

A will and a way:
An analysis of tax practitioner
preparation compliance

Elea Wurth

Regulatory Institutions Network

A thesis submitted for the degree of

Doctor of Philosophy of

the Australian National University

February 2012

I declare that this thesis is my own original work

Elea Wurth

Acknowledgments

“Once started, Mr Hawke was driven to go on, expounding the Arcana, and the Principia, the Clavis Hieroglyphica Arcanorum Naturalium et Spiritualium, the mysteries of Influx and Vastation, Conjugal Love and Life After Death, for it was only in the act of exposition that Mr Hawke could hold all the balls of his system, so to speak, up in the air at once, an arc of theological tumbling and juggling...” (Byatt, 1992, p. 181)

I have the following people to thank for teaching me the art of theoretical tumbling and juggling and helping me keep all the balls of my system up in the air – Valerie and John Braithwaite, for lending their vast experience and expertise to this project; Nathan Harris, for pointing out that my original plan was perhaps a little over ambitious (“Why are you doing two theses?”); Monika Reinhart and Brian Harrold, for their theoretical and practical support with SPSS; and Jason Connor, with whom the base was built.

Crucial to the completion of this project was the support of the Australian Tax Office. Thank you to Commissioner Michael D’Ascenzo for providing the Commissioner’s postgraduate scholarship. To Deputy Commissioners James O’Halloran and Erin Holland who gave their sponsorship to this project. To Warwick Graco and Graham Williams who encouraged and gave key feedback during the process and Rohan Baxter who inspired the idea of the propensity and opportunity approach taken in this thesis. And most importantly of all, to Chris Mobbs without whom this project would never have got off the ground (or back into it).

This thesis could never have been completed without the support (sufferance) of my family. Specifically, I thank my husband who, despite comparing marriage to a PhD student as living with someone with bipolar disorder, supported and encouraged me all the way. My sister, who re-entered my entire EndNote library after a computer (and ensuing mental) collapse. My mother, who called me at 5.30 every morning to ensure I was actually up and out of bed. And my father who, due to his ongoing support, I will one day forgive for asking, “Why don’t you just finish it?”

Finally, and most crucially, I am indebted to the tax practitioners who took time out of their busy schedules to respond to my questionnaire. Your time and, more importantly, your frank and fearless contributions are appreciated.

Contents

Acknowledgments.....	i
List of tables.....	ix
List of figures.....	xiii
Abstract	xv
Chapter 1: A fine balance.....	1
1.1 Introduction.....	1
1.2 Preparers and tax compliance.....	2
1.3 Regulation of tax preparation	6
1.3.1 Command and control.....	7
1.3.2 Citizenship engagement.....	9
1.3.3 Responsive regulation.....	12
1.3.4 Rules and principles.....	17
1.3.5 Market models and regulatory theory.....	19
1.4 Overview of research.....	22
Chapter 2: Understanding tax practitioner compliance.....	27
2.1 Introduction.....	27
2.2 Professional ethics and modern enterprise culture.....	28
2.2.1 The personal ethics of tax practitioners.....	29
2.2.2 The ethical environment of tax practitioners.....	31
2.2.3 Regulatory effectiveness of a code of professional ethics.....	34
2.3 Tax preparation as rational choice.....	37
2.3.1 Prospect theory	39
2.4 Characteristics of tax legislation.....	40
2.4.1 A tangled web: Complexity.....	40
2.4.2 Shades of grey: Ambiguity.....	41

2.5	Difference between taxpayer and practitioner compliance research	44
2.6	Summary and conclusions	46
Chapter 3: Propensity and opportunity as a conceptual framework.....		49
3.1	Introduction.....	49
3.2	A theoretical framework.....	50
3.3	Preparation compliance	54
3.4	The propensity and opportunity model of practitioner compliance	55
3.4.1	Hypotheses representing the propensity construct.....	56
3.4.2	Hypotheses representing the opportunity construct	63
3.5	Control variables.....	66
3.5.1	Demographic control variables	66
3.5.2	Environmental control variables	68
3.6	Summary.....	69
3.6.1	Summary of hypotheses	71
Chapter 4: Data collection and analysis		73
4.1	Introduction.....	73
4.2	Background and rationale for survey research	73
4.3	Procedure.....	75
4.4	Participants.....	76
4.4.1	Response rate	77
4.4.2	Descriptive statistics for respondents.....	78
4.5	Statistical analyses	81
4.5.1	Assumptions and diagnostics.....	82
4.5.2	Measurement scale construction	83
4.5.3	Hypothesis testing.....	85
4.5.4	Power analysis	86
4.6	Summary.....	87

Chapter 5: Propensity and opportunity measurement scales	89
5.1 Introduction	89
5.2 Propensity measurement scales	89
5.2.1 Risk-taking in tax preparation	90
5.2.2 Preparation ethics	90
5.2.3 Work-value orientation.....	92
5.2.4 Practitioner identity.....	97
5.2.5 Operational definition of propensity for preparation non- compliance	102
5.3 Opportunity measurement scales.....	103
5.3.1 General opportunity measure.....	103
5.3.2 Ambiguity of individuals' tax return items	103
5.3.3 Deterrence measures	107
5.3.4 Operational definition of opportunity for preparation non- compliance	109
5.4 Control variables.....	109
5.4.1 Demographic control variables.....	109
5.4.2 Attitudes and beliefs regarding practice environment	110
5.6 Summary	114
Chapter 6: The measurement of practitioner compliance.....	117
6.1 Introduction	117
6.2 Preparation compliance	118
6.2.1 Preparation compliance scale.....	122
6.2.2 Practitioner compliance clusters.....	129
6.3 Construct validity of the practitioner compliance measure	133
6.3.1 Preparation practices.....	133
6.3.2 Construct validity analysis of the preparation compliance measure	137
6.4 The practitioner teardrop of preparation compliance	141

6.5	Analysis of the control variables for practitioner compliance	144
6.6	Summary and conclusions	148
Chapter 7: Propensity and opportunity at the lower teardrop.....		151
7.1	Introduction.....	151
7.2	Impact of propensity on Contingent versus Duteous cluster membership	153
7.2.1	Propensity hypotheses.....	153
7.2.2	Bivariate results of propensity hypotheses testing.....	156
7.3	Impact of opportunity on Contingent versus Duteous cluster membership..	174
7.3.1	Opportunity hypotheses.....	174
7.3.2	Bivariate results of opportunity hypotheses testing.....	175
7.4	The propensity and opportunity model for predicting Contingent versus Duteous cluster membership	180
7.4.1	Propensity and opportunity model hypothesis	180
7.4.2	Propensity and opportunity model analyses	180
7.5	Summary and conclusions	188
Chapter 8: Propensity and opportunity at the upper teardrop		191
8.1	Introduction.....	191
8.2	Impact of propensity on Aggressive versus Contingent cluster membership	192
8.2.1	Propensity hypotheses.....	193
8.2.2	Bivariate results of propensity hypotheses testing.....	194
8.3	Impact of opportunity on Aggressive versus Contingent cluster membership.....	204
8.3.1	Opportunity hypotheses.....	204
8.3.2	Bivariate results of opportunity hypotheses testing.....	205

8.4	The propensity and opportunity model for predicting Aggressive versus Contingent cluster membership	210
8.4.1	Propensity and opportunity model hypothesis	210
8.4.2	Propensity and opportunity model analyses.....	210
8.5	Outlier cluster analysis.....	218
8.5.1	Descriptive analysis of propensity for preparation non-compliance	219
8.5.2	Descriptive analysis of opportunity for preparation non-compliance	220
8.6	Summary and conclusions.....	222
Chapter 9: Implications for understanding tax practice		225
9.1	Introduction	225
9.2	Discussion of main findings	227
9.2.1	The teardrop of preparation compliance.....	227
9.2.2	Challenging the assumption of professional versus business orientation.....	241
9.2.3	The pervasive effect of ambiguity	247
9.3	Concluding remarks	250
Appendices		255
Appendix A. Letter of invitation to participate in study		255
Appendix B. Participant information sheet		257
Appendix C. The Tax Agent Opinion Survey		259
Appendix D. Cluster differences across client return compliance items.....		267
References		269

List of tables

Table 4.1 Frequency and percent of practitioners for organisational position	79
Table 4.2 Frequency and percent of practitioners for tasks performed	80
Table 4.3 Frequency and percent of practitioners for organisational size	80
Table 4.4 Frequency and percent of practitioners for services offered by organisation	81
Table 4.5 Effect size indexes and their values for small, medium and large effects	87
Table 5.1 Means (SD) for practitioners' ethical stance on client compliance items	91
Table 5.2 Means (SD) for work-value orientation items	93
Table 5.3 Factor loadings of an exploratory factor analysis of work-value orientation items	95
Table 5.4 Means, standard deviations, Pearson's intercorrelations and reliability coefficients for practitioners' work-value orientation scales	96
Table 5.5 Means (SD) for practitioner identity items	99
Table 5.6 Factor loadings of an exploratory factor analysis of practitioner identity items	101
Table 5.7 Means, standard deviations, Pearson's intercorrelations and reliability coefficients for the practitioner identity scales	102
Table 5.8 Means (SD) for practitioners' rating of the ambiguity of individuals' tax return items	105
Table 5.9 Means, standard deviations, Pearson's intercorrelation and reliability coefficients for the ambiguity and complexity of individuals' tax return scales	107

Table 5.10 Means (SD) for practitioners' assessment of the probability of detection and punishment for preparation non-compliance	108
Table 5.11 Means, standard deviations, Pearson's intercorrelation and reliability coefficients for the deterrence scales.....	109
Table 5.12 Measurement scale information for the demographic control variables	110
Table 5.13 Means (SD) for practitioners' evaluation of their relationship with the Tax Office	111
Table 5.14 Means (SD) for practitioners' evaluation of the Tax Office as Fair and Firm.....	112
Table 5.15 Means, standard deviations, Pearson's intercorrelations and reliability coefficients for the attitudes and beliefs regarding practice environment	113
Table 5.16 Summary of propensity and opportunity variables and control variables	115
Table 5.17 Correlations among propensity and opportunity variables and control variables.....	116
Table 6.1 Means (SD) for ratings of the preparation compliance items.....	120
Table 6.2 Factor loadings of the exploratory factor analyses of preparation compliance items for split-half reliability set 1 and set 2.....	124
Table 6.3 Means, standard deviations, Pearson's intercorrelations and reliability coefficients for the preparation compliance scales	128
Table 6.4 Number of practitioners in the three primary clusters and the outlier cluster	130
Table 6.5 Means (SD) for preparation practice items	134
Table 6.6 Factor loadings of an exploratory factor analysis of preparation practice items.....	136

Table 6.7 Means, standard deviations, Pearson’s intercorrelations and reliability coefficients for the preparation practice scales	137
Table 6.8 Preparation practice scale means and test of mean differences across the practitioner clusters of preparation compliance	139
Table 6.9 Descriptive statistics for teardrop clusters on the control variables ^a	145
Table 6.10 Significant difference tests and correlation coefficients for control variables and the two binary dependent measures of practitioner compliance	147
Table 7.1 Summary of propensity measures.....	156
Table 7.2 Propensity variable means, tests of mean differences and Pearson’s correlation coefficients for the Duteous and Contingent practitioners	158
Table 7.3 B values (Odds ratio) for a hierarchical binary logistic regression predicting Contingent versus Duteous cluster membership ^a from the main and interaction effects of Competent and Powerful identity.....	168
Table 7.4 B values (Odds ratio) for a hierarchical binary logistic regression predicting Contingent versus Duteous cluster membership ^a from the main and interaction effects of Principled and Powerful identity .	171
Table 7.5 Summary of variables used in opportunity hypotheses	175
Table 7.6 Opportunity variable means, tests of mean differences and Pearson’s correlation coefficients for the Duteous and Contingent practitioners	176
Table 7.7 B values (Odds ratio) for a hierarchical binary logistic regression predicting Contingent (as opposed to Duteous) cluster membership from propensity and opportunity variables.....	183

Table 7.8 Classification table for hierarchical binary logistic regression predicting Contingent versus Duteous cluster membership from propensity and opportunity model.....	184
Table 8.1 Propensity variable means, tests of mean differences and Pearson’s correlation coefficients for the Contingent and Aggressive practitioners.....	195
Table 8.2 B values (Odds ratio) for a hierarchical binary logistic regression predicting Aggressive versus Contingent cluster membership ^a from the main and interaction effects of Competent and Powerful identity	202
Table 8.3 B values (Odds ratio) for a hierarchical binary logistic regression predicting Aggressive versus Contingent cluster membership ^a from the main and interaction effects of Principled and Powerful identity ..	203
Table 8.4 Opportunity variable means, tests of mean differences and Pearson’s correlation coefficients for the Contingent and Aggressive practitioners.....	206
Table 8.5 B values (Odds ratio) for a hierarchical binary logistic regression predicting Aggressive cluster membership (as opposed to Contingent cluster membership) from propensity and opportunity variables	213
Table 8.6 Classification table for hierarchical binary logistic regression predicting Aggressive versus Contingent cluster membership from propensity and opportunity model.....	214
Table 8.7 Within teardrop cluster Pearson’s correlations of Ambiguity with the Competence and opportunity variables.....	217
Table 8.8 Descriptive statistics for propensity variables for all teardrop clusters ..	219
Table 8.9 Descriptive statistics for opportunity variables for all teardrop clusters.....	221

List of figures

Figure 1.1 Expected utility of tax reporting compliance	8
Figure 1.2 The Tax Office Compliance Model (2009)	15
Figure 1.3 Overview of research.....	23
Figure 6.1 Confirmatory SEM results of preparation compliance items	126
Figure 6.2 Practitioner cluster means for the preparation compliance scales.....	131
Figure 6.3 Practitioner cluster means for the three preparation practice scales	141
Figure 6.4 Teardrop model of tax practitioner compliance	142
Figure 7.1 Lower end of the practitioner teardrop	152
Figure 7.2 Proportion of Contingent practitioners in low, medium and high Competent and Powerful identity groups	169
Figure 7.3 Proportion of Duteous and Contingent practitioners by low, medium and high Principled and Powerful identity groups	172
Figure 8.1 Upper end of the practitioner teardrop	192
Figure 9.1 Sequence of teardrop clusters across preparation compliance scales ..	231

Abstract

This thesis proposes a propensity and opportunity model for tax practitioner preparation compliance. The model integrates the existing empirical tax practitioner compliance knowledge into a theoretical framework through an adaptation of Nagin and Paternoster's (1993) individual differences and rational choice framework. The premise of this thesis is that preparation non-compliance occurs when there is both a will (propensity) and a way (opportunity).

One of the most compelling findings was discovered through the development of the preparation compliance variable. Rather than a unitary construct with simple linear relationships with other variables, it was found that practitioners form distinct and very different clusters of preparation compliance. Four practitioner clusters were revealed. The Duteous cluster of practitioners exhibited the most virtuous approach to preparation practice and had the highest level of compliance within their clients' tax returns. The Contingent cluster reported an intermediate commitment to compliant practice and client return compliance that was contingent on transaction visibility. The Aggressive cluster held the least compliant approach to preparation practice and reported the highest level of non-compliance within their clients' returns. The Outlier cluster was an extreme version of the Aggressive pattern of results. While these groups clearly represent different levels of compliance (depicted in this thesis as the teardrop of practitioner compliance with a compliant base (Duteous) and non-compliant tip (Outliers)), gone was the assumption of compliance linearity. In its place was the

knowledge that the practitioner population is not homogeneous, but instead comprises distinct practitioner types.

Support was found for the propensity and opportunity model in the prediction of practitioner teardrop cluster membership. Both the higher-order constructs of propensity and opportunity were significant in the prediction of cluster membership at each ascending level of the teardrop. However, the features of propensity and opportunity that differentiated the lower teardrop practitioners were different to those that differentiated the upper teardrop practitioners. In differentiating between the Duteous and Contingent clusters, the propensity construct was characterised by an appetite for risk and power (lower for the Duteous), coupled with stronger commitment to business best practice and to the identity of being a competent practitioner among the Duteous. Opportunity was characterised by a perceived likelihood of success in preparing non-compliant returns and higher ambiguity of clients' tax affairs, coupled with the perception of lower likelihood of detection for non-compliance. Different aspects of propensity and opportunity assumed importance in differentiating between the Contingent and Aggressive clusters. Propensity was characterised by a lack of preparation ethics and opportunity by ambiguity of clients' tax affairs.

These results have important implications for the regulation of tax practice. Tax authorities must recognise that there are multiple distinct groups of practitioners who hold different propensities and perceive different opportunities for non-compliance. Thus, the drivers and obstacles found for the population as a whole will not uniformly apply to sub-groups within that population. As such, the teardrop clusters require tailored regulatory strategy for optimal preparation compliance.

Chapter 1: A fine balance

1.1 Introduction

Albert Einstein once declared that income tax is a “question too difficult for a mathematician. It should be asked of a philosopher” (“Tax form baffles even Prof. Einstein,” 1944). With that, Einstein called in the professionals. This comment, made almost 70 years ago with likely no greater intent than to amuse remains a pertinent observation of taxation and tax preparation in modern industrialised economies. Preparing an income tax return is often a challenge for all but those with the simplest of tax affairs. The difficulty lies not in the calculations required to arrive at a final tax position. One would expect the father of modern physics to tally this with ease. Rather, the difficulty lies in navigating the labyrinth of tax legislation and, in circumstances of ambiguity, making a considered determination of what one’s final tax position might reasonably be.

The ‘philosophical’ determination of reasonability is the domain of tax professionals, where (as would be expected by Kant himself¹) reasonability is frequently in the eye of the beholder. Tax professionals do not always see eye-to-eye with their clients (Kadous, Magro, & Spilker, 2008), the tax authority (Bandy, Judd, & Kelliher, 1993) or even with each other (Rostain, 2006) on what is an acceptable tax reporting position. One preparer’s nightmare of tangled rules, provisions and exceptions is the makings of another’s dream scheme. It is this difference in preparation philosophy and resulting compliance behaviour that lies at the heart of this thesis.

¹ See Caygill (1989).

The diversity that practitioners bring to preparation compliance is an area of behavioural research that holds great practical importance. Government function is primarily dependent on taxation. The building of national infrastructure, enforcement of law and order, and provision of education and welfare for citizens relies on the funds collected through taxation. Practitioners lodge around 71 percent of individual tax returns and over 95 percent of tax returns for businesses in Australia (Australian Taxation Office, 2011a). Practitioners play an equally important role in other countries: around 62 percent of United States individual tax returns are lodged by practitioners (Internal Revenue Service, 2010). This coverage of tax reporting combined with the influence that practitioners have on reporting positions has profound implications for revenue collection and, consequently, the ability of governments to support and protect their citizens.

In this chapter, the wider context of tax preparation is explored. The working definition of a tax practitioner is provided and their influence on tax compliance considered. An overview is provided of the legislative systems in which practitioners operate and the regulatory strategies which are applied to the management of tax compliance. Together, these give insight into how tax compliance is considered by regulators.

1.2 Preparers and tax compliance

Compliance in taxation is a contested concept. One need only to look to the ubiquitous legal challenges between taxpayers and tax authorities for evidence of differences in opinion on what can be defined as compliance with the law. At one extreme is 'perfectly legal', creative compliance, where through use of imaginative and often highly technical practices, compliance is achieved with the letter of the law while utterly undermining its intent (McBarnet, 1991, 2003). Endorsement of this practice is provided in the now classic ruling of Judge Learned Hand:

Over and over again the courts have said that there is nothing sinister in so arranging one's tax affairs as to keep taxes as low as possible. Everybody does so rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands; taxes are enforced extraction, not voluntary contributions. To demand more in the name of morals is mere cant. (1947, cited in D. R. Hansen, Crosser, & Laufer, 1992)

This position requires law to be specific in the demands made on taxpayers. Legislation, however, cannot be drafted to account for all possible eventualities. Furthermore, legislation that is drafted is open to different interpretations, providing fodder for argument on its meaning and application. This aside, creative compliance is not determined by the law itself but requires a certain attitude to law. This attitude does not regard law as "an authoritative and legitimate policy to be implemented, (but rather) sees it as material to be worked on" (McBarnet, 2003, p. 230). Creative compliance involves careful scrutiny of law in order to seek out material for and actively constructing alternative and innovative arguments and legal forms.

While surely creative, this is not compliance from a well-rounded perspective of legal obligation. Tax compliance is more than the technical meeting of the letter of the law for the purpose of gaming that law. It is a willingness to act "within the spirit as well as the letter of tax law and administration, without the application of enforcement activity" (James & Alley, 1999, p. 10). This should not be confused with slavish subservience to a tax authority but instead represents active engagement with the administration and its policy. Those committed to compliance will adhere to the law because they believe in its inherent righteousness. They will comply with the directives of an administration because they believe it is a valid power and accept its authority. If, however, the administration loses its legitimacy in the eyes of those committed to compliance,

they are likely to engage in resistant defiance, calling the authority to account and demanding that they also act in the spirit of the law (V. Braithwaite, 2009).

Tax preparers are caricatured as two extremes. The amoral calculator, scrutinising tax law for the 'it doesn't say I can't do that' gaps and constructing complicated arguments around legal exemptions, exceptions and exclusions. This contrasts with the pernicky preparer, dedicated to having everything in proper order and not just meeting the letter of the law but ensuring all the i's are dotted and the t's crossed. In reality tax practice is more complex than this with a range of approaches to preparation (Tan, 2009).

At the heart of preparer compliance research is the influence that preparers have on the taxpaying behaviour of their clients. Interposed between taxpayers and the tax system, preparers are optimally positioned to encourage the compliant and dampen the aggressive tendencies of their clients, or vice versa. It is this influence and how they exercise it that makes preparers interesting to researchers and regulators alike. Preparers, however, are not the only influence on taxpayer compliance. Over the past few decades, an impressive array of influences has been associated with taxpaying behaviour (for review see Andreoni, Erard, & Feinstein, 1998; Kirchler, 2007; Roth, Scholz, & Witte, 1989). Tax compliance occurs at the juncture of this web of influences. Operating within this web in addition to preparers are tax authorities, professional associations and regulators, social networks and, last but not least, taxpayers themselves. These actors are distinct with their own motivations and roles to play in the tax system. Yet they are not discrete, having been tightly woven into a web of interdependence and influence on tax compliance (see J. Braithwaite & Drahos, 2000 for discussion on webs of influence in regulation).

Tax compliance as the product of a web of influence makes the contradictory findings on taxpayer-preparer compliance relationships somewhat easier to comprehend. On one side is evidence for the influence of client preferences on the preparation behaviour of tax preparers (Cloyd & Spilker, 1999; Kahle & White, 2004). Taxpayers tend to state that they have a preference for honest preparation with the goal of an accurate tax return and with time-saving, tax minimisation. The difficulty in dealing with tax law complexity enters considerations to a lesser extent (Collins, Milliron, & Toy, 1990; Hite & McGill, 1992; Murphy & Byng, 2002; Sakurai & Braithwaite, 2003; Tan, 1999). That taxpayers favour accuracy over tax minimisation is, however, not reflected in the beliefs of preparers. Preparers claim that it is taxpayer clients who initiate aggressive tax reporting (Klepper & Nagin, 1989a; Schisler, 1994). In reality, it is not likely to be a case of 'either or' but a combination of client and preparer factors. Indeed, recent research indicates that acquiescence of preparers to client preferences for aggressive tax reporting depends on characteristics of the client and the preparer (Tan, 2011).

In this complex web of actors and multidirectional influence, it must be asked how influential are preparers really in tax compliance? Evidence for preparer influence on taxpayer reporting positions is found in stable differences in tax return submissions of paid and self-prepared returns (Erard, 1997). In addition, analysis of Internal Revenue Service (IRS) audit data suggests that paid preparers, and especially returns prepared by certified public accountants (CPAs) and lawyers, are associated with higher levels of non-compliance (Erard, 1993; Klepper, Mazur, & Nagin, 1991). The literature on the role of preparers in tax compliance is far from clear. Tax preparation is a constant balancing act between expectations of clients and the tax authority, accuracy and minimisation. Nonetheless, among the multitude of influences on taxpayer compliance, there is a discernible effect of preparers on tax reporting positions.

1.3 Regulation of tax preparation

Tax preparers are defined by the legislative systems in which they operate. Differences in international tax legislation have resulted in inconsistencies in the role and, therefore, definitions of a tax preparer. As the majority of studies in tax compliance are conducted within the United States and Australian systems, the term tax preparer is clarified in context of these jurisdictions. The United States tax preparation industry has, until recently, been subject to limited or perhaps more accurately differential regulation. A tax preparer describes anyone who prepares a tax return for profit (Internal Revenue Service, 2009). Until recently, preparers were unregulated at the federal level. They were not required to register with the IRS, undergo prerequisite education or gain technical experience and were not bound by any formal standards of behaviour. Yet, within the wider population of paid preparers exists a sub-group of highly educated professional preparers – certified accountants and tax lawyers. Professional preparers are subject to prescribed rules of practice and oversight by the IRS and their professional bodies. Consequently, they have greater representative powers to defend their clients before the IRS. As such, there is a two tier system within the United States tax preparation industry. The IRS has recently moved to a system in which all paid preparers must be registered and will have to undergo competency testing (Internal Revenue Service, 2011). However, the tax preparer literature from the United States is historically set in the two tier system.

Unlike their United States counterparts, Australian tax practitioners have a long history of formal regulation. Mandatory registration of those providing tax services for a fee was included in the Tax Assessment Act in 1943 (Tax Agents Board Arrangements Act, 1943). The motivation behind tightening the legislative requirements on the tax industry was twofold. Registering of tax preparers would strengthen consumer protection, providing assurance to taxpayers that their agent

is reputable and competent. Additionally, formal regulation delivered greater administrative controls, allowing the Australian Taxation Office (ATO) to more effectively deal with unscrupulous persons who exploit taxpayers and expose them to penalties (Ben Chifley, 1943: cited in Tax Agent Services Bill, 2008). The primary difference between the Australian and United States tax preparation industries is the professionalisation of preparers. A United States preparer might be a professional or non-professional, whereas in Australia, all preparers are legally required to be trained and certified professionals. Herein, the broader population of those who prepare tax returns for a profit are referred to as *preparers* and tax preparation professionals will be referred to as *practitioners*. It is tax practitioners who are the focus of this study.

Legislative regulation of the preparation industry provides the context of tax practice. However, it is the strategic regulation of preparation compliance that holds most consequence for this study. Strategic regulation is largely the province of a tax authority and describes the formal and informal systems of rules and relationships designed to shape tax compliance. The remainder of this section presents a summary of regulatory theory for tax compliance. Regulatory strategy gives insight into how tax compliance is understood by regulators. Interestingly, despite the predominance of tax returns prepared by paid preparers, the regulation of tax compliance is more commonly discussed in the literature at the level of the taxpayer.

1.3.1 Command and control

Traditional tax compliance regulation is founded in classic utilitarian theory of crime. In this schema, people are considered to be rational actors who behave in a manner that will maximise their expected utility (Akers, 1990; Becker, 1968). In the context of taxation, the taxpayer is assumed to make a calculated decision, weighing up the likely profits of non-compliance against the risks and

consequences of detection. If the benefits outweigh the likely cost, tax non-compliance will follow. Allingham and Sandmo (1972) introduced the premise of expected utility theory to the field of tax compliance, conceiving tax reporting as a rational decision under uncertainty.

“Failure to report one’s full income to the tax authorities does not automatically provoke a reaction in the form of a penalty. The taxpayer has the choice between two main strategies: (1) He may declare his actual income. (2) He may declare less than his actual income. If he chooses the latter strategy his payoff will depend on whether or not he is investigated by the tax authorities. If he is not, he is clearly better off than under strategy (1). If he is, he is worse off.” (Allingham & Sandmo, 1972, p. 324)

Expected utility theory holds intuitive appeal for the regulation of tax compliance. It describes the decision-making criteria relevant to tax compliance in quantitative, and therefore measurable, terms. The components for expected utility can be defined and a prediction made for rational taxpaying behaviour.

W	actual income, which is known by the taxpayer but not the tax authority
X	declared income, which may or may not be the same as one’s actual income
θ	tax payable, which is the tax rate applied to the declared income
p	audit probability
If the taxpayer is audited they will have to pay:	
$\theta(W-X)$	tax on the undeclared amount
π	a penalty which is higher than θ
Thus, taxpayers will select X to maximize one’s expected utility:	
$E[U] = (1 - p)U(W - \theta X) + pU(W - \theta X - \pi(W-X))$	

Figure 1.1 Expected utility of tax reporting compliance²

² see Allingham & Sandmo (1972) p. 324.

If individuals approach tax compliance as rational decision-makers aiming to maximise expected utility, regulatory authorities should respond by deterring this behaviour by means of ensuring the expected benefits obtained through non-compliance are inferior to those obtained through compliance (Murphy, 2008). Becker (1968) advised that this could be achieved in two ways: a) by increasing the likelihood of detecting non-compliers (through increasing audit probability - p); and b) by increasing sanctions to the point where non-compliance becomes irrational (increasing the penalty - π). Effective regulation is, thus, the appropriate balance between these two terms, ensuring compliance was the rational choice. Thus, the regulatory response under classical utilitarian theory is notionally as rational as the tax compliance decision.

There is substantial research on the effect of regulatory deterrence on tax compliance (for review see Frey, 2003; Klepper & Nagin, 1989a; Murphy, 2008). After four decades under consideration, the deterrence model and its ability to discourage tax non-compliance is generally supported (Slemrod, Blumenthal, & Christian, 2001; Webley, Robben, Elffers, & Hessing, 1991). However, in practice it is at most a minor influence on people's compliance behaviour and is widely criticised for its inability to explain the high levels of voluntary compliance observed in many situations. According to the low levels of deterrence (a function of audit and penalty rates) of most countries, tax non-compliance should be occurring at much higher rates (Alm, McClelland, & Schulze, 1992; Frey & Feld, 2002). Despite this, deterrence theory continues to be an important feature of regulatory strategy.

1.3.2 Citizenship engagement

The 1990s was a period of major public-sector reform across many western nations, shifting away from the traditional approach to regulation. The demand for change was driven by the perceived need for public organisations to evolve from a

traditional, bureaucratic, rules-orientation to a 'results-centred' model, making the public sector more efficient and accountable (Gregory, 1999). One of the most remarkable features of this reform was the opening of government administrations to parliamentary and public scrutiny, signifying a revolutionary shift in the relationship between government and its citizens (Australian Public Service Commission, 2003). Citizens were empowered in this new environment, resulting in a less dictatorial relationship than was experienced under the traditional command and control method of regulation. Regulatory strategy shifted toward an understanding of citizenship and the obligations that the state and citizens owe each other (V. Braithwaite, 2010).

In this new paradigm, compliance was understood to be dependent on a psychological tax contract between citizens and tax authorities (Feld & Frey, 2007; Frey, 1997). This contract is maintained by incentives such as rewards or punishment, but is also reliant on loyalties and emotional ties that go beyond these transactional exchanges. A fair and reciprocal exchange must be established for both parties. Once good faith is breached, the relationship becomes purely extrinsically motivated:

“Citizens’ tax morale is crowded out, and the individuals take on a purely rationalistic attitude toward tax payment. If the breach of contract results in a complete crowding out of tax morale, the citizens behave exactly as predicted by the conventional (rational choice theory)” (Feld & Frey, 2002, p. 91).

The principle of citizen engagement is that voluntary compliance and self-regulation is encouraged through improving client service. This includes greater awareness of rights, provision of fair and efficient treatment and also by clear, simple and user-friendly administrative systems and procedures (OECD, 2001). It acknowledges that those being regulated demand to be treated with respect (e.g. Ivec, Braithwaite, & Harris, 2009). Citizen engagement is demonstrated through

the discussion and confirmation of regulatory objectives with regulatees, which are pursued with fairness and reasonableness. It is important for citizens to see their regulators act with integrity, which is demonstrated through trustworthiness and sound judgment (Selznick, 1992).

Trust is an essential component of functional regulatory relationships (Scholz & Lubell, 1998) and the psychological tax contract (Feld & Frey, 2002).

Relationships based on trust are found to be more productive, effective, and cooperative (Kirchler, Hoelzl, & Wahl, 2008). Polite treatment of regulatees, maintaining their dignity and respect, enhances feelings of fairness among those being regulated (De Cremer & Tyler, 2005; De Cremer & Tyler, 2007). This, Murphy (2003, 2004b) has demonstrated, can be particularly useful in encouraging the compliance of acknowledged tax offenders. Trust is an integral part of social, economic and political relationships as it allows for regularity, predictability and continuity of those relationships (Cherney, 1997). Braithwaite and Makkai (1994) argue if the regulated are treated as trustworthy they will repay respect with voluntary compliance.

The effectiveness of designing regulation with consideration given to the tax authority-taxpayer relationship has been evidenced among United States taxpayers. Research on the implementation of tax reform found that compliance was encouraged when changes to the tax system were perceived to result in greater fairness and equity (Kinsey & Grasmick, 1993; Scholz, McGraw, & Steenbergen, 1992). In Australia, an inquiry into the perceived imbalance between taxpayers and the ATO (Joint Committee of Public Accounts, 1993)³ resulted in the introduction of the Taxpayers' Charter. The Charter presented a set of principles and values based

³ The imbalanced relationship had been described to the Committee by the Taxpayers' Association as the meeting of a Mini Minor and an express train at a level crossing: "you lose. It makes an awful mess and it does financially too" (Joint Committee of Public Accounts, 1993).

on mutual trust and respect to guide the ATO's relationship with the community. The stated intent of the Charter was that the ATO will earn the trust, support and respect of the community through its professional, open and responsive treatment of taxpayers (Australian Taxation Office, 1997). However, despite its noble intent, the Charter in itself dictated a shift in philosophy without providing clear guidance for behaviour. It was discovered in a review that tax officers felt that the Charter directed an attitude toward taxpayers rather than actual behaviour (Francas, Coase, Paterson, Haak, & White, 2002). This put the Charter in danger of falling short of community expectations. The feedback from the community had been that they wanted the Charter 'to actually mean something, to change things' (Joyce, 1996). Furthermore, the advent of a 'partnership style relationship' between the ATO and the tax profession was viewed with some cynicism by practitioners who questioned whether the desire to establish this relationship was mere rhetoric employed by both parties in the pursuit of their divergent interests (Dabner, 2008). Without clear direction for behavioural implementation, regulation based on citizen engagement was in danger of failing in its purpose to engage its constituents.

1.3.3 Responsive regulation

Regulation through deterrence and regulation through engagement are philosophically opposed. Strict deterrence theorists work from the first principle that individuals are selfishly motivated, making rational decisions that result in an outcome of maximum value for themselves. In contrast, engagement theorists work from the principle that people are part of a regulatory community and will comply with the rules and regulations if they feel that they are a trusted and respected member of that community. Both of these theories have found support in the regulation of tax compliance. Yet, on their own, neither is sufficient. Responsive regulation theory prescribes the blending of these two approaches. Applying the considered use of citizen engagement for encouraging compliance,

but also drawing on the strengths of deterrence to discourage non-compliance (I. Ayres & Braithwaite, 1992; V. Braithwaite, 2007). It recognises the heterogeneity within the regulated population through finding the right balance of persuasion and punishment for the individual.

Balancing these regulatory approaches is guided by the principles of game theory (Scholz, 1984a, 1984b). Game theory in the regulatory context is expressed as the regulatee aiming to minimise regulatory costs and regulator aiming to maximise compliance. Mutually beneficial cooperation is fortified with a tit-for-tat enforcement strategy. Responsive regulation is built on the assumption that most people will follow the rules and conform to shared social standards of law abiding behaviour (V. Braithwaite, 2003b). If they deviate, exposure of their error will result in self-correction. The regulator must not escalate the conflict with a deterrent response as long as this cooperation is maintained. However, if the regulatee abuses the cooperative nature of the regulator and presents in the realm of non-compliance then the regulator escalates its response to one of deterrence. The optimal strategy in this enforcement dilemma is for both parties to cooperate. That is, until either one absconds from this position. The rational response to the defection of the other party is retaliation. For the regulator this is the application of deterrence strategies and for the regulatee this is engagement in non-compliance. Game theory does not make the assumption that people are cooperative. Rather, regulatory cooperation is the rational response until the other player defects from this position. Thus, tit-for-tat is able to balance the motivational complexity inherent to regulatory exchanges.

Responsive regulation must optimally have recourse to a wide range of interventions and severity of sanctions and apply these according to the principle of minimal-sufficiency. "Compliance is predicated by both the existence of an awesome armoury and by the avoidance of clumsy deployment of it" (I. Ayres &

Braithwaite, 1992, p. 52). Otherwise stated, “Regulatory agencies will be able to speak more softly when they are perceived as carrying big sticks” (I. Ayres & Braithwaite, 1992, p. 19). The importance of the minimal-sufficiency principle is that those who are intrinsically motivated to comply are treated accordingly and not met with measures that are an affront to their law abiding selves. Unwarranted mistrustful and punitive actions by the tax authority are considered to be a default within the enforcement dilemma which can provoke moral resistance. Defiance triggered by threat and legal coercion has been confirmed with observations of further non-compliance (V. Braithwaite, 2009; Murphy, 2008; Murphy & Harris, 2007), creative compliance (McBarnet, 1984, 1991) and criminal behaviour or overt opposition (Frey, 1997; Kagan & Scholz, 1984).

The sensitive application of persuasion and cooperation without being dismissed as weak, and punishment without being decried as dictatorial or heavy handed is quite a balancing act. Having embraced the Taxpayer’s Charter and retained yet lessened dependence on strategies of deterrence, the ATO had unconsciously shifted toward a model of responsive regulation. However, as seen in the previous section, there was uncertainty for tax officers in how to apply these new measures (Francas, et al., 2002). Responsive regulation was formally introduced into the ATO as the Compliance Model (Cash Economy Task Force, 1998) (see Figure 1.2). The base of the pyramid represents a broad foundation of compliance, the rational and mutually beneficial state of cooperation, self-regulation and informal interactions that keep engaged citizens on track. Escalation upward represents levels of taxpayer defection and the tax authority’s response of gradually increasing intrusiveness of sanctions that will be applied until compliance is obtained.



