>1) Experiment, mail survey. 2) 285 members of Tax Division of AICPA nationwide, average 18 years of tax experience.</td>
<td>Examines how client importance &amp; client sophistication influence tax advice and signing decisions; DV – Advice, willingness to sign return; IV – client sophistication; client importance; Covariate – familiarity with deduction.</td>
<td>- No sig. relationship between client importance, and sophistication and the independent variables.</td>
</tr>
<tr>
<td>Cuccia (1994, USA)</td>
<td>1) 37 commercial preparers from 3 big cities and 36 CPAs from Big 6 firms in three cities 8 non CPAs. 2) 36 Big 6 CPAs, 37 commercial preparers and 7 non CPA.</td>
<td>Effect of penalties on effort and advice for 5 ambiguous issues involving individual income and deductions; DV – effort (time and no of inquiries) aggressiveness 1-11 scale, definitely deductible to definitely not deduct; IV - preparer type, penalty level, experience.</td>
<td>- Significant preparer x penalty interaction for effort. CPAs increased effort, non CPA decreased effort, CPAs were less pro client than non CPAs; over all result are strong for preparer differences but less for penalties and experience effects; - Penalty threats reduced aggressiveness of recommendations only when recommendations directly followed the threats and only for non CPAs, that is, penalty threats resulted in CPAs recommending significantly more aggressive positions.</td>
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| Schisler (1994, USA)          | 1) Mail survey. 2) 125 Big 6 CPAs. 3) 119 usable responses. | Examine client payment status and client tax aggressiveness on preparers reporting decisions; DV - deductibility; IV - withholding status, penalty, client risk attitude used ambiguous tax decision. | - Preparers not affected by clients payment status until exposed to the clients preference concerning a specific tax position;  
- Preparer more aggressive with aggressive client concerning tax issues and compounded by clients payment status especially tax due situations; more conservative advice with conservative clients across withholding conditions; withholding status affected recommendations only after client risk attitude was known; covariate for self risk was significant but experience and client income were not significant. |
| Newberry et al (1993, USA)    | 1) Experiment. 2) 113 CPAs attending continuing education/monthly meetings Experimental setting – used 6 ambiguous case scenarios. 3) 107 usable responses. | Effects of direct economic interest on compliance judgment re asbestos removal; DV – likelihood of signing tax return for deductibility on 10-point scale; IV - client tenure: client for 10 years/potential client, penalty: high/low enforcement, order of information. | - Greater likelihood of signing tax returns containing a large deduction associated with an ambiguous tax issue if threat with loss of existing than new client (under a loss decision frame), or  
- when preparer penalties are communicated with high enforcement intent;  
- Order of information on enforcement and years of experience not significant. |
| Hite & McGill (1992, USA)     | 1) Mail survey. 2) 1000 US residents. 3) 262 (28%). | Preference for type of advice and termination of practitioners services; DV- agreement with preparer advice; IV – preparer recommendation, audit probability (high/low) and sanction severity (severe/mild) 8 different scenarios with ambiguous tax deductions used. | - Taxpayers prefer conservative advice;  
- Will disengage preparer when they disagree with advice, particularly aggressive advice;  
- No significant effects of audit probability and severity of penalty on their decisions. |
<table>
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<tr>
<th>Author(s) (year, country)</th>
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<th>(2) Sample frame</th>
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<tr>
<td>Hite, Stock &amp; Cloyd (1992, USA)</td>
<td>1) Mail survey. 2) Over 1500 small business owners (SBOs). 3) 300 usable.</td>
<td>Examine: - reasons for use of practitioners; - how compliant are SBOs; - SBOs preference on tax decisions.</td>
<td>Reasons: correct return, avoid serious penalties, pay least tax required, reduce chance of being audited; - 75% &amp; 72% never knowingly failed to report income and overstate deductions respectively.</td>
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<td>Pei, Reckers &amp; Wyndels (1992, USA)</td>
<td>1) Experiment. 2) 140 tax manager from Big 6 firm – half inexperience and half highly experienced. 2x2 experiment</td>
<td>Effects of information presentation order on their belief revision about ambiguous tax treatments. Impact of experience and clients tax preference on belief revision; DV – 11 point scale very strong investor to very strong dealer classification; IV – order of information, client preference, and experience.</td>
<td>- Significant 3 way interaction order x client x experience; order was significant for experienced managers only and client preference was significant for inexperienced manager only. Inexperienced managers had a pro risks attitude; - Experienced manager belief revision affected by information presentation order and unaffectedly client preference; - Inexperienced manager's belief revision exhibits a reverse pattern.</td>
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<td>Klepper, Mazur &amp; Nagin (1991, USA)</td>
<td>1) Analytical study, Archival. 2) 1982 TCMP data.</td>
<td>Who uses preparers? What factors influence their provision?</td>
<td>- high-income nonbusiness audit class and the business and farm audit class engage preparers to help them exploit ambiguity in the tax law; - empirical analysis supports their model which predicts that the expert's participation will discourage non-compliance on legally unambiguous income sources but encourage non-compliance on ambiguous sources.</td>
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<td>Reckers, Sanders &amp; Wyndels (1991, USA)</td>
<td>1) Experiment. 2) Used case setting on 59 Big 6 firms' tax specialists attending manager level training sessions.</td>
<td>Test whether preparer penalties influence aggressiveness of CPAs when giving advice to a client and signing a client's return. Also examines the impact of client importance (compensation) on the aggressiveness of CPA; DV – Advice -discourage/encourage to defer gain; refuse to sign return; IV – preparer penalties, client importance (income level).</td>
<td>-Preparers were more conservative when penalty threat was explicit and for less important client; - Interactions were not significant a; familiarity was significant as covariate; - Higher level of present and future compensation received from a client does increase the aggressiveness of CPAs when giving advice or signing return; - Preparer penalties were found to be effective in reducing CPAs aggressiveness for only signing returns.</td>
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<td>McGill (1990, USA quoted in Roberts 1998)</td>
<td>1) Mail survey. 2) 109 Big 8 CPAs from one firm.</td>
<td>Factors that affect aggressive tax reporting by CPAs for unspecified grey area item; DV- 9 point scale definitely not to definitely yes IV – probability of audit, probability of exam, amount, client importance, sanctions, locus of control, experience.</td>
<td>Significant 3 way interaction exam x audit x client; all main effects significance. LOC had some effect, males and more experienced subjects more aggressive decisions.</td>
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<td>Ayers, Jackson &amp; Hite (1989, USA)</td>
<td>1) Mail survey. 2) 228 tax practitioners from 54 states, attending continuing education program. 3) 168 usable response, 69 Big 8, 50 non Big 8, and 49 unenrolled practitioners.</td>
<td>Hypothesised that judgment of tax practitioners who are CPAs are more pro taxpayer than those who are not; DV – medical &amp; education deductions / capital gain, prize and damages taxable income; IV – CPA status; Used a set of ambiguous tax cases – 2 on deductibility, 1 on classification of income, 2 on recognition of income.</td>
<td>- CPAs were more pro taxpayers than were non CPAs on ambiguous areas of tax, particularly in deduction cases; - No significant differences in firm size.</td>
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<tr>
<td>Duncan, LaRue &amp; Reckers (1989, USA)</td>
<td>1) Mail survey. 2) 133 from a Big 8 professional tax managers with 3-7 years of experience using hypothetical tax scenarios.</td>
<td>Aggressive reporting for real estate tax shelter DV- 0-10 scale strongly discourage to strongly encourage; IV - probability of IRS audit, risk preferences, year end payment status of client, technical knowledge and recent experiences of professionals influence professional advice.</td>
<td>- Experience - % of shelter clients and audit success significant; - Payment status weakly significant; - Only probability of audit failed to register significant in the experiment; - Client attitude significant but in wrong direction; - Age and years of experience were not significant.</td>
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</table>
| Author(s) (year, country) | (1) Methodology  
(2) Sample frame  
(3) Response no. & rate (%) | Focus of study or factors studied  
DV = dependent variable  
IV= Independent variable | Main findings |
|--------------------------|--------------------------|--------------------------------------|----------------------|
| Helleloid (1989, USA)    | 1) Survey.  
2) 96 masters students, 181 CPAs. | Effect of ambiguity of clients records on tax return positions;  
DV -- difference in client estimate of auto mileage and gas use in tax return  
IV- ambiguity in client records, client attitudes, experience. | - For CPAs, ambiguity period was significant. Client attitude and interactions were not significant; experienced and small firm CPAs were more conservative. |
| Klepper & Nagin (1989, USA) | 1) Analytical, Archival.  
2) 1982 TCMP data. | Assess the influence of tax preparers on tax compliance by comparing adjustments for self prepared versus paid preparer returns - preparers contribute to compliance by enforcing legally clear requirements but also contribute to non-compliance by helping taxpayers take advantage of legal ambiguity. | - Preparers contribute to compliance by enforcing legally clear requirements but also contribute to non-compliance by helping taxpayers take advantage of legal ambiguity. |
| LaRue & Reckers (1989, USA) | 1) Field experiment.  
2) 110 Big 8 tax manager of a large public accounting firm, role play- used hypothetical tax cases, at a national training program. | Aggressive reporting for real estate tax shelter  
DV - 0-10 scale strongly discourage to strongly encourage;  
IV - Examine some factors: probability of audit, size of opportunity for tax saving;  
overpayment/underpayment year end tax status of client and experience of tax professional, that could influence tax preparer reporting recommendations. | - Probability of audit had not significant effect  
- Experience of professional was significant and interacted with tax savings and year end payment status of client, i.e. relatively inexperienced practitioners were influenced by over/underpayment status of the client;  
not influenced by recent IRS audit experiences or by manipulating probability of audit. |
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<tr>
<td>White, P. (1989, USA) – quoted in Tomasic and Pentony (1991, p.243)</td>
<td>1) Face to face interviews. 2) Tax preparers and tax advisers - using 58 item multiple choice questionnaire plus attitudinal data.</td>
<td>Loyalty of tax advisers to clients; Perceptions of IRS conduct; Attitudes regarding their role in tax system.</td>
<td>- 38% of preparers stated their loyalty are completely with their client when dealing with grey areas of tax law; - 40% had highly favourable attitude to IRS in 1986; - Disassociated from clients due to demands would result in inaccurate return did so on average 6 times pa or on &lt; 2% of returns they signed.</td>
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<td>Jackson et al. (1988, USA)</td>
<td>1) Survey 2) 1900 + preparers</td>
<td>DV = Attitudes toward compliance and IRS services; IV = professional status.</td>
<td>- CPAs displayed more aggressive attitudes than lawyers and unlicensed preparers.</td>
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<tr>
<td>Kaplan, Reckers, West &amp; Boyd (1988, USA)</td>
<td>1) Experiment- 4 hypothetical tax cases 2) 8 preparers from Big Eight firms in one city. 3) 52 usable responses.</td>
<td>Examine role of experience and role of outcome from recent IRS experiences on practitioner’s recommendations; DV =recommend claim for unambiguous item (interest) and ambiguous (excessive depreciation); IV = experience (high/low); recent outcome success with IRD (% audits in client’s favour ); audit probability (low/high) and probably amount of loss (low/high); And influence of environmental economic factors-recent experience with IRS and the interaction of experience with audit probability influence aggressiveness for ambiguous settings but not for non ambiguous settings.</td>
<td>- Recent experience with IRS and the interaction of experience with audit probability influence aggressiveness for ambiguous settings but not for non ambiguous settings.</td>
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<tr>
<td>Author(s) (year, country)</td>
<td>(i) Methodology</td>
<td>(ii) Sample frame</td>
<td>Focus of study or Factors studied&lt;br&gt;<strong>DV</strong> = dependent variable&lt;br&gt;<strong>IV</strong> = Independent variable</td>
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<td>Milliron (1988, USA)</td>
<td>1) Field study. 2) 12 Big 8 CPA firm’s tax managers and partners at 4 different offices.</td>
<td>Explore possible influences on tax preparers that might explain their apparent link to aggressive reporting positions in ambiguous situations. Used 24 client and preparer related items affecting compliance decision.</td>
<td>Seven factors identified: client tenure, quality of client records, client dependability, dollar amount, preparer vulnerability, IRS position an ethical concerns. - Most important determinants of aggressiveness of professional’s tax advice are client aggressiveness, penalties, and ambiguity of the item.</td>
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TERMINOLOGY AND INSTRUCTIONS