Figure 1.2 The Tax Office Compliance Model (2009)

The ATO Compliance Model has since been exported to and adapted by other tax jurisdictions (United Kingdom, New Zealand, Timor Leste, Indonesia, and Pennsylvania) (V. Braithwaite, 2007). Meanwhile, the underlying theory of responsive regulation has continued to evolve. Baldwin and Black (2008) focus on the need for intense introspection by the regulator and deep understanding of its regulatees when applying the pyramidal approach to enforcement. Whereas others have expanded the concept of regulatory pyramids themselves. Gunningham and Grabosky (1998) propose ‘smart regulation’ which is based on the premise that ‘more is better’ when it comes to policy instruments and regulatory actors. Smart regulation encourages looking beyond the traditional model of a single regulatory authority and identifying a mix of regulatory instruments and actors for a more ‘imaginative, flexible and pluralistic’ approach to achieve objectives. “The recruiting of a range of regulatory actors to implement complementary combinations of policy instruments, tailored to specific ... goals and circumstances, will produce more effective and efficient policy outcomes” (Gunningham &

Grabosky, 1998, p. 16). Although, it must be qualified that there is a limit to the usefulness of additional regulatory apparatus. Gunningham and Grabosky do not argue for a smorgasbord approach but emphasise that ‘more *options* are better’ providing they are compatible with each other. Gunningham and Grabosky explicitly argue for ‘the virtues of parsimony’ in implementation.

Braithwaite, Makkai and Braithwaite (2007) recognised the risk of incongruent strategy and mixed messages when integrating rewards into a sanctions pyramid. They consequently proposed the dual pyramid principle which recommends a second ‘strengths-based pyramid’ in addition to the original enforcement pyramid. This second pyramid is based on the philosophy of strengths-based intervention with the premise that “the best way to improve is to build out from your strengths and ultimately these strengths will grow to conquer weaknesses or to compensate for them” (J. Braithwaite, et al., 2007, p. 111). Dual pyramid regulation describes a process of continuous improvement through both identifying the biggest remaining problems and fixing them, and identifying the biggest remaining opportunities and building on them through the application of one’s strengths. The two pyramids share a base of education and persuasion (although one about a problem and the other a strength); however, are rise as distinct pyramids from this point upwards. Escalation up the levels of these pyramids is in response to different behaviour.

The evolution in responsive regulatory theory has stayed faithful to the principles of Ayres and Braithwaite (1992) which is to find the right balance of persuasion and punishment. Although to accommodate the more recent theoretical developments, the motif might now be more fittingly ‘speak softly and carry an array of carrots and sticks of all sizes’.

1.3.4 Rules and principles

Beyond the strategic regulation of compliance programs is the effect of tax legislation on preparation compliance. Tax systems are, by and large, systems of rules. Cursorily, this would indicate a well signposted path to the calculation of a final tax position. However, the reality is that the proliferation of tax rules has instead led to complexity and ambiguity, creating an environment conducive to the promotion of tax schemes and 'perfectly legal' compliance. To combat the exploitation of rules based tax legislation, argument has been made for principles-based regulation which proposes a broad set of overarching guidelines to achieve certain desired outcomes (Anand, 2008). There is general support for an integration of rules and principles. However, the primacy of rules and principles within such a system is debated.

Dworkin (1977) contends that rules are prescriptive and, therefore, must direct the actions to be taken. Principles provide general guidance only, indicating a certain direction, but do not determine a given outcome. Dworkin reasons that rules should not contradict each other, however, principles may. This is a rational approach, where irreconcilable conflict occurs when the conformance with one rule means the breaking of another rule. As principles provide guidance rather than prescribe an outcome, conflict is of less concern. This perspective infers that rules will produce certainty and principles allow for subjective discretion within a system. Judges, acting in rules based systems, tend to apply such subjective discretion to reason 'backwards' (Robertson, 1998). Instead of using rules to arrive at a decision, a decision will be made on 'consistent and communal moral principles' for which a legal rule will then be sought for support (Dworkin, 1996). The danger in this approach to rules and principles based judicial decision-making is that the application of moral principles is less than 'consistent and communal'. This is demonstrated in that 90 percent of tax and criminal cases and over 80

percent of public, constitutional and civil cases can be correctly predicted by simply knowing which judge would hear the case (see Robertson, 1998).

Conversely, Braithwaite (2003b) proposes that a tax system based on explicitly stated principles will provide greater certainty than one based on rules due to the complex and dynamic nature of taxation. Rules are able to deliver consistency in legal decision-making only when the facts of the particular case fit the criteria for applying a particular rule. This is suitable for simple, stable phenomena for which large economic stakes are unusual (e.g. traffic regulation) (J. Braithwaite, 2002). Complex situations, however, result in the generation of a plethora of rules designed to cover specific circumstances. These rules may conflict, necessitating a choice between rules and, hence, uncertainty of outcomes. The precision of rules fail to solve ambiguity in tax reporting, which is complex and fluid with stakes high enough that legal advice for alternate and favourable interpretation of the law is a sensible investment (J. Braithwaite, 2003b).

A hybrid rules-principles system for tax law recommends the implementation of overarching principles which are binding on taxpayers. An example of this would be a general anti-avoidance principle stating that “schemes are illegal when their dominant purpose is a tax advantage rather than a business purpose, even if the scheme ‘works’ as a shelter from detailed tax rules” (J. Braithwaite, 2003b, p. 73). Specific sets of rules should be provided for the most common transactions of business arrangements in a complex field of tax. These rules are set only to specify examples of how the principles apply. It should be legislated, however, that in a contest between a rule and an overarching principle, it is the principle that is binding. Rules are used only to assist in applying the principle.

In such a system, principles must be arrived at through consultation with the regulatees and, thus, are publicly owned. As public property, these principles can

be called upon by both regulators and regulatees to define and defend a position. Exclusion of regulatees from the development of principles for tax regulation might contribute to the cat-and-mouse game of law which leads eventually to loss of respect for law (McBarnet 2003). When demands for compliance or rulings are made without a clear and reasonable underlying principle, individuals are more easily able to rationalise entering the game of trying to beat the law (V. Braithwaite, 2010).

1.3.5 Market models and regulatory theory

Widening the scope of regulatory understanding of compliance from the tax system itself is the contemplation of tax preparation as a product of market structure. Practitioners are in the business of selling tax preparation services. This is conducted in a competitive market driven by supply and demand. The nature of the market is continually adjusting. Fluctuation in aggressive tax planning in Australia and the United States is in a twenty year market cycle of 'vice and virtue' (J. Braithwaite, 2005; V. Braithwaite & Braithwaite, 2006). A cycle of aggressive tax planning commences with the supply of schemes exploiting opportunity for legal loopholing and patch working (Picciotto, 2007; Rawlings, 2005). This is initially driven by a few promoters of shelters. However, when the supply of tax shelters passes a tipping point, an aggressive tax planning craze is triggered creating a demand-driven market. A herding phenomenon occurs where a supply-driven market transforms into a demand-driven problem (J. Braithwaite, 2005). In such a market, competitive pressure is placed on preparers to offer services at the more aggressive end of their sphere of comfort.

It has been argued that practitioners themselves will act to bring such a market back into compliance (Rostain, 2006). Practitioners have been granted a monopoly on professional representation within the tax preparation market according to expectations of higher standards of ethics and expertise in compliance

with standards or procedures. By employing a practitioner, taxpayers are purchasing professional assurance of compliance or at least acceptable reporting in a self-assessment system⁴. Rostain reasons that practitioners are, thus, gatekeepers within the tax system, serving as independent monitors who verify compliance with standards or procedures. They will ensure tax compliance is upheld in order to maintain the integrity of the profession, justifying its monopoly on preparation services. There are, however, two flaws within this practitioner as gatekeeper model.

The first is to do with the verification function of a gatekeeper in the tax system. The act of verifying compliance with standards is not a true gatekeeper function unless the verification is accepted as a signal of compliance by the tax authority. For this to occur the sender of the signal must be a 'reputational intermediary', someone who lends their reputational capital to assure regulators of the quality of the signal (Coffee, 2006). An example of this is the independent auditor who verifies a company's financial statements. At one level they are providing a service which is the confirmation of a company's financial statements. More compellingly, they are selling their reputational capital or trustworthiness. When Arthur Anderson went out of business, it was not because they could no longer provide a verification service. It was because their reputational capital was worthless (Coffee, 2003).

Evidence suggests, however, that the professional preparation industry does not hold such reputational capital in the eyes of tax authorities. If practitioners were deemed to be reputational intermediaries of compliance, professionally prepared returns would be accepted *prima facie*. This would be demonstrated

⁴ Under a self-assessment system, claims a taxpayer makes in their tax return are initially accepted by the tax authority. The return may be subject to review at a later date.

through substantially lower audit rates than for non-practitioner prepared returns. This signalling effect does not occur as there is no substantive difference in the rate of audit between practitioner and non-practitioner prepared returns in the United States system (Gargalas, 2010)⁵.

The second weakness of the practitioner as gatekeeper model is the narrow focus on considering signals from practitioners to the tax authority only. In reality, practitioners are signalling more widely than this. They are also signalling in the tax preparation marketplace to attract potential clients. The core gatekeeper function of compliance verification is only one of the services that are attractive to taxpayers. Others include saving time, provision of technical expertise and minimising tax (Collins, et al., 1990; Tan, 2009). Sakurai and Braithwaite (2003) found that taxpayer preferences for practitioner services can be described along three dimensions. The most popular was the *low risk, no fuss* practitioner who was honest and risk averse. However, there was also demand for practitioners who were *cautious minimisers of tax*, who avoid conflict while being sophisticated about identifying opportunities to minimise tax; and *creative aggressive tax planners* who have effective networks and are familiar with tax authority intelligence and enforcement priorities. Practitioners are in the business of selling their services and respond to the demands of the market. According to market segmentation, practitioners signal their particular propensity toward tax compliance to consumers in the market place in order to attract clients with matching demands (Sakurai & Braithwaite, 2003). The assurance of compliance provided by a reputational intermediary would attract only those who demand *low risk, no fuss*, but not others with a higher appetite for risk.

⁵ Similar data is not available for Australia.

In conclusion, there are many and varied approaches to the regulation of tax preparation depending on the perspective taken on the behaviour. These might be philosophically driven (i.e. the belief in the rationality of human nature versus a social contract built on trust and justice) or take into consideration factors of the preparation environment (i.e. the influence of the marketplace or tax legislation itself). Each of these approaches to the regulation of tax preparation provides some insight into the behaviour and will be discussed from a behavioural perspective in the ensuing chapters.

1.4 Overview of research

The regulation literature makes it abundantly clear that compliance with the spirit of tax law requires a fine balance of regulatory support, encouragement, deterrence and legislative crafting. Sensitive regulation requires an intimate understanding of the drivers and obstacles for compliance and for non-compliance (Baldwin & Black, 2008). However, for true confidence in the delicate operation of regulatory management, a regulator must have a holistic and integrated understanding of the factors that influence the behaviour of its regulatees.

This is a daunting prospect considering the complex web of actors and abundance of features found to influence tax compliance. This study aims to contribute to the regulation of tax systems through an improved understanding of tax practitioner preparation compliance. Although only one of many actors, practitioners are pivotal to the function of the tax system (D'Ascenzo, 2005). The research objectives will be pursued through an empirical exploration of the preparation characteristics of Australian practitioners, the environment in which they operate and their compliance behaviours in preparing client tax returns (see Figure 1.3 for an overview of the research). That diversity in compliance occurs as the balance of numerous factors is a central premise of this study. A framing

hypothesis is that holistic understanding of compliance behaviour is fundamental to the effective regulation of tax practice.

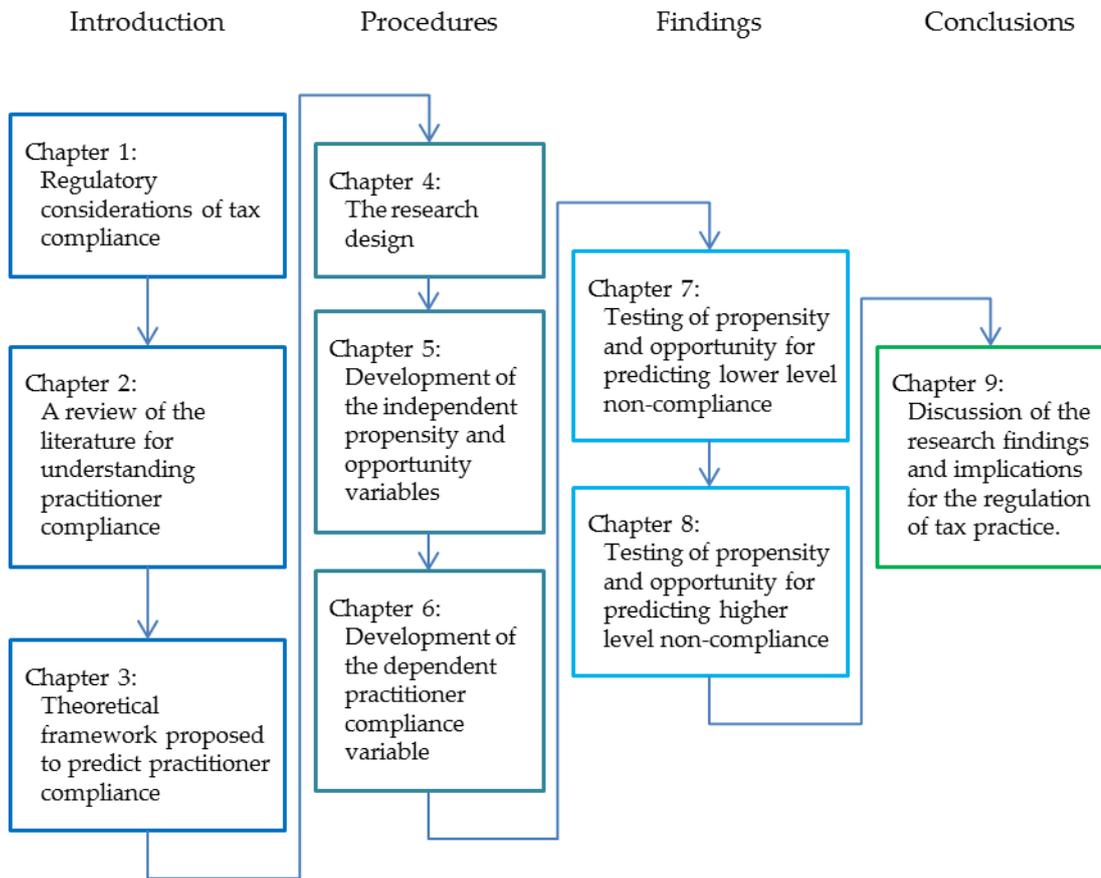


Figure 1.3 Overview of research

In the following chapter, a comprehensive review of tax preparer compliance research is presented. This literature is assessed for its adequacy in providing a holistic understanding of preparation compliance. It is concluded that, despite the breadth of factors investigated within the literature, these have been considered in isolation resulting in a fragmented view of preparation compliance.

In the third chapter, the diverse influences on practitioner compliance are organised into a single theoretical framework. This was derived from Nagin and Paternoster's (1993) individual differences and rational choice framework which recognises that compliance is complex social behaviour within which numerous personal and environmental factors are at play. The individual differences and

rational choice framework is adapted to form the propensity and opportunity model of preparation non-compliance. The hypotheses for testing the propensity and opportunity model and the factors considered to represent the two higher-order model constructs are summarised on page 71.

Chapter 4 describes the research design. Data collection is described, descriptive statistics are provided for the respondent sample of tax practitioners and statistical analyses for testing the research hypotheses are outlined. The problem of small effect sizes in tax compliance research is also discussed in this chapter. Chapter 5 develops the independent measures used to construct the propensity and opportunity model and Chapter 6 develops the dependent variable of preparation compliance. Construction of the dependent variable required a chapter unto itself due to the intricacies of preparation compliance measurement. The attention given to the preparation compliance measure paid dividends with one of the major findings of this research emerging from this analysis – the teardrop model of practitioner compliance.

Chapters 7 and 8 present the findings of the hypothesis testing. Analysis of preparation compliance established that practitioners were segmented into distinct groups of preparation behaviour. The research hypotheses are applied to differences among these groups. The propensity and opportunity model is applied to predicting behaviour among those with lower level preparation non-compliance in Chapter 7 and then again to predicting behaviour among those with higher level preparation non-compliance in Chapter 8. Repeating the hypothesis testing at the different levels of preparation compliance enables the potential exposure of differences in the operation of the propensity and opportunity model among these practitioner groups.

Finally, Chapter 9 reviews the findings of this research and discusses these in the context of the literature on practitioner compliance. The implications for tax regulation are considered. Chapter 9 concludes that the propensity and opportunity model proves useful in providing a deeper understanding of preparation compliance and reveals the importance of acknowledging that preparation compliance is not a unitary linear construct. These findings have important implications for tax compliance and its regulation.

Chapter 2: Understanding tax practitioner compliance

2.1 Introduction

On review of the practitioner compliance literature, Erard (1993) concluded that “there is at present no general theory of tax practice (compliance). Rather, there exists a small collection of studies that each focus on particular features of this institution” (pp. 164-165). This does not bode well for sensitive regulation of the preparation industry. This statement was, however, made almost two decades ago. In this chapter, the practitioner compliance literature to date is reviewed. It is intended to establish whether this body of research has since advanced. Of special interest is whether there has been development in the holistic understanding of practitioner compliance in the intervening period. Only with thorough and integrated understanding of the drivers and obstacles for compliance and for non-compliance will the fine balance of regulatory management succeed (Baldwin & Black, 2008).

Three main themes emerged within the tax preparer compliance research surveyed for this thesis: practitioner ethics (with a sub-theme of enterprise culture), rational decision-making and characteristics of tax legislation. These themes and their associated research are evaluated for their contribution to the understanding of practitioner compliance. The wider taxpayer compliance research was drawn upon to provide context to particular concepts. General differences between taxpayer and preparer research are also discussed to identify gaps in compliance understanding.

2.2 Professional ethics and modern enterprise culture

Tax practice is a profession in the most traditional sense⁶. In recognition of their mastery of a complex body of technical knowledge, usually through formal education (Goode, 1969; Parsons, 1949), tax practitioners have been granted certain privileges by society. Some are economic, such as their state sanctioned monopoly on client representation in tax matters. Others are societal, such as the power and prestige that comes with being a member of a profession. These privileges, however, are not granted without responsibilities. As professionals, practitioners are expected to uphold certain standards of behaviour. Foremost among these is the expectation of ethical conduct and commitment to the service of the public, above and beyond material incentives (Vollmer & Mills, 1966).

In the past decade, the credibility of practitioners' claim to altruistic public service has come under attack. Tax practice is deeply embedded in modern enterprise culture. As a commercial concern, practitioners must retain and expand their client base, please the customer and promote business qualities that increase profits (Barrett, Cooper & Jamal, 2005; Grey, 1998). While to some extent this has always been the case, Coffee (2006) maintains that in the late 20th century, along with law, the accounting disciplines "became more of a business and less of a profession" (p. 197). This uneasy dualism in motive has raised questions around the viability of professional ethics triumphing over profits in the delivery of tax preparation services. Sikka (2004) challenges the very nature of tax preparation as a profession, stating that "although camouflaged by the rhetoric of professionalism, accountancy firms are profit making organisations" (p. 188). In such an environment, it is often commercial acumen that is emphasised in place of technical ability or ethical conduct (Sikka & Hampton, 2005).

⁶ See previous chapter for discussion on professional versus non-professional preparers in the United States preparation market. This thesis focuses on professional preparers only.

Practitioner ethics is a dominant theme within the compliance literature due to both the theoretical importance of ethics in understanding compliance behaviour and the practical importance of ethics to the claim of professionalism. Research on the effects of practitioner ethics on preparation compliance can be loosely formed into three categories: personal ethics (moral reasoning), the ethical environment of practitioners and formal codes of professional ethics. The sub-theme of professionals operating in an enterprise culture weaves through each of these topics.

2.2.1 The personal ethics of tax practitioners

That ethical behaviour follows from ethical beliefs is a logical premise within compliance research. In the taxpayer literature, the study of ethics is largely context specific. Personal *tax* ethics are explored as the sense of moral obligation that one feels to pay, or not to pay, one's taxes (Wenzel, 2007). Serving as stable internal guidelines, tax ethics indicate one's disposition to engage in tax evasion (Groenland & van Veldhoven, 1983) and, as such, are one of the most 'proximal predictors' of tax compliance (Eriksen & Fallan, 1996; Wenzel, 2007). The positive relationship between tax ethics, ethics more broadly, and taxpayer compliance is one of the most constant in tax research (Bosco & Mittone, 1997; Murphy, 2004a; Reckers, Sanders, & Roark, 1994; Schwartz & Orleans, 1967; Song & Yarbrough, 1978; Wenzel, 2004, 2005b).

In the practitioner literature, the study of ethics draws on wider moral philosophy in the attempt to understand preparation behaviour. The premise is that compliance can be predicted through understanding individuals' systems of right and wrong. As with taxpayers, the evidence for practitioners largely supports the positive ethics-compliance relationship. Shafer and Simmons (2008) measured the effect of Machiavellianism on practitioners' preparation intentions for client returns. Capturing a tendency toward manipulative and deceitful behaviour,

Machiavellianism is a measure of broad ethical orientation and was found to positively predict intentions for aggressive tax minimisation. In a comprehensive study of practitioner ethics, Cruz, Shafer and Strawse (2000) investigated five types of moral reasoning on practitioners' approach to reporting decisions using an adaptation of the multidimensional ethics scale (J. R. Cohen, Pant, & Sharp, 1996; Flory, Phillips Jr., Reidenback, & Robin, 1992). Practitioner compliance (as measured by ethical judgments and behavioural intentions in cases involving client pressure to adopt aggressive reporting positions) was positively predicted by moral equity (the overall concept of fairness and justice) and contractualism (universal principles of right and wrong), with intermittent contributions from utilitarianism (greatest good for society) and relativism (acceptability of action as per social norms). Only egoism was not found related to preparation behaviour. Egoism, however, was an unusual concept of moral reasoning which held actions as ethical if they promote long-term self-interest. That egoism did not positively predict compliance does not seem unusual. It is perhaps more unusual that self-interest (a principle of rational decision-making) did not instead predict non-compliance.

The operation of practitioner ethics within enterprise culture was investigated by Allen and Ng (2001). Interestingly, they found that the higher the financial stake practitioners held in a tax practice, the lower was their principled moral reasoning. This result was interpreted as the self-interested profit making of business investment negatively influencing practitioners' moral reasoning. That is, practitioners compromising their ethics for financial gain. However, as a correlational study, directionality of influence cannot be inferred. It is just as reasonable to suggest that moral reasoning might affect the acquisition of a financial stake in the tax practice. Perhaps those with compromised ethics are more likely to succeed in the acquisition of a financial stake.

A final thought on personal ethics is the assumption inherent in much of the literature that practitioners have recognised an issue as an ethical dilemma and have accordingly considered the issue against their personal system of right and wrong to arrive at a personally appropriate course of action. Bok (1976) suggests that the main reason that individuals behave unethically is a failure to identify an issue as an ethical dilemma in the first place. This failure to recognise the ethical component of an issue is captured in the remarkable quote by an Australian practitioner - "I don't think that money and morals have anything to do with each other" (Tomasic & Pentony, 1990, p. 17). The importance of recognising a situation as an ethical dilemma is crucial for the 'triggering' of ethical decision-making. This necessary step is largely assumed and thus neglected in the practitioner ethics research. A noted exception is Yetmar and Eastman (2000) who found not only variance in practitioners' ethical sensitivity, but sensitivity was influenced by features of their practice environment.

2.2.2 The ethical environment of tax practitioners

A second theme within the ethics literature was practitioners' ethical environment. The premise of this work is that practitioners are a product of, or at least influenced by, their environment. This section investigates what that environment might look like and how it may influence preparation practices through descriptive norms of industry compliance and organisational climate.

An attempt was made to understand the ethical environment of practitioners through the ethical dilemmas that are routinely encountered. The ethical dilemmas described by practitioners are revealing. In an early study, the most commonly cited ethical dilemmas among American CPAs were client proposals of tax alteration and/or tax fraud, or the difficulty in confronting a client that is attempting to fraudulently mis-state tax information (Finn, Chonko, & Hunt, 1988). In later studies, practitioners reflect more on the honesty and competence of the

profession rather than their clients. American practitioners report accepting a client's deduction amount with partial or no documentation, misrepresenting or concealing limitations in one's abilities to provide a service and not determining the accuracy of oral or written representation made by the client as the most common ethical dilemmas (Yetmar, Cooper, & Frank, 1998). Australian practitioners similarly rate inadequate technical competence, failure to make reasonable inquiries and conflicts in distinguishing between legitimate tax planning and tax avoidance arrangements most highly in terms of both frequency of occurrence and importance of the issues (Marshall, Armstrong, & Smith, 1998). Overall, practitioners tend to report that they practice in positive ethical environments (Bobek, Hageman, & Radtke, 2010; Bobek & Radtke, 2007). It is interesting to note that conflict between profit goals and professional ethics was not raised as a dilemma faced in these studies.

Beyond ethical dilemmas faced in practice are practitioners' perceptions of the level of compliance in the wider tax preparation industry. These impressions are formally known as descriptive norms which are perceptions of what is commonly done in specific situations (Cialdini & Trost, 1998). Descriptive norms are believed to influence behaviour through serving as a guide for what one may do in similar circumstances. The influence of descriptive norms on tax compliance has been a persistent theme in the taxpayer literature. Consistent evidence is provided across both survey and experimental design in support of the relationship between perceived prevalence of non-compliance of others and taxpayers' own reporting (Collins, Milliron, & Toy, 1992; King & Sheffrin, 2002; Lewis, 1982; Stanlans, Kinsey, & Smith, 1991; Trivedi, Shehata, & Lynn, 2003). Questions have been raised regarding the direction of influence between descriptive norms and compliance. It is suggested that perceptions of prevalence may not be the unidirectional causal factor as often assumed and may instead serve

as a rationalisation for tax evasion after the fact (Wallschutzky, 1984; Wenzel, 2005a).

Shaub, Finn and Munter (1993) demonstrated that practitioners are not immune from the effect of the descriptive norm. Practitioners' ethical behaviour was found to be related to perceptions of the ethical conduct of others within their professional environment, regardless of whether the perceived behaviour was consistent with their own personal ethics. Around one in five Australian practitioners believe that others exploit opportunities for unethical practices (Marshall, et al., 1998). Although, reassuringly, the perceived prevalence was well below the perceived opportunity for such practices. It has been established that both practitioners (Finn, et al., 1988) and taxpayers (Wenzel, 2005a) tend to overestimate the prevalence of non-compliant behaviour, or of non-compliant attitudes among 'others' in comparison to one's own firm or self. Nonetheless, perception is more important than reality for the operation of the descriptive norm.

Importantly, the ethical climate of an organisation has been established as an important influence on the ethical behaviour of its members (Barnett & Vaicys, 2000; Ford & Richardson, 1994) In tax practice, it is the partners as leaders of the organisation who are responsible for developing and framing the acceptable organisational practices and policies (Bobek, et al., 2010). This might be done implicitly through portraying the organisational expectations through their own actions and image. Or explicitly, as was the case with a senior partner of Coopers and Lybrand (later to form part of PriceWaterhouseCoopers) who instructed staff that the "first requirement is to continue to be at the beck and call of [Robert Maxwell], his sons and staff, appear when wanted *and provide whatever is required*" (UK Department of Trade and Industry, 2001, p. 367). While ethics was clearly not

⁷ Emphasis added

at the forefront of the thinking of this executive, upper management in the wider literature tends to hold more positive views on the ethical climate of their organisation than other employees (Forte, 2004; Trevino, Weaver, & Brown, 2008). A pattern that is repeated in tax organisations (Bobek, et al., 2010; Finn, et al., 1988).

Burns and Kiecker (1995) were interested in the interaction between the creation of ethical environments by senior practitioners and their consideration of the profit making goal of the business. In an experimental study, they established that CPAs in supervisory positions encouraged practitioner staff to make ethical decisions and reprimanded those who made unethical decisions. The degree of encouragement and reprimand, however, was dependent on the economic result of the staff actions. CPA supervisors considered unethical acts that were economically beneficial to the firm as less serious than unethical acts resulting in a loss. Consequentially, supervisors gave a lesser reprimand for unethical acts that resulted in financial gain. Such biases demonstrated by those in positions of power contribute to an ethical environment filtered through the lens of commercial enterprise.

2.2.3 Regulatory effectiveness of a code of professional ethics

Faith in practitioners' adherence to a code of professional ethics is crucial to professional legitimacy in public opinion (Flory, et al., 1992; Shaub, et al., 1993). If the public loses faith in the profession, privileges previously granted may be withdrawn. Whether this faith in the regulatory effectiveness of tax practitioners' codes of ethics is justified or even viable is keenly debated in the literature. The two tiered United States tax preparation industry provides the ideal setup for analysis of practitioner codes of ethics. Unlike Australia, up to 2011 the IRS had not required that tax preparers be licensed, creating a mix of non-professional preparers and professional practitioners bound by professional codes of ethics such as CPAs, attorneys and enrolled agents.

Burns and Kiecker (1995) argue that tax professionals will be more compliant with tax law as they are held to higher standards of ethics and preparation practices. There is evidence in support of this position, where CPAs demonstrated a higher level of preparation compliance⁸ than unlicensed preparers in an experimental setting (Hume, Larkins, & Iyer, 1999). Further, Bandy, Judd and Kelliher (1993) found that among CPAs, those who were most familiar with the professional code's 'realistic possibility standard' (which stipulates a good faith belief that a position has a realistic possibility of being sustained on its merits) were less aggressive than those who were unfamiliar with this provision. A more recent study using a broader sample of tax professionals (rather than limited to CPAs) appears to contradict Bandy et al., finding a positive relationship between familiarity with the realistic possibility standard and preparation aggressiveness (Mason, 2010). However, this result was based on only 33 usable responses and there was no control for the potentially confounding effect of CPA versus non-CPA status on familiarity with the professional code. This raised concerns for the validity of the findings.

Not all subscribe to the belief that 'higher ethical standards' result from codes of professional ethics. Ayres, Jackson and Hite (1989) argue that the ability to represent before the IRS (a right granted only to tax professionals) enables greater aggressiveness in the interpretation of tax law. The ability to represent client interests, negotiate settlements and resolve conflicts directly with the IRS allows professional preparers to take more risks on behalf of the client, which a non-professional is not in a position to do. Ayres et al. established that CPAs consistently reported more pro-taxpayer positions than non-CPAs across a set of tax case scenarios. In support, Erard (1993, 1997) also found in an analysis of

⁸ As per the Statements on Responsibilities in Tax Practice issued by the American Institute of Certified Public Accountants.

taxpayer audit data that returns prepared by CPAs are less compliant than self-prepared and non-CPA prepared returns (according to percentage of returns with an income understatement and value of understatement). Further, as predicted by Ayres et al., CPA prepared audit cases were more successfully defended. Evidence for the effectiveness of a code of professional ethics for regulating tax preparation is thus shown to be inconclusive. Support both for and against was found for the effect of professional status (and the underlying code of professional ethics) on preparation compliance.

Sikka (2008) has moved beyond attempting to understand the implications of a profession operating within a capitalist system, and instead places accountancy and its sub-disciplines firmly in the arena of commerce. Evidence is provided for accountancy firms as entrepreneurial businesses that actively supplement their traditional trade with the sale of tax avoidance schemes to corporations and wealthy individuals (Sikka & Hampton, 2005).

“Against the background of comparative secrecy, relatively weak liability, accountability, regulatory, moral and ethical pressures, accountancy firms have become key players in the contemporary enterprise culture and have shown a willingness to indulge in questionable practices not only to increase their clients’ but also their own profits.” (Sikka, 2008, p. 278)

There has always been some level of conflict between the need to make a living and the altruistic tenet of professionalism. However, Whelan (2007) claims the legal profession has undergone seismic transformation in recent decades, where “(l)arge law firms... now inhabit a universe whose governing laws are those of the market” (p. 1068). Citing the technical discussion in lay publications of legal, yet ethically questionable, tax avoidance techniques, Infanti (2003) also denounces the erosion of professionalism in the American tax bar. He condemns the decline of the legal ‘profession’ into the legal ‘business’ and warns that with the power and

prestige granted to the profession lies a responsibility to society. "(S)ociety may have delegated responsibility to the professionals, but it has the power to relieve them of this responsibility if they fail to live up to their public promises" (p. 613).

2.3 Tax preparation as rational choice

The second theme identified in the literature, deterrence theory, was discussed in the previous chapter as a mechanism for regulating tax compliance. In this section, the underlying premise of deterrence theory - compliance or non-compliance as a rational choice - is reviewed for tax preparation. Under the rational choice paradigm, the consequences of one's actions are salient and primary in the decision-making process. Individuals are likely to obey the law when the perceived risks (a function of detection and punishment) outweigh the rewards of cheating and vice versa (Akers, 1990; Becker, 1993). The approach has attracted attention in both the wider criminology literature (Becker, 1968, 1993; Elster, 1986; Harsanyi, 1986; Nagin, 1998) and taxpayer compliance studies (e.g. Carnes & Englebrecht, 1995; Dubin, 2007; Schauer & Bajor, 2007; Slemrod, 1985; Varma & Doob, 1998).

The few empirical studies investigating preparation as a rational choice, weighing the likelihood and consequence of detection and punishment on practitioner compliance are, however, far from consistent. There is some support for the deterrent effect of detection probability on practitioner preparation. Madeo, Schepanski and Uecker (1987) found that the most significant factor affecting the tax reporting of CPAs was the probability of audit (measured as the likelihood of detection through varying the source of income). Kaplan et al. (1988) also found that, overall, practitioners tended to recommend more aggressive positions in conditions of lower audit probability. This is consistent with the standard findings of perceptual deterrence studies in criminology, that certainty of detection is much

more effective than other deterrence measures such as expected severity of punishment (Pogarsky, 2002). Tempering these results, Duncan, LaRue and Reckers (1989) did not find any effect of audit probability on practitioners' recommendations. Cuccia (1994) also initially found no overall effect of penalty threat on the level of aggressiveness of tax reporting recommendations. However, on separating the preparer types, penalty threats were found to reduce the aggressiveness of non-CPAs in restricted circumstances, whereas, penalty threats resulted in CPAs recommending significantly more aggressive positions.

Marshall, Smith and Armstrong (2006) suspected that the disparity in the results of practitioner deterrence studies was due to the variation presented in audit rates. The strength of probability presented in the Madeo et al. (1987) and Kaplan et al. (1988) studies were more pronounced and, therefore, were likely more salient than that of Duncan et al. (1989). In order to test this hypothesis, Marshall et al. constructed an independent 'audit risk' variable which incorporated the levels of those tested in each of the studies listed above. The hypothesis was not supported as analysis found no evidence for the effect of differences in audit rate on the ethical judgments of tax practitioners.

Another explanation for the unconvincing results of practitioner studies might be the operationalisation of deterrence. The premise of deterrence theory is that individuals are likely to obey the law when the perceived risks outweigh the rewards. Yet, under self-assessment it is the taxpayer who is held liable for errors on the tax return and the risk to the practitioner in the above studies is not made salient. Audit risk is usually the chance that clients' returns would be audited (Kaplan, et al., 1988; Marshall, et al., 2006). Or even further removed, not necessarily their own client but a 'typical' taxpayer (Madeo, et al., 1987). Cuccia (1994) made the risk explicit by paying practitioners for their participation against which a penalty was extracted for non-compliance. This risk, however, is hardly

comparable to the detection and punishment of a practitioner by a regulatory authority. While the consequent risk of client displeasure or possible practitioner sanctions might be supposed, they have not been made salient in previous studies.

2.3.1 Prospect theory

In light of the irrationally high level of tax compliance, prospect theory has been investigated as an alternative model of decision-making under risk. Prospect theory recognises that when faced with choice under risk, individuals systematically violate the axioms of expected utility theory (Kahneman & Tversky, 1979). Individuals do not respond rationally to event probabilities, consistent with the most common criticism levelled against expected utility theory within tax compliance. Prospect theory is based on bounded rationality which proposes that in decision-making, rationality of individuals is limited by the information available, their cognitive abilities, and the time constraints they have to make a decision (Simon, 1957). Taxpayers overweigh the probability of a tax audit (Alm, et al., 1992) and respond to risk differently depending on their withholding circumstances (i.e. tax refund or tax owing). They tend to be risk averse in a gain situation (more compliant in a tax refund position) and risk seeking in a loss situation (less compliant in a tax owing position) (Dhami & al-Nowaihi, 2007; Dusenbury, 1994; Elffers & Helsing, 1997; Kirchler & Maciejovsky, 2001; Schepanski & Shearer, 1995). Further supporting prospect theory, taxpayers are more likely to agree with aggressive advice when they are in a tax owing position (Schmidt, 2001).

There has been limited exploration of prospect theory for the preparation behaviours of practitioners. However, the few studies that have explored prospect theory for practitioner behaviour have been supportive. Schisler (1994) found that a tax due status for clients compounded practitioners aggressiveness for aggressive clients. And Newberry, Reckers, and Wyndelts (1993) found that CPAs were more

likely to sign a tax return containing a large and ambiguous deduction to retain an existing client (risk seeking in a loss situation) than to gain a new client (risk averse in a gain situation). That practitioners fall victim to bounded rationality is not unlikely in view of the time limitations of efficient service and the change and volume of tax legislation.

Although a major topic in criminology and often discussed in the tax compliance literature, the effect of rational choice on practitioner compliance is inconclusive. This is, perhaps, due to a lack of effective operationalisation of deterrence in practitioner compliance studies to date.

2.4 Characteristics of tax legislation

The final theme to emerge from the literature was the effect of characteristics of tax legislation on tax compliance. Most commonly discussed are the effects of legal complexity and ambiguity.

2.4.1 A tangled web: Complexity

The Australian tax system is one of the world's most complex according to the volume and content of legislation (Wallis, 2006). The Income Tax Assessment Act (1997) is now in excess of 11,000 pages (with an additional 8,900 pages of transitional provisions, income tax assessment regulations and taxation administration legislation), having undergone exponential growth during the past 25 years (Banks, 2003). This is in no small part due to the legislative game of cat and mouse, resulting in the interminable opening and closing of legal loopholes (McBarnet & Whelan, 1999). Tax complexity is a double edge sword for practitioners. On one side, it is foremost among the reasons that taxpayers employ practitioners (Collins, et al., 1990; Scotchmer, 1989), boosting client numbers and therefore profits. However, practitioners feel overwhelmed by the volume of tax

material they need to understand (McKerchar, 2005). This includes not just legislation, but ruling determinations and practice statements. When asked what the most complex aspects of the tax system were, the top two responses were 'legislation' and the rather bleak 'everything' (McKerchar, 2005, p. 40). This complexity is contributing to lower job satisfaction among practitioners and confidence in their technical ability (McKerchar, Ingraham, & Karlinsky, 2005).

Understanding the effect of complexity on compliance has been primarily the domain of taxpayer research, for which the results have been conflicting (e.g. Clotfelter, 1983; Collins, et al., 1992; Forest & Sheffrin, 2002; Kirchler, Niemirowski, & Wearing, 2006; Milliron, 1985; Roth, et al., 1989; Vogel, 1974). Tax law complexity increases the cost of compliance, contributing to the interpretation of tax non-compliance as an attempt to reduce compliance costs (Slemrod, 1989). Alternately, some argue that complexity may represent evasion opportunities for some and a source of unintentional non-compliance for others (Carnes & Cuccia, 1996; Richardson, 2006). Complexity drives taxpayers into the arms of practitioners. However, it is tax law ambiguity that has the dominant effect on practitioner preparation compliance.

2.4.2 Shades of grey: Ambiguity

Ambiguity is a state of uncertainty that increases with the unavailability or imprecision of information and the instability of decision alternatives, constraints and criteria by which a decision will be judged (Magro, 1999). Within tax legislation, an unintended and damaging consequence of the ever increasing body of rules is the creation of ambiguity through uncertainty (F. L. Ayres, et al., 1989; J. Braithwaite, 2003b). This is demonstrated by legal definitions that may be obscured by single, double and even triple negative reverse deeming provisions (Inglis, 2002).

Early research into the effect of ambiguity on taxpayer compliance appeared to establish a positive relationship. Analysis of IRS tax return and audit data resulted in speculation that uncertainty created by ambiguous tax law might increase reported income and deter non-compliance (Westat Inc., 1980). In support of the Westat report, Hite and McGill (1992) found that taxpayers were more likely to disagree with aggressive advice and agree with conservative advice under conditions of uncertainty.

The effect of tax law ambiguity on practitioner behaviour is, however, very different. Klepper and Nagin's (1989b) seminal study on ambiguity and preparation practices discovered that preparers contribute to compliance by enforcing legally clear requirements but also contribute to non-compliance by helping taxpayers take advantage of legal ambiguity. This pattern was uncovered using IRS Taxpayer Compliance Measurement Program data and an innovative index of legal ambiguity based on the number of Revenue Rulings associated with tax labels. Klepper, Mazur, and Nagin (1991) later formalised the empirically derived finding, developing the 'enforcer/ambiguity-exploiter' model. This described the dual role of preparers, who on one hand act as guardians against unambiguous breaches of the legal code and on the other hand exploit legally ambiguous features of the tax code to the advantage of the taxpayer.

Subsequent studies have confirmed the positive relationship between ambiguity and tax preparation aggressiveness. There are, however, a number of interesting qualifications to this rule. Firstly, the enforcer/ambiguity-exploiter effect only holds in the reporting of past transactions. For tax planning activities (advice on structuring prospective transactions), ambiguity was instead positively related to conservative recommendations (Magro, 1999; Spilker, Worsham, & Prawitt, 1999). Second, ambiguity appears to interact with professional preparer status. Carnes, Harwood, and Sawyers (1996b) found that in unambiguous

situations there was no effect of CPA status. However, in ambiguous situations, CPAs were significantly more aggressive than non-CPAs. This finding provides support for Ayres et al. (1989) assertion that tax professionals' greater representative powers allows them to take more aggressive positions.

The enforcer/ambiguity-exploiter effect has been replicated with such reliability that it is now a generally accepted feature of tax practice. This is evidenced in the shift within practitioner research from analysing ambiguity for predictive effect to ensuring ambiguity is present as a feature of the dependent variable under study to encourage variation in preparation intention and behaviour (e.g. Carnes, Harwood, & Sawyers, 1996a; Carnes, et al., 1996b; Cloyd, 1995; Newberry, et al., 1993).

The question remains, why do practitioners, especially professionals, exploit ambiguity? The training and experience of practitioners that might ensure a greater level of compliance with tax law is instead used to take and justify more aggressive positions. Ambiguity appears to represent a window of opportunity for tax professionals to engage in aggressive practices. Where most practitioners would not dream of preparing overtly fraudulent returns, ambiguity creates a 'fuzzy boundary' between tax minimisation and avoidance (Roth, et al., 1989). Practitioners' expert knowledge allows them a level of confidence in navigating this fuzzy boundary for the fiscal benefit of their clients, while being able to retain a sense of 'ethical' self. It is within this space that practitioners appear to have applied techniques of neutralization (Sykes & Matza, 1957). Techniques of neutralization describe a set of methods by which those who commit illegitimate acts temporarily neutralize certain values which would normally prohibit them from carrying out such acts. Here, practitioners who, as a rule, are legal guardians

switch into exploitative practices. It is supposed that of the five techniques⁹ it is *denial of responsibility* (for example – “the law is unclear, how can I tell what is the right thing to do?”) or an *appeal to higher loyalties* (for example – “if the law is unclear, I have to do the right thing by my clients”) that is at play here.

2.5 Difference between taxpayer and practitioner compliance research

The most pronounced difference between the taxpayer and practitioner compliance literature is the almost complete deficit of empirical research into the relationship between practitioners and their tax authority. The relationship itself is occasionally mentioned in the preamble of study publications (e.g. McKerchar, 2005; Wallis, 2006) or in reviews on the fluctuation between adversarial and co-operative stance (e.g. Brody & Masselli, 1996; Dabner, 2008; Dabner & Burton, 2008). The ATO commissions semi-regular reports assessing the relationship with its intermediaries (see TNS Social Research, 2008 for most recent example). However, this descriptive analysis and social commentary is a far cry from the rich tradition of exploration into issues such as trust and justice found in the taxpayer compliance literature.

Trust is an essential component of functional regulatory relationships (J. Braithwaite & Makkai, 1994; Cherney, 1997) and a key contributor to compliance with regulatory authorities (Scholz & Lubell, 1998; Tyler, 1990, 2001; Tyler & Huo, 2002). In the taxpayer literature, Feld and Frey (2002) contend that taxpayers and authorities develop a trust based psychological contract which holds both parties to their promises. Breaching this contract by authorities can have serious consequences for tax compliance (Murphy, 2005). Trust exists when taxpayers

⁹ The five techniques of neutralisation include: 1) denial of victim (“no one was hurt”), 2) denial of injury (“they can afford it”), 3) condemnation of the condemners (“they are crooks themselves”), 4) denial of responsibility (“I didn’t know what I was doing”), and 5) appeal to higher loyalties (“I did it for a greater good”).

believe that the tax authority is benevolent and works beneficially for the common good (Kirchler, et al., 2008).

The notion of justice has been explored in depth in the taxpayer compliance literature from multiple perspectives. Tax non-compliance may be used to redress perceived imbalances in distributive justice (Ahmed & Braithwaite, 2007; Cowell, 1992; Falkinger, 1995; Porcano, 1988; Richardson, 2006). Perceptions of unfairness in tax structure, public expenditure or perceived evasion by other taxpayers is found to positively predict taxpayer evasion (Bordignon, 1993; Moser, Evans, & Kim, 1995; Spicer & Becker, 1980). Investigation of procedural justice has found that perceptions of fair treatment by the tax authority is crucial to encouraging compliance (Murphy, 2003, 2005). When taxpayers perceived the authority's response as overly punitive and unfair, they responded through active resistance. That said, the slipperiness of fairness should not be overlooked as demonstrated by Kinsey, Grasmick and Smith (1991). They found that taxpayers frame their evaluation of tax fairness in terms of their personal situation. Taxpayers who qualify for tax deductions and other tax preferences focus on perceived abuses of government power when evaluating fairness. In contrast, those unable to claim tax breaks focus on their inability to qualify for valued tax breaks and on vertical social comparisons. Only one study was found to consider these issues among practitioners. Niemirowski et al's (2002) finding that practitioners' perceptions of tax fairness were positively related to compliance intentions encourages further exploration of this issue.

Further difference in the taxpayer literature is the theoretical development within the discipline. Examples of this commitment to deeper philosophical understanding of the issue include Braithwaite's (2003a) theory of motivational postures. This captures and formalises the importance of taxpayers' relationship with their tax authority on compliance behaviour. Motivational postures describe

taxpayers' support for or preferred level of association with their tax authority. This is a reflective position that has been arrived at through perceptions of and treatment at the hands of the institution. Of the five postures, two are associated with compliant intent (commitment and capitulation), while the remaining three (resistance, disengagement and game playing) represent challenges to the tax authority. These postures help to understand how taxpayers will act or react when interacting with the tax system.

Another example of theoretical development within the taxpayer literature is Kirchler, Hoelzl and Wahl's (2008) 'slippery slope' framework. This framework describes tax compliance as existing at the intersection of two major dimensions – the power of tax authorities and trust in tax authorities. Pertinent to this study, Kirchler et al. drew on the existing taxpayer compliance research and organised the established predictors beneath these dimensions. The power of authorities dimension incorporates the situational characteristics of opportunity such as audit probability, fines and tax rate which represent rational choice, in addition to some individual characteristics such as tax knowledge and attitudes. Trust in the tax authority is represented by normative beliefs and perceived fairness. It has been found that voluntary compliance depends primarily on trust in authorities, whereas enforced compliance is a function of the power attributed to authorities (Muehlbacher, Kirchler, & Schwarzenberger, 2011). The slippery slope framework outlines the balance of power and trust for which tax authorities should aim.

2.6 Summary and conclusions

In the previous chapter, it was demonstrated that successful regulation depends on an intimate and integrated understanding of the influences on practitioner compliance behaviour. Only through such an understanding can the balance of influence be tipped toward compliance through sensitive regulatory

strategy. In this chapter, the practitioner compliance literature was reviewed in order to establish whether a holistic understanding of practitioner compliance currently exists.

Three primary themes emerged within the literature - professional ethics, rational decision-making and characteristics of the tax system. Firstly, practitioners' moral compass was found to consistently point in the direction of their preparation practices (Cruz, et al., 2000; Shafer & Simmons, 2008). By the same token, the salience of ethics was shaped by practice environments and tax practice as commercial enterprise (Allen & Ng, 2001; Burns & Kiecker, 1995; Sikka, 2008; Sikka & Hampton, 2005). Second, the importance of rational decision-making in the literature reflects the primacy of deterrence as a regulatory strategy for most tax administrations. Nonetheless, the results for preparation compliance as a rational decision were inconclusive at best. The finding that detection is more effective than expected severity of punishment is consistent with the perceptual deterrence studies in criminology (Pogarsky, 2002). Finally, the influence of tax legislation on preparation behaviour was discussed. Tax law complexity is often bemoaned in the media and has been found to affect taxpayer behaviour. However, it is ambiguity that presents most interest in practitioner research. The ambiguity literature offers the compelling finding that practitioners are 'enforcers' of compliance in unambiguous situations and 'exploiters' in ambiguous situations (Klepper & Nagin, 1989b). This duality in preparation behaviour is consistently replicated and, thus, represents an essential component in the understanding of practitioner compliance.

There was a remarkably high level of conflicting results identified within the practitioner compliance literature review. This is likely due to the fact that practitioners are treated as a homogenous group, when in reality this market is made up of numerous sub-types (Sakurai & Braithwaite, 2003). A study with a

larger proportion of 'creative, aggressive' preparers will show a different result from one with more 'honest, low fuss' preparers. In addition, studies performed in a market in vice may differ in result to those performed in a market in virtue (J. Braithwaite, 2005; V. Braithwaite & Braithwaite, 2006).

The studies reviewed within the three broad topics have contributed to the understanding of preparation compliance. This research, however, has largely been conducted in silos. There has been little attempt made to integrate findings from across the topics to gain a holistic view of the behaviour. Furthermore, there is a conspicuous absence in theoretical innovation within the field or even the cross-fertilisation of theoretical innovation from the wider discipline of compliance to tax preparation. It is, therefore, concluded that practitioner research has continued as "largely empirical and without formal theoretical connection to the larger literature on the determinants of compliance choices" (Klepper, et al., 1991, p. 207).

Inspired by Kirchler, et al.'s (2008) organisation of taxpayer research into a theoretical framework, this thesis takes up the challenge of developing an integrated framework which draws on the existing practitioner compliance literature. Only through an integrated understanding can sensitive regulation be designed and implemented to encourage compliance within the tax preparation industry. The challenge of constructing such a theoretical framework is considered in the next chapter.

Chapter 3: Propensity and opportunity as a conceptual framework

3.1 Introduction

Practitioner preparation compliance is complex behaviour which occurs at the cross-section of social, economic and legislative systems. The fine balance of regulatory strategy required to encourage and, when necessary, impose compliance requires an intimate understanding of practitioners' motivations and behaviours within and across these systems. A review of the practitioner compliance literature has demonstrated that this level of understanding has not yet been attained. A plethora of factors have been found to influence practitioner compliance. However, these have largely been studied in isolation, resulting in a fragmented view of practitioner compliance.

In this chapter, organisation of the diverse influences on practitioner compliance into a single framework is explored. Themes within the wider compliance literature are discussed. A theoretical framework is adapted from this literature which is designed to integrate the collection of theoretically and empirically derived predictors of practitioner compliance. This chapter presents the conceptual framework of this thesis. First, the fundamental premise is that practitioners influence their clients' tax return compliance. On this basis, the theoretical framework for predicting practitioner compliance is presented, followed by a discussion of the specific qualities that define the higher-order constructs of the framework. These more specific qualities are measured empirically and used for predicting practitioner compliance. Control variables are also identified.

3.2 A theoretical framework

Capturing the diverse factors contributing to practitioner compliance within a single behavioural model presents a considerable challenge. Alm (1991; Alm, Sanchez, & de Juan, 1995) urges researchers to acknowledge the complexity of tax compliance by not limiting focus to a single theoretical perspective to the exclusion of others. Rather, tax compliance should be considered from a combination of multiple perspectives with a view to capturing the balance of influences at which the behaviour occurs.

Within the broader compliance literature, Nagin and Paternoster (1993) make a similar argument. They observed that two branches of theory had emerged within the discipline of criminology - theories of individual difference and theories of rational choice. Theories of individual difference share the underlying premise that offenders can be distinguished from non-offenders on stable individual characteristics such as personality (Eysenck, 1977; Listwan, Piquero, & Van Voorhis, 2010), intelligence (Herrnstein, 1989; Lopez-Leon & Rosner, 2010; Lynam, Moffitt, & Stouthamer-Loeber, 1993) and self-control (Gottfredson & Hirschi, 1990; Travis & Francis, 2000). Theories of rational choice maintain that it is the settings and circumstances external to the individual that differentiate between offenders and non-offenders. These theories include rational choice and deterrence (Cornish & Clarke, 1986), social disorganisation (Bursik Jr, 1988; Bursik Jr & Grasmick, 1993), and routine activities theories (L. E. Cohen & Felson, 1979). Nagin and Paternoster reason that these branches are not incompatible (Nagin & Paternoster, 1993). Individual differences in propensity for offending do not preclude the potential influence of environmental opportunities for crime. Rather, propensity and opportunity are compatible and should be considered together to gain a more comprehensive understanding of offending. It was proposed that effective models of crime prevention should simultaneously reduce individual propensity to

commit crime and the occurrence of criminogenic situations or opportunities for crime (Wikstrom, Clarke, & McCord, 1995). This position reflects Alm's appeal to broaden the focus of tax compliance research to include multiple theoretical perspectives.

The argument for integrating individual and situational characteristics in the understanding of compliance behaviours is not novel. Fifty years ago Cohen and Short (1961) surmised:

Any act—delinquent or otherwise—depends on “something about the actor,” that is, something about his values, his goals, his interests, his temperament or, speaking inclusively, his personality, and it depends also on “something about the situation” in which he finds himself. Change either actor or situation and you get a different act . . . delinquent acts always depend on appropriate combinations of actor and situation. (A. K. Cohen & Short Jr, 1961, pp. 89-90)

The contribution of Nagin and Paternoster's individual differences and environmental opportunities model is the acknowledgement and integration of existing compliance theory. Having recognised that the two branches of compliance theory are not incompatible they argued that multiple established theories within these branches might together predict compliance behaviour. This approach is flexible and inclusive, and provides the organising structure found wanting in the practitioner literature. The individual differences and environmental opportunities model provides a framework for the systematic selection of variables for hypothesis testing rather than an indiscriminate gathering of 'risk factor' predictors (Haar & Wikstrom, 2010).

Nagin and Paternoster's model was designed to predict street crime (drunk driving, theft and sexual assault). Low self-control was used to represent individual differences in propensity for offending (Gottfredson & Hirschi, 1990;

Wilson & Herrnstein, 1985). Individuals with low self-control have a tendency toward impulsiveness and self-centeredness; they tend to enjoy simple, easy, and physical acts, and prefer risky behaviour (Hirschi, 2004; Hirschi & Gottfredson, 1994). Self-control is a relatively stable trait throughout an individual's life (Turner & Piquero, 2002) and has been linked to a variety of deviant and criminal behaviours that provide immediate gratification for little effort (see Holtfreter et al. 2010 and Travis & Francis 2000).

Environmental opportunity was represented through the theories of routine activity/lifestyle and rational choice. These theories assign relatively little importance to notions of stable individual differences, assuming a constant supply of motivated offenders. Routine activities/lifestyle theories instead propose that crime occurs if the opportunity presents itself, usually through inadequate protection of an attractive target (L. E. Cohen & Felson, 1979; Hindelang, Gottfredson, & Garofalo, 1978). As such, these are largely thought of as theories of victimisation risk rather than of offending. The rational choice perspective was also considered a judgment of opportunity as the objective costs and benefits vary across offence opportunities rather than offenders. Both individual differences and environmental opportunities were found to provide unique contribution to the prediction of street crimes (Nagin & Paternoster, 1993).

The individual differences and environmental opportunities model has since been applied to a variety of types of street crimes. Most commonly – property crimes, drunk driving, violence and assault. Use of self-control as a measure of the propensity construct is universal among these studies. Whereas, the opportunity construct varies as deterrence (Haar & Wikstrom, 2010; Seipel & Eifler, 2010), rational choice (Piquero & Tibbetts, 1996), instances of perceived opportunity (Longshore, 1998) and local life circumstances (McGloin, Sullivan, Piquero, & Pratt, 2007). Each of these studies supported the dual model, with both individual

differences and environmental opportunities providing unique contributions in the prediction of offending.

A distinctive study using the individual differences and environmental opportunities model moved away from the application of generalist theories to a specific field. In a study of sexual offending, Beauregard, Lussier and Proulx (2007) instead organised the established factors associated with sexual crime into propensity and opportunity constructs. The broad concept of self-control was replaced by the domain-relevant individual propensity characteristics of antisocial tendency, sexualisation and psychosocial deficits. Opportunity was represented by two sets of variables – pre-crime situational factors and characteristics of the crime event. The characteristics of the crime event met the broadly agreed notion of opportunity as factors affecting likelihood of success (e.g. presence of a weapon, risk of being apprehended and level of resistance of the victim). The pre-crime situational factors, however, are not representative of this notion of opportunity (e.g. use of alcohol or pornography or being angry). Their inclusion in the opportunity category stems from their situational nature. The state of drunkenness for example made it easier to commit a crime. Arguably pre-crime situational factors are relevant in so far as they influence propensity. As such, pre-crime situational factors constitute control variables.

While it is recognised that the nature of street crime and sexual offences are not readily relatable to non-compliance in tax return preparation, the propensity and opportunity model as a predictor of compliance behaviour holds wider potential. The domain specific application of the propensity and opportunity model is considered most appropriate for practitioner compliance. As with the Beauregard et al. model of sexual offending, practitioner compliance is associated with domain specific factors such as professional ethics and the ambiguity of tax law, in addition to broader traditional deterrence theory. Through organising the

established factors associated with practitioner compliance into propensity and opportunity constructs the complexity of the practitioner compliance phenomenon is recognised while simultaneously accommodating the diverse factors of influence. Development of a tailored practitioner compliance propensity and opportunity model has the benefit of utilising the established domain specific factors while promoting an organising framework.

3.3 Preparation compliance

The propensity and opportunity model has predominantly been applied to criminal offending. This has been measured as the relatively straightforward ‘committing an offence’ versus ‘not committing an offence’ or ‘how many times an offence was committed’ in previous propensity and opportunity studies. This research, however, is directed toward the less distinct concept of practitioner preparation compliance. Tax practitioner studies tend to steer away from discussing and, therefore, defining preparation compliance or non-compliance directly, focusing instead on preparation aggressiveness (e.g. Cloyd, 1995; O'Donnel, Koch, & Boone, 2005; Schisler, 1994). This circuitous approach is understandable due to the contested borders of tax compliance by tax authorities, practitioners and industry groups.

Compliance represented as preparation aggressiveness is not appropriate for this research. It conflicts two concepts that need to be separated: the ‘individual characteristic’ of preparer aggressiveness and the propensity for preparation non-compliance construct. For this thesis, practitioner compliance behaviour is clearly distinguished from a propensity for aggressive behaviour. With this in mind, the working definition of practitioner preparation compliance is proposed as the level of compliance found within client tax returns. It is true that client return compliance is not a perfect representation of practitioner compliance due to the

complication of client compliance preferences (see Chapter 1), and that legal responsibility for the position taken on the tax return lies with the client. Nevertheless, drawing from the Tax Agent Services Act (2009) subsections 30-10 (1) ruling that practitioners ‘must act honestly and with integrity’ and (4) ‘must act *lawfully* in the best interests of (their) client¹⁰’, the stance is taken here that practitioner non-compliance occurs on knowing submission of a return that contains illegitimate statements. If the practitioner is conscious of the illegitimate statements on submission, non-compliance has occurred whether these statements were included at the client’s request or on the practitioner’s advice. The measurement of practitioner compliance employed in this thesis is discussed in depth in Chapter 6.

3.4 The propensity and opportunity model of practitioner compliance

The overarching theoretical hypothesis of this thesis proposes a propensity and opportunity model for predicting practitioner compliance (or from herein non-compliance).

Thesis Preparation non-compliance is best predicted by *both* propensity *and* opportunity for preparation non-compliance.

The propensity and opportunity constructs must first be established in order to test this thesis. As higher-order constructs, propensity and opportunity are complex concepts which are not directly observable of themselves. They are instead abstractions which are captured by describing specific qualities which, taken together, define the construct.

Beauregard’s, et al. (2007) domain specific approach to composing higher-order propensity and opportunity constructs was implemented here. Propensity

¹⁰ Emphasis added

and opportunity were constructed using factors that are established predictors of preparation non-compliance. This provides the dual benefits of improved methodological validity through use of established measures and the theoretical organisation of these factors into the propensity and opportunity framework. A review of the literature supplied a selection of individual factors that, taken together, were proposed to define propensity for preparation non-compliance and environmental factors proposed to define opportunity for preparation non-compliance. Supplementary factors, not previously discussed in the literature, were also proposed to strengthen the composition of the higher-order constructs. For the propensity and opportunity model to be a valid framework for preparation non-compliance, elements of the model must be able to be connected to observations with reasonable consistency.

3.4.1 Hypotheses representing the propensity construct

This section presents the internalised and stable practitioner characteristics that are proposed to define the propensity construct. The hypotheses for testing the relationship of these characteristics to the dependent variable of practitioner non-compliance are also described. The first three sets of practitioner characteristics (attitude toward risk-taking, preparation ethics and work-value orientation) were derived from the existing literature; whereas, the fourth and final practitioner characteristic (practitioner identity) is novel and exploratory, but is theoretically based on the work of Wenzel (2007) on taxpayer compliance.

Risk-taking attitude

Lack of self-control is central to Nagin and Pattenoster's individual differences construct in predicting street crimes. The value of self-control in the prediction of white collar offending, however, is less clear. There is some evidence that characteristics of low self-control might explain the offending associated with

professional elites (e.g. L. L. Hansen, 2009; Holtfreter, Reising, Leeper Piquero, & Piquero, 2010). Nonetheless, low self-control continues to be predominantly linked to street rather than white collar crimes (Pratt & Cullen, 2000). Of Gottfredson and Hirschi's (1990) six characteristics of self-control (impulsiveness, desire for simple tasks, self-centeredness, preference for physical activity, temper and preference for risk-taking), most do not appear to reflect the often highly organised and meticulous nature of white collar offending (as evidenced in the creation of special purpose entities and initial public offering 'spinning', Drutman & Cray, 2002). This interpretation is supported by a survey of MBA students (with the sample drawn from both the standard and executive programs) which found that key components of low self-control theory were unsupported for corporate crime (Simpson & Piquero, 2002).

Perhaps at the root of the inconsistency is the observation central to self-control theory that "offenders seem to do just about everything they can do; they do not specialise in any particular crime or type of crime" (Gottfredson & Hirschi, 1990, p. 90). This observation is more appropriate for street crime as white collar offending is usually committed within one's occupational role and therefore more amenable to specialisation. Or perhaps the level of discipline required to complete the training necessary to achieve professional status excludes those with low self-control. That is, the very nature of professionalism may confound self-control as a predictor of non-compliance. Thus, of the six features of self-control theory, it was thought that risk-taking was most applicable to the highly organised activities of practitioners for which both compliant and fraudulent activities require careful and considered action.

Despite identification as a contributor toward taxpayer non-compliance (Ghosh & Crain, 1995; Trivedi, et al., 2003), practitioners' tendency toward risk-taking is surprisingly underrepresented in the literature. Attention has primarily

been directed toward the influence of client risk on practitioner actions (Kadous & Magro, 2001; Kadous, et al., 2008; Schisler, 1994) and operational risk management (Doyle, Frecknall-Hughes, & Glaister, 2009; Lee & Rabenort, 2009). This is remarkable considering that the few studies investigating practitioner risk-taking tendencies have consistently found that propensity for risk-taking significantly predicts aggressiveness in both the ambiguous and unambiguous scenarios (Carnes, et al., 1996b; Tan, 2011). Practitioners' attitude toward risk-taking is, therefore, proposed as a quality of propensity for preparation non-compliance.

Hypothesis 1 Practitioner attitude toward risk-taking positively predicts preparation non-compliance.

Preparation ethics

The study of practitioner ethics has principally drawn on wider moral philosophy. Under such understanding, preparation compliance stems from individuals' broad systems of right and wrong (Cruz, et al., 2000; Shafer & Simmons, 2008). This research, however, leans toward the context specific form of ethics discussed within the taxpayer literature. Personal tax ethics, the moral obligation one feels to pay, or not to pay, one's taxes (Wenzel, 2007), are considered one of the most 'proximal predictors' of tax compliance (Eriksen & Fallan, 1996; Wenzel, 2007).

This more specific concept of ethics is supported by the principle of compatibility which requires attitude and behaviour to be measured at the same level (Ajzen & Fishbein, 1977). Once attitude measures are matched they are found to correlate well with compatible action tendencies (Ajzen, 2005). Strictly speaking, ethics are not attitudes. Attitude refers to the degree to which a person has a favourable or unfavourable evaluation of the behaviour in question (Ajzen, 1991). Ethics includes a further moral component in this evaluation. Based on the

evaluative process central to attitudes and ethics, it is expected that the principle of compatibility would operate similarly. Therefore, preparation ethics will be employed in the prediction of preparation compliance in this research.

Hypothesis 2 Preparation ethics negatively predicts preparation non-compliance.

Work-value orientation

The relationship between emphasis on personal wealth and preparation compliance is framed by the strain and differential opportunity theories (Cloward, 1959; Merton, 1938). These describe offending as a product of the internalisation of the cultural goal of wealth without access to the socially approved methods of attaining it. Implicit in these theories is that while those of lower socio-economic status experience strain due to the conflict between goals and means, the wealthy do not as they have attained the goal of prosperity. However, goals are made relative to one's present position and opportunities are, therefore, also relative. "Thus we can talk sensibly of the blocked aspirations of the already wealthy executive to become a millionaire" (J. Braithwaite, 1989b, p. 337). Or perhaps a millionaire to become a billionaire.

A dominant theme in the literature was the tension between professional ethics and the enterprise culture in which practitioners are embedded. Although largely discussed as a problem of the current era, Quinney (1964) raised this issue some 50 years ago. He theorised that the concurrent performance of professional and business roles required in the practice of one's profession would cause 'occupational role strain'. This is due to the apparent conflict between the professional role qualities of altruism and service orientation with the business role as "inherently acquisitive, with speculative profit-making being the legitimate goal" (Quinney, 1964). Investigating the pharmacy profession, Quinney found that orientation toward one role was not necessarily at the expense of the other. In fact,

pharmacists predominantly held dual professional and business orientations. Thus, Quinney established that professional and business roles should not be placed on opposite ends of a continuum, rather they should be conceptualised as two axes.

Quinney (1977) then investigated the compliance implication of role orientation through pharmacist prescription violation. He found that pharmacists with a concentration on business orientation had the highest proportion of prescription violations. The profession-oriented pharmacists had no prescription violations. This was hypothesised according to the dominance of financial acquisitiveness over professional values. More recently, Makkai and Braithwaite (1993) analysed the relationship between professional and business values and compliance in nursing home managers without replicating the findings of Quinney. Inconsistency in the results might be attributed to the organisational setting of nursing home managers opposed to the primarily owner-manager nature of the pharmacists of Quinney's sample. Makkai and Braithwaite argue that professionalism is a more complex concept for individuals located in an organisational setting, where instead organisational culture was found to predict compliance.

Quinney's concept of the business role as self-interested acquisitiveness appears influenced by his leanings toward Marxist criminology, which attributes crime to capitalism (Quinney, 1978, 1984). For the purposes of this research, it is suggested that self-interested acquisitiveness is more appropriately captured by a distinct 'wealth orientation'. This reflects the anomie proposition that offending occurs when an individual has accepted the cultural emphasis on wealth and power as success without equally internalising the morally prescribed norms governing means for its attainment (Cloward, 1959; Merton, 1938). To capture business orientation it should be recognised that successful business practice is, for the most part, conducted within morally prescribed means. Further, business

increasingly shares the mastery of technical knowledge found within the professions with investment in tertiary education, the prestige of Master of Business Administration qualifications and membership in business associations (e.g. the Australian Chamber of Commerce). It is not argued here that excessive prioritisation on personal wealth does not occur within the business community. Rather, it is proposed that excessive prioritisation on personal wealth is not so widespread that carrying out business should be defined by this. Thus, for the purposes of this thesis, three work-value orientations will be considered – a professional orientation, wealth orientation and ‘best practice’ business orientation.

Hypothesis 3(a) Professional orientation negatively predicts preparation non-compliance.

Hypothesis 3(b) Personal wealth orientation positively predicts preparation non-compliance.

Professional orientation and personal wealth orientation have established theoretical relationships with preparation non-compliance. The relationship between ‘best practice’ business orientation and preparation non-compliance is less clear. According to Quinney’s perspective of the inherently acquisitive nature of business, the expectation is that business orientation would be positively related to non-compliance. However, once self-interested wealth accumulation is measured separately and in effect removed from business orientation, statistical analyses will make it possible to view business orientation as more reflective of ‘running a tight ship’. This concept of business orientation is more likely to result in compliant behaviour.

Hypothesis 3(c) Business orientation negatively predicts preparation non-compliance.

Practitioner identity

The potential features of propensity for practitioner non-compliance discussed thus far have been derived from the existing tax compliance literature. The final propensity characteristic proposed is somewhat exploratory. Self-identity is the collection of relatively enduring characteristics that people use to describe themselves (Sparks & Guthrie, 1998) which includes their social identities (Tajfel, 1978) and role identities (Stryker, 1986). Identity is an important determinant of behaviour within both the sociological and psychological literatures (Smith et al., 2008). It provides the context for why and how individuals initiate and sustain lines of action. It is argued that role playing without identity is empty behaviour, lacking in motive or incentive (Foote, 1951). Identity and the full commitment to one's identity are necessary for an active self. Commitment to one's identity links a person to a stable set of self-meanings which, in turn, is related to actions.

It is acknowledged that identity is a multidimensional construct that is made up of multiple roles, related for example to gender, sexuality and nationality (Markus & Nurius, 1986). For the purposes of this research, the 'practitioner self' was considered the most proximal identity for predicting preparation compliance. Thus, the exploration of identity will be limited to how the individuals describe their practitioner selves and how these practitioner identities relate to preparation compliance.

Hypothesis 4 Practitioner identity predicts preparation non-compliance.

The use of practitioner identities in this hypothesis is deliberately inexplicit. Specific variables will be derived after exploratory analysis uncovers the measurable features of practitioner identity.

3.4.2 Hypotheses representing the opportunity construct

The premise of the opportunity construct is that the settings and circumstances external to the practitioner influence preparation compliance. Although there is general acceptance of situational predictor variables representing opportunity, researchers have differed considerably in their approach to conceptualising opportunity (Collins, et al., 1992). This section presents a collection of the settings and circumstances external to practitioners that are proposed to define the opportunity construct. The hypotheses for testing the relationship of these characteristics to the dependent variable of practitioner non-compliance are also described.

The first factor is a general assessment of the perceptions of opportunity. The additional two opportunity factors - deterrence and ambiguity - were derived from the existing literature. As these factors were discussed in detail in the previous chapter, only the principal points that underpin the development of the theoretical framework will be discussed here.

It is tempting to look to these environmental features directly for understanding opportunity and preparation compliance. However, it is not the actual settings and circumstances that are likely to influence behaviour, but instead practitioners' beliefs about these features (Ajzen, 2005). That is, practitioners' perceptions of opportunity are more important than the objective features, especially in a self-regulating environment such as a self-assessment tax system.

Perceptions of opportunity

Practitioners' perception of the level of opportunity for non-compliance goes straight to the heart of the opportunity construct. Situational factors are often used as a proxy for opportunity and are helpful for understanding how perceptions of opportunity are produced. This research explores the common situational factors

of deterrence and ambiguity as characteristics of opportunity, but also targets the perception of opportunity directly. Practitioners' perception of opportunity for non-compliance have previously been assessed among Australian practitioners (Marshall, et al., 1998). However, this was to provide a descriptive analysis of their ethical environment, not to predict preparation compliance. The propensity and opportunity model makes a clear statement of the expected effect of perceived opportunity on preparation non-compliance.

Hypothesis 5 Perceived opportunity for preparation non-compliance positively predicts preparation non-compliance.

Deterrence theory

Nagin and Patternoster (1993) drew from rational choice theory to create their opportunity construct. They described the opportunity as the balance of perceived costs and perceived benefits of committing an offence. In the tax preparation context, it is more meaningful to view opportunity as a favourable combination of circumstances that allow an event to occur. It is problematic to envisage, and more so to measure, the benefits obtained on the occurrence of the event. We focus here on assessment of the deterrent features of probability of detection and punishment as indicating the favourability of circumstances allowing an event to occur.

Tax practitioners hold an advantage in being able to realistically assess the probability of detection and punishment for preparation non-compliance by nature of their profession. The repetitive interaction with the tax system and with clients and other practitioners gives them unique insight into the compliance activities of the tax authority and likelihood of punitive action in response to positions taken on a tax return. This allows for higher confidence in the judgment of the likelihood of detection and resultant penalties for non-compliant positions. It is expected that

these opportunity variables will be salient for practitioners in the preparation of client tax returns.

Hypothesis 6(a) Perceived probability of detection negatively predicts preparation non-compliance.

Hypothesis 6(b) Perceived probability of punishment negatively predicts preparation non-compliance.

Ambiguity

The final factor proposed to represent the higher-order opportunity construct is tax law ambiguity. Consideration of ambiguity as opportunity for practitioner non-compliance is relatively common in the literature (Brody & Masselli, 1996; Collins, et al., 1992; Klepper, et al., 1991). This is due to Klepper and Nagin's (1989b) pivotal finding that preparers serve as guardians against unequivocal breaches of tax law and as exploiters of legally ambiguous aspects to the advantage of their taxpayer clients. The assumption of ambiguity as opportunity is evidenced in its shift in position within practitioner preparation research from being analysed for its predictive effect to being a necessary feature of the dependent variable under study. That is, ambiguity as perceived opportunity is deemed necessary to encourage variation in preparation intention and behaviour (e.g. Carnes, et al., 1996a, 1996b; Cloyd, 1995; Newberry, et al., 1993).

Hypothesis 7 Perceived tax return ambiguity positively predicts preparation non-compliance.

Tax law and preparation complexity have also been explored as determinants of practitioner preparation within the literature with some success (see previous chapter). However, the conceptual overlap between complexity and ambiguity is expected to result in them being closely related (or even interchangeable) concepts

for practitioners. Complexity means intricacy in connection of many parts. Skill can overcome complexity. Ambiguity means uncertainty about meaning or outcomes. Skill does not equip one to solve ambiguity successfully, although skill should help a practitioner identify ambiguity. The expected overlap between ambiguity and complexity is tested and confirmed in the following chapter. The more theoretically rich construct of ambiguity is chosen for focus.

3.5 Control variables

There are two types of control variable for this research. The first set is the demographic characteristics of both the individual practitioner and the organisation in which they practice. The demographic control variables have been selected from the tax preparation literature. The second set comprises factors that represent the wider environmental context within which practitioners operate. These environmental control variables were discussed in the previous chapter as either factors known to influence preparation or taxpayer compliance variables considered relevant to practitioners. These variables do not fit the propensity and opportunity constructs.