The term "tax practitioner" used here also includes a tax agent, tax adviser, tax consultant, tax planner, or an accountant or lawyer who provides tax compliance and/or tax planning services.

The term "firm" used here refers to your own business, or the firm or organisation that you are working for.

"My" tax practitioner means your firm's tax practitioner.

FIRST OF ALL, DOES YOUR FIRM ENGAGE THE SERVICES OF A TAX PRACTITIONER? (TICK ONE BOX)

No ☐ If your answer is no, please send this questionnaire back to me using the reply paid envelope enclosed. Please write your name and your firm's name here so that I don't have to send a reminder to you. Thanks.

Your name and firm's name: _______________________

Yes ☐ If your answer is yes, please complete the rest of the questions.

In answering most questions, you only need to tick a box to indicate the extent of your agreement or disagreement with the statement provided. For some questions, you will only need to circle a number that best represents your views. Two examples are shown below:

**Example 1**

<table>
<thead>
<tr>
<th>The tax system is fair</th>
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<tbody>
<tr>
<td>Strongly Disagree</td>
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Tick this box if you agree that the tax system is fair.

**Example 2**

Say, some of your friends told you that they think the tax system is unfair. Would you agree with them?

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<tbody>
<tr>
<td>Definitely No</td>
<td>Neutral</td>
<td>Yes</td>
<td>Definitely Yes</td>
</tr>
</tbody>
</table>

Circle "5" if you would definitely agree with them ________________
1. EXPECTATIONS, EXPERIENCES AND SATISFACTION

In this section, I would like to find out your general expectations of your practitioner and your actual experiences and satisfaction with your practitioner’s service. For each of the following statements, please tick one box to indicate the extent of your agreement or disagreement with each of them.

1.1 YOUR EXPECTATIONS OF YOUR TAX PRACTITIONER

First of all, let’s focus on what you expect from or hope for in your tax practitioner.

I expect my tax practitioner to:

1. Help my firm file an accurate tax return ........................................... □ □ □ □ □ □

2. Help my firm minimise tax .................................................................. □ □ □ □ □ □

3. Help my firm avoid tax penalties ......................................................... □ □ □ □ □ □

4. Explain the tax law and regulations using words that I/we can understand ......................................................... □ □ □ □ □ □

5. Know many ways to save taxes .......................................................... □ □ □ □ □ □

6. Be able to exploit tax loopholes to the advantage of my firm .......... □ □ □ □ □ □

7. Be creative in dealing with my firm’s tax matters ................................ □ □ □ □ □ □

8. Reduce uncertainties in tax matters that concern my firm .......... □ □ □ □ □ □

9. Be up to date with the latest changes in tax law ............................. □ □ □ □ □ □

10. Save my firm considerable time in dealing with tax matters ......... □ □ □ □ □ □

11. Advise my firm not to take deductions that fall within any grey areas of the tax law ................................................................. □ □ □ □ □ □

12. Be clear about the risks associated with the recommended advice ................................................................. □ □ □ □ □ □

13. Provide my firm with conservative advice in areas where the tax law is not ambiguous .......................................................... □ □ □ □ □ □

14. Provide my firm with aggressive advice in areas where the tax law is ambiguous ................................................................. □ □ □ □ □ □

15. Promote any tax effective schemes to my firm so that I/we don’t have to pay too much tax .......................................................... □ □ □ □ □ □

16. Assist my firm to make claims only when they are clearly legitimate .................................................................................. □ □ □ □ □ □

17. Just deal with my firm’s tax matters with minimum fuss and without bothering us too much with it ..................................... □ □ □ □ □ □
1.2 YOUR ACTUAL EXPERIENCES
The previous section asked you about your expectations of your tax practitioner. Here, I would like to find out your actual experiences with your tax practitioner.

My experience with my tax practitioner is that he/she:

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neither</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Helps my firm file an accurate tax return</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>2.</td>
<td>Helps my firm minimise tax</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>3.</td>
<td>Helps my firm avoid tax penalties</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>4.</td>
<td>Explains the tax law and regulations using words that I/we understand</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>5.</td>
<td>Knows many ways to save taxes</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>6.</td>
<td>Is able to exploit tax loopholes to the advantage of my firm</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>7.</td>
<td>Is creative in dealing with my firm’s tax matters</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>8.</td>
<td>Reduces uncertainties in tax matters that concern my firm</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>9.</td>
<td>Is up to date with the latest changes in tax law</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>10.</td>
<td>Saves my firm considerable time in dealing with tax matters</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>11.</td>
<td>Advises my firm not to take deductions that fall within any grey areas of the tax law</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>12.</td>
<td>Mentions any risks associated with the recommended advice</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>13.</td>
<td>Provides my firm with conservative advice in areas where the tax law is not ambiguous</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>14.</td>
<td>Provides my firm with aggressive advice in areas where the tax law is ambiguous</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>15.</td>
<td>Promotes tax effective scheme(s) to my firm so that we don’t have to pay too much tax</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>16.</td>
<td>Assists my firm to make claims only when they are clearly legitimate</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>17.</td>
<td>Just deals with my firm’s tax matters with minimum fuss without bothering us too much with it</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>
10. Other, please specify _____________________________

1.3 YOUR SATISFACTION

1. Overall, I am satisfied with my tax practitioner’s services ____________
   [ ] Strongly [ ] Strongly
   [ ] Disagree [ ] Disagree
   [ ] Strongly [ ] Strongly

2. I will continue to use the same tax practitioner again for my
   firm next year _____________________________
   [ ] Strongly [ ] Strongly
   [ ] Disagree [ ] Disagree
   [ ] Strongly [ ] Strongly

3. Any other comments you would like to make about your satisfaction with your tax practitioner’s services?
   _____________________________
   _____________________________

2. ACCEPTANCE OF ADVICE AND RISK

This section consists of a number of hypothetical case scenarios. Please circle the number that best represents your
views if you are faced with such a situation.