3.5.1 Demographic control variables

Gender

Gender is one of the most pervasive discriminating features of risk-taking behaviour. In a meta-analysis of 150 studies related to gender differences in risk-taking, Byrnes, Miller, and Schäfer (1999) found that women were more cautious and less aggressive than men across decision contexts. In the financial sector, it has been demonstrated that women exhibit a tendency for more cautious and less risk-seeking strategies (Barua, Davidson, Rama, & Thiruvadi, 2010; Powell & Ansic, 1997) and are less prone to overconfidence in financial judgments (Barber & Odean, 2001; Fehr-Duda, de Gennaro, & Schubert, 2006).

There is little research on the effects of gender on practitioner compliance. However, the few studies that touch on this topic indicate that the gender effect pervades. Schaefer and Welker (1994) found that CPAs disciplined for unprofessional behaviour were disproportionately male and Grasso and Kaplan (1998) found that female students in a university tax course had higher personal ethical standards for issues involving tax professionals than did male students. In this study, males are expected to be less compliant than females in their preparation practices.

Practitioners' age and years of experience

Years of preparation experience is logically closely related to age due to the time taken to accrue. Preparation experience represents a more extensive technical knowledge of tax law, better knowledge of tax authority strategy and probable response to positions taken (Roberts, 1998). There is some support for a relationship between preparation experience and the position taken on client returns (Reckers, Sanders, & Wyndelts, 1991). Years of experience have been associated with more conservative advice (Cloyd, 1995) and experience in certain tax items has been found to positively predict the frequency of them being recommended to clients (Duncan, et al., 1989; Newberry, et al., 1993). On the other hand, some have found no evidence for this relationship (Cuccia, 1994; Karlinsky & Koch, 1987; Roberts, 1990). Years of experience will be used as a control variable in this thesis over age due to its closer relevance to the dependent variable of preparation compliance.

Organisational position

The position that practitioners hold within an organisation is related to their preparation approach. Seniority has been associated with the recommendation of more aggressive positions (Hite & McGill, 1992) and tax minimisation strategies

(Pei, Reckers, & Wyndelts, 1992). Conversely, senior partners and sole practitioners have been found to hold stronger professional values than lower level staff (Aranya, Pollock, & Amernic, 1981). This relationship is thought to reflect the higher level of personal investment that these parties hold in their respective organisations.

Business consultancy

It has been argued that the lack of auditing rigor by Arthur Anderson was the result of conflicting business arms of the organisation (Coffee, 2006, p. 28). On one side, Arthur Anderson was providing an auditing service with the premise of independent examination and verification of company accounting documents. On the other, Arthur Anderson had another more profitable service in business consulting. Auditing became a means of entry into businesses from which the auditing staff were trained to market the more lucrative consultancy services. It was this emphasis on cross-selling that impaired the independence of auditors' professional examinations (Coffee, 2006). As such, business consultancy services offered in addition to tax preparation will be employed as a control variable for this thesis.

3.5.2 Environmental control variables

Relationship with tax authority

The first environmental control variable is the practitioner's relationship with the tax authority. This predictive variable is explored in depth within the taxpayer literature (see V. Braithwaite, 2003a, 2007, 2009; Kirchler, et al., 2008; Murphy, 2003, 2004b, 2008), yet is largely ignored within the field of practitioner compliance. Feld and Frey argue that compliance is the result of a psychological tax contract between citizens and tax authorities, where a fair and reciprocal exchange must be established for both parties (Feld & Frey, 2007; Frey, 1997; Frey & Torgler, 2007).

This contract is maintained by incentives such as rewards or punishment, but is also reliant on loyalties and emotional ties that go beyond these transactional exchanges. It is reasonable to assume that the impact of the quality of the relationship is not restricted to taxpayer compliance and that practitioners' evaluation of fair and reciprocal exchange with the tax authority may influence their preparation decision-making. It is expected that the effect of practitioners' relationship with their tax authority would be in the same direction as that for taxpayers, where a poor relationship is likely to result in a lower commitment to compliance.

Perceived prevalence of preparation non-compliance

The second environmental control variable is the perceived prevalence of non-compliance within the wider tax preparation industry. Practitioners develop a perception of the level of industry preparation non-compliance through professional and informal networks and communication, professional publications and the popular media. Perceived prevalence is a descriptive norm, which has been found to negatively influence the ethical behaviour of practitioners (Shaub, et al., 1993). In this study, practitioners with a perception of prevalent industry non-compliance are expected to be less compliant than practitioners who perceive their colleagues as compliant.

3.6 Summary

Nagin and Paternoster (1993) advocate the consideration of both individual difference and rational choice factors in the understanding of compliance behaviours. The rationale for integrating both theoretical traditions is that individual propensity does not preclude the potential sensitivity of offenders to opportunities for non-compliance and vice versa. Consideration of propensity and opportunity factors together is expected to provide a more complete understanding

of non-compliance. A propensity and opportunity model is proposed for practitioner non-compliance due to the established bond with deterrence theory and the natural fit of the existing practitioner compliance research to this framework.

The propensity and opportunity model is novel to tax compliance research which necessitates reconsideration on how preparation compliance is defined. Tax preparation is differentiated from the model's customary focus on criminal offending by the contested borders of tax compliance. Preparation compliance is a less distinct concept. For the purposes of this research, the stance was taken that *practitioner non-compliance occurs on knowing submission of a return that contains non-compliant statements*. If the practitioner is conscious of the non-compliant statements on submission, non-compliance has occurred whether these statements were included at the client's request or on the practitioner's advice. This firmly links practitioners' approaches to preparation with the tax reporting positions taken within their client base which is the underlying premise of all practitioner compliance research.

Beauregard, et al's. (2007) domain specific approach to composing the higher-order propensity and opportunity constructs was implemented here. Factors of influence identified within the existing practitioner compliance literature were mapped to the higher-order constructs of propensity and opportunity. In addition, new factors believed relevant to propensity or opportunity for practitioner compliance were explored. These factors and their expected relationship with preparation compliance are outlined in the summary of hypotheses below. Potential control variables were also offered.

The premise of the propensity and opportunity thesis is that each of the higher-order constructs will contribute uniquely to the understanding of

practitioner compliance. Combining these constructs within a single framework will, therefore, provide an integrated view of the influences on preparation compliance. Propensity and opportunity are hypothesised as determinants of practitioner compliance. The empirical nature of this study can indicate whether this is plausible. Chapter 5 is dedicated to variable construction of the propensity and opportunity model and Chapter 6 to that of the dependent variable of preparation compliance. The hypothesised relationships between the components of propensity and opportunity and practitioner compliance are investigated in Chapters 7 and 8.

3.6.1 Summary of hypotheses

Firstly, the overarching theoretical hypothesis of this thesis – the propensity and opportunity model for predicting practitioner compliance – was proposed.

Thesis Preparation non-compliance is best predicted by *both* propensity *and* opportunity for preparation non-compliance.

Second, a set of hypotheses testing the predicted relationships between the propensity and opportunity factors and practitioner preparation were proposed.

Propensity hypotheses

Hypothesis 1 Practitioner attitude toward risk-taking positively predicts preparation non-compliance.

Hypothesis 2 Preparation ethics negatively predicts preparation non-compliance.

Hypothesis 3(a) Professional orientation negatively predicts preparation non-compliance.

Hypothesis 3(b) Personal wealth orientation positively predicts preparation non-compliance.

Hypothesis 3(c) Business orientation negatively predicts preparation non-compliance.

Hypothesis 4 Practitioner identity predicts preparation non-compliance.

Opportunity hypotheses

Hypothesis 5 Perceived opportunity for preparation non-compliance positively predicts preparation non-compliance.

Hypothesis 6(a) Perceived probability of detection negatively predicts preparation non-compliance.

Hypothesis 6(b) Perceived probability of punishment negatively predicts preparation non-compliance.

Hypothesis 7 Perceived tax return ambiguity positively predicts preparation non-compliance.

Chapter 4: Data collection and analysis

4.1 Introduction

The research design of this study is presented in this chapter. Firstly, the procedure for data collection is described. Second, descriptive statistics are provided for the respondent sample of tax practitioners. Third, the statistical analyses planned for testing the research hypotheses are outlined. Finally, the problem of small effect sizes in tax compliance research is discussed.

4.2 Background and rationale for survey research

The measurement methods employed in tax compliance research are diverse. These range from simple 'yes/no' questionnaire items regarding tax cheating (Grasmick & Bursik Jr., 1990) to complex sets of questionnaire items probing different facets of evasion and avoidance (V. Braithwaite, Reinhart, Mearns, & Graham, 2001), to evaluating variations in tax returns submitted to the tax authority following experimental manipulation (Slemrod, et al., 2001; Wenzel, 2005a). For this study, interview and web-based survey methods were initially considered for data collection. Face-to-face and telephone interviews provide higher response rates than other methods (de Vaus, 2002). However, experiments have shown that respondents are more likely to offer socially desirable answers and to demonstrate acquiescence in the presence of an interviewer (de Leeuw, 1992, 2005). This effect is of particular concern here due to the sensitive nature of compliance based research. In addition, interviews are expensive for the researcher both in terms of time and travel. Web-based surveys are a viable alternative as they are low in cost and allow for a large and rapid distribution of survey

instruments. However, they tend to elicit lower response rates than traditional mail based surveys (Cobanoglu, Warde, & Moreo, 2001; Manfreda, Bosnjak, Berzelak, Haas, & Vehovar, 2008). Mail based questionnaires met the study criteria, including a modest budget, a large and widely distributed population of interest and anonymity for potentially sensitive responses (R. J. Cohen & Swerdlik, 1999).

Self-report questionnaires, nevertheless, present a number of methodological issues that must be considered for this research. These include general issues such as the inability of surveys to determine direction of causality when conducted at a single point in time, social desirability bias in responding and the potential contribution of the relatively low response rates of self-report questionnaires to non-response biases (Kerlinger & Lee, 2000). Methodological issues that are specific to tax compliance include respondents either may not remember their reporting or preparation decisions, or report these preparation decisions as they would like to remember them (Klepper & Nagin, 1989a; Larkins, Hume, & Garcha, 1997). On the one hand, the problem of faulty memory is less likely to apply to tax practitioners as, unlike individual taxpayers for whom tax preparation is an annual event, the preparation of tax returns is a repetitive daily affair. On the other hand, issues of non-response and the closely related social desirability bias may be more prominent for practitioners as they have greater investment in and reliance on a reputation of integrity – for both themselves and for the wider profession. Thus, it is acknowledged at the outset that use of a survey instrument is likely to result in an over-representation of compliant responses. The expectation, however, is that pressure to create a good impression is likely to be fairly uniform.

4.3 Procedure

An eight page *Tax Agent Opinion Survey* was developed with 194 items measuring the study constructs. The survey was estimated to take less than 20 minutes to complete. The survey was kept relatively short as length and difficulty can impact response rates (Jepson, Asch, Hershey, & Ubel, 2005). *Tax Agent Opinion Survey* packs including a letter of invitation (Appendix A), an information sheet (Appendix B), a questionnaire (Appendix A) and a reply paid envelope were mailed to a sample of registered tax practitioners throughout Australia. Two waves of reminder notifications were sent at three week intervals. The letter of invitation and information sheet described a research project with the aim of developing an understanding of tax practitioners' attitudes, opinions and tax return preparation practices. It was explained that the study was conducted by the Australian National University with scholarship funding and access to data provided by the Australian Tax Office¹¹.

The survey packs were mailed in mid-February 2009, which was well in advance of the practitioner cut-off date for lodgement of client tax returns around June, the lead up to which is their busiest period. However, on the 3rd of February 2009, the Australian government announced a stimulus package including lump sum payments to individual taxpayers in response to the global financial crisis of late 2008. These payments were administered through the tax system and a number of practitioners phoned and emailed to report that administration of this

¹¹ The Tax Office data was not used in this thesis as preliminary analyses found it to bear little relationship to tax practitioners' accounts of how they practiced their craft. Reasons for this were discussed with the supervisory panel and while it is hoped that we re-visit this issue, it was not practical to solve the problem within the time frame of the PhD thesis. Technical issues of data matching may be part of the problem requiring more intensive discussions with the ATO.

stimulus program had increased their workload, hindering them from completing the *Tax Agent Opinion Survey*.

At the time of conducting this study I was a tax officer. This meant that extra precautions were required to ensure the privacy of the practitioner responses. An independent research company (Creative Data Solutions) was commissioned to administer the survey and collect the data. The contact details (name of registered practitioner, business address and telephone number) and a randomly generated unique identifier were provided by the Tax Office to Creative Data Solutions for the sample of practitioners. Creative Data Solutions collected the data for the *Tax Agent Opinion Survey*, creating a data set that attached the survey responses to the unique identifier and withheld the identity fields (name, address and phone number). This data set was delivered to Professor John Braithwaite, who oversaw the merging of this questionnaire data set to a Tax Office data set using the unique identifier (this additional Tax Office data set was not used in this thesis). The unique identifier was deleted from the combined data set prior to delivery to the researcher. This series of steps ensured that the Tax Office and the University were not able to identify questionnaire respondents. Creative Data Solutions who were able to identify respondents did not have access to their Tax Office data.

Research approval for this approach was obtained from the Human Research Ethics Committee of the Australian National University (protocol 2008/503 8th December 2008).

4.4 Participants

There were approximately 26,000 registered tax practitioners in Australia who prepared returns for individual, company, partnership, trust or superannuation fund taxpayers for the 2007-08 financial year (Australian Taxation Office, 2009). Previous research has found differing levels of compliance across

taxpayer entities (Ahmed & Braithwaite, 2005; J. Braithwaite, 2003a; Freedman, Loomer, & Vella, 2010). This research was limited to practitioners with individual taxpayer clients to control for potential effects that client type may have on the preparation approach or compliance of practitioners.

The tax practitioner sample was accessed by means of their professional registration. At the time of data collection (early 2009) all Australian tax practitioners were registered with one or more of the six state Tax Agent Boards. These Boards displayed a list of the registered practitioners with their contact details on their central website¹². A national version of this list was also kept by the Tax Office. This national list was drawn upon by the Tax Office for the study sample because accessing and extracting names from the Tax Agent Board website was unwieldy and it was desirable to avoid the duplication created by the state lists.

4.4.1 Response rate

There were 12,531 practitioners who met the study inclusion criteria: a) were registered with the Tax Agent Board as at 10 December 2008 and b) had submitted tax returns for more than 100 individual clients in the 2007-08 financial year. From these, a random sample of 5,575 practitioners was drawn and invited to participate in the study. Of this sample, 1,397 returned a completed questionnaire, nine returned blank questionnaires, 24 were returned unopened marked 'return to

¹² In March 2010 the national Tax Practitioners' Board replaced the six State Tax Agents' Boards. This national Board also provides a list of registered tax agents with their addresses: http://www.tpb.gov.au/tpb/agent_register.aspx

sender' and nine expressly declined to participate, resulting in a response rate of 25.2 percent¹³.

This response rate, while relatively low, is comparable to previous Australian tax practitioner research on compliance related issues of between 24 and 32 percent (Marshall, et al., 1998; Marshall, et al., 2006; Niemirowski, et al., 2002). The response rate to this survey was considered satisfactory, given the generally low response rates provided by mail based questionnaire research, with the additional unforeseeable obstacle of the Government Stimulus Package which practitioners were involved in administering. Three practitioners went to the trouble of contacting the researcher to advise that the additional workload caused by the Stimulus Package had prevented their responding, which probably represents the tip of the iceberg of those who did not have time to lodge a response.

4.4.2 Descriptive statistics for respondents

Respondents were asked to provide details about themselves, their role and the organisation in which they worked. Analysis of this demographic data found that the respondents were overwhelmingly male (79.8 percent). They had a mean age of 53.0 years (SD = 10.3, range 22 to 91 years) and had been practicing as a tax practitioner for a mean of 20.1 years (SD = 11.0, range less than one year to 53 years). This relatively older sample is consistent with other Australian tax practitioner research which tends to find the majority of respondents between 40 to 60 years of age (Marshall, et al., 1998; Marshall, Smith, & Armstrong, 2005; Niemirowski, et al., 2002).

The position in the organisation in which most respondents worked was a sole practitioner¹⁴ (75.7 percent), followed by business partner (12.2 percent) or

¹³ This was calculated as the usable returned questionnaires (1,397) divided by the original sample minus those that were returned unopened (5,575 – 24 = 5,551).

company director (11.2 percent) (see Table 4.1 for breakdown). In all, less than 1 percent of respondents described themselves as employees (senior management, middle management or general staff). The employee respondents will be excluded from further analysis due to the small size of this group. The survey was addressed to the registered organisational nominee, so it was heartening to see that the person who undertook to complete the survey was the more senior person for their organisation and not a junior employee. The views of this sample are those of the leaders and decision-makers in these organisations.

Table 4.1 Frequency and percent of practitioners for organisational position

Organisational position^a	Frequency	Percent
Sole practitioner	1,055	75.7
Business partner	170	12.2
Company director	156	11.2
Employee	12	0.9
Total^b	1,393	100.0

^a Respondents may select one option only

^b Total less than number of completed questionnaires due to missing data

When asked about the tasks that they perform, the vast majority of respondents prepared tax returns (92.7 percent) and those who did not largely performed related services, such as bookkeeping and business management in organisations whose principal service was tax preparation (see Table 4.2 for breakdown). Of those who performed tax preparation, 13 percent list this as their only role, whereas most perform this along with additional tasks such as business consultancy (73.2 percent), bookkeeping (37.5 percent) and business management (39.6 percent).

¹⁴ Sole practitioner here refers to a practitioner who practices in his or her own firm without another tax agent as a partner or shareholder. This practitioner may employ any number of additional staff to prepare tax returns.

Table 4.2 Frequency and percent of practitioners for tasks performed

Tasks performed ^a	Frequency	Percent
Tax preparation	1,295	92.7
Business consultancy	1,023	73.2
Bookkeeping	524	37.5
Financial planning	101	7.2
Management	553	39.6

^a Respondents may select as many options as appropriate

Respondents were also asked to describe the organisation in which they worked. They predominantly reported working in small organisations; either as the only practitioner or in organisations with up to five preparers (87.6 percent) (see Table 4.3 for breakdown). A notable exception to this was one respondent who worked in an organisation of 600 tax preparers.

Table 4.3 Frequency and percent of practitioners for organisational size

Practice size	Frequency	Percent
1 practitioner	588	43.1
2 to 5 practitioners	607	44.5
6 to 10 practitioners	108	7.9
11 to 100 practitioners	52	3.8
101 or more practitioners	9	0.7
Total^a	1,364	100.0

^a Total less than number of completed questionnaires due to missing data

When asked about the types of services offered by their organisation (as opposed to what they did themselves), nearly all respondents listed tax return preparation as would be expected for this sample. Additional services offered were predominantly business consultancy and bookkeeping with a minority also offering financial planning.

Table 4.4 Frequency and percent of practitioners for services offered by organisation

Services offered by organisation^b	Frequency	Percent
Tax preparation	1,373	98.3
Business consultancy	1,037	74.2
Bookkeeping	920	65.9
Financial planning	176	12.6

^b Respondents may select as many options as appropriate

These demographic data describe a respondent sample that is largely involved in tax preparation either directly or in an associated role. There were, however, 24 respondents whose organisations did not perform tax return preparation. As this research is dedicated to tax preparation practices, and the survey requests participants to 'describe your clients' income tax returns', it was deemed that these respondents were not in a position to provide relevant information. These respondents were excluded from the analyses, resulting in a valid study sample of N = 1,373.

In addition to providing a profile of the survey respondents, certain practitioner and organisational attributes represent potential control variables for this study. Description of the control variables is provided within the independent variable scale development chapter (Chapter 5).

4.5 Statistical analyses

Following this chapter are two measurement scale development chapters and two hypothesis testing chapters. All statistical analyses within these chapters were performed with the SPSS 17.0 statistics package with the exception of structural equation modelling for which AMOS 12.1 was employed.

4.5.1 Assumptions and diagnostics

Prior to commencing the analysis, the data were screened for accuracy of data entry, missing values and outliers. Inspection of item response distributions found that all values were within the expected range and the full scale range was used for all questionnaire items bar one (no respondent strongly disagreed with the statement, "In practice, I generally am clear about the risks associated with the recommended advice"). Skewness was evident in a small number of items, namely those asking "How do others see your role as a tax agent?" and in three of the items for which practitioners were asked to rate the compliance of their clients' tax position. Transformations of these items were considered. However, preliminary analysis found that transformation did not significantly alter the contribution of these variables. Therefore, data were used in their simpler untransformed state.

Missing value analysis conducted on the questionnaire items found only one with greater than 5 percent missing values. This item requested practitioners to "describe your attitude toward risk-taking with respect to income tax decisions made for your clients". Due to the loaded nature of this item it was suspected that non-response might be a form of response in itself. Therefore, separate variance t-tests were conducted for systematic relationships between this item as the indicator variable (with two levels – present and missing) and the primary research variables. There were no significant differences between the present and missing groups across the primary research variables. Missing value analysis was also conducted on the completeness of participants' response. For scale construction, only participants who provided an answer for 75 percent or more of the scale items were included. For the multivariate statistical analyses, missing values were treated in the most appropriate manner according to the type of analysis conducted. As a rule, this was pairwise deletion of missing values unless otherwise stated.

Univariate outliers were largely constrained due to the nature of the Likert scale response format used for all non-demographic items. The Likert item format restricts responses to a set of numerical response categories. In this data set, values may sit outside the normal distribution (technical outliers), however they are still a legitimate part of the distribution of practitioner responses and thus were retained in the analysis. Multivariate outliers, which occur as an unusual combination of scores on two or more variables, were assessed using Mahalanobis distance with the critical value translated as χ^2 values (Tabachnick & Fidell, 2001). While present in some analyses, deletion of cases with multivariate outliers did not substantively affect the results and they were therefore retained.

4.5.2 Measurement scale construction

This study introduces the propensity and opportunity model into tax compliance research. As such, there were no known established measures of these constructs available and development of suitable measures were required as part of this study. The two chapters that follow describe the scale construction for the independent constructs of propensity and opportunity (Chapter 5) and the dependent variable of practitioner compliance (Chapter 6).

The constructs of propensity, opportunity and practitioner compliance were operationally defined in a way that reflected the theoretical formulations. The proposed operational measures were empirically tested to ensure their reliability and validity. The proposed sets of scale items were subject to exploratory factor analysis with principal components extraction. Exploratory factor analysis reveals coherent subsets within a single set of items through differentiating those items that are correlated with each other from those of other subsets. Prior to all factor analyses, factorability of the data was confirmed through inspection of the item correlation matrices, Kaiser-Meyer-Olkin values (Kaiser, 1974) and Bartlett's test of

sphericity (Bartlett, 1954). The significance for factor loading values was set at ± 0.45 to ensure sufficient strength of relationships (Comrey & Lee, 1992).

The resultant subsets of the exploratory factor analyses and the previously established single factor scales were subject to reliability analysis, assessing the internal consistency of the items. Cronbach's alphas were calculated for scales with three or more items, with the item-total statistics inspected to ensure each item positively contributed to the overall scale reliability. For scales with two items, the Pearson's correlation coefficient was inspected and reported (Streiner & Norman, 1995).

The dependent variable of practitioner compliance was subject to a further degree of testing. This additional scrutiny was due to the complexity in accessing and measuring this construct. The practitioner compliance scale items were first subject to an exploratory factor analysis conducted on split-half samples for reliability testing and then to confirmatory factor analysis using structural equation modelling. Cluster analysis was performed to uncover whether there were naturally occurring groups of practitioners in the distribution of compliance responses. Cluster analysis analyses the data for classes or clusters so that objects within a cluster exhibit high similarity on selected characteristics, but are dissimilar to objects in other clusters (Han & Kamber, 2001). As this is a novel method of analysis for practitioner compliance, there was no prior knowledge or expectation on the number or structure of clusters that may be present within the data. Due to the exploratory nature of this analysis, the relatively large size of the sample and the restricted range of the input variables (Likert scale), a two-step cluster was conducted (Garson, 2010a). The first step of the two-step cluster analysis identifies pre-clusters via a cluster feature tree with leaf nodes. These pre-clusters are then treated as single cases in a second step using hierarchical clustering. Cluster outliers were treated through the two-step cluster noise handling function, where

the threshold for noise leaves was set at 5 percent of the maximum leaf size. The log likelihood method was used to measure distance between the clusters and the Bayesian information criteria determined the optimum number of clusters.

4.5.3 Hypothesis testing

The research hypotheses were tested using analysis of variance (ANOVA), correlation analysis and logistic regression. Independent measures ANOVA was employed to determine if mean differences existed between practitioner groups. For an ANOVA, the test statistic is an F-ratio which determines whether the group mean differences are more than chance by comparing the differences against the sample variance (Gravetter & Wallnau, 1992). If ANOVAs indicated significant mean differences among the groups, post hoc tests were conducted to identify where the differences lay. Due to unequal group sizes, tests for homogeneity of variance were conducted using Levene's statistic. If Levene's statistic indicated violation of the assumption of homogeneity of variance, Dunnett's t-tests were used for post hoc tests. If not, least significant difference t-tests were used.

Correlation analyses were conducted to assess the direction and strength of the bivariate relationships between the independent variables and the dependent variable. The variables were either continuous or dichotomous. Pearson's r was used for correlations conducted on two continuous variables. Phi was used for correlations between two dichotomous variables, and tetrachoric correlations for one continuous and one dichotomous variable. The results of each of these types of correlations are comparable, therefore, the coefficients will be interpreted and discussed without drawing further reference to their computational form.

Finally, hierarchical binary logistic regression analyses were performed to assess the relationships between the propensity and opportunity variables as predictors of binary representations of the practitioner compliance dependent

variable. Logistic regression predicts the log odds of the occurrence of the dependent event. The test statistic for the model is the χ^2 which is a test of the overall fit of the model. Nagelkerke's R^2 provides the overall strength of model association. It is the classification table which reports the accuracy of the model for predicting the dependent variable that provides a more meaningful account. The logistic coefficient (B) for each of the independent variables was tested for significance using the Wald statistic. The odds ratios were also presented as these best describe the size of the effect of the independent variable on the dependent variable (Garson, 2010b).

4.5.4 Power analysis

A major concern for this study was the likelihood of small effect sizes and the ability of the analyses to detect these. The expectation of small effect size is due to two issues previously discussed: 1) the opportunity and propensity of practitioners is but one of many influences on tax return compliance (see Chapter 1) and 2) the noise or error that traditionally enters into questionnaire studies. These factors make the size of the effect under study small relative to the other sources of variation (Brock, 2003).

Power analysis was conducted during the research design stage of this study. The power of a statistical test is the probability that it will yield statistically significant results (J. Cohen, 1988). This is a function of three parameters – the effect size, the reliability of the sample results and the significance criterion. The effect size is the degree to which the phenomenon is present in the population or, more accurately in the research sense, the extent of the representation of a phenomenon in the data collected. Cohen (1992) provides the operational definition for effect sizes, which are summarised in Table 4.5.

Table 4.5 Effect size indexes and their values for small, medium and large effects

Test	Effect size index	Effect size		
		Small	Medium	Large
m_A vs. M_B for independent means	d	.20	.50	.80
Significance of product-moment r	r	.10	.30	.50
Chi-square for goodness of fit	χ^2	.10	.30	.50
One-way analysis of variance	f	.10	.25	.40
Multiple and multiple partial correlation	f^2	.02	.15	.35

(J. Cohen, 1992, p. 157)

The test results of the analyses for this study are assessed against the coefficients provided in the small effect size column. The size of the practitioner sample required to detect the expected small study effect of preparation non-compliance was calculated under the conditions of optimal power (90 percent chance of detecting small effect size, J. Cohen, 1988). The minimum sample size of 1,100 for detecting small effect sizes at the $p < 0.001$ level was more than adequately met by the final sample of 1,373 tax practitioners. However, as it will be made clear in the ensuing chapters, the hypothesis testing was not conducted on the full sample of respondents. Rather, the practitioners were classified into groups based on preparation compliance and analysis conducted on combinations of these clusters. According to the conditions of optimal power, the significance criterion must be relaxed to $p < 0.05$ to detect the experimental effect in the analysis of these subsets of practitioners.

4.6 Summary

This chapter has described the research design for the study. On consideration of the strengths and weakness of a number of data collection methods, self-report questionnaires were utilised due to the wide location of the

population of interest, the anonymity provided with regard to the potentially sensitive nature of the study and the research budget.

Practitioners who responded to the survey were largely male, had a mean age of 53 years and had been practicing for a mean of 20 years. They were predominantly at the head of their organisation (sole practitioners, partners and company directors) and were, therefore, well placed to provide a representative viewpoint of their operations. Respondents were largely involved in tax preparation either directly or in an associated role. The final sample size of usable responses was 1,373.

The results of the preliminary data checking and diagnostics were presented. The practitioner responses did not violate assumptions and diagnostic testing cleared the proposed items for analysis. An outline of the analyses that will be employed in the construction of the study measurement scales (conducted in Chapters 5 and 6) was presented, as was the statistical approach for testing the research hypotheses (conducted in Chapters 7 and 8). Power analysis confirmed that the sample size was adequate for supporting the analysis planned and provided guidance for significance testing.

Chapter 5: Propensity and opportunity measurement scales

5.1 Introduction

This chapter continues the methodological development of this study. It is the first of two chapters in which the study constructs are operationalised. This chapter deals with the development of the independent variables representing the propensity and opportunity constructs. While there are no known established measures of these constructs in the practitioner literature, a review uncovered a small number of established measures that captured some components of propensity and opportunity. As the propensity and opportunity model is novel to practitioner compliance research, substantial new variable construction was required. This chapter presents the confirmatory analysis conducted on established measures and the exploratory analysis for newly proposed variables, validating them within the practitioner sample.

The first section describes the development of the propensity variables. This is followed by a description of the development of the opportunity variables. The final section describes the control variables for this study.

5.2 Propensity measurement scales

The higher-order propensity construct is hypothesised to predict preparation non-compliance. Propensity encapsulates the features of individual difference that are believed to influence preparation behaviours. Drawing from the literature, four measures of individual difference were proposed as components of practitioner

propensity for preparation non-compliance: attitude toward risk, preparation ethics, work-value orientation and practitioner identity.

5.2.1 Risk-taking in tax preparation

The first of the propensity measures captured practitioners' attitude toward risk-taking in the context of tax preparation. This was measured using a single questionnaire item that asked respondents to indicate:

'On a scale of 1 (extreme risk avoider) to 7 (extreme risk taker), how would you describe your attitude toward risk-taking with respect to income tax decisions made for your clients?'

The practitioners' mean response of 2.84 (SD = 1.28) was well below the midpoint of 4. This indicates a general risk aversion, which is in agreement with previous findings on the risk propensities of tax professionals (Carnes, et al., 1996b).

5.2.2 Preparation ethics

The second feature of propensity was preparation ethics. Tan's (2009) measure of practitioners' ethical stance on client tax preparation was employed in this study. Respondents described their ethical stance on client preparation as their level of agreement or disagreement with the items presented in Table 5.1 (1 = 'Strongly disagree' to 5 = 'Strongly agree'). Practitioners largely indicated that they would refuse to act for misleading clients and believe that it is their duty to make inquiries into seemingly incorrect information provided by clients. There was also general disagreement that ethics must sometimes be compromised to meet client expectations.

Table 5.1 Means (standard deviations) for practitioners' ethical stance on client compliance items¹⁵

How do you see your role as a tax practitioner?	Mean	SD
I will refuse to continue to act for a client when I become aware that a client is attempting to mislead me	4.16	1.01
I do not see it as my duty to make enquiries when clients supply information or documentation that appears to be incorrect (R)	1.90	0.85
It is sometimes necessary for me to compromise my ethics to meet my clients' expectations (R)	1.89	0.89

1 = 'Strongly disagree' to 5 = 'Strongly agree'

(R) Reversed to discourage response bias. These were recoded prior to analysis to maintain consistent direction.

The results for preparation ethics suggest that, overall, Australian tax practitioners hold high ethical standards. There is general disagreement with statements regarding a compromise of ethics and duty, and agreement with making a moral stance. These findings were similar to those of Tan and also to those of Marshall, Armstrong and Smith (1998) who found that Australian tax practitioners generally consider that they operate within an ethical environment. Prior to further analysis, the reverse scored items were recoded so that high scores represented the most ethical stance across all items.

Reliability analysis for preparation ethics scale

A reliability analysis was conducted on the preparation ethics items to ensure internal consistency for scale development. The three items of the *Preparation ethics* measure had a low Cronbach alpha and inspection of the item statistics revealed that the item 'Refuse to act when client is misleading' detracted from the scale's internal consistency. Once this item was excluded from the scale, the correlation between the remaining preparation ethics items was adequate ($r = .28$). Scale scores

¹⁵ Tan's fourth item 'I see my primary duty to my clients as being limited only by a duty to uphold the letter of the law' was dropped due to problem of item clarity.

were calculated as the sum of responses to items in the scale divided by the number of items. The mean value of the *Preparation ethics* scale indicates that practitioners, overall, hold high preparation ethics (M = 4.10, SD 0.70).

5.2.3 Work-value orientation

The work-value orientation measures reflect the reconceptualised professional versus business role orientation of Quinney (1964). Professional orientation was retained; however, business orientation was separated into measures of 'best business practice' and 'self-interested acquisitiveness'. The three proposed measures of work-value orientation are *Professional orientation*, *Business orientation* (which represents best practice), and *Wealth orientation* (which represents self-interested acquisitiveness). Items for these three measures were adapted from Makkai and Braithwaite's (1993) cultural goal commitment, Quinney's (1964) occupational role, and Aranya's (1984; 1981) professional commitment scales (see Table 5.2). Participants were asked to indicate their level of agreement on a five-point scale, 1 = 'Strongly disagree' to 5 = 'Strongly agree', with value statements regarding their work as a tax practitioner.

Table 5.2 Means (standard deviations) for work-value orientation items

Items	Mean	SD
Professional orientation		
Maintaining and/or improving my tax technical knowledge is important to me	4.35	0.59
Applying my specialist knowledge in tax preparation gives me a sense of satisfaction	4.18	0.57
I am a committed member of one or more tax professional associations	3.91	0.87
I find that my values and the tax profession's values are very similar	3.90	0.75
I enjoy the technical challenge of tax preparation	3.88	0.82
If I could choose my career over, I would choose something other than being a tax practitioner (R)	2.77	1.21
Business orientation		
Running a profitable business gives me a sense of satisfaction	4.19	0.63
I enjoy applying my business knowledge to ensure my organisation is working efficiently and effectively	4.14	0.61
Maintaining and/or improving my knowledge of best business practice is important to me	4.13	0.63
I enjoy applying innovative business strategies to meet the opportunities and challenges that my organisation faces	3.86	0.75
I am a committed member of one or more business associations	3.30	1.03
I do not enjoy the challenge of business management (R)	2.31	0.96
Customer satisfaction is not important to me (R)	1.66	1.07
Wealth orientation		
Increasing my personal wealth is a high priority	3.29	1.03
I would work in a role that I did not enjoy if the pay was high enough	2.29	1.03

1 = Strongly disagree to 5 = Strongly agree

(R) Reversed to discourage response bias. These have been recoded prior to analysis to maintain consistent direction. A high score for the remaining items represented support for best practice.

Respondents tended to strongly support the professional and business orientation items, with weaker support shown toward personal wealth accumulation. Prior to the next phase of analysis, the reverse scored items were recoded so that 1 represented the weakest and 5 the strongest alignment to each of the orientation scales for all items.

Exploratory factor analysis of work-value orientation items

A factor analysis with the principal components extraction method was employed and, as the correlation matrix indicated a relationship between the business and professional items, an oblique rotation (obliminal rotation with Kaiser normalisation) was performed. Four factors were extracted that had eigenvalues greater than one (3.78, 1.48, 1.27 and 1.10) accounting for 50.9 percent of the variance in the item set.

The results largely confirmed the proposed work-value orientation scales (see Table 5.3). Factor 1 captured the best practice orientation toward business with items describing a sense of satisfaction in applying innovative business strategies and enjoyment of the challenge of business management. The professional orientation items loaded on factor 2, describing enjoyment in applying one's technical skills and knowledge. Factor 3 contained the items that represented practitioners' personal wealth orientation. The 4th factor had only one item with a primary loading which described the importance practitioners placed on 'customer satisfaction'. This is not conceptually vital to this thesis and will therefore be disregarded.

Three items were excluded because they did not load cleanly on any one factor. The professional item 'I am a committed member of one or more tax professional associations' loaded on the business orientation factor which may be due to this professional activity being part of the business practice of networking. The items 'Running a profitable business gives me a sense of satisfaction' and 'I find that my values and the tax profession's values are very similar' did not load significantly onto any factor and therefore were excluded from further analysis.

Table 5.3 Factor loadings of an exploratory factor analysis of work-value orientation items

Orientation items	Factor 1	Factor 2	Factor 3	Factor 4
	Business orientation	Profession orientation	Wealth orientation	-
Applying innovative business strategies	0.74			
Knowledge of best business practice	0.64			
Applying my business knowledge	0.61			
Member of business associations	0.60			-0.48
Challenge of business management (R)	0.58			
Running a profitable business				
Member tax professional associations	0.52			
Technical challenge of tax preparation		-0.79		
Applying knowledge in tax preparation		-0.76		
Choose tax practitioner career again (R)		-0.58		
Tax technical knowledge		-0.46		
Values similar to tax profession				
Would work in unenjoyable role if pay was high enough			0.75	
Personal wealth is a high priority			0.75	
Customer satisfaction (R)				0.69

Loading significance set at 0.45

(R) Rescored so that a high score represented support for best practice

Reliability analysis for work-value orientation scales

On assessment of internal consistency, two items were deleted from the *Business orientation* scale ('I am a committed member of one or more business associations' and 'I do not enjoy the challenge of business management') and one from the *Professional orientation* scale ('If I could choose my career over, I would choose something other than being a tax practitioner'). This resulted in strong reliability for the business and professional orientation items and moderate reliability for the orientation toward personal wealth items. Scores for the

orientation scales were calculated by summing responses to scale items and dividing by the number of items in the scale.

Table 5.4 Means, standard deviations, Pearson’s intercorrelations and reliability coefficients for practitioners’ work-value orientation scales

Scales	Items (N)	M ^a	SD	1	2	Reliability coefficient
1. Business orientation	3	4.04	0.53			0.70 ^b
2. Professional orientation	3	4.14	0.50	0.39***		0.61 ^b
3. Wealth orientation	2	2.78	0.82	0.02	0.06	0.22 ^c

*** $p < 0.001$

^a scale range 1 to 5

^b Cronbach’s alpha

^c Pearson’s r

Overall, respondents lent most strongly toward *Professional orientation*, followed closely by best practice *Business orientation*. Personal *Wealth orientation* presented relatively weakly in the practitioner sample. Of note, *Business* and *Wealth orientation*, which were previously conceived as components of a single construct in Quinney’s (1964, 1977) theoretical work, were not found to be correlated here.

According to Quinney’s hypothesis and Sikka’s argument, an orientation toward business and wealth are representative of active participation in (or capture by) capitalist culture. As such, both orientations should represent increased risk of preparation non-compliance. This does indeed seem likely for *Wealth orientation*, however, this thesis takes a different perspective on business. *Business orientation* emerges from the factor analysis evincing more of a conception of ‘best practice’. This is more closely aligned to professional ideals. Indeed, these measures were found to be positively related. Thus, both *Business* and *Professional orientation* are conceived as representative of a propensity for preparation compliance.

5.2.4 Practitioner identity

The final measure taken of propensity was practitioner identity. This is an exploratory direction taken in preparation compliance research and inspired by the 'individual factors' of propensity (Nagin & Paternoster, 1993). Practitioner identity replaces Nagin and Paternoster's emphasis on 'low self-control' which did not appear so relevant according to the necessary training and highly organised practice of tax return preparation.

Practitioner identity was measured using a semantic differential scale. Developed by Osgood (1952; Osgood & Suci, 1955), semantic differential analysis measures the connotative meaning of concepts and has previously been employed to measure role identity (Burke & Tully, 1977). The semantic space is traditionally represented by three major dimensions along which reactions or judgments may vary in direction and intensity. An evaluation dimension corresponds to an assessment of the attitude object (in this case their practitioner identity) as favourable or unfavourable, a potency dimension as the power of the object, and an activity dimension describes the quality of prompt and energetic action. The meaning or judgment that one holds for an object is represented within this semantic space. Semantic differential analysis has been conducted for tax compliance previously. However, Osgood's dimensions were found not to be represented (Kirchler, 1998). This reflects the inconsistent results for replicating the three dimensions in recent times (for examples in accountancy see Houghton & Hronsky, 1993; Wines, 2006). Semantic differential analysis does not necessarily need to replicate Osgood's dimensions to map the meaning held for an attitude object - in this case practitioner identity. Meaning held may instead emerge across alternate, object relevant dimensions.

A set of standard semantic differential adjective pairs with some additional items were used to assess respondents' representation of their practitioner identity

along the three semantic dimensions (Dawis, 1987). An iterative process of discussion, modification and exclusion was used with subject knowledge experts to derive a final item set (see Table 5.5). The seven-point rating scale employed is considered the optimum range for semantic differential representation, providing an adequate range for differential grades of direction and intensity of judgment without being too onerous on the respondent (Al-Hindawe, 1996). The rating scale was bidirectional, presented with a mid-point of 0 = 'Neither' and the ratings 1 = 'Slightly', 2 = 'Quite' and 3 = 'Extremely' toward each of the adjective pairs.

The descriptive statistics for practitioner identity responses are presented in Table 5.5. Prior to analysis, the item responses were recoded so that 1 represented the extreme negative of the attribute (e.g. 'malevolent' or 'bad') and 7 represented the extreme positive (e.g. 'benevolent' or 'good'), with the mid-point of 'Neither' now represented by 4.

Table 5.5 Means (standard deviations) for practitioner identity items

Osgood dimension	As a tax practitioner, I am:	Mean	SD
Evaluative	Untrustworthy / Trustworthy	6.62	0.72
Evaluative	Dishonourable / Honourable	6.46	0.80
Potency	Amateur / Professional	6.38	0.78
Evaluative	Bad / Good	6.05	0.80
Activity	Inattentive / Alert	5.98	0.76
Potency	Not smart / Smart	5.82	0.86
Activity	Lethargic / Energetic	5.60	1.15
Potency	Submissive / Assertive	5.55	1.01
Activity	Bored / Stimulated	5.52	1.16
Activity	Lazy / Industrious (R)	5.43	1.28
Activity	Slow / Quick	5.39	1.16
Evaluative	Discontent / Content	5.37	1.31
Evaluative	Unsophisticated / Sophisticated	5.21	1.09
Potency	Powerless / Powerful (R)	4.50	1.21

1 = negative attribute to 7 = positive attribute

(R) Reversed to discourage response bias. These have been recoded prior to analysis to maintain consistent direction.

Respondents largely evaluated themselves positively according to the very high mean ratings on the trustworthy, honourable and professional items. None of the practitioner identity items exhibited means in the negative territory (less than the mid-point of 4). The lowest score for the group was found on the powerful scale, indicating that practitioners were ambivalent with regard to their sense of power.

Exploratory factor analysis of practitioner identity items

An exploratory factor analysis with principal components extraction was conducted to discover whether Osgood's three semantic dimensions were evident within practitioner identity responses. An oblique rotation was performed

(obliminal rotation with Kaiser normalisation) as preliminary inspection of the item correlation matrix found substantial correlation between items from across the proposed dimensions. A three factor solution was extracted with eigenvalues greater than 1 (5.53, 1.51 and 1.14 respectively) accounting for 58.4 percent of the variance in the item set (see Table 5.6).

Inspection of the items loading on the three extracted factors found that these do not correspond to Osgood's dimensions. The evaluative items cohered reasonably well onto factor 2 with trustworthy, honourable and a good self that describes integrity. This factor is labelled *Principled*. The potency and activity items were distributed across factors 1 and 3. Factor 1, labelled *Competent*, captured a sense of capability or 'can do-ness' in executing the duties of a practitioner with items describing sophistication, assertiveness, energy and stimulation. Factor 3 was defined by two items of power and industry describing a sense of command and making a difference and is labelled *Powerful*. Although Osgood's dimensions were not replicated exactly as expected, the outcome of the analysis provided a set of coherent and functional underlying factors by which practitioners define themselves. Moreover, *Principled* captured the essence of Osgood's concept of evaluation, *Competent* echoed the idea of activity and *Powerful* of potency.

Table 5.6 Factor loadings of an exploratory factor analysis of practitioner identity items

As a tax practitioner, I am:	Factor 1	Factor 2	Factor 3
	Competent	Principled	Powerful
Content	0.78		
Stimulated	0.73		
Quick	0.69		
Energetic	0.64		
Sophisticated	0.62		
Assertive	0.60		
Smart	0.56		
Alert	0.52		
Trustworthy		-0.91	
Honourable		-0.85	
Professional		-0.82	
Good		-0.66	
Powerful			0.81
Industrious			0.78

Loading significance set at 0.45

Reliability analysis for practitioner identity scales

The derived factors were assessed for internal consistency. High inter-item reliability was confirmed for the *Competent* and *Principled* identity scales and adequate reliability was found for the *Powerful* identity scale. All items positively contributed to their respective scales (see Table 5.7). The practitioner identity scales were calculated as the sum of responses to scale items divided by the number of items in the scale.

Table 5.7 Means, standard deviations, Pearson's intercorrelations and reliability coefficients for the practitioner identity scales

Scales	Items (N)	M ^a	SD	1	2	Reliability coefficient
1. Competent	8	5.56	0.73			0.86 ^b
2. Principled	4	6.38	0.65	0.57***		0.83 ^b
3. Powerful	2	4.95	1.03	0.31***	0.22***	0.33 ^c

*** $p < 0.001$

^a scale range 1 to 7

^b Cronbach's alpha

^c Pearson's r

Respondents identified most strongly as principled, followed by competent and least so as having power. The scales were all positively correlated with the strongest relationship found between a competent self and a principled self.

5.2.5 Operational definition of propensity for preparation non-compliance

In summary, propensity is proposed as one of two higher-order constructs that predict preparation non-compliance. Eight specific measures have been developed to represent the propensity construct: a) a tendency for *Risk-taking*, b) *Preparation ethics*, c) *Business orientation*, d) *Professional orientation*, e) *Wealth orientation*, f) an identity of being *Competent*, g) an identity of being *Principled*, and h) an identity of being *Powerful*.

5.3 Opportunity measurement scales

The higher-order opportunity construct is also hypothesised to predict preparation non-compliance. Opportunity describes the environmental factors that are believed to influence preparation behaviours. Again drawing on the literature, three measures were proposed as components of practitioner opportunity for preparation non-compliance: an overall measure of opportunity, a measure of the perceived ambiguity of client tax items and a measure of deterrence factors.

5.3.1 General opportunity measure

A single item measure was used to gauge practitioners' sense of the overall opportunity for non-compliant return preparation. This item asked respondents to indicate their level of agreement on a five-point Likert scale (1 = 'Strongly disagree' to 5 = 'Strongly agree') to the statement:

'If I wanted to, it would be easy to complete non-compliant returns for the benefit of my clients'.

Overall, responses were fairly evenly distributed with a reasonably central mean of 2.78 (SD = 1.28).

5.3.2 Ambiguity of individuals' tax return items

While often discussed in the tax preparation literature, there have been few attempts to empirically measure the perceived level of ambiguity within client tax returns. The scenario method has previously been employed to assess practitioners' perceptions of tax ambiguity (Carnes, et al., 1996b; Magro, 1999), however, scenarios are limited by their artificial nature and their focus on a small number of tax areas. Klepper and Nagin (1989b) constructed an ambiguity index based on the published IRS Revenue Rulings for line items which are issued in response to inquiries from CPAs, lawyers and enrolled agents about the tax

implications of specific circumstances. This thesis drew inspiration from the comprehensive item based nature of Klepper and Nagin's measure and requested that respondents rate the level of ambiguity for each of the common use items on the individuals' tax return¹⁶.

The working definition of ambiguity was provided as 'lacking in clarity and/or open to various interpretations'. Respondents were then presented with a list of 21 items from the individuals' tax return (see Table 5.8 below) and asked to indicate their level of agreement with the statement, 'The following parts of the individuals' return are ambiguous'. Responses were recorded on a five-point response scale (1 = 'Strongly disagree' to 5 = 'Strongly agree').

¹⁶ The items were selected in consultation with a representative of the Tax Office who had access to the frequency of usage of individuals' tax return items.

Table 5.8 Means (standard deviations) for practitioners' rating of the ambiguity of individuals' tax return items

Items	Mean	SD
Personal services income	3.49	1.11
Capital gains	3.41	1.20
Foreign entities income	3.41	1.08
Foreign source income	3.37	1.11
Eligible termination payments	2.93	1.10
Other Australian pensions or annuities	2.85	1.08
Partnerships and trusts income	2.84	1.09
Work related expenses	2.83	1.08
Lump sum payments	2.81	1.05
Business deductions	2.79	1.07
Offsets	2.73	1.03
Rental deductions	2.51	1.00
Business income	2.50	0.94
Government pensions	2.44	0.99
Allowances	2.43	0.91
Interest and dividend deductions	2.39	0.89
Gift deductions	2.19	0.80
Rental income	2.16	0.79
Dividends	2.14	0.77
Gross interest	2.06	0.72
Salary and wages	2.06	0.70

1 = Strongly disagree to 5 = Strongly agree

Despite the differences with Klepper and Nagin's study (including United States population, IRS Revenue Rulings and an intervening 20 years), the tax items with the lowest ambiguity ratings of 'salaries and wages' and 'interest income' were consistent. However, the items with the highest rating of ambiguity were quite different for this study. The tax return items considered most ambiguous were 'personal services income', 'capital gains' and income from 'foreign sources'.

Reliability analysis for ambiguity of individuals' tax return scale

The purpose of having practitioners rate the items individually was to develop an overall measure of *Ambiguity*, for which each of the common use tax return items were taken into consideration. Inspection of the item correlation matrix found that the ambiguity ratings of all items were positively correlated which contributed to the high inter-item reliability for the *Ambiguity* scale. Practitioners' *Ambiguity* scale score was calculated by summing the ratings for items and dividing by the number of items in the scale. The overall mean *Ambiguity* rating ($M = 2.68$) is below the mid-point of 3, indicating that there is a tendency to disagree that client tax returns are ambiguous.

In Chapter 3, an argument was made for the use of ambiguity rather than complexity in the analysis. A measure of complexity was also taken in the *Tax Agent Opinion Survey* focussed on the same tax return items as for ambiguity and the same methods for testing for the unidimensionality of complexity items and forming a *Complexity* scale. The summary results for the *Complexity* scale along with the *Ambiguity* scale are included in Table 5.9 for comparative purposes only. The high correlation between *Ambiguity* and *Complexity* ($r = 0.79$) indicates the problem of multicollinearity that would arise should both scales be used in regression analysis. Given the high correlation between *Ambiguity* and *Complexity*, and our stronger theoretical focus on *Ambiguity*, *Complexity* has here been treated as redundant.

Table 5.9 Means, standard deviations, Pearson’s intercorrelation and reliability coefficients for the ambiguity and complexity of individuals’ tax return scales

Scales	Items (N)	M ^a	SD	1	Reliability coefficient
1. Ambiguity	21	2.68	0.70		0.95 ^b
2. Complexity	21	2.86	0.67	0.79***	0.94 ^b

*** p < 0.001

^a scale range 1 to 5

^b Cronbach’s alpha

5.3.3 Deterrence measures

Deterrence theory contends that non-compliance is less likely in the face of punitive consequences. In this study, the likelihood of incurring such consequences is believed to serve as a feature of perceived opportunity. That is, the higher the likelihood of detection and punishment, the lower the opportunity for non-compliance. This ‘likelihood’ rather than ‘severity’ of punishment measure emulates the approach taken by Nagin and Paternoster who, like others, have concluded on the basis of empirical findings that probability of detection and certainty of punishment are more important than perceptions of severity.

Practitioners’ assessment of the probability of detection and punishment were measured through three questionnaire items. One item captured the perceived probability of detection by the Tax Office if engaging in non-compliant practices and two items captured the perceived probability of different forms of punishment, escalating from financial penalties to deregistration. An 11-point response scale took a probability rating of between 0 percent to 100 percent (increasing in 10 percent increments) for each of the items.

The respondents’ assessments of the probability of detection and punishment are presented in Table 5.10. The average probability rating of detection shows that

as a group respondents believed that there was a 62.6 percent chance of detection 'if a tax agent was engaging in tax return non-compliance'. The probability rating of punishment is somewhat higher (note: the uncertainty of detection has been controlled for in the wording of the item). It is interesting to note that when comparing the perceived likelihood of punishment of deregistration with financial penalties, practitioners thought deregistration was the more likely outcome if caught for fraud.

Table 5.10 Means (standard deviations) for practitioners' assessment of the probability of detection and punishment for preparation non-compliance

Items	Mean (%)	SD (%)
Detection		
What do you think are the chances of detection by the Tax Office if a tax agent was engaging in tax return non-compliance for the benefit of Individual clients?	62.6	25.8
Punishment		
If found to be guilty of engaging in tax fraud for the benefit of Individual clients, what do you think are the chances of significant financial penalties?	82.9	20.6
If found to be guilty of engaging in tax fraud for the benefit of Individual clients, what do you think are the chances of being deregistered as a tax practitioner?	85.8	20.5

Scale range: 0 percent chance = 0 to 100 percent chance = 10

Reliability analysis for deterrence scales

The detection item represents a single item measure. However, the two punishment items with their high inter-item correlation (see Table 5.11) were combined to form a single *Punishment* measure. The *Detection* and *Punishment* measures were positively correlated.

Table 5.11 Means, standard deviations, Pearson’s intercorrelation and reliability coefficients for the deterrence scales

Scales	Items (N)	M ^a	SD	1	Reliability coefficient
1. Detection	1	6.26	2.58		-
2. Punishment	2	8.43	1.89	0.38***	0.69 ^b

*** $p < 0.001$

^a Scale range: 0 to 10

^b Pearson’s r

5.3.4 Operational definition of opportunity for preparation non-compliance

In summary, opportunity was proposed as the second higher-order construct that predicts preparation non-compliance. Four specific measures have been developed to represent the opportunity construct: a) a general measure of *Opportunity*, b) perceived *Ambiguity* of individuals’ tax return items, c) likelihood of *Detection* and d) likelihood of *Punishment* for non-compliant preparation.

5.4 Control variables

Two sets of control variables were proposed for the analysis of preparation compliance. The first set was the demographic characteristics of the practitioner and the organisation in which they worked and the second set was attitudes and beliefs held by the practitioner about the environment in which they practiced.

5.4.1 Demographic control variables

The demographic control variables were derived from the descriptive data which was presented in the previous chapter. Therefore, only the list of variables and their measurement scale information is provided here. There were five demographic control variables – *Gender*, *Years of practice*, organisational position of *Sole practitioner*, organisational position of *Business partner* and whether the practitioner or their organisation is involved in *Business consultancy*. *Gender* and

Years of practice retained their original measurement form. However, the categorical organisational position variable was recoded into two binary indicator variables of *Sole practitioners* and *Business partners*. The *Business consultancy* variable was calculated as an aggregate of the business consultancy as a task performed by the respondent variable and as a service offered by the organisation variable. The measurement scale information for the demographic control variables is presented in Table 5.12.

Table 5.12 Measurement scale information for the demographic control variables

Scales	Scale type	Descriptive information	Statistics
Gender	Binary	0 = Female and 1 = Male	1 = 79.5%
Years of practice	Continuous		M = 19.97, SD = 10.96
Sole practitioner (organisational position)	Binary	0 = No and 1 = Yes	1 = 75.7%
Business partner (organisational position)	Binary	0 = No and 1 = Yes	1 = 12.2%
Business consultancy	Continuous	Sum of Business consultancy performed by practitioner (0 = No and 1 = Yes) and/or offered by organisation (0 = No and 1 = Yes)	M = 1.49, SD = 0.83

5.4.2 Attitudes and beliefs regarding practice environment

The attitudes and beliefs held by practitioners about the environment in which they practice are not components of the individual propensity construct, but, have previously been found to predict preparation compliance. Most prominent of these are attitudes toward the tax authority and beliefs regarding the prevalence of preparation non-compliance within the tax preparation industry.

Practitioner attitudes toward the Tax Office were captured using three scales. The first drew on the work of V. Braithwaite (2001, 2003a), J. Braithwaite and

Makkai (1994) and Tyler (1997) to form a scale measuring perceptions of a mutually respectful relationship with the ATO (see Table 5.13). The items were presented with a five-point response scale asking practitioners to 'Please indicate how much you agree with these statements about the Tax Office' from 1 = 'Strongly disagree' to 5 = 'Strongly agree'.

Table 5.13 Means (standard deviations) for practitioners' evaluation of their relationship with the Tax Office

Items	Mean	SD
The Tax Office has always treated me with respect	3.96	0.82
The Tax Office has always treated my clients with respect	3.62	0.85
If you are cooperative with the Tax Office, they will be cooperative with you	3.84	0.74
The Tax Office can be trusted to do the right thing	3.23	0.92
The Tax Office treats me as an agent who can be trusted to do the right thing	3.90	0.69
The Tax Office has taken notice of the things I have said to them	3.57	0.80

Scale range: 1 = Strongly disagree to 5 = Strongly agree

The remaining two scales were designed to capture practitioners' representation of the fairness and firmness of the ATO. Two items represented the *Fair* scale (the Tax Office is 'Unfair – Fair' and 'Untrustworthy – Trustworthy') and two items represented the *Firm* scale (the Tax Office is 'Permissive – Firm' and 'Weak – Strong'). The *Fair* and *Firm* scales followed the Osgood (1969) item format. Ratings of adjective pairs were presented along a seven-point bidirectional scale with a mid-point of 0 = neither and the ratings 1 = slightly, 2 = quite and 3 = extremely toward each of the adjective poles. Prior to analysis, the item responses were recoded so that 1 = extremely negative attribute (e.g. 'unfair') and 7 = extremely positive attribute (e.g. 'fair'), with a mid-point of 4 = neither. The *Fair* and *Firm* scales reflect Kirchler, Hoelzl and Wahl's (2008) two dimensions of

taxpayer compliance – trust in tax authorities and the perceived power of tax authorities.

Table 5.14 Means (standard deviations) for practitioners’ evaluation of the Tax Office as Fair and Firm

The Tax Office is:	Mean	SD
Fair		
Unfair – Fair (R)	4.77	1.26
Untrustworthy – Trustworthy	5.02	1.24
Firm		
Permissive – Firm (R)	5.03	1.20
Weak – Strong (R)	5.14	1.19

Scale range: 1 to 7

(R) Reverse scored to discourage response bias. These have been recoded prior to analysis to maintain consistent direction of negative attribute to positive attribute.

The final control variable for practitioners’ perceptions of their environment related to the prevalence of preparation non-compliance within the wider tax industry. This was a measure of the descriptive norm for preparation non-compliance. In this study, the descriptive norm that practitioners held for the compliance of their peers was measured through a single item, ‘How prevalent do you think non-compliance is among the tax preparation of other agents?’ A seven-point response scale was anchored at one end with 1 = ‘Non existent’ and the other at 7 = ‘Endemic/rife’. Practitioner responses were normally distributed around the mean of 3.45 (SD = 1.28).

Measurement scale information for the attitudes and beliefs regarding practice environment

There were four measures of the attitudes and beliefs that make up the practice environment control variables (see Table 5.15). Overall, respondents tended to describe a positive interaction with the ATO, where all mean scores for the ATO measures were above the mid-point of their respective rating scales. The scales that evaluated the ATO as *Respectful*, *Fair* and *Firm* were all positively related. The perception of high prevalence of preparation non-compliance was negatively related to an evaluation of the ATO as *Firm*.

Table 5.15 Means, standard deviations, Pearson’s intercorrelations and reliability coefficients for the attitudes and beliefs regarding practice environment

Scales	Items (N)	M ^a	SD	1	2	3	Reliability coefficient
1. Respectful relations	6	3.69	0.58				0.80 ^b
2. ATO is Fair	2	4.90	1.06	0.54***			0.44 ^c
3. ATO is Firm	2	5.08	1.03	0.17***	0.31***		0.47 ^c
4. Prevalence of non-compliance	1	3.45	1.28	-0.09	-0.08	-0.10***	-

*** $p < 0.001$

^a scale range 1 to 7

^b Cronbach’s alpha

^c Pearson’s r

5.6 Summary

In this chapter, the independent variables representing the propensity and opportunity constructs and control variables were developed. Table 5.16 provides a summary of the descriptive statistics for the independent propensity and opportunity variables and control variables used in this study. These variables were tested for concept validity and scales were empirically derived.

Table 5.17 presents the Pearson product-moment correlation coefficients among the independent and control variables. The absence of strong correlations within this matrix indicates that there are no concerns for multicollinearity or singularity among the independent and control variables¹⁷.

¹⁷ Multicollinearity and singularity occur among variables with correlations greater than $r = \pm.90$ (Tabachnick & Fidell, 2001).

Table 5.16 Summary of propensity and opportunity variables and control variables

Variable	Scale	Number of items	Scale range	M (SD)	Reliability coefficient
Propensity					
Tax ethics	-	1	1 = Sometimes justified 2 = Never justified	1.66 (1.27)	-
Risk-taking	-	1	1 to 7	2.84 (1.28)	-
Work-value orientation	Business	3	1 to 5	4.04 (0.53)	0.70 ^a
	Professional	3	1 to 5	4.14 (0.50)	0.61 ^a
	Wealth	2	1 to 5	2.78 (0.82)	0.22 ^b
Practitioner identity	Competent	8	1 to 7	5.56 (0.73)	0.86 ^a
	Principled	4	1 to 7	6.38 (0.65)	0.83 ^a
	Powerful	2	1 to 7	4.95 (1.03)	0.33 ^b
Opportunity					
Opportunity	-	1	1 to 5	2.78 (1.28)	-
Ambiguity	-	21	1 to 5	2.68 (0.70)	0.95 ^a
Rational choice	Detection	1	0 to 10	6.26 (2.58)	-
	Punishment	2	0 to 10	8.43 (1.89)	0.69 ^a
Control					
Demographic	Gender	1	0 = Female 1 = Male	1 = 79.5%	-
	Years of practice	1	-	19.97 (10.96)	-
Organisational	Sole practitioner	1	0 = No 1 = Yes	Yes 75.7%	-
	Business partner	1	0 = No 1 = Yes	Yes 12.2%	-
	Business consultancy	1	0 to 2	1.49 (0.83)	-
ATO relations	Respectful relations	6		3.69 (0.58)	0.80 ^a
	ATO is Fair	2		4.90 (1.06)	0.44 ^b
	ATO is Firm	2		5.08 (1.03)	0.47 ^b
	Prevalence of non-compliance	1		3.45 (1.28)	-

^a Cronbach's alpha

^b Pearson's r

Table 5.17 Correlations among propensity and opportunity variables and control variables

Correlations	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1 Risk-taking																				
2 Preparation ethics	-.28***																			
3 Business orient.	.01	.19***																		
4 Professional orient.	-.04	.16***	.39***																	
5 Wealth orient.	.09**	-.16***	.02	-.06*																
6 Competent	.01	.17***	.39***	.36***	-.01															
7 Principled	-.11***	.25***	.23***	.22***	-.06*	.57***														
8 Powerful	.07*	.18***	.22***	.19***	.04	.31***	.22***													
9 Opportunity	.17***	-.19***	-.05	-.09**	.17***	-.15***	-.13***	-.01												
10 Detection	-.15***	.19***	.08**	.13***	-.12***	.10***	.06*	.02	-.23***											
11 Punishment	-.15***	.23***	.07**	.07**	-.05	.07*	.08**	.00	-.14***	.38***										
12 Ambiguity	.04	-.13***	-.12***	-.13***	.07**	-.23***	-.11***	-.11***	.08**	-.06*	-.07**									
13 Gender	.09**	-.10***	.01	-.12***	.04	-.13***	-.12***	-.08**	.02	-.06*	-.03	.03								
14 Years of practice	-.03	.05	-.04	-.10***	-.19***	-.01	.01	-.03	-.03	.07*	.07*	.03	.24***							
15 Sole practitioner	-.10**	.00	-.13***	-.02	-.08**	-.03	.05	-.08**	-.03	.04	.06*	.00	-.03	.06*						
16 Business partner	.06*	.00	.10***	.01	.06*	-.02	-.08**	.04	.00	-.04	-.05	.00	.09**	.04	-.65***					
17 Business consultancy	.14***	.00	.20***	.01	.05	.05	.01	.11***	.06*	-.05	-.03	.01	.08**	-.14***	-.14***	.12***				
18 Respectful relations	-.13***	.21***	.14***	.21***	-.06*	.24***	.13***	.10***	-.10***	.17***	.13***	-.20***	-.03	.03	.05	-.03	-.08**			
19 ATO is Fair	-.16***	.19***	.07**	.15***	-.08**	.17***	.12***	.14***	-.10***	.18***	.12***	-.18***	-.05	-.01	.03	-.07*	-.11***	.54***		
20 ATO is Firm	-.09**	.15***	.11***	.09**	-.01	.08**	.14***	.25***	-.06*	.17***	.17***	-.04	-.06*	-.03	.03	-.04	.00	.17***	.31***	
21 Prevalence of non-compliance	.14***	-.10***	-.07**	-.06*	.04	-.06*	-.03	.01	.15***	-.18***	-.18***	.08**	-.07*	-.10***	-.01	-.03	.06*	-.09**	-.08**	-.10***

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

Chapter 6: The measurement of practitioner compliance

6.1 Introduction

In the previous chapter, the independent variables of the propensity and opportunity model, along with the control variables were developed. This chapter continues variable development, proposing and validating the primary dependent variable for this study – tax practitioner preparation compliance. Tax compliance is a notoriously difficult concept to measure (Erard, 1997; Kirchler & Wahl, 2010). This can become even more problematic in regard to the preparation compliance of tax professionals. Issues such as heightened sensitivity to social desirability bias due to practitioners' greater investment in and reliance on a reputation of integrity and the 'contested borders' of tax compliance have been raised and discussed in previous chapters.

It was argued in Chapter 3 that knowing submission of client returns of suspect legality represents practitioner non-compliance according to the Tax Agent Services Act (2009). Practitioner judgment of their clients' tax return compliance was, therefore, proposed as a measure of practitioner compliance. This is a novel measure of practitioner compliance. As such, this chapter is dedicated to testing the empirical and construct validity of client return compliance as a measure of practitioner compliance. Firstly, the measure of preparation compliance is developed. Second, the construct validity of this measure is assessed. This is achieved through testing the relationship of the measure of preparation compliance with another measure expected to be related to preparation compliance –

practitioner practice. Finally, the proposed control variables are tested for their relationship with the dependent measure.

Missing value analysis

Two of the statistical techniques used in the analysis of practitioner compliance (structural equation modelling (SEM) and cluster analysis) cannot fit a model with missing data. To maintain consistency of the sample across the analyses presented in this chapter, missing value analysis was conducted on the preparation compliance items that are proposed to form the primary dependent variable. Twelve cases that had greater than 50 percent missing data were excluded from this analysis (Reinhart, Job, & Ahmed, 2006), leaving a working sample of 1,361 practitioners. For the SEM and cluster analysis, any missing values below the 50 percent threshold for the remaining cases were replaced using expectation maximisation, which calculates an estimate of the value using the non-missing variables.

6.2 Preparation compliance

The dependent variable of tax practitioner preparation compliance is developed in this section. An attempt was made to avoid respondents being entangled in the nuances of compliance definition, and to discourage socially desirable responding. As such, practitioners' perceptions of the 'legitimacy' of their clients' tax return positions was measured, without comment regarding the capabilities or intentions of either the practitioners or their clients to evade or avoid the rules. The term 'legitimate' was used instead of 'compliant' as it has a similar evaluative meaning in this context with less loaded connotations of breaking the law.

Respondents were asked to rate the level of compliance of their individual client base across 21 income tax return items with the question, 'Think about each

one of the items listed below and select the response that best describes your clients' income tax returns overall'. Responses were recorded on a five-point scale ranging from 1 = 'Absolutely confident they were all legitimate' to 5 = 'Pretty sure most are not completely legitimate'. This measure was adapted from the Community Hopes, Fears and Actions Survey (V. Braithwaite, et al., 2001). The set of 21 questionnaire items corresponds to the common use items on the individuals' tax return¹⁸.

The descriptive statistics for preparation compliance (see Table 6.1) show that, overall, practitioners largely report their clients as having compliant tax affairs. All items had a mean score between 1 and 2, where 1 indicated absolute confidence they were all legitimate and 2 indicated that they were 'slightly unsure' of legitimacy. Yet some items rated a higher (therefore more non-compliant) average than others. Greatest compliance was associated with 'dividends', 'salary and wages', 'government pensions' and 'lump sum payments'. Highest levels of non-compliance were associated with 'work related expenses', 'business deductions' and 'personal services income'. The ranking of item compliance ratings met expectations based on known compliance risks (Australian Taxation Office, 2009). The pattern of item compliance ratings were also similar to the IRS Taxpayer Compliance Measurement Program audit result data, where the highest levels of non-compliance are typically found among the different types of business and rental tax return items and the lowest at income from salary and wage, interest and dividends (Internal Revenue Service, 1996).

¹⁸ The 21 items were selected in consultation with a representative of the Tax Office who had access to the frequency of usage of individuals' tax return items.

Table 6.1 Means (standard deviations) for ratings of the preparation compliance items

Items	Mean	SD
Dividends	1.11	0.40
Salary and wages	1.14	0.43
Government pensions	1.14	0.43
Lump sum payments	1.18	0.47
Gross interest	1.20	0.48
Rental income	1.22	0.49
Interest and dividend deductions	1.23	0.49
Allowances	1.25	0.53
Eligible termination payments	1.25	0.53
Other Australian pensions or annuities	1.28	0.56
Offsets	1.32	0.58
Partnerships and Trusts income	1.44	0.60
Business income	1.49	0.62
Rental deductions	1.49	0.60
Gift deductions	1.51	0.66
Capital gains	1.67	0.64
Foreign source income	1.68	0.72
Foreign entities income	1.68	0.73
Personal services income	1.72	0.66
Business deductions	1.72	0.58
Work related expenses	1.78	0.59

1 = 'Absolutely confident they were all legitimate' to 5 = 'Pretty sure most are not completely legitimate'

The data presented in Table 6.1 were highly skewed toward self-reported compliance as noted. Though troublesome from an analytics perspective, this skew in distribution is reflective of the general compliance for a large portion of tax practitioners, especially from the view of those at the head of their organisation (Bobek, et al, 2010; Finn, et al., 1988). Non-response bias (practitioners who did not take part in the survey) and social desirability bias are no doubt also contributing

somewhat to an over-representation of compliant responses. This effect, however, cannot be removed from the data at hand.

The preparation compliance data will now be analysed from two perspectives. Firstly, the items are analysed in relation to each other to uncover the potential underlying factors of the 21 compliance items (factor analysis). Second, practitioners are analysed in relation to each other to uncover potential clusters of similarity in preparation compliance (cluster analysis). The difference between these approaches can be described as the assessment of the similarity between variables (R analysis) versus the assessment of similarity between subjects (Q analysis). R analysis averages across individuals to identify items that are responded to similarly by the sample. Q analysis averages across items to identify practitioners who respond similarly to the set of items. Q analysis was prompted by Collins, Milliron and Toy's (1992) assertion that, rather than a homogenous group, the taxpayer population should be considered as a collection of segments with their own distinct approaches to preparation. This is reflected in the practitioner literature with recurrent differences in the preparation behaviour of CPAs and non-CPAs (see Chapter 2).

6.2.1 Preparation compliance scale

This section assesses the similarity of responses across the preparation compliance items (R analysis). Factor analyses were conducted to uncover the potential underlying factors of the preparation compliance items. As this measure of compliance has not previously been used, and in consideration of the importance of this measure as the primary dependent variable for this thesis, both exploratory factor analysis and confirmatory factor analysis using SEM were conducted.

Exploratory factor analyses of practitioner ratings of preparation compliance items

Prior to the exploratory factor analysis, the data set was randomly divided into two subsets (set 1 N = 690 and set 2 N = 671). A factor analysis was conducted on the 21 preparation compliance items for each of these subsets and then compared to obtain an estimate of split-half reliability of the extracted compliance factors (R. J. Cohen & Swerdlik, 1999). The extraction method of principal components factoring was applied. An oblique rotation (obliminal rotation with Kaiser normalisation) was performed as it was predicted that the extracted factors would be somewhat related. Three factors were extracted from each subset with eigenvalues exceeding one. Eigenvalues for the extracted factors of set 1 were 9.08, 1.91 and 1.64, accounting for 60.1 percent of variance. The eigenvalues for set 2 were 10.59, 1.55 and 1.26, accounting for 63.8 percent of variance.

With few exceptions, the preparation compliance items loaded strongly and singularly on one of three factors in a pattern that was replicated across the two split-half sets of practitioners (see Table 6.2 below). The factor analysis of set 1 practitioners found dual significant loadings for 'eligible termination payments' and 'other Australian pensions or annuities' on factors 1 and 3. However, when taking the analysis results of both subsets into account these items were most

reliably associated with factor 1. Their contribution to factor 3 compared to the other loadings on factor 3 was weak.

'Offsets' did not load significantly on any factor in either split-half data set and 'personal services income' barely reached significance at factor 2 for set 1 only. The 'offsets' and 'personal services income' items were excluded from further analysis due to poor performance. The split-half reliability of the factor loadings of the two subsets across the 19 significant preparation compliance items was confirmed by a Spearman's rho of 0.95 ($p < .001$).

Table 6.2 Factor loadings of the exploratory factor analyses of preparation compliance items for split-half reliability set 1 and set 2

Items	Set 1 (Set 2)		
	Factor 1 High visibility	Factor 2 Low visibility	Factor 3 Foreign income
Dividends	0.82 (0.81)		
Government pensions	0.81 (0.87)		
Lump sum payments	0.71 (0.78)		
Gross interest	0.71 (0.75)		
Salary and wages	0.70 (0.69)		
Allowances	0.59 (0.58)		
Interest and dividend deductions	0.57 (0.55)		
Eligible termination payments	0.56 (0.65)		-0.52
Other Australian pensions or annuities	0.56 (0.61)		-0.49
Rental income	0.51 (0.56)		
Offsets			
Business deductions		0.80 (0.83)	
Work related expenses		0.78 (0.76)	
Rental deductions		0.69 (0.72)	
Gift deductions		0.63 (0.66)	
Business income		0.58 (0.70)	
Capital gains		0.53 (0.53)	
Partnerships and Trusts income		0.47 (0.47)	
Personal services income		0.46	
Foreign source income			-0.83 (-0.80)
Foreign entities income			-0.82 (-0.79)

Loading significance set at 0.45

The preliminary impression of the composition of the items loading on the three factors is that factor 1 appears to capture tax return items that are subject to third-party reporting and, therefore, represent compliance that has *High visibility* to the Tax Office. Third-party data is made available to practitioners prior to tax return lodgment. There is, therefore, less room for error and deliberate non-

compliance at these items. Factor 2 captures items that are not subject to third-party reporting and, therefore, represent compliance that has *Low visibility* to the Tax Office. The two items that load singularly and significantly on factor 3 represent *Foreign income* compliance. The interpretation of the three factors is discussed in greater depth subsequent to the confirmatory factor analysis.

Confirmatory factor analysis of preparation compliance items

The three factors derived in the exploratory factor analyses were interrogated further using SEM. The SEM was performed on the 19 preparation compliance items as per the results of the exploratory factor analyses above¹⁹. Given the goodness of fit of the three factor model ($\chi^2(88) = 104.34$, ns), the structural relationships proposed (see Figure 6.1) were tested to ascertain the relationship between the measured preparation compliance items and the latent factor variables. The model demonstrated good overall fit with a high Goodness of Fit Index of 0.99 (adjusted GFI = 0.98) and low RMSEA of 0.01. Post-hoc modifications were not conducted due to the excellent fit of the data to the model.