2.1 Say your firm has incurred an expense of a considerable sum and you seek your tax practitioner’s advice as to whether the
expense is deductible. Your practitioner tells you that the tax law relating to this expense is rather ambiguous but thinks that it
should be deductible. However, if the deduction is challenged by the IRD, your practitioner tells you that there is a 50% chance
that it may not be upheld by the court in your favour.

   If your practitioner advises you to claim the deduction in your firm’s tax return, will you agree with his/her advice?

   1  2  3  4  5
   Definitely No Neutral Yes Definitely
   No

2.2 Has your firm or you ever experienced such a situation?

   [ ] Yes [ ] No

2.3 Say, your firm has received a considerable amount of income and you seek your tax practitioner’s advice as to whether the
income is taxable. Your practitioner tells you that the tax law relating to this type of receipt is rather ambiguous. It is arguable
as to whether the income is of a capital (non-taxable) or a revenue nature (taxable), but your practitioner thinks that it should
be regarded as capital. However, if this income is challenged by the IRD, your practitioner tells you that there is a 50% chance
that it may not be upheld by the court in your favour.

   If your practitioner advises you to regard the income as capital, will you agree with his/her advice?

   1  2  3  4  5
   Definitely No Neutral Yes Definitely
   No
2.4 Has your firm or you ever experienced such a situation?

☐ Yes
☐ No

2.5 Say your firm has incurred an expense of $300 and the tax law on the deductibility of this expense is rather ambiguous. How certain will you have to be (on a scale of 0% to 100%) that theIRD will allow the deduction before you will make a claim?

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

2.6 What if the amount referred to in question 2.5 is $3000 instead of $300? How certain then will you have to be that the IRD would allow the deduction before you will make a claim? (Please circle one of the %.)

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

2.7 Say your firm claimed an ambiguous deduction of a considerable sum following your practitioner's advice, what do you think are the chances (on a scale of 0% to 100%) that your firm will be audited, and will face severe penalties if the amount is ruled as not deductible?

Chance of audit? (Please circle one of the %.)

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Chance of severe penalties? (Please circle one of the %.)

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

2.8 (a) How often do you normally disclose all information regarding your firm's tax matters to your tax practitioner? Please circle the number that best represents your disclosure.

1 2 3 4

Never Sometimes Often All the time

(b) If you sometimes do not disclose all the information, are there some specific reasons for not doing so?

☐ Yes, they are confidential information
☐ Other reasons: ________________________________
☐ Not applicable
2.9 Do you normally assume that your practitioner knows your preference for type of advice (conservative or aggressive) for your firm, or do you make your preferences explicitly clear to them?

☐ I assume they know my preferences

☐ I make my preferences explicitly clear to them

☐ I let my practitioner decide what is best for my firm, irrespective of my preferences

☐ Other, please specify

__________________________________________________________________________

3. TAX MEASURES, TAXPAYING ATTITUDES & OTHER ISSUES

Here, I would like to find out what you think other firms would ask their practitioners to do to help them minimise their taxable income. Please tick ✓ the appropriate box or circle the number that best represents your views.

3.1 How often do you think other firms ask their practitioners to help them minimise their taxes in the following manner?

<table>
<thead>
<tr>
<th></th>
<th>Very Unlikely</th>
<th>Unlikely</th>
<th>Neutral</th>
<th>Likely</th>
<th>Very Likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Exaggerate deductible expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Under report taxable income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Manipulate accounts receivable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Manipulate accounts payable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Manipulate inventory figures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Claim private expenses as business expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Claim capital expenses as revenue expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Manipulate work in progress figures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Other, please specify

__________________________________________________________________________

__________________________________________________________________________

3.2 If you are aware that some firms ask their practitioner to help them with one or more of the above, how likely do you think it is that their practitioners will help them? (Please move on to Q3.3 if you are not aware of any firms who ask for this kind of help.

<table>
<thead>
<tr>
<th></th>
<th>Very Unlikely</th>
<th>Unlikely</th>
<th>Neutral</th>
<th>Likely</th>
<th>Very Likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

263
3.3 Say if you ever asked your practitioner to help your firm to exaggerate expenditure, how likely do you think your practitioner will help you with your request?

1  2  3  4  5

Very Unlikely  Unlikely  Neutral  Likely  Very Likely

Any comments you would like to make?

3.4 Under normal circumstances, what would be your most common course of action following advice provided to your firm by your tax practitioner?

<table>
<thead>
<tr>
<th>Course of Action</th>
<th>Never</th>
<th>Occasionally</th>
<th>Frequently</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Accept whatever advice is given</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Discuss alternative measures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Express disappointment with recommendations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Check the advice out with someone else</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Any comments you would like to make?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.5 To what extent do you agree or disagree with the following statements about your tax practitioner?

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neither</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>My tax practitioner:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Is open and honest with me in dealing with my firm's tax matters.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Is a trustworthy person</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Acts in the interest of my firm rather than his/her own interests ...</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Has high integrity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.6 Do you think other firms honestly declare all their taxable income in their tax returns?

1  2  3  4  5

Definitely  No  Neutral  Yes  Definitely

Definitely  No

7
3.7 What about for your firm? Do you think your firm should declare all taxable income in the tax return?

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Definitely</td>
<td>No</td>
<td>Neutral</td>
<td>Yes</td>
<td>Definitely</td>
<td>Yes</td>
</tr>
</tbody>
</table>

3.8 People may have different perceptions of what is meant by aggressive advice. To what extent would you consider the following types of advice to be aggressive? Please tick ☑ the box to indicate the extent of your agreement or disagreement with the following interpretations.

Aggressive advice refers to advice that:

1. Favours a taxpayer’s tax position on a questionable item

2. Involves arrangements which are contrived and artificial in their method of execution

3. Involves arrangements which are not commercially or economically justified

4. Has a higher chance of failure than success if challenged by the IRD

5. May not be upheld if challenged by the court

6. Goes against the policy intent of the tax law but is still within the letter of the law

7. If none of the above capture your interpretation, please explain what it means to you

4. A LITTLE ABOUT YOU AND YOUR FIRM

Now I would like to find out just a bit about you and your firm’s background. Please tick ☑ the appropriate box or fill in the spaces provided.