¹⁹ 'Offsets' and 'personal services income' omitted due to poor factor loadings

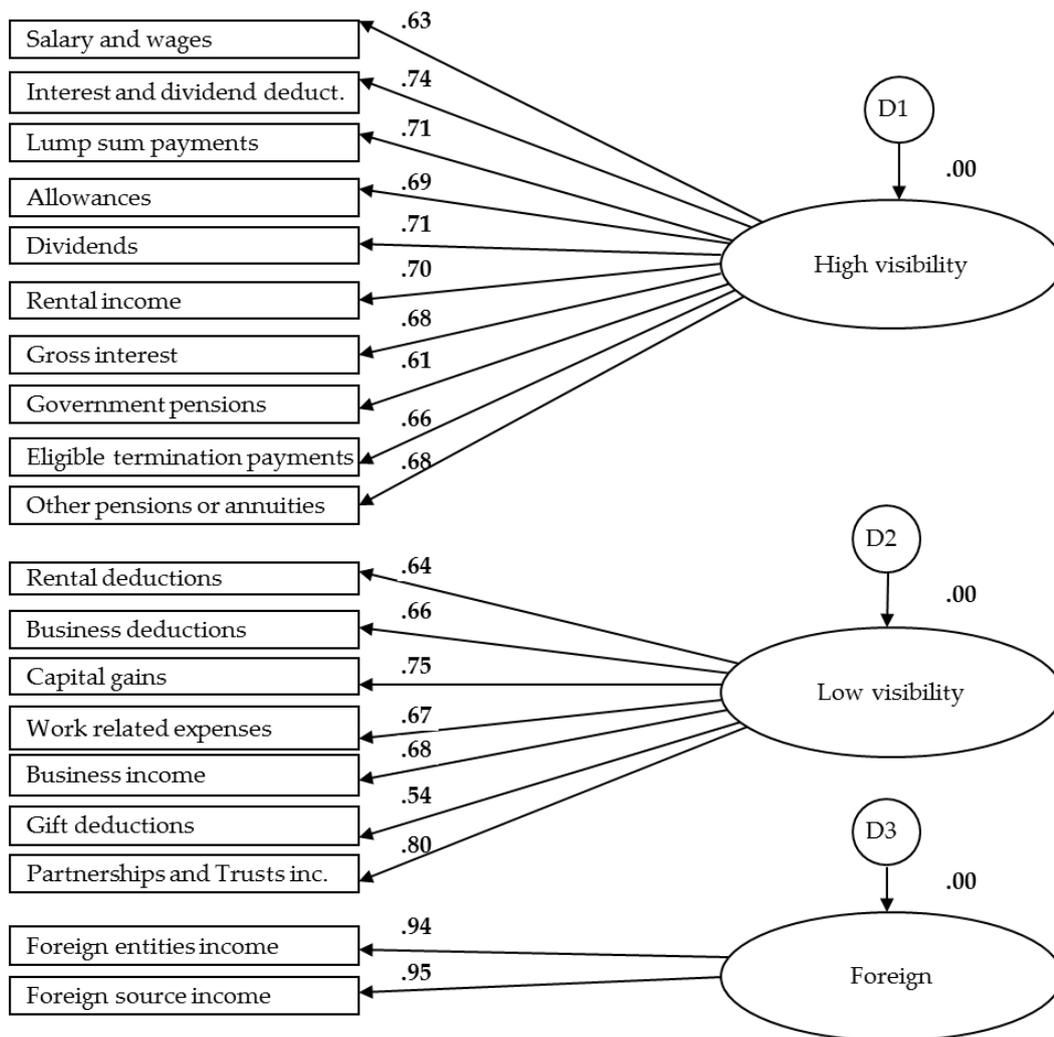


Figure 6.1 Confirmatory SEM results of preparation compliance items

The standardised coefficients of the relationships between the preparation compliance items and their underlying factors or latent variables were consistently strong. The minimum was 0.54 (Gift deductions ← *Low visibility*) and shared maximum was 0.95 (Foreign entities and Foreign source income ← *Foreign income*). The results of this SEM confirm the three factor structure of preparation compliance.

Interpretation of the three factors of preparation compliance

The preliminary interpretation of the loading pattern of the preparation compliance items onto the three factors of *High visibility*, *Low visibility* and *Foreign*

income compliance was both coherent and revealing. Confirmation that a tax practitioner's preparation compliance depends on whether the return items were high or low visibility or foreign income was sought via informal interviews with a small convenience sample of practitioners and tax officers²⁰. Half of the sample (two practitioners and two tax officers) was presented with the three sets of items and asked to focus on why they were grouped in this way. The specific question was "What could explain the differences in compliance between these three sets?" Three (two practitioners and one tax officer) responded with variations on 'provision of third-party data' and the remaining tax officer offered 'complexity'. The other half of the sample (again two practitioners and two tax officers) was presented with the list of 19 valid items and asked to group them in terms of their visibility to the ATO. All returned two groups which broadly reflected the *High visibility* and *Low visibility* compliance factors. Interesting variations on the composition of the high and low visibility groups were the classification of the 'foreign income' compliance items, which were rated as being high in visibility by one practitioner and as low by the remaining practitioner and tax officers, with the comment made, "Why would you (report foreign income)?" Also, 'rental income' was rated as being high in visibility by both practitioners but not by the tax officers.

Reliability analysis for preparation compliance scales

Having been tested and confirmed for conceptual and structural integrity, the three preparation compliance factors were assessed for internal consistency. High intra-scale reliability was established for all three compliance factors. Inspection of the reliability statistics found that each of the 19 items positively

²⁰ This sample included two tax agent acquaintances and two agent respondents of the Tax Agent Opinion Survey who had expressed interest in the research and offered feedback on the results. In addition, four tax officers were included in the sample. The informal interview was conducted via email.

contributed to the internal consistency of their respective scales. Three preparation compliance scales were constructed by calculating the mean of the ratings of the respective items for each factor, with each item given equal weighting in the construction of the scales.

Table 6.3 Means, standard deviations, Pearson’s intercorrelations and reliability coefficients for the preparation compliance scales

Scales	Items (N)	M ^a	SD	1	2	Reliability coefficient
1. High visibility	10	1.20	0.36			0.91 ^b
2. Low visibility	7	1.59	0.46	0.68***		0.87 ^b
3. Foreign income	2	1.68	0.71	0.54***	0.57***	0.89 ^c

*** $p < 0.001$

^a scale range 1 to 5

^b Cronbach’s alpha

^c Pearson’s r

Overall, the *High visibility* scale had the lowest mean non-compliance rating. That is, practitioners tended to report the lowest levels of preparation non-compliance among the *High visibility* compliance items. A higher mean level of preparation non-compliance was reported among the *Low visibility* compliance items. The highest mean non-compliance rating was reported for the *Foreign income* compliance items. The three scales were strongly correlated.

The construction of the preparation compliance scales has provided an important result in and of itself. Analysis of the practitioner compliance ratings of their clients’ tax return items uncovered previously unreported associations between individuals’ tax return labels. The pattern of relationships between items was attributed to transaction visibility and offshore transactions. The associations are very strong and their structure robust.

6.2.2 Practitioner compliance clusters

The preparation compliance data were then analysed from the second perspective (Q analysis). Tax practitioners were analysed in relation to each other to uncover potential clusters of similarity in preparation compliance ratings. Given the importance of visibility to practitioners' preparation compliance, it is possible that types of practitioners will emerge: for example those who are very particular that their clients' returns are correct regardless of visibility, those who prioritise correctness on some return items according to visibility, and perhaps even some who are dismissive of visibility as a constraint on their preparation.

Exploratory cluster analysis of preparation compliance items

Cluster analysis was conducted to assess whether there were naturally occurring groups of practitioners according to their ratings of preparation compliance. A two-step cluster analysis was applied to the 19 preparation compliance items. The preparation compliance items were standardised prior to entry into the two-step cluster analysis.

The cluster analysis revealed three primary clusters of practitioners with a fourth outlier cluster (see Table 6.4). Cluster 2 captured the majority of the practitioners with smaller collections in clusters 1 and 3. The analysis was repeated across three random data orders as two-step cluster analysis is particularly sensitive to the order of the data on which it is conducted (Garson, 2010a). Three primary clusters with 12 outliers were extracted each time with only 27 boundary cases (less than 2 percent) that shifted between the clusters.

Table 6.4 Number of practitioners in the three primary clusters and the outlier cluster

Clusters	Number of practitioners	Percent of total
Cluster 1	299	22.0
Cluster 2	854	62.8
Cluster 3	196	14.4
Outliers	12	0.9
Total	1,361	

Dunnett's *t* statistics were calculated to show how the three groups differed on the 19 compliance measures (see Appendix D). Inspection of the cluster means and standard deviations for each of the 19 preparation compliance items showed that *High visibility*, *Low visibility* and *Foreign income* compliance all were relevant to some degree in differentiating the three primary (non-outlier) clusters.

The clusters were significantly different across the *Low visibility* compliance items (such as 'business income', 'gift deductions' and 'capital gains'). Cluster 3 reported the highest mean preparation non-compliance for each item in this scale and cluster 2 reported a mean lower than cluster 3 and higher than cluster 1 for each item of the scale. This pattern was repeated for the *Foreign income* compliance items, with cluster 3 reporting the highest mean preparation non-compliance, and cluster 1 the lowest, with cluster 2 in-between.

The pattern was similar for the *High visibility* compliance items, although not so consistently significant. Cluster 3 reported the highest mean preparation non-compliance for each *High visibility* item and cluster 2 reported a mean lower than cluster 3 and higher than cluster 1 for each item. However, at the level of particular items, two of the seven items did not differentiate all clusters (see Appendix D – Table D.2).

Clusters were differentiated using items. However, as the 19 differentiating items behaved in a manner that was consistent within the overarching concepts of *High visibility*, *Low visibility* and *Foreign income* compliance, the three preparation compliance scale means were calculated and presented for each of the practitioner clusters in Figure 6.2. This graph more succinctly describes the patterns identified above, aiding in the interpretability of the clusters.

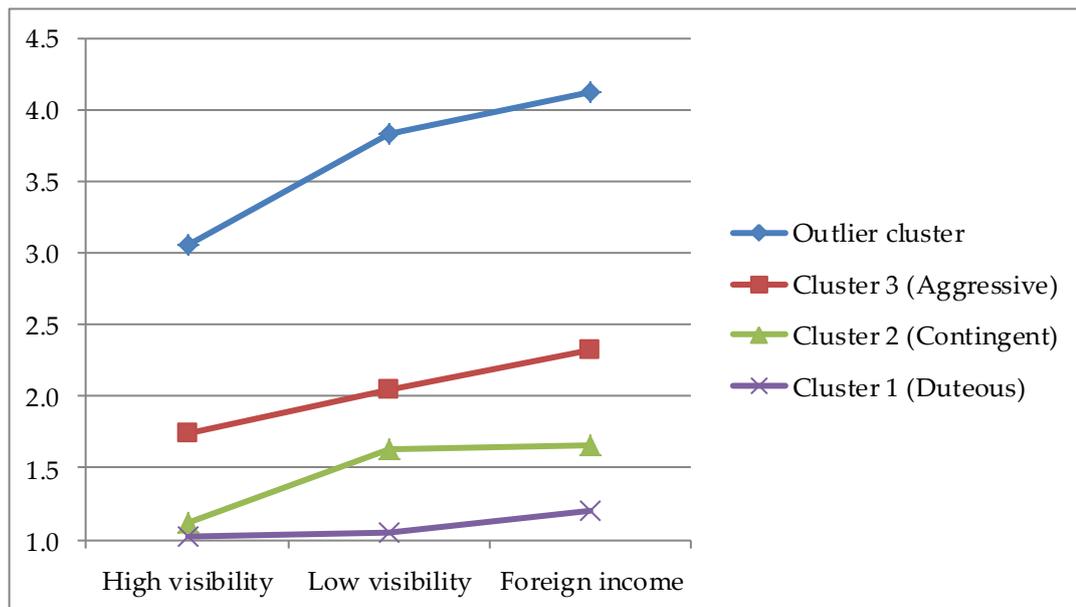


Figure 6.2 Practitioner cluster means for the preparation compliance scales

The pattern of the cluster means for the preparation compliance scales is revealing. Cluster 3, representing the lowest number of practitioners, presented the consistently highest preparation non-compliance across the scales (of the three non-outlier clusters). Cluster 1, with the second lowest number of practitioners, presented the consistently lowest preparation non-compliance across the scales. Cluster 2, holding almost two thirds of the practitioners, exhibited an intriguing compliance pattern. Practitioners in cluster 2 report preparation compliance in conditions of *High visibility*; however, in conditions of *Low visibility* they are less compliant, approaching the position of cluster 3. In other words, the middle group do not incrementally move in tandem in their compliance performance on the

compliance measures – they act like cluster 1 on *High visibility* compliance items and like cluster 3 on *Low visibility* compliance items. This is intriguing in the sense that the pattern emerging empirically from the data resonates theoretically with Klepper and Nagin's (1989b) dual role for practitioners as enforcers and exploiters.

The preparation compliance scale means for the Outlier cluster were presented here for descriptive purposes. As a rule the Outlier cluster will not be included in statistical analyses due to the low number of practitioners (N = 12) within this group. Despite this, the Outlier cluster with its extremely high preparation non-compliance is considered to be representative of a small group of tax practitioners. The group is not discussed here as a vexatious group or one that has not been authentic in responding to the questionnaire. Whether their responses signal practitioner defiance by boasting about their preparation practices or practitioner despair and cynicism about the honesty of their clients is not clear at this point.

In summary, tax practitioners have been grouped into four clusters of similarity based on their perceptions of the levels of compliance in the tax returns they have prepared for their clients. Their judgment on each line item is a summation over all their clients, not their worst nor their best. When mapped along the preparation compliance scales, it is seen that cluster 1 captures practitioners with the greatest confidence of compliance in the client returns they have prepared. Cluster 2 captures practitioners with confidence that is high when visibility is high and low when visibility is low. In other words, confidence in compliance is contingent on visibility. And cluster 3 is the cluster of practitioners with the highest level of perceived preparation non-compliance. The Outlier cluster has too few cases for analysis. For descriptive purposes, however, these practitioners have the highest levels of preparation non-compliance and therefore are an intriguing group.

These practitioner clusters are proposed as the primary dependent measure of preparation compliance. The reason for favouring the three clusters of practitioners as opposed to the three compliance dimensions is that each cluster is discretely different from the others and *High visibility*, *Low visibility* and *Foreign income* compliance do not move in tandem incrementally across the compliance groups. This pattern is revealed in Figure 6.2. Nonetheless, some effort to establish construct validity for practitioner clusters of preparation compliance is necessary before proceeding to use these groups as the dependent measure of practitioner compliance.

6.3 Construct validity of the practitioner compliance measure

The previous section developed the dependent variable for this thesis – tax practitioner clusters of client return preparation compliance. However, for confidence in the construct validity of the practitioner compliance measure, convergent evidence must be provided from other sources (R. J. Cohen & Swerdlik, 1999). This section examines the relationship between the preparation compliance measure and other measures that tap the degree to which a practitioner prioritises the lodgement of a tax return likely to be considered legitimate by the Tax Office.

6.3.1 Preparation practices

In a role analysis of practitioners and their clients, Tan (2009) developed a comprehensive scale measuring what practitioners did in practice when preparing business clients' returns. Practitioner respondents indicated their level of agreement or disagreement with a set of preparation practice items (1 = 'Strongly disagree' to 5 = 'Strongly agree') for which the descriptive statistics are presented in Table 6.5.

Overall, practitioners described their preparation practices as supporting their clients lodging a compliant tax return. This was demonstrated through high scores for items such as ‘file an accurate tax return’ and ‘make claims only when they are clearly legitimate’. Also rated highly were practices that were efficient and made their clients feel confident about their tax returns (e.g. ‘avoid tax penalties’ and ‘save my clients considerable time’). In contrast, the lowest rating items describe aggressive practices, such as ‘being creative in tax matters’, ‘exploiting loopholes’, ‘providing aggressive advice’ and ‘promoting tax effective schemes’.

Table 6.5 Means (standard deviations) for preparation practice items

In practice, I generally:	Mean	SD
Help (my clients) file an accurate tax return	4.51	0.52
Help (my clients) avoid tax penalties	4.30	0.60
Assist (my clients) to make claims only when they are clearly legitimate	4.23	0.63
Save (my clients) considerable time in dealing with tax matters	4.22	0.56
Am up to date with the latest changes in tax law	4.21	0.55
Am clear about the risks associated with the recommended advice	4.19	0.52
Help (my clients) minimise tax	4.14	0.66
Reduce uncertainties in tax matters that concern (my clients)	4.14	0.54
Know many ways to save on taxes	3.90	0.72
Advise (my clients) not to take deductions that fall within any grey areas of tax law	3.86	0.84
Provide (my clients) conservative advice in areas where the tax law is not ambiguous	3.72	0.84
Am creative in dealing with (my clients) tax matters	2.89	1.06
Am able to exploit tax loopholes to (my clients) advantage	2.75	1.01
Provide (my clients) with aggressive advice in areas where the tax law is ambiguous	2.20	0.94
Promote any tax effective schemes to (my clients) so that they don't have to pay too much tax	2.11	1.03

1 = ‘Strongly disagree’ to 5 = ‘Strongly agree’

These results were consistent with those provided by Tan’s New Zealand sample of tax practitioners, largely replicating the ranking reported above. They

are also reflective of the stated preference of Australian taxpayers for practitioners who provide a 'low risk, no fuss' service (Sakurai & Braithwaite, 2003). Practitioner involvement in aggressive preparation practice is, however, not negligible – especially for creative practices and exploiting loopholes.

Exploratory factor analysis of preparation practice items

Tan (2009) conducted an exploratory factor analysis on the preparation practice items for business clients. Exploratory factor analysis was again conducted here to uncover the number of dimensions required to represent what practitioners do in practice when preparing individual clients' tax returns. As relationships between the extracted factors were not expected to be strong, a factor analysis with principal components extraction and an orthogonal rotation (varimax rotation with Kaiser normalisation) was conducted (Tan, 2009). Three factors were derived with eigenvalues exceeding one (4.15, 2.55 and 1.22) accounting for 52.8 percent of the variance in the item set. Despite the differing focus of business and individual clients, the preparation items loaded almost perfectly in accord with Tan's factors representing being *Technically proficient*, *Aggressive* and *Cautious* factors. The only item that was outside the established pattern was 'Assist clients to make only legitimate claims' which loaded equally on the *Technically proficient* and *Cautious* factors. While conceptually plausible, this is not acceptable for measurement purposes. This item was, therefore, excluded from further analysis.

Table 6.6 Factor loadings of an exploratory factor analysis of preparation practice items

Preparation practice items	Factor 1	Factor 2	Factor 3
	Technically proficient	Aggressive	Cautious
Help clients avoid tax penalties	0.74		
Save clients considerable time in tax matters	0.71		
Help clients file accurate tax return	0.66		
Reduce uncertainties in tax matters	0.65		
Help clients minimise tax	0.63		
Am up to date with tax law	0.63		
Know many ways to save on taxes	0.63		
Am clear about the risks	0.62		
Provide aggressive advice when ambiguous		0.75	
Exploit tax loopholes		0.71	
Promote any tax effective schemes		0.70	
Am creative in clients tax matters		0.69	
Advise not to take deductions in grey areas			0.73
Provide conservative advice when not ambiguous			0.71
Assist clients to make only legitimate claims	0.46		0.48

Loading significance set at 0.45

Reliability analysis for preparation practice scales

Reliability analyses were conducted on the practice factors described above to ensure internal consistency for scale development. Intra-scale reliability was confirmed for the *Technically proficient*, *Aggressive* and *Cautious* practice scales, with each item positively contributing to the internal consistency of their respective scales.

Table 6.7 Means, standard deviations, Pearson’s intercorrelations and reliability coefficients for the preparation practice scales

Scales	Items (N)	M ^a	SD	1	2	Reliability coefficient
1. Technically proficient	8	4.20	0.39			0.82 ^b
2. Aggressive	4	2.49	0.75	0.18***		0.72 ^b
3. Cautious	2	3.79	0.67	0.22***	-0.10***	0.29 ^c

*** $p < 0.001$

^a scale range 1 to 5

^b Cronbach’s alpha

^c Pearson’s r

Scale scores were calculated as the sum of responses to items in the scale divided by the number of items. The mean values of the scales show that, overall, practitioners considered their practice to be *Technically proficient* and *Cautious*. Interesting is the mean *Aggressive* score, which places practitioners firmly in the middle of the spectrum. The preparation practice scales were largely independent, with the inter-scale relationships in the expected direction, although not overly strong. *Cautious* practice was negatively related to *Aggressiveness*, and positively related to *Technical proficiency*. What was interesting was the positive relationship between *Aggressiveness* and *Technical proficiency*.

6.3.2 Construct validity analysis of the preparation compliance measure

The crux of this chapter is to establish whether preparation compliance on client tax returns is a valid measure of practitioner compliance. Construct validity refers to the extent to which the practitioner cluster measure of preparation compliance satisfactorily represents the construct of practitioner compliance. Construct validity is not tested directly. Instead, the practitioner clusters of preparation compliance are statistically related to measures of preparation practice (operationalised as *Technical proficiency*, *Aggressiveness* and *Cautiousness*). These

measures are also expected to be related to preparation compliance. If a relationship is established between practitioner cluster membership and practitioner practice, convergent evidence is provided in this case for the construct validity of the practitioner clusters of preparation compliance.

Convergent validity was tested via three analyses of variance (ANOVA), one for each of the three preparation practice scales, with cluster membership as the fixed factor. Inspection of the preliminary statistics found no concern for violations of ANOVA assumptions. Twenty univariate outliers were identified with practice z-scores falling outside the ± 3.3 limit (Tabachnick & Fidell, 2001). Preliminary ANOVAs were performed on the data, including then excluding the outliers. No substantive difference emerged between the results when the outliers were retained and when they were omitted.

With the substantial differences in cluster membership size in mind, Levene's test of homogeneity of variances was conducted. Homogeneity of variances was confirmed for the *Cautious* practice scale ($W(3, 1,342) = 0.56, \text{ns}$) but not for the *Technically proficient* ($W(3, 1,342) = 9.74, p < .001$) or *Aggressive* practice scales ($W(3, 1,342) = 4.46, p < .05$). Post hoc tests of cluster mean differences took this result into account. That is, mean differences for the *Cautious* practice scale were assessed using Least Significant Difference tests and the remaining practice scales using Dunnett's t-tests.

There were significant differences between the three primary practitioner clusters in terms of scores on Tan's three practice scales (*Technical proficiency* $F(3, 1,342) = 9.74, p < .001$; *Aggressive* $F(3, 1,342) = 4.46, p < .05$, and *Cautious* $F(3, 1,342) = 7.38, p < .01$). Post hoc tests revealed that these differences occurred consistently across clusters (see Table 6.8). Being technically proficient and cautious in practice differentiated cluster 1 (consistently high on judging clients' returns as compliant)

from clusters 2 and 3 (contingently compliant and consistently less certain of compliance respectively). Being aggressive differentiated cluster 3 from clusters 1 and 2. These results support the hypothesis that the groups empirically differentiated by the cluster analysis reflect groups of practitioners who are characterised by different compliance performance in relation to his or her clients. As such, the findings provide the convergent evidence necessary for the construct validity of practitioner clusters of preparation compliance.

Table 6.8 Preparation practice scale means and test of mean differences across the practitioner clusters of preparation compliance

Preparation practice scales	Practitioner clusters of preparation compliance		
	Cluster 1 (C1)	Cluster 2 (C2)	Cluster 3 (C3)
Technically proficient ^a	4.28 ^{C2,C3}	4.19 ^{C1}	4.12 ^{C1}
Aggressive ^a	2.46 ^{C3}	2.47 ^{C3}	2.64 ^{C1,C2}
Cautious ^b	3.91 ^{C2,C3}	3.77 ^{C1}	3.69 ^{C1}

Note: C1, C2 or C3 specifies that the mean is statistically different from cluster 1 (C1), cluster 2 (C2) or cluster 3 (C3) at the 0.05 level of significance.

^a Cluster mean differences tested using Dunnett's T3

^b Cluster mean differences tested using Least significant difference test

In order to label the clusters for future analyses, the findings from the cluster analysis and the validating practice scales were examined together. Cluster 1 practitioners reported the most certainty that their clients' returns were compliant. This group also described an approach to preparation that was significantly more *Technically proficient* and *Cautious* than each of the other clusters. This high level of preparation compliance portrays a 'Dutious' cluster of practitioners.

Cluster 3 practitioners reported the highest preparation non-compliance across *High visibility* and *Low visibility* items and *Foreign income*. Practitioners in cluster 3 also reported the lowest scores on *Technical proficiency* and *Cautiousness*.

On these measures, they differed significantly from the Duteous (cluster 1), but not from cluster 2. Cluster 3 was best differentiated by *Aggressiveness*, as these practitioners reported a significantly more *Aggressive* preparation practice than both of the other clusters. This combination of results describes a cluster of tax practitioners best labelled as 'Aggressive'.

Cluster 2 practitioners were the in-between cluster on the preparation compliance measures. They were like the Duteous on *High visibility* items and like the Aggressive on *Low visibility* and *Foreign income* items. Scores on the practice scales again placed them in-between the Duteous and Aggressive groups. The contingency of preparation compliance on transaction visibility coupled with their alignment with the Aggressive on *Technical proficiency* and *Cautiousness* and alignment with the Duteous on *Aggressiveness* suggests a cluster of practitioners who might be less set in their compliance ideals, instead responding to circumstance. This cluster is thus described as 'Contingent'.

The cluster means for the three preparation approaches are presented in Figure 6.3. Means for the Outlier cluster have also been included as they are of conceptual interest. The Outlier cluster appears to represent the level beyond the Aggressive cluster with extreme levels of preparation non-compliance combined with the most *Aggressive* practice and the least *Cautious* practice. This suggests the Outlier group were complicit in their clients' defiance as opposed to despairing of clients' willingness to take positions of dubious compliance.

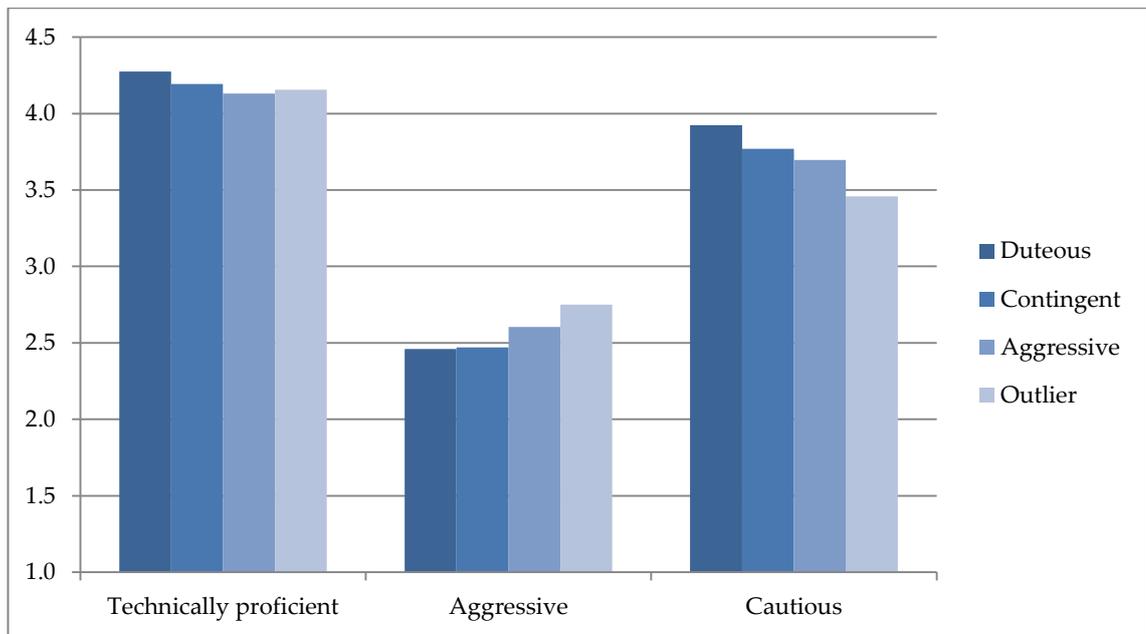


Figure 6.3 Practitioner cluster means for the three preparation practice scales

6.4 The practitioner teardrop of preparation compliance

Practitioner compliance is defined by cluster membership. The Duteous cluster being the most compliant, the Contingent cluster as less compliant and Aggressive cluster as the least compliant with regard to client tax return preparation. The Outlier cluster is substantially less compliant again than the Aggressive practitioners, however will only be used for descriptive purposes. It must be emphasised that, despite this ostensibly unidimensional ordinal variable, each of these clusters has been empirically identified with a combination of compliance characteristics that do not uniformly increase or decrease as we move from one cluster to the next. For this reason, the practitioner preparation clusters are conceptualised as discrete, quantitatively complex clusters that nonetheless can be ordered in terms of the preparation compliance they reflect. The characteristics of the clusters and the percent of practitioners belonging to each have led to the development of the teardrop model represented in Figure 6.4.

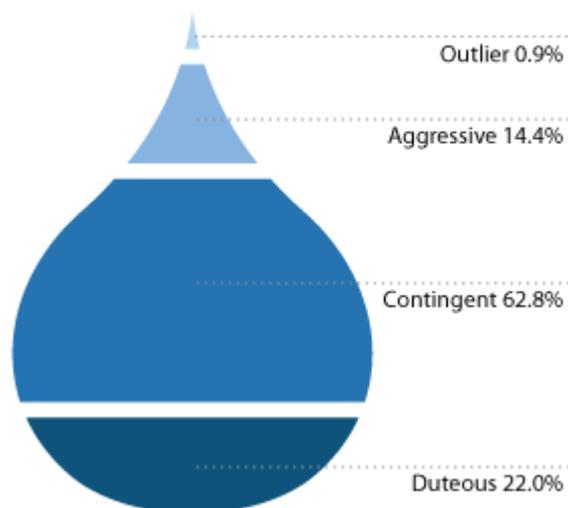


Figure 6.4 Teardrop model of tax practitioner compliance

The practitioner teardrop with its distinct cluster structure uncovered two important issues. Firstly, the distribution of practitioner compliance and non-compliance is not pyramidal as has been suggested for individuals taxpayers (V. Braithwaite, 2003b). Nor does it correspond to the distribution proposed on the basis of the investigation of the tax planning and risk attitudes of tax directors within the United Kingdom FTSE 350 companies. This resulted in the distribution of compliance being described as egg-shaped (Freedman, et al., 2010). This egg-shaped distribution replicates J. Braithwaite's (2003a) earlier work in the tax compliance of large business. The 'egg' described the dominant approach in the broadest section as representing compliance with the letter rather than spirit of the law, with a smaller aggressive group above and another smaller group committed to complying with the letter and spirit of the law below. Evidence for the 'literalist' perspective of large corporates which tended to adopt 'reasonably arguable positions' was supported by the fact that more than half did not pay any tax (Australian Taxation Office, 1998 cited in Braithwaite 2003). Further, the egg-shaped distribution of compliance approximates the observations of Chester Bowles. Experience with the United States Office of Price Administration led him

to conclude that 20 percent of firms would comply with any rule, 5 percent would endeavour to evade it, and the remaining 75 percent were likely to comply if they perceived the threat of punishment to the 5 percent as credible (Bowles, 1971 cited in Ayres and Braithwaite 1992, p. 26). This seems to describe the Duteous as those who would comply with any rule, the Aggressive/Outliers as those who would endeavour to evade any rule, and the Contingent as those who were likely to comply if they perceived threats for non-compliance as credible. With its pointed apex and rounded base, the teardrop distribution for practitioner compliance is a hybrid of the pyramid and egg-shaped forms.

The second feature of the practitioner teardrop that sits comfortably alongside the empirical literature is that the practitioner population is not homogeneous. This research proposes instead that the population comprises distinct subgroups. The likelihood and implications of tax compliance subgroups was first described in the taxpayer literature:

From the vantage point of loss to the federal treasury, all non-compliance with federal tax laws is alike....But from the perspectives both of social scientific understanding of taxpaying behavior and of policy efforts to maximise compliance, differences in kinds of non-compliance and in their causes and social locations are extremely significant.... Compliance and non-compliance could not be understood as unitary phenomena, nor could they effectively be influenced by a simple policy or enforcement strategy. (Kidder & McEwen, 1989, p. 47)

The notion that compliance and non-compliance are not best understood as unitary phenomena led Collins, Milliron and Toy (1992) to adopt the 'contingency approach' to segmenting taxpayers. This approach was motivated by the observation that factors influencing compliance behaviour are likely to vary according to differences in the taxpaying process. Differences in compliance patterns across specific subgroups must be investigated so that significant relations

between tax compliance and its antecedents are not masked by aggregate models (Roth, et al., 1989, pp. 145-146). The teardrop of practitioner compliance with its distinct cluster structure provides prospects for making an innovative contribution to tax compliance research.

The analyses in the remainder of this chapter and in Chapters 7 and 8 proceed from the assumption that the propensity and opportunity variables that differentiate the Duteous and Contingent clusters within the teardrop will differ from the propensity and opportunity variables that differentiate the Contingent and Aggressive clusters. That said, the specific nature of these differences could not be predicted a priori because the analyses were essentially exploratory in this regard. The dependent variable of preparation compliance will be analysed as two sets of binary variables (DV 1: Contingent versus Duteous, and DV 2: Aggressive versus Contingent). These comparisons represent the two primary steps within the practitioner teardrop of compliance (see Figure 6.4). Variables found to significantly differentiate these pairs of teardrop clusters reflect the importance of particular characteristics of propensity and opportunity at each step.

6.5 Analysis of the control variables for practitioner compliance

Control variables that differentiate the two pairs of clusters will be discussed in the remainder of this chapter. The first set of potential control variables were demographic describing the characteristics of the tax practitioner and the organisation in which he or she worked. The second set described practitioners' attitudes and beliefs regarding their practice environment. Both sets appear in Table 6.9.

Table 6.9 Descriptive statistics for teardrop clusters on the control variables^a

Control variables	Teardrop clusters		
	Duteous	Contingent	Aggressive
Demographic variables			
Gender (male)	69.2%	80.8%	87.8%
Years of practice	20.07 (10.79)	19.52 (11.17)	21.53 (10.33)
Sole practitioner	75.6%	76.9%	69.4%
Business partner	11.37%	11.01%	17.35%
Business consultancy	1.39 (0.87)	1.52 (0.81)	1.51 (0.81)
Perceptions of environment			
ATO Respectful relations	3.78 (0.61)	3.69 (0.56)	3.53 (0.56)
ATO is Fair	5.08 (1.10)	4.89 (1.06)	4.68 (1.01)
ATO is Firm	5.09 (1.12)	5.13 (0.99)	4.90 (0.98)
Prevalence of non-compliance	3.16 (1.25)	3.50 (1.27)	3.66 (1.34)

^a Proportions for binary variables and M (SD) for continuous variables

These variables were assessed to identify which differentiated the pairs of practitioner clusters. Chi square tests (χ^2) of independence were used for the dichotomous variables (*Gender*, *Sole practitioner* (yes/no) and *Business partner* (yes/no)). *t*-tests were used for the remaining continuous variables. Variables that significantly differentiated the practitioner cluster pairs were selected as controls for analysis in Chapter 7 and 8 (see Table 6.10).

For the Contingent versus Duteous dependent variable, Contingent practitioners were significantly more likely to be *Male* and more likely to be involved in *Business consultancy*²¹ than Duteous practitioners. Contingent practitioners were less likely to agree that they had *Respectful relations* with the

²¹ Either engaged in business consultancy themselves or working as part of a practice that provides business consultancy.

ATO and that the *ATO is fair*, and reported a higher *Prevalence* of practitioner non-compliance than Duteous practitioners (see Table 6.10).

For the Aggressive versus Contingent dependent variable, Aggressive practitioners were more likely again to be *Male* and had more *Years of practice* than the Contingent practitioners. Aggressive practitioners were less likely to be *Sole practitioners* and more likely to be *Business partners* than Contingent practitioners. Aggressive practitioners were less likely to agree that they had *Respectful relations* with the ATO and that the *ATO is Fair* or *Firm* than Contingent practitioners.

Notable intercorrelations between the control variables were the positive relationship between being *Male* and *Years of practice* and perceptions of one's interaction with the ATO as *Respectful* and *Fair*. More interesting from a conceptual point of view are the negative relationships between *Years of practice* and the perceived *Prevalence of non-compliance* and also perception of the *ATO as Firm* and the *Prevalence of non-compliance*. This indicates that with increased experience in the tax preparation industry, practitioners believed that there was less widespread non-compliance. Also, the more firm they believed the Tax Office to be, the lower they perceived industry non-compliance. Another interesting relationship is the positive correlation between perception of the *ATO as Fair* and *Firm*. This indicates that the measure of Tax Office firmness did not capture a sense of unreasonable punitiveness, but rather a sense of a strong organisation that is exercising its power appropriately. The variables listed in Table 6.10 with significant bivariate relationships with the dependent variable are included as controls in the primary hypothesis testing of the following chapters.