4.1 How many persons are currently employed (full time or part time) by your firm? If none, please go to Q4.2.

<table>
<thead>
<tr>
<th></th>
<th>1 – 5</th>
<th>6 – 19</th>
<th>20 – 49</th>
<th>50 – 99</th>
<th>100 +</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.2 Which of the following categories best describe your firm’s annual turnover (excluding GST) for the last tax year?

☐ Up to $40,000
☐ > $40,000 - $100,000
☐ > $100,000 - $500,000
☐ > $500,000 - $1 Million
☐ > $1 Million - $5 Million
☐ > $5 Million - $20 Million
☐ > $20 Million - $50 Million
☐ > $50 Million

4.3 Your firm type is:

☐ Sole proprietorship

☐ Company, please indicate whether it is also:

☐ Foreign owned
☐ NZ owned
☐ Listed
☐ Not listed

☐ Partnership with ____ partners (please indicate number of partners)

☐ Other, __________________________________________

4.4 Your position in the firm is:

☐ Director
☐ Accountant

☐ Owner/Manager
☐ Financial controller

☐ CEO
☐ Partner

☐ CFO
☐ Other, please specify __________________________

4.5 Your firm’s tax practitioner is:

☐ A Big 4/Chartered accounting (CA) firm
☐ A non CA firm

☐ A local or regional CA firm
☐ An attorney/law firm

☐ Other, please specify __________________________

4.6 How many years has your firm been using the services of your current practitioner? _______ Years

4.7 Has your firm changed tax practitioners before in the last 3 years?

☐ Yes
☐ No
☐ Not sure

If yes, please specify the reason(s) for the change: ________________________________________________

__________________________________________________________

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4.8 How likely is it that you would change your tax practitioner for the following reasons?

1. Treated in an unprofessional manner by the practitioner
2. Practitioner seemed to be less confident than usual
3. Practitioner gave incorrect advice
4. Practitioner did not inform us of the risks associated with the tax advice
5. Practitioner gave advice that was too conservative
6. Other, please specify

<table>
<thead>
<tr>
<th>Level</th>
<th>Never</th>
<th>Somewhat</th>
<th>Very</th>
<th>Extremely</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
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<tr>
<td>3</td>
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<td>4</td>
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<tr>
<td>5</td>
<td></td>
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</tr>
</tbody>
</table>

4.9 If your firm also uses other services, apart from tax services from your tax practitioner’s firm, please indicate the type of services used.

- Audit services
- Business Advisory services
- Other, please specify

- Not applicable

4.10 Did you receive an engagement letter from your current tax practitioner detailing, for instance, the work to be performed for your firm, confirming that all private and personal information is secure, specifying the cost of the services, etc.?

- Yes
- No

4.11 Overall, how do you rate your own level of tax knowledge and your familiarity with tax penalties?

<table>
<thead>
<tr>
<th>Level of tax knowledge</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
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<td></td>
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<tr>
<td>Medium</td>
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<tr>
<td>High</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very high</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Familiarity with tax penalties</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low</td>
<td></td>
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<tr>
<td>Low</td>
<td></td>
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<tr>
<td>Medium</td>
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<tr>
<td>High</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very high</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

4.12 Has your firm been audited by the IRD before?

- No
- Once
- More than once
6.13 Has the IRO imposed any of the following tax penalties on your firm in the last 3 years?

- Late filing penalty
- Late payment penalty
- Shortfall penalty
- Non-electronic filing penalty
- Criminal penalty
- No penalty

Other types of penalties, please specify

☐ ☐
☐ ☐
☐ ☐
☐ ☐
☐ ☐
☐ ☐

5. FINAL THOUGHTS

Is there anything else you would like to say about your tax practitioner’s services? If so, please indicate below

☐ ☐
☐ ☐
☐ ☐

6. WHAT ABOUT AN INTERVIEW?

The questions in this survey have been of a general nature. Are you willing to be interviewed by me so that I can find out more about your working relationship with your practitioner? If you agree, please write your name, address and phone number on the prepaid card enclosed and send it separately from this questionnaire to me. If not, please ignore the card.

THANK YOU VERY MUCH FOR YOUR HELP

Please return this questionnaire in the freepost envelope provided.
COVER LETTER FOR BUSINESS TAXPAYERS

26 April 2006

Dear ~

I am a senior lecturer in the School of Accountancy at Massey University, and currently pursuing my PhD in the Centre of Tax System Integrity, the Regulatory Institutions Network (RegNet) at the Australian National University. I would like to invite you to participate in my research on the part played by tax practitioners in taxpayers’ compliance.

As you are aware, more and more taxpayers are seeking the help of tax practitioners to assist them with their tax. However, not very much is known about taxpayers’ expectations, their experiences with the services of their practitioners or their working relationships. For instance, do practitioners generally meet the expectations of their clients and do their clients usually agree with their practitioner’s advice? I am seeking the views of both business taxpayers and practitioners – your views therefore are of particular importance for my research. This study is partly funded by an award from the New Zealand Institute of Chartered Accountants (NZICA), the School of Accountancy, Massey University and RegNet, Australian National University.

The questionnaire attached will take about 15-20 minutes to complete. Your name was randomly selected for this survey either from the Yellow Pages or from the internet. Participation in this survey is voluntary. If you take part in this study, you may choose to answer some questions and leave others. I understand that some of issues may be considered sensitive, so the survey instrument contains no means by which individual respondents can be identified. All responses will be kept confidential and will be used for the purpose of this study only. The completed questionnaires will be destroyed once the data has been analysed. The survey results will be presented in aggregate form only and will be posted on the web site: http://www.accountancy.massey.ac.nz/ianresults.htm around January/February 2007.

If you have any queries about this survey, please do not hesitate to contact me. My phone and email address are: (06) 3569099 x 2172; ian.tan@massey.ac.nz.

Thank you very much for considering my request. I hope you will agree to participate by sending the completed questionnaire to me using the reply-paid envelope provided by 17 May 2006 or at your earliest convenience. Your views and experience with your tax practitioner are indeed valuable to my study in providing a better understanding of the practitioner-client relationship.

Yours sincerely,

[Signature]

Lin Mei Tan
Senior Lecturer
Appendix C

Questionnaire and Cover Letter for Tax Practitioners

Massey University

Questionnaire
For Tax Practitioners

In this survey, I am interested in finding what you think your clients expect of you as their tax practitioner and the role you actually take as their practitioner. As you may have a diverse range of clients, please respond to the questions by thinking in terms of what most of your clients who are carrying on a business(ies) expect of you as their tax practitioner.