Table 6.10 Significant difference tests and correlation coefficients for control variables and the two binary dependent measures of practitioner compliance

Control variables	Significant difference test (df)		Correlation coefficients ^c							
	Duteous vs. Contingent ^a	Contingent vs. Aggressive ^b	1	2	3	4	5	6	7	8
Demographic variables										
1. Gender (male)	17.40 (1) ^{***d}	4.88 (1) ^{*d}								
2. Years of practice	0.73 (1,135) ^e	-2.30 (1,038) ^{e*}	0.24 ^{***}							
3. Sole practitioner	0.29 (1) ^d	4.23 (1) ^{*d}	-0.03	0.06 [*]						
4. Business partner	0.03 (1) ^d	6.20 (1) ^{*d}	0.09 ^{**}	0.03	-0.65 ^{***}					
5. Business consultancy	-2.35 (494.75) ^{f*}	0.19 (1,048) ^e	0.08 ^{**}	-0.14 ^{***}	-0.14 ^{***}	0.13 ^{***}				
Perceptions of environment										
6. ATO Respectful relations	2.20 (1,149) ^{e*}	3.65 (1,046) ^{e***}	-0.03	0.03	0.05	-0.03	-0.08 ^{**}			
7. ATO is Fair	2.61 (1,129) ^{e**}	2.47 (1,027) ^{e*}	-0.05	-0.01	0.04	-0.07	-0.11 ^{***}	0.54 ^{***}		
8. ATO is Firm	-0.50 (457.46) ^f	2.89 (1,025) ^{e**}	-0.06 [*]	-0.03	0.02	-0.04	-0.01	0.17 ^{***}	0.31 ^{***}	
9. Prevalence of non-compliance	-3.90 (1,124) ^{e***}	-1.58 (1,129) ^e	-0.07 ^{**}	-0.11 ^{***}	-0.01	-0.03	0.06 [*]	-0.09 ^{**}	-0.08 ^{**}	-0.10 ^{***}

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

^a 0 = Duteous and 1 = Contingent

^b 0 = Contingent and 1 = Aggressive

^c for description of different types of correlation analyses used for combinations of continuous and categorical variables see p. 85

^d χ^2 analysis

^e t-test with equal variance assumed

^f t-test with equal variance not assumed

6.6 Summary and conclusions

This chapter was dedicated to developing a measure of practitioner compliance to serve as the dependent variable of this thesis. Client tax return compliance was proposed as a measure of practitioner compliance. This measure was based on the fact that knowing submission of illegitimate tax returns represents non-compliance according to the Tax Agent Services Act. In order to build confidence around the use of this measure, it was validated against measures of practitioner practice developed and used by Tan (2009) to reflect the practitioners' approach to compliance. What emerged from the analyses was a far more interesting story than merely variable development and one of the major findings of this thesis.

A cluster analysis, which assessed the relationships between practitioners across client return compliance ratings, revealed three primary clusters of practitioners with a fourth outlier cluster. When mapped to the preparation compliance scales (compliance at transactions of *High visibility* and *Low visibility* to the Tax Office and *Foreign income* compliance) and assessed against Tan's preparation practice scales (*Technical proficiency*, *Cautiousness* and *Aggressiveness*), the practitioner clusters demonstrated distinct patterns of compliance.

A Duteous cluster scored high on *Technical proficiency* and *Cautiousness* and low on *Aggressiveness*. This pattern of compliant practice coincided with the highest levels of client tax return preparation compliance across conditions of *High visibility* and *Low visibility* items and *Foreign income*.

A Contingent cluster had lower scores on *Technical proficiency* and *Cautiousness* to the Duteous cluster, but reported a similar level of practice *Aggressiveness*. In circumstances of *High visibility* these practitioners reported levels

of preparation compliance that approached that of the Duteous. In circumstances of *Low visibility* and *Foreign income*, Contingent practitioners turned away from this position reporting higher levels of non-compliance. The distinctive characteristic of the Contingent cluster was displayed in a pattern of preparation compliance that was conditional on transaction visibility.

The Aggressive cluster reported practices that were least *Technically proficient* and *Cautious*. However, this cluster was most clearly differentiated by *Aggressive* practice. The Aggressive cluster presented the highest level of non-compliance across *High visibility* and *Low visibility* items and *Foreign income*. The Outlier cluster was an extreme version of the Aggressive pattern of results. The Outlier cluster is considered to credibly represent a small but critical segment of practitioners. It has, however, too few members to be subject to statistical analyses.

The statistically significant relationships between the practice scales and the practitioner clusters provided the convergent evidence necessary to support the construct validity of the practitioner clusters as a measure of practitioner compliance. The dependent variable of practitioner compliance was, thus, defined as cluster membership for this study. Together, these clusters were represented as the teardrop of practitioner compliance. The teardrop distribution of practitioners, while somewhat stylised, represents cluster membership size in the current study and captures the distinct ordering of low (Duteous) to high (Outlier) general non-compliance of the clusters. Although the teardrop is helpful for comprehension, it must be remembered that this is a simplified view for a set of complex clusters that are defined differentially by the 19 common use items in the tax return schedule. The teardrop of practitioner compliance serves as a diagrammatic depiction of the dependent variable of this thesis.

The teardrop was a revelation and one of the most intriguing findings of this thesis. The practitioner teardrop with its distinct cluster structure reveals that a) the distribution of practitioner compliance is not pyramidal, and b) the practitioner population is not homogeneous. The theoretical implications of the practitioner teardrop are explored in the discussion chapter (Chapter 9). In the following two hypothesis testing chapters, the teardrop clusters will be analysed in binary sequential order. That is, in Chapter 7 the Duteous and Contingent practitioners will be compared and contrasted in accordance with the propensity and opportunity model. Following this, in Chapter 8 the Contingent and Aggressive clusters will be analysed. The propensity and opportunity hypotheses are tested with these pairs of teardrop clusters rather than with the aggregate sample so as to enhance opportunities to identify differences in practitioner compliance among different practitioner groups. In this way the masking of sub-group effects through aggregation across all groups could be avoided.

Chapter 7: Propensity and opportunity at the lower teardrop

7.1 Introduction

The teardrop demonstrated that practitioners fell into distinct clusters when it came to preparation compliance. These clusters can be ordered logically from low to high compliance. Its multidimensional cluster structure, however, puts some constraints on how the teardrop can be analysed. From a methodological perspective, the clusters can be ordered in terms of general compliance. This ordering, however, cannot be considered in the same way as the more specific dimensions of preparation compliance. For this reason, the testing of the propensity and opportunity model is done in two parts. The testing of between group differences of the practitioner clusters at each of the ascending steps of the teardrop are conducted over two chapters. In this chapter, the between group differences of the lower teardrop clusters (Contingent versus Duteous) are tested (see Figure 7.1). In the next chapter, the between group differences of the upper teardrop clusters (Aggressive versus Contingent) are tested. There is an exploratory element to these analyses.

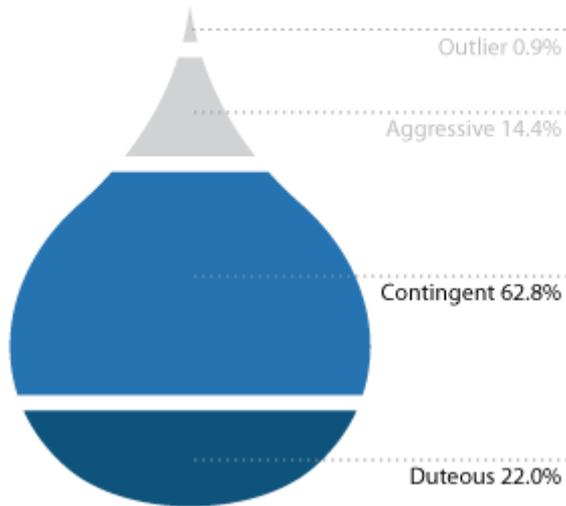


Figure 7.1 Lower end of the practitioner teardrop

There are three sections of analysis within this chapter, each dedicated to assessment of the different components of the relationship between propensity and opportunity with lower end preparation compliance. In this chapter, Duteous cluster membership represents low preparation non-compliance and Contingent cluster membership represents higher preparation non-compliance. It will be recalled that this means that Contingent practitioners make sure their clients are compliant on high visibility items, but have lower standards on less visible items. In measurement terms, the dependent variable for this chapter is binary (0 = Duteous and 1 = Contingent).

The first two sections present the results of the bivariate analyses between the propensity and opportunity measures with lower end preparation compliance. The third section presents the results of the multivariate analysis with the propensity and opportunity variables combined to predict Contingent versus Duteous cluster membership. The results of the multivariate analyses provide insight into the unique and shared contribution of the propensity and opportunity variables in the prediction of preparation compliance at the lower end of the

practitioner teardrop. It is through this multivariate analysis that the propensity and opportunity thesis will be resolved at the lower teardrop.

7.2 Impact of propensity on Contingent versus Duteous cluster membership

Propensity is the higher-order construct that describes individual differences in preparation non-compliance. Measurable features of propensity were proposed in Chapter 3. The intent of this analysis is to verify the hypothesised bivariate relationships between the propensity variables and Contingent versus Duteous cluster membership. Propensity measures that have their bivariate relationship with cluster membership confirmed will be carried forward into multivariate model testing.

7.2.1 Propensity hypotheses

Since introducing the propensity hypotheses in Chapter 3, the independent propensity variables and the preparation compliance dependent variable have been developed and refined. The propensity hypotheses are here restated, accounting for these developments.

Hypothesis 1 Contingent practitioners have stronger *Risk-taking* attitudes than Duteous practitioners.

Hypothesis 2 Duteous practitioners have stronger *Preparation ethics* than Contingent practitioners.

Hypothesis 3(a) Duteous practitioners have a stronger *Business orientation* than Contingent practitioners.

Hypothesis 3(b) Duteous practitioners have a stronger *Professional orientation* than Contingent practitioners.

Hypothesis 3(c) Contingent practitioners have a stronger personal *Wealth orientation* than Duteous practitioners.

The exploratory Hypothesis 4, 'Practitioner identity is associated with preparation non-compliance', can now be more clearly defined in accordance with the three practitioner identities developed in Chapter 5. Of the three aspects of practitioner identity, *Competent* and *Principled* were most easily incorporated into the preparation compliance hypotheses. *Competence* described strong identification with being quick, sophisticated and smart. Characteristics of a *Principled* identity were trustworthy, honourable and good. The importance of competence to compliance is well recognised both in the broader financial services sector (Edwards, 2003; Storer & Rajan, 2002) and to tax practice specifically (D'Ascenzo, 2005)²². The principles of practitioners are considered as fundamental to tax practice. Not only are they the object of academic interest (see Chapter 2 for review of preparation ethics literature) but in Australia (and soon the United States) principles are legislated into set standards of behaviour for tax return preparers (Tax Agent Services Act, 2009).

Hypothesis 4(a) Duteous practitioners identify as more *Competent* than Contingent practitioners.

Hypothesis 4(b) Duteous practitioners identify as more *Principled* than Contingent practitioners.

The *Powerful* practitioner identity includes characteristics of power and industry indicating a sense of being hardworking and able to affect outcomes. However, the direction of the outcome is not apparent. Power could be employed to defend against the aggressive tendencies of clients or instead to game play and

²² This is not to deny that non-compliant persons will promote themselves as smart; however, they are unlikely to be acknowledged as such among their professional elite.

undermine the tax authority (V. Braithwaite, 2009). It is suggested that instead of having a direct effect, a *Powerful* practitioner identity might instead moderate the *Competent* and *Principled* identity relationships with preparation compliance. The sense of *Power* is hypothesised to interact with being *Principled* and *Competent* in the following ways:

Hypothesis 4(c)i A high *Powerful* identity combined with a high *Competent* identity predicts Duteous cluster membership and a high *Powerful* identity combined with a low *Competent* identity predicts Contingent cluster membership.

Hypothesis 4(c)ii A high *Powerful* identity combined with a high *Principled* identity predicts Duteous cluster membership and a high *Powerful* identity combined with a low *Principled* identity predicts Contingent cluster membership.

The propensity measures developed in Chapter 5 are summarised in Table 7.1 below.

Table 7.1 Summary of propensity measures

Hypothesis	Variable (Items N)	Scale range
H1	Risk-taking (1)	1 = 'Extreme risk avoider' to 7 = 'Extreme risk taker'
H2	Preparation ethics (1)	1 = 'Strongly disagree' to 5 = 'Strongly agree'
H3(a)	Business orientation (3)	1 = 'Strongly disagree' to 5 = 'Strongly agree'
H3(b)	Professional orientation (3)	1 = 'Strongly disagree' to 5 = 'Strongly agree'
H3(c)	Wealth orientation (2)	1 = 'Strongly disagree' to 5 = 'Strongly agree'
H4(a)	Competent identity (8)	1 = extreme negative to 7 = extreme positive
H4(b)	Principled identity (4)	1 = extreme negative to 7 = extreme positive
H4(c)	Powerful identity (2)	1 = extreme negative to 7 = extreme positive
H4(c)i	Competent X Powerful	Interaction of Competent and Powerful ^a
H4(c)ii	Principled X Powerful	Interaction of Principled and Powerful ^a

^aThe construction of the interaction terms will be discussed in more detail in the analysis section below.

7.2.2 Bivariate results of propensity hypotheses testing

The propensity hypotheses were evaluated using independent t-tests and binary hierarchical logistic regression analyses. There were 31 cases with univariate outliers among the propensity variables. Preliminary t-tests were conducted including then excluding the outliers. There was no substantive difference between the t-test results when the outliers were retained to when they were omitted.

Considering the difference in cluster size of the Duteous (N = 299) and Contingent (N = 854) practitioners, Levene's test of homogeneity of variances was conducted. Homogeneity of variances was confirmed for *Risk-taking* ($W(1, 1,069) = 0.86, \underline{ns}$), *Preparation ethics* ($W(1, 1,153) = 3.39, \underline{ns}$), *Business orientation* ($W(1, 1,153) = 1.25, \underline{ns}$), and each of the practitioner identities of *Competent* ($W(1, 1,117) = 0.28, \underline{ns}$), *Principled* ($W(1, 1,123) = 0.19, \underline{ns}$) and *Powerful* ($W(1, 1,130) = 3.61, \underline{ns}$). Homogeneity of variances was not found for the *Professional* ($W(1, 1, 153) = 8.08, p <$

.01) or *Wealth orientations* ($W(1, 1, 153) = 3.93, p < .05$). Analyses of the mean differences between Duteous and Contingent practitioners for the propensity variables were conducted in accordance with Levene's test results through performing either t-tests that assumed equal variance or t-tests that did not assume equal variance.

In the next section, results showing group differences are reported as each hypothesis is tested. Included in the discussion of each hypothesis is a review of how the independent variables are related to each other. Understanding these relationships confers validity on the measures and also sets the scene for the regression analyses reported later in the chapter (see Table 7.2 for the complete set of correlation coefficients between the independent variables). Only those coefficients that meet Cohen's minimum criteria of ± 0.10 for 'weak relationship' status are considered important enough to discuss in the text.

Table 7.2 Propensity variable means, tests of mean differences and Pearson's correlation coefficients for the Duteous and Contingent practitioners

Propensity variables	M (SD)		Significant difference test (df)	Pearson's correlation coefficient							
	Duteous	Contingent		1	2	3	4	5	6	7	
1. Risk-taking	2.50 (1.30)	2.88 (1.25)	-4.24 (1,067) ^a ***								
2. Preparation ethics	4.31 (0.68)	4.09 (0.67)	4.77 (1,151) ^a ***	-0.27***							
<i>Work-value orientation</i>											
3. Business	4.18 (0.49)	4.00 (0.53)	5.36 (1,151) ^a ***	-0.02	0.19***						
4. Professional	4.25 (0.52)	4.12 (0.48)	3.55 (486.8) ^b ***	-0.05	0.14***	0.40***					
5. Wealth	2.69 (0.87)	2.80 (0.80)	-1.95 (481.4) ^{b,c}	0.09**	-0.13***	0.02	-0.04				
<i>Practitioner identity</i>											
6. Competent	5.80 (0.73)	5.51 (0.71)	6.01 (1,115) ^a ***	-0.01	0.14***	0.39***	0.37***	0.01			
7. Principled	6.49 (0.67)	6.36 (0.64)	2.86 (1,121) ^a **	-0.11***	0.23***	0.23***	0.23***	-0.04	0.58***		
8. Powerful	4.95 (1.10)	4.99 (1.02)	-0.54 (1,128) ^a	0.06*	0.18***	0.20***	0.17***	0.05	0.29***	0.22***	

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

^a t-test with equal variance assumed

^b t-test with equal variance not assumed

^c p = 0.052

Hypothesis 1 Contingent practitioners have stronger *Risk-taking* attitudes than Duteous practitioners.

Contingent practitioners reported significantly higher *Risk-taking* attitudes with regard to return preparation than Duteous practitioners, supporting Hypothesis 1. Risk-taking of itself is not necessarily a negative trait. It is integral to entrepreneurship which can contribute to business and regulatory innovation (Stewart, Carland, & Carland, 1996). Principled risk-taking might be expressed through resistant defiance, contributing to tax reform (V. Braithwaite, 2009). Resistant defiance involves standing up to an authority with the aim of changing their rules or practices. Such principled defiance was demonstrated in a recent Australian case where a university student challenged the ATO ruling that education expenses could not be claimed against student welfare payments (e.g. Youth Allowance). Symone Anstis successfully defended her position in the High Court of Australia, resulting in the Anstis decision, allowing all full-time students on Youth Allowance to claim a deduction for their study expenses (High Court of Australia, 2010). Such principled risk-taking is vital to the health of the tax system in a democracy. Taxpayers actively engaging with the tax authority and shaping legislation ensure ongoing citizen ownership of the tax system.

Principled risk-taking aside, preparation risk-taking is rarely considered positively by regulators in the field of tax compliance. A tendency for risk-taking is more commonly associated with a favourable judgment of one's chances of success in the audit lottery (Marshall, Smith, & Armstrong, 1997). For practitioners at the lower teardrop, *Risk-taking* was negatively related to *Preparation ethics* and a *Principled* practitioner identity. These inter-relationships in combination with the results of Hypothesis 1 suggest that looser moral constraints can alter the terms of preparation decisions. Contingent practitioners appear to hold a looser set of

preparation principles which allows preparation to be considered less as a decision of right and wrong and more in terms of the probability of getting away with certain positions.

Hypothesis 2 Duteous practitioners have stronger *Preparation ethics* than Contingent practitioners.

Hypothesis 2 was supported as Duteous practitioners reported significantly stronger *Preparation ethics* than Contingent practitioners. The context specific measure of ethics employed here was novel to practitioner research. Effort was made to implement at the measurement level the principle of compatibility which requires attitude and behaviour to be measured at the same level (Ajzen, 2005; Ajzen & Fishbein, 1977) with predicted success.

Strong ethics will not always result in behavioural compliance. Ethics requires more than technical compliance with the rules (Falk, 1986). An ethical person may choose to purposefully break a law that they believe to be unjust. Or, take an ethical stance through tax avoidance against perceived government waste or engagement in an illegitimate war (McGee, 2006). This again alludes to V. Braithwaite's (2009) resistant defiance. In circumstances such as these, tax avoidance might be seen as 'just' in the act of depriving the government of 'misused' resources. Tax practitioners do not seem absorbed with these issues however. The relationships of the lower teardrop clusters with the measures of attitude toward the tax authority do not support the principled non-compliance interpretation. Duteous practitioners describe a relationship which is significantly more cooperative, respectful (*ATO Respectful relations*) and fair (*ATO is Fair*) than Contingent practitioners (see Table 6.10 in the previous chapter). The inter-relationships show that *Preparation ethics* was positively related to *Business* and

Professional orientation and a compliant practitioner identity, and inversely related to *Risk-taking* and *Wealth orientation*.

Hypothesis 3 investigated the aspects of work that practitioners value and the relationship of these work-values with preparation compliance. Quinney's (1977) theory of professional-business orientation was recast. The measure of *Professional orientation* was retained, however *Business orientation* was reconceptualised from acquisitive practice to best business practice, and the acquisitive notion of business was recast as personal *Wealth orientation*. The lack of relationship between business best practice (*Business orientation*) and *Wealth orientation* presented in Table 7.2 confirms the orthogonal nature of these variables. Practitioners with an orientation toward *Business* best practice were equally likely to hold weak or strong personal *Wealth* goals and vice versa. Thus, Quinney's (1964) assumption of the 'inherently acquisitive' nature of the businessperson was not supported here.

The strong representation of sole practitioners, partners and company directors in the practitioner sample indicates that the respondents serve in both business and professional functions and are, thus, well placed to provide insight into this subject.

Hypothesis 3(a) Duteous practitioners have a stronger *Business orientation* than Contingent practitioners.

The *Business orientation* hypothesis was supported. Duteous practitioners held significantly stronger orientations toward *Business* than Contingent practitioners. This relationship in combination with the strong positive relationships with *Professional orientation* and *Competence* fits with the reconceptualised *Business orientation* from avaricious to an administrative/managerial construct. Unlike the acquisitive notion of *Business orientation*, best practice was expected to contribute to improved compliance through running a

tight ship. Commitment to business best practice involves improving performance through superior methods or innovative practices (Jarrar & Zairi, 2000). In tax preparation one would expect this to mean keeping up to date with the latest technological advances; in addition to care in assembling documentation and timely completion of returns, practices that are fundamental to compliance. The pattern of intercorrelations between propensity variables describe *Business* best practice as a dedication to ensuring that clients meet their taxpaying obligations.

Business best practice does not guarantee a virtuous outcome in all contexts. Its focus can be narrowed and lead to non-virtuous outcomes. A classic example of rational business 'best practice' decision-making was the cost benefit analysis by the Ford Motor Company which concluded that the \$49.5 million predicted for settling burn victims' lawsuits was more cost effective than the \$137 million required to improve Pinto fuel tank integrity (Birsch & Fielder, 1994; Kelman & Hamilton, 1989). In the financial services industry, the successful application of best business practice by the consulting arm of Arthur Anderson resulted in the cannibalisation of the professionalism of the auditing arm and the eventual downfall of the company (Coffee, 2006). Business best practice reflects the adoption of strategies to achieve business missions and goals. If the mission is to develop tax avoidance schemes, best business practice may look different from how it would look when the goal is to ensure clients meet their taxpaying obligations.

Hypothesis 3(b) Duteous practitioners have a stronger *Professional orientation* than Contingent practitioners.

This work-value hypothesis was also supported. Duteous practitioners reported a significantly higher orientation toward *Professionalism* than did Contingent practitioners. This result replicates Quinney's (1977) positive

relationship between professionalism and occupational compliance. Those oriented toward *Professionalism* relish the technical challenge of tax preparation and enjoy a greater level of career satisfaction. These are practitioners who take pride in their work and enjoy the activities that tax practice has to offer. As such, they are less likely to jeopardise a career that they cherish for the material gain of their clients. These practitioners appear to take enough pleasure from the execution of quality work that they are not looking to gain their 'thrills' from 'playing the game'.

This finding would appear to support investment by tax authorities in the professionalism of practitioners. Such initiatives include the recent formation of the Australian Tax Practitioners Board (2010) and the recent move of the IRS to increase professionalism within the United States tax preparation industry (Internal Revenue Service, 2011). The regulation of the tax preparation industry through professionalisation describes an externally enforced system of rules and expectations. Whereas, *Professionalism* described in this study is a set of internalised characteristics. It is how practitioners describe their own orientation toward professionalism in tax practice. The jury is still out on the effectiveness of an externally managed system of professionalism (see Chapter 2 for review of literature). In fact, Ayres, Jackson and Hite (1989) argue that the additional rights granted to those with professional accreditation enables them to be more aggressive in the interpretation of tax law than non-professional preparers. The findings of this study show that when the external system of professionalism is internalised, preparation compliance follows. This reflects Bandy, Judd and Kelliher's (1993) finding that among CPAs, those who were most familiar with the professional code's 'realistic possibility standard' (which stipulates a good faith belief that a position has a realistic possibility of being sustained on its merits) were less aggressive than those who were unfamiliar with this provision.

The *Business* and *Professional orientations* were closely related, supporting the proposition that these together form an overall 'best practice' service orientation. Put another way, the Duteous are dedicated tax practitioners who work at being good businesspeople and good professionals. This concept of best practice was further supported through the positive intercorrelations between *Business* and *Professional orientations* with *Preparation ethics* and the *Competent* and *Principled* practitioner identities. As such, we might interpret them also as taking pride in being dedicated to best practice. The measure of *Competent* identity, in particular, captured the sense of sophistication, proficiency and assertiveness in tax practice that goes some way toward the efficiency and effectiveness ideals of best practice (Löffler, 2000).

Hypothesis 3(c) Contingent practitioners have a stronger personal *Wealth orientation* than Duteous practitioners.

The predicted relationship between *Wealth orientation* and preparation non-compliance was not supported using the $p < 0.05$ cut off for significance testing. However, the Contingent practitioners did report a higher *Wealth orientation* than the Duteous with a p value of 0.052. Being so close to the cut off, *Wealth orientation* will be carried forward into the multivariate analysis conducted later in this chapter. However, as this relationship is only notionally significant the result is interpreted here with caution.

Wealth orientation was designed to capture an excess of personal acquisitiveness (Cloward, 1959; Merton, 1938). Rather than disproving this theory, it is suggested that the weak relationship between personal *Wealth orientation* and preparation non-compliance is due to the absence of direct financial gain for the practitioner since most practitioners charge according to a schedule of fees, rather than on a percentage of results basis. There might be some indirect benefit

provided through client attraction or retention due to a reputation for gaining large returns (Newberry, et al., 1993). However, this is secondary and does not directly contribute to one's personal wealth. There is no direct fiscal benefit for the practitioner who chooses to allow clients to make false claims in their tax returns. Of note is the significant negative relationship between *Wealth orientation* and *Preparation ethics*, which provides partial support for Quinney's negative connotation for acquisitive self-interest.

Hypothesis 4 examined whether the characteristics of practitioner identity were associated with client tax return compliance. Identity refers to the characteristics that people use to describe themselves. Identity is linked with actions as people attempt to fulfil the meanings they hold of themselves (Sparks & Guthrie, 1998). The way that practitioners identify as tax preparers is, therefore, expected to serve as a guide to how they do their job in preparing tax returns. There has been limited analysis of identity within the practitioner literature to date (an exception is Grey (1998) who investigated the meaning of 'being a professional in a Big Six firm').

Hypothesis 4(a) Duteous practitioners identify as more *Competent* than Contingent practitioners.

In this research, a *Competent* practitioner identity describes a sense of sophistication, proficiency and assertiveness in tax practice which reflects confidence in the accuracy of one's own work as well as the ability to negotiate client expectations successfully toward more compliant positions. The hypothesised relationship between *Competency* and preparation compliance was supported, with Duteous practitioners identifying more strongly as *Competent* than Contingent practitioners.

Hypothesis 4(b) Duteous practitioners identify as more *Principled* than Contingent practitioners.

A *Principled* practitioner identity describes a sense of honour and trustworthiness which one would expect to be incongruent with preparation non-compliance. As hypothesised, Duteous practitioners identified more strongly as *Principled* than Contingent practitioners.

The practitioner identities of *Competent* and *Principled* exhibited the strongest intercorrelation of all the propensity variables. That true professionalism requires not only a high level of technical competence but also the principled application of that competence has long been recognised within the discipline of accounting (Yetmar, et al., 1998). The accounting profession places high importance on the standards of proficiency, technical competence and personal moral integrity among its members (Marshall, et al., 2005). This is supported here by the significant positive relationships between *Professional orientation* and identification as *Competent* and *Principled*. This research has demonstrated that practitioners have absorbed these external expectations, associating professionalism with adopting an identity of being a competent and principled practitioner.

The third identity measure, *Powerful*, did not have a clear conceptual relationship with preparation compliance. Power gives a sense of agency, of being able to achieve results of compliance or non-compliance if that is the practitioner's objective. Thus, it was hypothesised that a *Powerful* identity would not be directly related to preparation compliance. This was supported. Duteous and Contingent practitioner groups were not significantly different in terms of *Power*. Instead, it was hypothesised that a sense of *Power* would interact with the practitioner identities of *Competent* and *Principled* to promote or inhibit preparation non-compliance.

The interaction terms (*Competent X Powerful* and *Principled X Powerful*) were assessed to establish whether they added significantly to the variance accounted for by the main effects of the practitioner identity variables of *Competent*, *Principled* and *Powerful*. The hypothesised interactions were examined through multiple regression analyses. This is because the interaction only assumes importance if it adds to the variance accounted for in practitioner non-compliance after controlling for main effects. Centred variables (variable scores minus their mean) were used in the analyses. Centring avoids multicollinearity among interaction terms and their main effects (Aiken & West, 1991).

Hypothesis 4(c)i A high *Powerful* identity combined with a high *Competent* identity predicts Duteous cluster membership and a high *Powerful* identity combined with a low *Competent* identity predicts Contingent cluster membership.

The regression analysis established that when entered together the main effects of both the *Competent* and *Powerful* practitioner identities were significant in the prediction of Contingent versus Duteous cluster membership (see Table 7.3). *Competence* increased the likelihood of Duteous cluster membership. Whereas, *Powerful* increased the likelihood of Contingent cluster membership. The interaction of *Competent X Powerful* was entered in Block 2 of the regression. It was found to significantly improve the prediction of cluster membership, increasing the model fit ($\chi^2(1) = 6.10, p < 0.05$).

Table 7.3 B values (Odds ratio) for a hierarchical binary logistic regression predicting Contingent versus Duteous cluster membership^a from the main and interaction effects of Competent and Powerful identity

Independent variables	Block 1	Block 2
Nagelkerke R ²	0.05	0.06
Constant	4.36 (78.53)	4.39 (80.96)
Main effect		
Competent	-0.72 (0.49)***	-0.79 (0.46)**
Powerful	0.16 (1.17)*	0.24 (1.27)*
Interaction		
Competent X Powerful		-0.25 (0.78)*

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

^a 0 = Duteous and 1 = Contingent

In order to uncover the function of the *Competent X Powerful* identity interaction on compliance, the Duteous and Contingent practitioners were split into three groups, representing low, medium and high combinations of *Competent* and *Powerful*. These groups were calculated as the location of practitioners within bands defined by the standard deviation of the identity variables²³. The proportion that the Contingent cluster represented of the practitioner identity combinations is presented in Figure 7.2 below²⁴. For example, Contingent practitioners made up 83.3 percent of the low *Competent*/low *Powerful* group, 74.0 percent of the medium *Competent*/low *Powerful* group and 50.0 percent of the high *Competent*/low *Powerful* group.

²³ Low = less than or equal to -1 standard deviation, medium = greater than -1 and less than 1 standard deviation, and high = greater than or equal to 1 standard deviation.

²⁴ The Contingent cluster was substantially larger than the Duteous cluster. This somewhat distorts the display of the interactions. However, it does not overshadow the small size of the interaction effect.

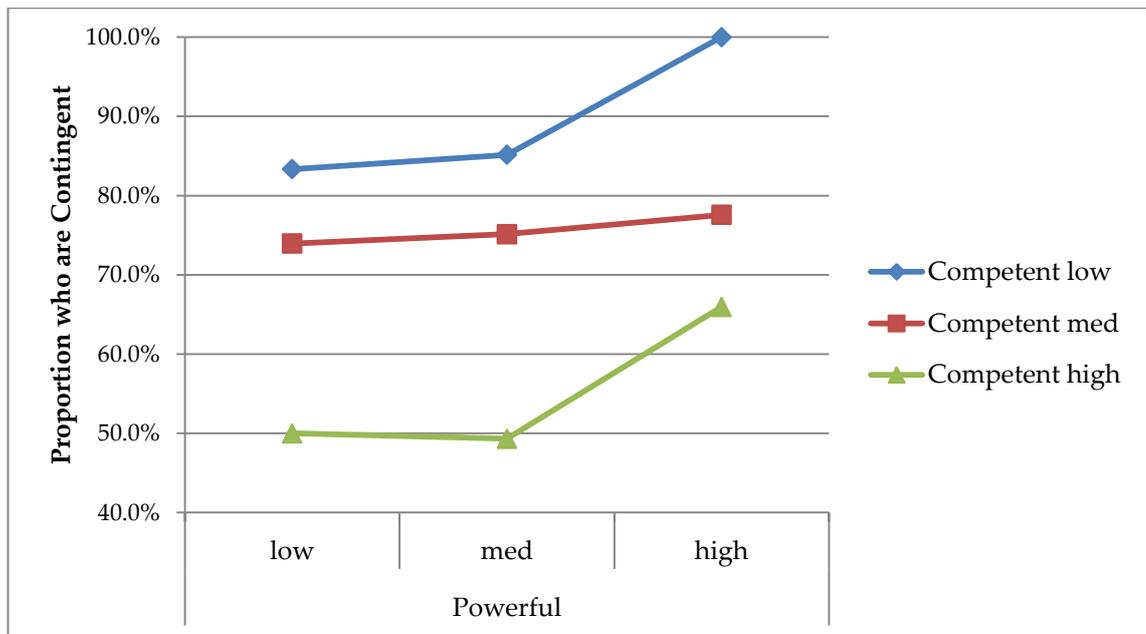


Figure 7.2 Proportion of Contingent practitioners in low, medium and high Competent and Powerful identity groups

An unusual pattern emerged in Figure 7.2. Preparation non-compliance (represented by an increased proportion of Contingent practitioners) increased as a sense of *Power* increased from practitioners reporting both low and high *Competence*, but little change was evident for practitioners with medium *Competence*. As such, the *Competent X Powerful* interaction hypothesis was only partially confirmed. The prediction that high *Power* and low *Competence* would be positively associated with Contingent cluster membership was supported. The prediction that high *Power* and high *Competence* would be positively associated with Duteous cluster membership (compliance) was not supported, with a positive association found with Contingent practitioners (non-compliance) instead.

A sense of being highly *Powerful* appears to loosen the commitment to compliance for practitioners with either low or high *Competence*. For practitioners with low *Competence*, a sense of *Power* is likely to contribute to frustrated ambition. They have the desire to be 'persons of influence' and engaged in matters of importance; yet lack ability to achieve this through customary means. What was

unexpected was the similar effect of *Power* for practitioners at the other end of the *Competence* spectrum. For highly *Competent* practitioners, a sense of power might create the temptation to exercise their superior abilities. This is similar to the temptation for those behind the wheel of a high performance motor vehicle to ignore the road rules and exploit the capacity at their fingertips. Where is the fun in driving a Maserati at 60 kilometers per hour?

Hypothesis 4(c)ii A high *Powerful* identity combined with a high *Principled* identity predicts Duteous cluster membership and a high *Powerful* identity combined with a low *Principled* identity predicts Contingent cluster membership.

Within this regression analysis it was found that when entered together, only the main effect of the *Principled* practitioner identity was significant in the prediction of Contingent versus Duteous cluster membership (see Table 7.4). The main effect of a *Powerful* practitioner identity was not significant. The interaction of *Principled X Powerful* was entered in Block 2 of the regression where it was found to significantly contribute to the prediction of cluster membership, increasing the model fit, ($\chi^2(1) = 4.29, p < 0.05$).

Table 7.4 B values (Odds ratio) for a hierarchical binary logistic regression predicting Contingent versus Duteous cluster membership^a from the main and interaction effects of Principled and Powerful identity

Independent variables	Block 1	Block 2
Nagelkerke R ²	0.01	0.02
Constant	3.41 (30.21)	3.93 (50.75)
Main effect		
Principled	-0.42 (0.66)**	-0.54 (0.59)**
Powerful	0.07 (1.08)	0.13 (1.13)
Interaction		
Principled X Powerful		-0.28 (0.76)*

**p < .01, *p < .05

^a 0 = Duteous and 1 = Contingent

The function of the *Principled X Powerful* identity interaction was explored through again splitting the Duteous and Contingent practitioners into low, medium and high practitioner identity combinations. There were no practitioners in the high *Principled* group due to the negatively skewed distribution²⁵. The proportion that the Contingent cluster represented of the practitioner identity combinations is presented in Figure 7.3 below.

²⁵ The majority of practitioners reported toward the top end on the *Principled* scale. Therefore, there were no practitioners who were greater than or equal to 1 standard deviation from the *Principled* mean. Transformation was attempted to normalise the *Principled* scale. However, a high *Principled* group did not emerge.

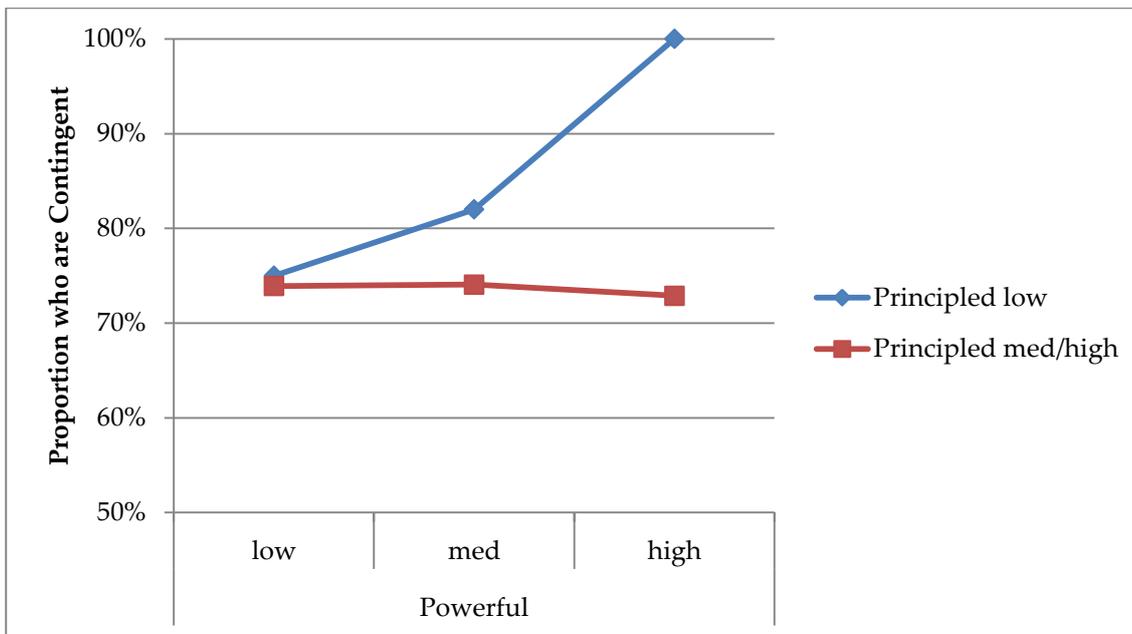


Figure 7.3 Proportion of Duteous and Contingent practitioners by low, medium and high Principled and Powerful identity groups

The *Powerful X Principled* interaction hypothesis was only partially confirmed. There was little change in the proportion of Contingent practitioners in the medium/high *Principled* group as sense of *Power* increased. High *Principled* practitioners with low or medium *Powerful* identities did not differ from those with high *Powerful* identities in terms of group cluster membership. This aspect of Hypothesis 4(c)ii was not supported. The prediction that high *Power* and low *Principles* would be positively associated with Contingent cluster membership was supported. The proportion of Contingent practitioners increased substantially as the sense of being *Powerful* increased among practitioners with low *Principles*.