Please complete this questionnaire and return it to me using the enclosed reply paid envelope. If you wish to comment on any question, feel free to use the space in the margins or include extra pages. Any comments you make will be read and taken into account. I appreciate you sharing your experiences with me for my study.

Note: If you feel that someone else in your firm would be in a better position to answer the questions, please pass the questionnaire to that person.

IMPORTANT: Please note that all responses will be kept confidential and only aggregate results will be reported.
TERMINOLOGY AND INSTRUCTIONS

The term "tax practitioner" used here also includes a tax agent, tax advisor, tax consultant, tax planner or an accountant or lawyer who provides tax compliance and/or tax planning services to their clients.

The term "their firms" used here also refer to your clients’ own businesses.

In answering most questions, you only need to tick a box to indicate the extent of your agreement or disagreement with the statement provided. For some questions, you will only need to circle a number that best represents your views. Two examples are shown below:

**Example 1**

The tax system is fair.

Tick this box if you agree that the tax system is fair.

**Example 2**

Say, some of your friends told you that they think the tax system is unfair. Would you agree with them?

Circle "5" if you would definitely agree with them.
1. ROLE EXPECTATIONS

In this section, I would like to find out what you think most of your clients expect of you as a tax practitioner and how you view your role in practice. Please tick ☑ the box to indicate the extent of your agreement or disagreement with each of them.

1.1 CLIENT'S EXPECTATIONS

Most of my clients generally expect me to:

<table>
<thead>
<tr>
<th></th>
<th>Strongly</th>
<th>Strongly</th>
<th>Moderate</th>
<th>Low</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Help their firms file an accurate tax return.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>2. Help their firms minimise tax.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>3. Help their firms avoid tax penalties.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>4. Explain the tax law and regulations using words they understand.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>5. Know many ways to save taxes.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>6. Be able to exploit tax loopholes to their firms' advantage.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>7. Be creative in dealing with their firms' tax matters.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>8. Reduce uncertainties in tax matters that concern their firms.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>9. Be up to date with the latest changes in tax law.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>10. Save their firms considerable time in dealing with tax matters.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>11. Advise their firms not to take deductions that fall within any grey areas of tax law.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>12. Be clear about the risks associated with the recommended advice.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>13. Provide their firms with conservative advice in areas where the tax law is not ambiguous.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>14. Provide their firms with aggressive advice in areas where the tax law is ambiguous.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>15. Promote any tax effective schemes to their firms so that they don't have to pay too much tax.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>16. Assist their firms to make claims only when they are clearly legitimate.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>17. Just deal with their firms' tax matters with minimum fuss without bothering them too much if it.</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
<td>☑</td>
</tr>
<tr>
<td>18. Other, please specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1.2 WHAT YOU DO FOR YOUR CLIENTS
We have just considered what you think most of your clients' expectations are. Now I would like to find out what you do for most of your clients, in practice.

In practice, I:

1. Help my clients to file an accurate return........................................... □ □ □ □ □
2. Help my clients to minimise tax......................................................... □ □ □ □ □
3. Help my clients to avoid tax penalties................................................ □ □ □ □ □
4. Explain the tax law and regulations using words that my clients understand......................................................... □ □ □ □ □
5. Know many ways to save taxes........................................................... □ □ □ □ □
6. Exploit tax loopholes to my clients' advantage...................................... □ □ □ □ □
7. Am creative in dealing with my clients' tax matters............................. □ □ □ □ □
8. Reduce uncertainties in tax matters that concern my clients.............. □ □ □ □ □
9. Am up to date with the latest changes in tax law.................................. □ □ □ □ □
10. Save my clients considerable time in dealing with tax matters............. □ □ □ □ □
11. Advise my clients not to take deductions that fall within any grey areas of the tax law.............................................................. □ □ □ □ □
12. Mention any risks associated with the recommended advice............. □ □ □ □ □
13. Provide my clients with conservative advice in areas where the tax law is not ambiguous.................................................. □ □ □ □ □
14. Provide my clients with aggressive advice in areas where the tax law is ambiguous.................................................. □ □ □ □ □
15. Promote any tax effective schemes to my clients so that they don't have to pay too much tax.................................................. □ □ □ □ □
16. Assist my clients to make claims only when they are clearly legitimate □ □ □ □ □
17. Just deal with my clients' tax matters with minimum fuss without bothering them too much with it.................................................. □ □ □ □ □
18. Other, please specify..............................................................................
1.3 HOW YOU SEE YOUR ROLE

1. I see my primary duty to my clients as being limited only by a duty to uphold the letter of the law. □ □ □ □ □ □

2. It is sometimes necessary for me to compromise my ethics to meet my clients' expectations. □ □ □ □ □ □

3. I do not see it as my duty to make enquiries when clients supply information or documentation that appears to be incorrect. □ □ □ □ □ □

4. I will refuse to continue to act for a client in circumstances where incorrect or misleading information is not corrected by the client. □ □ □ □ □ □

2. TAX ADVICE AND RISKS

This section consists of a number of hypothetical case scenarios. Please circle the number that best represents your views if you are faced with such a situation.

2.1 Say one of your client's firms has incurred an expense of a considerable sum and your client seeks your advice as to whether the expense is tax deductible. You found out that the tax law relating to this expense is rather ambiguous but you think it should be deductible. However, if the expense is claimed and is challenged by the IRD, you think there is a 50% chance that it will not be upheld by the courts in your client's favour.

Would you advise your client to claim the deduction, if your client is the conservative, risk adverse type?

1 2 3 4 5

Definitely No Neutral Yes Definitely

No

Would you advise your client to claim the deduction, if your client is the aggressive, risk taking type?

1 2 3 4 5

Definitely No Neutral Yes Definitely

No

2.2 Have you ever experienced a situation similar to the one in question 2.1?

□ Yes □ No
2.3 Say, one of your clients has received a considerable amount of income and your client seeks your advice as to whether the income is taxable. As the tax law relating to this type of receipt is rather ambiguous, it is arguable as to whether the income is of a capital nature (non-taxable) or a revenue nature (taxable), but you think that it should be regarded as capital. However, if this income is challenged by the IRD, you think there is a 50% chance that it will not be upheld by the court in your client’s favour.

Would you advise your client to treat the income as non-taxable income, if your client is the conservative, risk adverse type?

1 2 3 4 5
Definitely No Neutral Yes Definitely
No

Would you advise your client to treat the income as non-taxable income, if your client is the aggressive, risk taking type?

1 2 3 4 5
Definitely No Neutral Yes Definitely
No

2.4 Have you ever experienced a situation similar to the one in question 2.3?

☐ Yes  ☐ No

2.5 Say your client (think of an average client) has incurred an expense of $300, and the tax law on this area is rather ambiguous.

How certain will you have to be (on a scale of 0% to 100%) that the IRD will allow the deduction before you will recommend your client to make a claim? Please circle one of the percentages.

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

2.6 What if the amount given in question 2.5 is $3000 instead of $300? How certain will you have to be (on a scale of 0% to 100%) that the IRD will allow the deduction before you will recommend your client to make a claim? Please circle one of the percentages.

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%
2.7 People may have different perceptions of what is meant by aggressive advice. To what extent would you consider the following types of advice to be aggressive? Please tick the box to indicate the extent of your agreement or disagreement with the following interpretations.

Aggressive advice refers to:

1. Advice which favours a taxpayer’s tax position on a questionable item ................................................................. □ □ □ □ □ □

2. Advice that involves arrangements which are contrived and artificial in their method of execution ................................................................. □ □ □ □ □ □

3. Advice that involves arrangements which are not commercial from a business or economic perspective ............................................................. □ □ □ □ □ □

4. Advice that has a higher chance of failure than success if challenged by the IRD .................................................................................. □ □ □ □ □ □

5. Advice that may not be upheld if challenged by the courts ............................................................. □ □ □ □ □ □

6. Advice that goes against the policy intent of the tax law but is still within the letter of the law .................................................................................. □ □ □ □ □ □

7. If none of the above capture your interpretation, please explain what it means to you


3. MORE ON ADVICE AND RISKS

3.1 How often do you think most of your clients disclose all information regarding their firms’ tax affairs to you? Please circle the number that best represents your views.

1
2
3
4

Never
Sometimes
Often
All the time

3.2 Do your clients usually make their preferences for type of advice (conservative or aggressive) explicitly clear to you?

No, I think they usually assume I know their preferences .................................................................................................................. □

Yes, they usually make their preferences explicitly clear to me .................................................................................................................. □

They usually leave it to me to decide what is best for their firms, but will question me about my decisions .................................................................................. □

Are there any comments you would like to make?


6
3.3 Say if your client (think of your average client here) claimed an ambiguous deduction according to your advice, what do you think are the chances (on a scale of 0% to 100%) your client will be audited and will suffer severe penalties if the amount is ruled as not deductible? Please circle one of the percentages.

Chances of being audited?

<table>
<thead>
<tr>
<th>%</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
</table>

Chances of facing severe penalties if not deductible?

<table>
<thead>
<tr>
<th>%</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
</table>

3.4 Have any of your clients ever asked you to help their firms minimize taxes in the following manner? [Never, Occasionally, Frequently]

1. Exaggerate expenditure

2. Under report income

3. Manipulate accounts receivable

4. Manipulate accounts payable

5. Manipulate inventory figures

6. Claim private expenses as business expenses

7. Claim capital expenses as revenue expenses

8. Manipulate work in progress figures

9. Other, please specify

If they have, please answer Q3.5 – 3.7. If not, skip to Section 4.

3.5 Roughly what percentage of clients who made any of these requests in Q3.4 are from small firms, medium size firms or large firms?

% From small firms % From medium size firms % From large firms

Are there any comments you would like to make?
3.6 What would normally be your response to any such request(s) in C34?

<table>
<thead>
<tr>
<th>Response</th>
<th>Never</th>
<th>Occasionally</th>
<th>Frequently</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ignore such requests.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Help them with some of their requests.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Help them with all their requests.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Suggest alternative means.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Persuade them not to in their interests.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

Are there any comments you would like to make?

________________________________________________________________________

________________________________________________________________________

3.7 Usually, how would most of your clients' react to your response? You may tick more than one box where applicable.

<table>
<thead>
<tr>
<th>Response</th>
<th>Never</th>
<th>Occasionally</th>
<th>Frequently</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept our advice.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Want us to help them with alternative ways to save tax.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Reject our advice.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Insist we must help them with those measures.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

Are there any comments you would like to make?

________________________________________________________________________

________________________________________________________________________

4. A LITTLE ABOUT YOU AND YOUR FIRM

Now I would like to find out a bit about you and your firm. Please tick ☑ the appropriate box or fill in the spaces provided.

4.1 Are you a member of the following institution/bodies? Please tick as many boxes as applicable.

☐ New Zealand Institute of Chartered Accountants

☐ New Zealand Law Society

☐ Tax Agents' Institute of New Zealand

☐ Other institutions, please specify

________________________________________________________________________
4.2 How many persons are currently employed (full-time and part-time) by your firm?

<table>
<thead>
<tr>
<th>Full-time</th>
<th>Part-time</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5</td>
<td></td>
</tr>
<tr>
<td>6 – 19</td>
<td></td>
</tr>
<tr>
<td>20 – 40</td>
<td></td>
</tr>
<tr>
<td>41 – 50</td>
<td></td>
</tr>
<tr>
<td>Over 50</td>
<td></td>
</tr>
</tbody>
</table>

4.3 Please choose the one category that most closely describes the firm you work in:

- Chartered Accountancy firm
- Law firm
- Tax firm
- Others, please specify ________________________________

4.4 Is the firm a sole practitioner, a partnership or a company?

- Sole practitioner
- Partnership with 2-5 partners
- Partnership with 6 or more partners
- Company

4.5 Your position is:

- Tax partner
- Tax manager
- Tax senior/Supervisor/CEO
- Other, please specify ________________________________

4.6 Which of the following categories best describe your firm’s annual turnover (excluding GST) for the last tax year?

- Up to $100,000
- $100,000 - $250,000
- $250,000 - $500,000
- $500,000 - $1 million
- $1 million - $5 million
- $5 million - $20 million
- $20 million - $100 million
- $100 million
4.7 Please indicate the approximate percentage (%) of your time that is spent on tax related work:

☐ 0%  ☐ 50 – 74%
☐ 1 – 24%  ☐ 75 – 99%
☐ 25 – 49%  ☐ 100%

4.8 Please indicate the percentage (%) of your firm’s tax clients that are considered as:

- Small firms (up to 5 employees) _____________________ %
- Medium size firms (6 to 19 employees) ______________ %
- Large firms (20 or more employees) ________________ %

4.9 Please indicate the number of years you have been involved in providing tax compliance and tax planning services:

☐ Up to 2 years  ☐ >5 years to 10 years
☐ >2 years to 5 years  ☐ >10 years

4.10 Does your firm draw up an engagement letter for each individual client?

☐ Yes  ☐ No  ☐ Sometimes

5. FINAL THOUGHTS

Is there anything else you would like to share about your working relationships with your clients? If so, please indicate below:

__________________________________________________________________________________________________________
__________________________________________________________________________________________________________

6. WHAT ABOUT AN INTERVIEW?

The questions in this survey have been of a general nature. Are you willing to be interviewed by me so that I can find out more about your working relationship with clients? If you agree, please write your name, address and phone number on the prepaid card enclosed and send it separately from this questionnaire to me. If not, please ignore the card.

THANK YOU VERY MUCH FOR YOUR HELP

Please return this questionnaire in the freepost envelope provided.
COVER LETTER FOR PRACTITIONERS

Date

Dear

I am a senior lecturer in the School of Accountancy at Massey University, currently pursuing my PhD in the Centre of Tax System Integrity, the Regulatory Institutions Network (RegNet), at the Australian National University. I would like to invite you to participate in my research on the part played by tax practitioners in taxpayers' compliance.

As you are aware, more and more taxpayers are seeking the help of tax practitioners to assist them with their tax. However, not very much is known about taxpayers' expectations, their experiences with the services of their practitioners or their working relationships. For instance, do practitioners generally meet the expectations of their clients and do their clients usually agree with their practitioner's advice? I am seeking the views of both business taxpayers and practitioners—your views therefore are of particular importance for my research. This study is partly funded by an award from the New Zealand Institute of Chartered Accountants (NZICA), the School of Accountancy, Massey University, and RegNet, Australian National University.

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If you have any queries about this survey, please do not hesitate to contact me. My phone and email address are: (06) 3569099 x 2172; l.m.tan@massey.ac.nz.

Thank you very much for considering my request. I hope you will agree to participate by sending the completed questionnaire to me using the reply-paid envelope provided by 17 May 2006 or at your earliest convenience. Your views and experiences with your clients are indeed valuable to my study in providing a better understanding of the practitioner-client relationship.

Yours sincerely

Lin Mei Tan
Senior Lecturer
Appendix D

Summary of Statistics for all Variables That Will Be Used for Hypotheses Testing Using the Data from the Taxpayers’ Sample

Summary of statistics for all variables that will be used for hypotheses testing using the data from the taxpayers’ sample

<table>
<thead>
<tr>
<th>Variables</th>
<th>No of items in scale</th>
<th>Mean</th>
<th>SD</th>
<th>Cronbach's alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expectation¹</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technically proficient</td>
<td>9</td>
<td>4.62</td>
<td>.38</td>
<td>.86</td>
</tr>
<tr>
<td>Aggressive advice</td>
<td>4</td>
<td>3.75</td>
<td>.79</td>
<td>.78</td>
</tr>
<tr>
<td>Cautional advice</td>
<td>2</td>
<td>4.13</td>
<td>.74</td>
<td>.62</td>
</tr>
<tr>
<td>Experience²</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technically proficient</td>
<td>9</td>
<td>4.07</td>
<td>.57</td>
<td>.89</td>
</tr>
<tr>
<td>Aggressive advice</td>
<td>4</td>
<td>3.24</td>
<td>.75</td>
<td>.79</td>
</tr>
<tr>
<td>Cautional advice</td>
<td>2</td>
<td>3.90</td>
<td>.67</td>
<td>.64</td>
</tr>
<tr>
<td>Satisfaction³</td>
<td>2</td>
<td>4.10</td>
<td>.67</td>
<td>.83</td>
</tr>
<tr>
<td>Trust</td>
<td>4</td>
<td>4.42</td>
<td>.57</td>
<td>.90</td>
</tr>
<tr>
<td>Agreement with aggressive advice³</td>
<td>2</td>
<td>3.56</td>
<td>.86</td>
<td>.80</td>
</tr>
<tr>
<td>Expectation of aggressive advice²</td>
<td>4</td>
<td>3.75</td>
<td>.79</td>
<td>.78</td>
</tr>
<tr>
<td>Personal tax ethics¹</td>
<td>1</td>
<td>4.26</td>
<td>.72</td>
<td>-</td>
</tr>
<tr>
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<td>.90</td>
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<td>20.1</td>
<td>.72</td>
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<td>Perceived sanction risk¹</td>
<td>2</td>
<td>53.5</td>
<td>24.5</td>
<td>.70</td>
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</tbody>
</table>

¹1 = strongly disagree to 5 = strongly agree  
²1 = definitely no to 5 = definitely yes  
³ level of certainty (0-100%)  
⁴ chance (%)  
⁵1 = never to 4 = frequently
Appendix E
Summary of Statistics for all Variables
That Will Be Used For Hypotheses Testing
Using the Data from the Tax Practitioners' Sample

Summary of statistics for all variables that will be used for hypotheses testing using the data from the tax practitioners' sample

<table>
<thead>
<tr>
<th>Variables</th>
<th>No of items</th>
<th>Mean</th>
<th>SD</th>
<th>Cronbach’s alpha</th>
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<td>.69</td>
<td>.65</td>
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<td>Practice*:</td>
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<td>.85</td>
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<td>20.4</td>
<td>.70</td>
</tr>
</tbody>
</table>

*1 = strongly disagree to 5 = strongly agree
*2 1 = definitely no to 5 = definitely yet
*3 level of certainty (0-100%)