Power appears to be an unusual form of self-efficacy. Self-efficacy is the "belief in one's capabilities to organise and execute the courses of action required to produce given levels of attainments" (Bandura, 1998, p. 624). It is usually found to be lower among the non-compliant or offending population (Maddison & Prapavessis, 2004; Ogilvie & Stewart, 2010; Zhang, Smith, & McDowell, 2009). This more typical presentation was demonstrated in a study of nursing home directors

which found that self-efficacy positively predicted regulatory compliance (Jenkins, 1994). The sense of *Power* described in this thesis is comparable to the Master of the Universe identity popularised in 'Bonfire of the Vanities' (Wolfe, 1987). This is a sense of being 'one of the men who move the levers that move the world' (Hartley, 2004). Here, being *Powerful* contributes to non-compliance rather than compliant performance of professional tasks.

This fits with Marshall, Smith and Armstrong's (2005) finding that Big 5 accountants were more likely to be engaged in tax loophole seeking behaviours. The now Big 4 are the largest international accountancy and professional services firms, creating an oligopoly in accounting services. It is not hard to imagine members of the Big 4 developing Master of the Universe personas. Although the interaction effect is relatively weak and should not be exaggerated in its importance, the finding triggers reflection on Quinney's theory of avarice and wealth acquisition. Perhaps wealth acquisition is relatively easily achieved through compliance in the 21st century. For business, the trigger for non-compliant activity may be the aspiration of accumulating power.

It is seen from the analyses presented in this section that all of the propensity hypotheses were supported among the Duteous and Contingent practitioners. This indicates that bivariate relationships exist between each of the propensity variables and compliance at the lower end of the practitioner teardrop. The identity interactions were also found to predict cluster membership. High *Power* combined both with low *Competence* and with low *Principled* identity was found to predict Contingent cluster membership. Unexpectedly, high *Power* combined with high *Competence* was also found to be positively associated with Contingent cluster membership.

7.3 Impact of opportunity on Contingent versus Duteous cluster membership

The opportunity construct describes the settings and circumstances external to the practitioner which influence preparation compliance. As with the propensity hypotheses, the opportunity hypotheses are restated here prior to their testing. Analysis is then conducted to evaluate the bivariate relationships between the proposed opportunity variables and the dependent variable of preparation compliance for those in the lower part of the practitioner teardrop. Specifically, it will be determined whether the Duteous and Contingent practitioners demonstrated the hypothesised differences in terms of the opportunity variables.

7.3.1 Opportunity hypotheses

The opportunity hypotheses are restated below, taking account of the development of the independent opportunity variables and the preparation compliance dependent variable in the previous chapters.

Hypothesis 5 Contingent practitioners perceive higher *Opportunity* for preparation non-compliance than Duteous practitioners.

Hypothesis 6(a) Duteous practitioners perceive higher probability of *Detection* of preparation non-compliance than Contingent practitioners.

Hypothesis 6(b) Duteous practitioners perceive higher probability of *Punishment* of preparation non-compliance than Contingent practitioners.

Hypothesis 7 Contingent practitioners consider their clients' tax returns more *Ambiguous* than Duteous practitioners.

The opportunity measures developed in Chapter 5 are summarised in Table 7.5.

Table 7.5 Summary of variables used in opportunity hypotheses

Hypothesis	Variable (Items N)	Scale range
H5	Opportunity (1)	1 = 'Strongly disagree' to 5 = 'Strongly agree'
H6(a)	Probability of detection (1)	0 = 0% to 10 = 100%
H6(b)	Probability of punishment (2)	0 = 0% to 10 = 100%
H7	Ambiguity (19)	1 = 'Strongly disagree' to 5 = 'Strongly agree'

7.3.2 Bivariate results of opportunity hypotheses testing

Independent t-tests were again employed to compare the Duteous and Contingent groups in terms of the independent opportunity variables. There were 22 cases with univariate outliers among the opportunity variables. Preliminary t-tests found that there was no substantive difference between the results when the outliers were retained to when they were excluded.

Levene's test confirmed the homogeneity of variance for *Opportunity* ($W(1, 1,135) = 0.01, \underline{ns}$) and *Ambiguity* ($W(1, 1,147) = 0.50, \underline{ns}$), although not for the deterrence variables of probability of *Detection* ($W(1, 1,142) = 11.51, p < .01$) and probability of *Punishment* ($W(1, 1,146) = 11.60, p < .01$). Analyses of the mean differences between Duteous and Contingent practitioners for the opportunity variables were conducted in accordance with Levene's test results.

Again, relationships among the independent variables as reflected in the correlation coefficients are discussed in cases where they are of note. All coefficients are reported in Table 7.6.

Table 7.6 Opportunity variable means, tests of mean differences and Pearson's correlation coefficients for the Duteous and Contingent practitioners

Opportunity variables	M (SD)		Significant difference test (df)	Pearson's correlation coefficient		
	Duteous	Contingent		1	2	3
1. Opportunity	2.41 (1.27)	2.84 (1.27)	-5.04 (1,136) ^a ***			
2. Probability of detection	7.09 (2.34)	6.09 (2.57)	6.12 (558.58) ^b ***	-0.24***		
3. Probability of punishment	8.86 (1.57)	8.39 (1.90)	4.20 (614.90) ^b ***	-0.14***	0.37***	
4. Client return ambiguity	2.42 (0.72)	2.69 (0.66)	-6.01 (1,147) ^a ***	0.06*	-0.02	-0.06

***p < .001, *p < .05

^a t-test with equal variance assumed

^b t-test with equal variance not assumed

Hypothesis 5 Contingent practitioners perceive higher *Opportunity* for preparation non-compliance than Duteous practitioners.

Opportunity describes the favourable combination of environmental circumstances that permit an event to occur. As such, the *Opportunity* measure was a general measure of perceived opportunity for preparation non-compliance. This represents a judgment of the likely success of engaging in non-compliant preparation practices²⁶. The *Opportunity* hypothesis was supported. Contingent practitioners reported significantly higher perceptions of *Opportunity* for preparation non-compliance than Duteous practitioners. This finding supports the empirical literature which indicates “that opportunity to engage in unethical behaviour has an influence on the unethical behaviour of CPAs” (Marshall, et al., 2006). Further, Klepper, Mazur and Nagin (1991) found that the extent of the ambiguity enforcer-exploiter influence was directly related to the quality of an evasion opportunity.

As a general measure, it is unclear how *Opportunity* is envisioned by practitioners. Some researchers consider opportunity indistinct from ambiguity. In this case, the ‘grey’ areas in tax law created by ambiguity represent opportunity for aggressive tax positions without technically being in violation of the law (Christensen, 1992). The lack of correlation between *Opportunity* and *Ambiguity* within this study does not support this interpretation here. *Opportunity* is alternatively interpreted as a function of rational choice (e.g. Marshall, et al., 2006; Milliron, 1985). More specifically, the chances of being subject to an audit program. In this study, *Opportunity* was negatively related to the deterrence factors. Lower perceived likelihood of *Detection* and *Punishment* for preparing non-compliant

²⁶ This was a very broad measure of *Opportunity* with the item, “If I wanted to it would be easy to complete non-compliant returns for the benefit of my individual clients”.

returns was associated with higher perceived *Opportunity* for preparation non-compliance. This pattern of results supports the construct validity of these variables and the interpretation of *Opportunity* as the assessment of the environment external to practitioners.

Deterrence theory is one of the strongest traditions in tax compliance and was employed in the original rational choice and individual differences study as a measure of opportunity (Nagin & Paternoster, 1993). Accordingly, it was here proposed that regulatory deterrence reduces the perceived opportunities for preparation non-compliance. Deterrence was measured as the probability of *Detection* and *Punishment* if engaging in preparation non-compliance²⁷.

Hypothesis 6(a) Duteous practitioners perceive higher probability of *Detection* of preparation non-compliance than Contingent practitioners.

Hypothesis 6(b) Duteous practitioners perceive higher probability of *Punishment* of preparation non-compliance than Contingent practitioners.

Both of the deterrence hypotheses were supported in this study. Duteous practitioners reported a significantly higher likelihood of *Detection* and *Punishment* for preparation non-compliance than Contingent practitioners. This finding upholds the relevance of regulatory deterrence for practitioner compliance. Previous literature has been far from unanimous in support of deterrence theory for tax practice (see Chapter 2). However, earlier studies tended to operationalise deterrence as the rate of audit at the client level. Here, deterrence was measured at the level of the practitioner. When operationalised as such, *Detection* and *Punishment* of “tax agent engage(ment) in tax return non-compliance for the benefit

²⁷ The interactive term was tested for *Detection X Punishment*. It was not found to contribute to the prediction of cluster membership so was not utilised within this study.

of individual clients” was found to predict higher levels of preparation compliance. It can be concluded that regulatory deterrence is a significant predictor of preparation compliance, at least at the lower end of the teardrop.

Hypothesis 7 Contingent practitioners consider their clients’ tax returns more *Ambiguous* than Duteous practitioners.

Klepper and Nagin (1989b) found that practitioners are more likely to exploit tax law when they see legal ambiguity and enforce tax law when there is no ambiguity. Consistent with this finding, Contingent practitioners reported significantly higher client return *Ambiguity* than Duteous practitioners. It is noted, however, that unlike Klepper and Nagin’s objective measure of ambiguity, this study employed a subjective measure of practitioners’ perception of ambiguity within their client base. Thus, rather than further confirmation of the tax law ambiguity enforcer/exploiter effect, a relationship between perceived *Ambiguity* and preparation non-compliance is revealed. An in-depth discussion of this subjective measure of client return *Ambiguity* is presented in the following chapters.

From the analyses presented, it was demonstrated that the opportunity hypotheses were supported among the Duteous and Contingent practitioners. This indicates that significant bivariate relationships exist between each of the opportunity variables and preparation compliance at the lower end of the practitioner teardrop. Measures reflecting greater perceived opportunity for preparation non-compliance were higher among the Contingent group than the Duteous group.

7.4 The propensity and opportunity model for predicting Contingent versus Duteous cluster membership

The premise of this thesis is that *both* propensity *and* opportunity factors contribute to preparation non-compliance. The analyses presented in the above sections have established the bivariate relationships between each of the propensity and opportunity variables and the preparation non-compliance variable (Contingent as opposed to Duteous cluster membership). These bivariate results hold promise. However, for the propensity and opportunity thesis to be confirmed at this lower end of the practitioner teardrop, both of these underlying constructs must make a unique contribution to the prediction of Contingent (as opposed to Duteous) cluster membership.

7.4.1 Propensity and opportunity model hypothesis

The primary hypothesis capturing the premise of this thesis is restated for analysis at the lower teardrop:

Thesis *Both* higher (lower) propensity *and* higher (lower) opportunity for preparation non-compliance predicts Contingent (Duteous) teardrop cluster membership.

7.4.2 Propensity and opportunity model analyses

A hierarchical logistic regression analysis was performed to establish whether, when entered together, propensity and opportunity each accounted for unique variance in Contingent versus Duteous cluster membership. To be considered for entry into the regression analysis, predictor variables were required to have a significant relationship with the dependent variable at the bivariate

level²⁸. The control variables (discussed in Chapter 6) were entered first, followed by the propensity variables and finally the opportunity variables. There is no watertight rationale for entering the propensity variables before the opportunity variables. This ordering is logical for those subscribing to the theory that character prevents individuals from being tempted by opportunity. That is, character is the first line of defence. Analysis of Cook's distance found no multivariate outliers (Cook & Weisber, 1982). No substantive difference was found in the results of a preliminary regression analysis that included the univariate outliers to that which excluded the outliers. The univariate outliers were thus retained.

Table 7.7 presents the results of the hierarchical logistic regression analysis comparing the power of each of the sets of predictor variables in the explanation of Contingent versus Duteous cluster membership. Overall, 20 percent of the variance in Contingent versus Duteous cluster membership was accounted for (Nagelkerke $R^2 = 0.20$). Fifteen percent of this was the unique contribution of the propensity and opportunity variables. The control variables accounted for the remaining 5 percent of the variance.

In Block 1, higher levels of non-compliance in client's tax returns was predicted by the control variables. *Gender* and perceived *Prevalence of non-compliance* were statistically significant. Men were more likely to belong to the Contingent cluster. Practitioners who saw non-compliance as more widespread within the tax preparation industry were also more likely to belong to the Contingent cluster. The control variables increased the model fit significantly ($\chi^2(6) = 36.68, p < 0.001$).

²⁸ Preliminary hierarchical logistic regression analyses included the non-significant control variables one at a time to check for unexpected relationships. Of these, the *ATO is Firm* control variable was found significant in the multivariate analysis and was, thus, included in the final analysis. Entry of *ATO is Firm* did not affect the contribution of the opportunity variables.

Block 2 represented entry of the propensity variables. *Risk-taking*, *Preparation ethics*, *Business orientation* and the *Competent* and *Powerful* practitioner identities were significant predictors in the multivariate model, increasing the model fit ($\chi^2(10) = 61.21$ $p < 0.001$). The likelihood of being a member of the Contingent cluster was heightened if the practitioner had a tendency for *Risk-taking*, and believed themselves to be *Powerful*. Duteous cluster membership was more likely for those who held strong *Preparation ethics*, were oriented toward *Business* best practice and believed that they were *Competent* preparers. The practitioner identity interaction terms were also entered. Neither of the interaction terms were significant predictors.

The opportunity variables were entered in Block 3. Of these, the general *Opportunity* measure, perceived probability of *Detection* and *Ambiguity* of client tax returns predicted non-compliance, increasing the model fit, ($\chi^2(1) = 40.60$, $p < 0.001$). Those practitioners who perceive that there was *Opportunity* to get away with non-compliant preparation and that tax law is *Ambiguous* were more likely to belong to the Contingent cluster. Practitioners who believed in a higher likelihood of *Detection* were more likely to belong to the Duteous cluster.

Table 7.7 B values (Odds ratio) for a hierarchical binary logistic regression predicting Contingent (as opposed to Duteous) cluster membership from propensity and opportunity variables

Independent variables	Control Block 1	Propensity Block 2	Opportunity Block 3
Nagelkerke R ²	0.05	0.14	0.20
Constant	0.07 (1.08)	3.42 (30.49)**	1.16 (3.20)
Control			
Gender (male)	0.61 (1.84)***	0.48 (1.62)**	0.51 (1.66)**
Business consultancy	0.12 (1.13)	0.15 (1.16)	0.13 (1.14)
ATO Respectful relations	-0.07 (0.93)	0.21 (1.24)	0.26 (1.30)
ATO is Fair	-0.17 (0.84)	-0.15 (0.86)	-0.09 (0.91)
ATO is Firm	0.14 (1.15)	0.15 (1.17)	0.20 (1.22)*
Prevalence of non-compliance	0.23 (1.26)***	0.17 (1.18)**	0.10 (1.11)
Propensity			
Risk-taking		0.18 (1.19)**	0.16 (1.17)*
Preparation ethics		-0.30 (0.74)*	-0.19 (0.83)
Business orientation		-0.52 (0.59)**	-0.49 (0.61)**
Professional orientation		0.02 (1.02)	0.05 (1.05)
Wealth orientation		0.09 (1.10)	0.02 (1.02)
Competent identity		-0.64 (0.53)***	-0.53 (0.59)**
Principled identity		0.09 (1.09)	0.03 (1.03)
Powerful identity		0.27 (1.31)**	0.28 (1.33)**
Competent X Powerful		-0.22 (0.80)	-0.21 (0.81)
Principled X Powerful		-0.02 (0.98)	-0.07 (0.93)
Opportunity			
Opportunity			0.19 (1.20)**
Probability of detection			-0.09 (0.91)*
Probability of punishment			-0.04 (0.96)
Client return ambiguity			0.57 (1.77)***

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

^a 0 = Duteous and 1 = Contingent

After the difference in teardrop cluster size was controlled (cut value of 0.74²⁹), the full model was able to correctly classify 65.0 percent of the Duteous and 69.4 percent of the Contingent practitioners. This resulted in overall classification accuracy of 68.3 percent (see Table 7.8). On inspecting the classification tables at the different stages of variable entry of the hierarchical analysis, it was seen that the propensity and opportunity model had most impact on the prediction of Duteous practitioners. The control variables on their own were able to predict the Duteous with barely higher than random accuracy (54.9 percent). The classification success rate improved by 10.1 percent once the propensity and opportunity variables were entered. There was less improvement in the prediction accuracy for the Contingent practitioners from using the control variables only as predictors (62.5 percent accuracy) to the final model (an increase of 6.9 percent).

Table 7.8 Classification table for hierarchical binary logistic regression predicting Contingent versus Duteous cluster membership from propensity and opportunity model

Predicted (N)	Observed (N)		Percent correct
	Duteous	Contingent	
Duteous	160	225	65.0
Contingent	86	511	69.4
Total	246	736	68.3

It has been demonstrated that both propensity and opportunity contribute to the understanding of preparation compliance at the lower end of the practitioner teardrop. That said, the overall variance in preparation compliance that the model accounts for is not high. Nevertheless, it is comparable to that of other studies in

²⁹ Cut value adjusted to represent proportion of Contingent practitioners in the analysis (Garson, 2010b).

propensity and opportunity³⁰ and the empirical research in tax compliance (e.g. Ahmed & Braithwaite, 2007). Propensity is characterised by an appetite for risk and power, coupled with a weaker commitment to business best practice and to being a competent practitioner. These are the internalised and stable practitioner characteristics that distinguished the Contingent from the Duteous practitioners. Opportunity is characterised by a sense of likely success in preparing non-compliant returns and perceptions of higher ambiguity of clients' tax affairs, coupled with the perception of lower likelihood for detection for non-compliance. This describes the environmental assessment made by practitioners which distinguished the Contingent from the Duteous. Interpretation of the bivariate relationships between the propensity and opportunity variables with the dependent variable of Contingent versus Duteous cluster membership have been discussed in detail in the previous sections and will not be repeated here. Rather, implications of the lack of significance of variables within the multivariate model and interesting patterns of contribution by sets of variables will be examined.

That *Preparation ethics* was not significant in the final model reflects the ambivalence toward preparation compliance by Contingent practitioners. As initially proposed, this group was not firmly committed to compliance nor non-compliance. While significant when measured at the bivariate level, *Preparation ethics* does not prevail as part of a holistic behavioural model. The influence of *Preparation ethics* is absorbed by other factors driving preparation behaviour at the lower teardrop.

Business orientation was the sole work-value orientation to retain significance in the final model. After somewhat promising signs at the bivariate level,

³⁰ The Haar and Wilkstron (2010) study is a noted exception which was accounted for between $R^2 = 0.35$ and 0.37 variance in youth violence.

Professional and *Wealth orientations* did not make a unique contribution. The lack of contribution by *Professional orientation* to a multivariate model predicting compliance replicates the findings of Makkai and Braithwaite (1993) who found that the professional orientation of the director of nursing did not predict nursing home compliance. Rather, their measure of professional autonomy (which represented control of finances and staff, and is comparable to *Business orientation*) was a significant positive predictor of compliance. It is apparent that practitioners' commitment to their profession is less important once the business of managing the day to day affairs of a tax practice is taken into account.

The lack of contribution by *Wealth orientation* to the final model is less surprising considering the marginal relationship at the bivariate level. The interpretation of the lacklustre bivariate relationship between *Wealth orientation* and compliance retains relevance here; that is, the lack of direct financial gain for the practitioner as a result of preparing non-compliant returns for their clients. This issue weakens *Wealth orientation* as a driving factor.

An unexpected pattern emerged among the practitioner identity variables in the final model. While the *Competent* and *Principled* identities had significant bivariate relationships with compliance, it was *Competent* and *Powerful* that provided a unique contribution to the multivariate model. *Competence* emerged as the dominant feature of practitioner identity, indicating a confidence in 'getting it right'. As discussed above, *Competent* and *Principled* are the internalised features of professionalism. However, the isolated characteristic of *Competence* overshadowed both *Professional orientation* and *Principled* identity in the final model.

The emergence of a *Powerful* identity as a positive predictor of non-compliance was more surprising. *Powerful* identity was not expected to contribute as a main effect and indeed did not at the bivariate level. Rather, it was expected to

contribute through an interaction with the other identity variables. It did not behave as expected in the multivariate model. Only when the other propensity variables were included did the *Powerful* identity emerge. It would appear that practitioners are not using their power to achieve compliance with the tax system but instead to game play or by-pass the system. The *Powerful* identity is described as having a 'masters of the universe' quality. That is, being influential or a 'high-flyer'. The results of this study perhaps reflect the corrupting influence of power, as amply demonstrated by the role of the masters of the universe – such as Goldman Sachs – in the global financial crisis of 2008 (Freen, 2011).

Despite significant bivariate relationships between the deterrence variables and preparation compliance, only likelihood of *Detection* provided a unique contribution in the multivariate model. This mixed result for the deterrence variables is not surprising in that it is consistent with the wider perceptual deterrence literature (see Nagin, 1998 for review). Braithwaite and Makkai (1991) found a similar result in the organisational setting. However, unlike Braithwaite and Makkai who concluded that there was a "failure of support for the deterrence doctrine" in their particular sample (p. 35), this pattern corresponds to our understanding of practitioners at the lower end of the teardrop. The positive effect of *Detection* but not *Punishment* on compliance is in keeping with the informal sanctions literature, where threat of shame or loss of face is sufficient to inhibit non-compliance (J. Braithwaite, 1989a; Grasmick, Bursik Jr, & Kinsey, 1991; Tittle, 1980). Punishment, particularly directed at people who think of themselves as *duteous*, may be a threat that is counterproductive. A strategy weighing too heavily on punishment may well undermine the goodwill of actions when they are motivated by a sense of responsibility (Frey, 1997; Head & McCoy, 1997)

One of the primary differences between the practitioner and taxpayer research literatures as discussed in Chapter 2 was the focus on the relationship

with the tax authority. The taxpayer literature investigated themes such as trust and respectful treatment at the hands of the tax authority, which was absent in the practitioner literature. These factors were included in this study through the control variables and were found to make a minimal contribution to predicting preparation compliance at the lower end of the teardrop. Block 1 included only the control variables of which none of the tax authority relationship variables were significant. Only *Gender* and the perceived *Prevalence of preparation non-compliance* were significant. In the final model, the perception of the *ATO as Firm* emerged as being significantly stronger among Contingent practitioners once the propensity and opportunity variables had been taken into account. The negative relationship between the perception of the *ATO as Firm* and compliance indicates either defiance of Tax Office control among the Contingent or disquiet at lack of control among the Duteous. This finding demonstrates that, despite their formal authority, regulators do not operate from a position of absolute control (V. Braithwaite, 2009).

7.5 Summary and conclusions

This chapter set out to evaluate the propensity and opportunity model for predicting preparation compliance at the lower end of the practitioner teardrop; specifically, for differentiating between practitioners in the Duteous and Contingent clusters. For the propensity and opportunity thesis to be supported amongst lower teardrop practitioners both constructs must provide unique contributions to the prediction of Contingent versus Duteous cluster membership.

The first step was to examine the bivariate relationships between the proposed measures of propensity and opportunity and lower teardrop preparation compliance. The results showed each of the predicted propensity and opportunity measures differentiating significantly between the Duteous and Contingent practitioners in the direction expected.

The next step was to assess the multivariate relationship between the proposed measures of propensity and opportunity and lower teardrop preparation compliance. It is through this analysis that the propensity and opportunity thesis is tested. Firstly, it is noted that despite the significant bivariate relationships for all predicted propensity and opportunity variables, only seven of the 14 variables were significant in the final hierarchical logistic regression analysis. Most importantly, the final model established that, in addition to the control variables of *Gender* and *ATO is Firm*, both propensity variables and opportunity variables were significant predictors of cluster membership at the lower end of the practitioner teardrop. Propensity as a predictor of preparation non-compliance among lower teardrop practitioners was supported through the measures of *Risk-taking* (+ve propensity), a *Powerful* practitioner identity (+ve propensity), *Business orientation* (-ve propensity) and a *Competent* practitioner identity (-ve propensity). Opportunity as a predictor of preparation non-compliance was supported by the measures of client return *Ambiguity* (+ve opportunity) and likelihood of *Detection* (-ve opportunity).

It has here been demonstrated that both the propensity held and opportunity perceived for preparation non-compliance contribute to the prediction of client tax return non-compliance among practitioners at the lower end of the teardrop. This finding supports Nagin and Paternoster's (1993) assertion that compliance behaviours occur as the product of both individual differences and environmental circumstances. More importantly for practitioner research, this finding supports the propensity and opportunity model amongst practitioners at the lower end of the teardrop. The theoretical consequences of this finding will be discussed in Chapter 9, along with the results of the next chapter (analysing propensity and opportunity at the upper end of the teardrop).

Chapter 8: Propensity and opportunity at the upper teardrop

8.1 Introduction

This second analysis chapter continues the assessment of the propensity and opportunity model for predicting preparation non-compliance. Where the previous chapter tested the model among practitioners belonging to the bottom two clusters of the teardrop, this chapter focuses on those practitioners in the upper clusters (see Figure 8.1). Analyses were conducted to establish whether propensity and opportunity variables are able to differentiate between the Contingent cluster (defined by reporting a client base that was compliant in circumstances of high transaction visibility combined with non-compliance in circumstances of low visibility and offshore income) and the Aggressive cluster (defined by reporting a client base that was consistently the most non-compliant of the three primary clusters across all transaction circumstances). The process of hypothesis testing of the previous chapter is repeated for the Aggressive versus Contingent clusters to enable systematic comparison across analyses. This will reveal any differences in the prediction of preparation compliance for different teardrop clusters. The Outlier cluster is also evaluated in this chapter, in an attempt to understand the extremely high level of reported non-compliance of their client base according to the propensity and opportunity model.

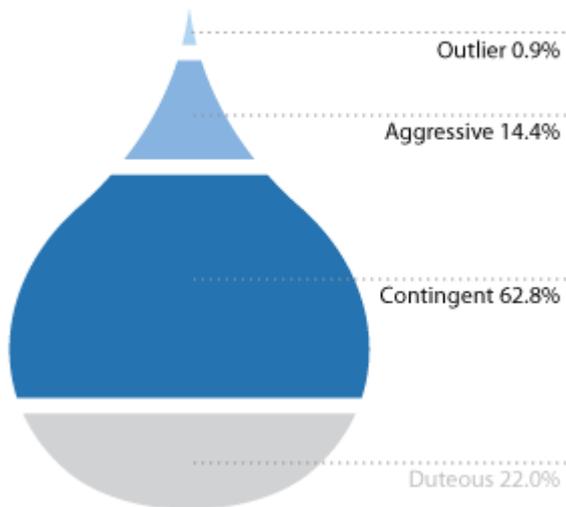


Figure 8.1 Upper end of the practitioner teardrop

In this chapter, it is Contingent cluster membership that represents lower preparation non-compliance and Aggressive cluster membership that represents higher non-compliance. This provides a binary dependent variable (0 = Contingent and 1 = Aggressive). The first two sections present the results of the bivariate analyses between the propensity and opportunity measures with top of teardrop preparation compliance. The third section presents the results of the multivariate analysis with the propensity and opportunity variables combined to predict Aggressive (as opposed to Contingent) cluster membership. The unique and shared contribution of the propensity and opportunity variables in the prediction of preparation compliance at the top of the teardrop will be revealed through the multivariate analysis. Finally, a descriptive analysis for the Outlier cluster is provided.

8.2 Impact of propensity on Aggressive versus Contingent cluster membership

The propensity hypotheses stated in the previous chapter are here adjusted for analyses with the upper teardrop clusters. The intent is to assess the proposed

bivariate relationships between the propensity variables and Aggressive versus Contingent cluster membership. See Table 7.1 in the previous chapter for a summary of the propensity measures.

8.2.1 Propensity hypotheses

Hypothesis 1 Aggressive practitioners have stronger *Risk-taking* attitudes than Contingent practitioners.

Hypothesis 2 Contingent practitioners have stronger *Preparation ethics* than Aggressive practitioners.

Hypothesis 3(a) Contingent practitioners have a stronger *Business orientation* than Aggressive practitioners.

Hypothesis 3(b) Contingent practitioners have a stronger *Professional orientation* than Aggressive practitioners.

Hypothesis 3(c) Aggressive practitioners have a stronger personal *Wealth orientation* than Contingent practitioners.

Hypothesis 4(a) Contingent practitioners identify as more *Competent* than Aggressive practitioners.

Hypothesis 4(b) Contingent practitioners identify as more *Principled* than Aggressive practitioners.

Hypothesis 4(c)i A high *Powerful* identity combined with a high *Competent* identity predicts Contingent cluster membership and a high *Powerful* identity combined with a low *Competent* identity predicts Aggressive cluster membership.

Hypothesis 4(c)ii A high *Powerful* identity combined with a high *Principled* identity predicts Contingent cluster membership and a high *Powerful* identity combined with a low *Principled* identity predicts Aggressive cluster membership.

8.2.2 Bivariate results of propensity hypotheses testing

Independent t-tests and binary hierarchical logistic regression analyses were conducted to test the bivariate hypotheses. The means of the Contingent and Aggressive clusters were compared across the propensity variables. For the Contingent and Aggressive practitioners there were 26 cases with univariate outliers among the propensity variables. T-tests were conducted with and without the univariate outliers. It was found that if the outliers were retained, the Contingent and Aggressive clusters showed a significant difference in *Professional orientation*. However, if the outliers were excluded, the difference in *Professional orientation* lost significance and a significant difference in *Principled* practitioner identity emerged. For consistency with previous analyses, and without a compelling reason to depart from previous practice, it was decided that the analysis would be conducted on data that retained the outliers.

Levene's test of homogeneity of variances was first conducted on the propensity variables due to the difference in the membership size of the teardrop clusters (Contingent N = 854 and Aggressive N = 196). Homogeneity of variances was confirmed for all propensity variables (*Risk-taking* (W(1, 969) = 0.35, ns), *Practitioner ethics* (W(1, 1,047) = 3.72, ns), *Business* (W(1, 1,048) = 0.20, ns), *Professional* (W(1, 1,048) = 0.04, ns) and *Wealth orientation* (W(1, 1,048) = 0.38, ns), and practitioner identity as *Competent* (W(1, 1,019) = 0.08, ns), *Principled* (W(1, 1,025) = 0.11, ns) and *Powerful*, (W(1, 1,027) = 0.14, ns). Therefore, independent t-tests assuming equal variances were applied to assess the relationship between the propensity variables and Aggressive versus Contingent cluster membership.

Table 8.1 Propensity variable means, tests of mean differences and Pearson's correlation coefficients for the Contingent and Aggressive practitioners

Propensity variables	M (SD)		Significant difference test (df)	Pearson's correlation coefficient							
	Contingent	Aggressive		1	2	3	4	5	6	7	
1. Risk-taking	2.88 (1.25)	3.13 (1.25)	-2.42 (969) *								
2. Preparation ethics	4.09 (0.67)	3.87 (0.75)	-4.06 (1,047) *	-0.25***							
<i>Work-value orientation</i>											
3. Business	4.00 (0.53)	4.04 (0.52)	-1.14 (1, 048)	0.05	0.14***						
4. Professional	4.12 (0.48)	4.04 (0.53)	2.24 (1,048) ^a *	0.01	0.14***	0.37***					
5. Wealth	2.80 (0.80)	2.85 (0.82)	-0.82 (1,048.4)	0.11**	-0.16***	0.04	-0.05				
<i>Practitioner identity</i>											
6. Competent	5.51 (0.71)	5.43 (0.71)	1.34 (1,025)	0.05	0.16***	0.39***	0.33***	-0.01			
7. Principled	6.36 (0.64)	6.28 (0.62)	1.62 (1,027) ^b	-0.09**	0.25***	0.22***	0.19***	-0.05	0.55***		
8. Powerful	4.99 (1.02)	4.86 (0.96)	1.52 (1,048)	0.11***	0.18*	0.20***	0.18***	0.05	0.31***	0.22***	

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

^a *Professional orientation* would not be significant if univariate outliers were excluded (p = 0.06)

^b *Principled* practitioner identity would be significant if univariate outliers were excluded (p = 0.03)

Unlike the analyses conducted at the lower end teardrop where all propensity variables had a significant bivariate relationship with compliance, less than half of the propensity variables were able to differentiate between the Contingent and Aggressive practitioners. This is consistent with the proposition put forward earlier in the thesis that the factors distinguishing preparation compliance at the upper teardrop are different from the factors distinguishing lower and higher compliance at the lower teardrop.

Hypothesis 1 Aggressive practitioners have stronger *Risk-taking* attitudes than Contingent practitioners.

This hypothesis was supported. A tendency for *Risk-taking* in preparing client returns was positively related to preparation non-compliance for the top of teardrop. Aggressive practitioners reported significantly higher *Risk-taking* tendencies than Contingent practitioners. The pattern of results at the lower teardrop suggested that a loosening of preparation principles by Contingent (compared to the Duteous) practitioners allowed for elements of risk assessment to enter the preparation decision. *Preparation ethics* was again negatively correlated with the *Risk-taking* tendencies of top of teardrop practitioners (which, as discussed in the next section, were lowest among the Aggressive cluster). In addition to this even looser set of preparation principles, *Risk-taking* of top of teardrop practitioners was associated with a stronger *Wealth orientation* and a *Powerful* practitioner identity³¹. This pattern of relationships portrays *Risk-taking* as an indicator of more dedicated unscrupulousness at the top of the practitioner teardrop and will be discussed in more depth with *Preparation ethics*.

³¹ Although a statistically significant negative relationship with *Principled* practitioner identity was demonstrated, the correlation coefficient did not meet Cohen's minimum criteria of ± 0.10 for 'weak relationship'. Relationships with correlation coefficients of less than ± 0.10 will not be discussed.

Risk-taking has been found to significantly increase at each step of the practitioner teardrop, from the most Duteous to the most Aggressive. The consistency of practitioner *Risk-taking* across the range of clusters as a predictor of preparation non-compliance is consistent with other literature (Carnes, et al., 1996b; Tan, 2011). These combined findings encourage greater focus on practitioner risk-taking in compliance research.

Hypothesis 2 Contingent practitioners have stronger *Preparation ethics* than Aggressive practitioners.

The *Preparation ethics* hypothesis was supported at the upper teardrop. Aggressive practitioners reported significantly lower *Preparation ethics* than Contingent practitioners. This finding also shows a continuation of the trend from the lower teardrop, revealing significant decreases in *Preparation ethics* at each step of the teardrop. The positive relationship between ethics and tax compliance is also one of the most consistent findings within both the taxpayer and practitioner literature (see Chapter 2). *Preparation ethics*, like *Risk-taking*, appears to have a significant effect across the full range of practitioner preparation compliance.

That *Preparation ethics* was one of the few significant propensity variables differentiating the Aggressive from the Contingent practitioners is revealing. It provides an increasingly strong case for the Aggressive practitioners to be considered as game players within the tax system. Practitioners with low *Preparation ethics* are not bound by the same moral constraints in tax practice. Without a sense of value for ethical or socially responsible practice, they are less likely to act in the spirit of the law. These are the practitioners most likely to facilitate aggressive tax avoidance (Shafer & Simmons, 2008).

A weaker commitment to *Preparation ethics* combined with a heightened tendency for *Risk-taking* is not only a likely but also a necessary feature of the legal

entrepreneur (J. Braithwaite, 2003b) or game player (V. Braithwaite, 2003a). The legal entrepreneur disregards the principles of their profession instead playing the game within the bounds if not the spirit of the rules. The mission is to identify or even create conditions of complexity within tax legislation for the economic gain of their clients (J. Braithwaite, 2003b). These might be the design and promotion of tax schemes or an avoidant yet 'reasonably argued position' on a tax return. Legal entrepreneurs challenge the system not as a matter of righteousness but rather as sport. It is practitioners with an appetite for risk that are most likely to engage regulators in a game of legislative cat and mouse, causing the ceaseless opening and closing of legal loopholes (McBarnet & Whelan, 1999, p. 28). *Weak Preparation ethics* loosens the self-imposed binds on a tax practitioner, allowing them to exercise *Risk-taking* tendencies in the interpretation of tax legislation. When *Risk-taking* passes the point of fear and enters the realm of challenge or excitement, individuals may engage in increasingly daring interpretations of tax legislation.

There was limited support at the upper end of the practitioner teardrop for the set of work-value orientation hypotheses presented under Hypothesis 3.

Hypothesis 3(a) Contingent practitioners have a stronger *Business orientation* than Aggressive practitioners.

It was hypothesised that Contingent practitioners would show a stronger leaning toward business best practice than the cluster of Aggressive practitioners. However, this pattern did not emerge. There was no significant difference found in the *Business orientation* of Contingent and Aggressive practitioners. This is in stark contrast to the findings at the lower teardrop, where *Business orientation* was a significant predictor in both the bivariate and multivariate analyses for differentiating the Contingent from the Duteous practitioner clusters.

Although not significant, it is interesting that the trend in *Business orientation* in fact reverses at the upper end, with the Aggressive practitioners reporting a higher mean *Business orientation* than the Contingent (the Duteous also reported a stronger *Business orientation* than the Contingent at the lower end). It may be that *Business orientation* holds a different meaning for those at this top end. Where business best practice represented 'providing a quality service and getting it right' for the Duteous, it might be that it reflects 'providing a quality service and minimising tax' for the Aggressive. The meaning of being businesslike may be contextual to cluster membership, another illustration of the importance of studying clusters of practitioners rather than a single compliance continuum.

As mentioned in the previous chapter, the missions and goals of an organisation are the key to understanding how best practice business orientation is acted out. If the organisational culture is one of 'getting it right' in the spirit of the law then a strong *Business orientation* will support the tax authority goal of eliciting higher compliance among practitioner prepared returns. If the culture is for 'minimising tax' through using the letter of the law or through finding loopholes then those with a strong *Business orientation* will be unlikely to act as regulatory gatekeepers keeping their clients in compliance with the spirit of the law.

Hypothesis 3(b) Contingent practitioners have a stronger *Professional orientation* than Aggressive practitioners.

This was the sole work-value orientation found to be significant in the prediction of compliance at the upper teardrop. Contingent practitioners reported a higher *Professional orientation* than the Aggressive practitioners. This finding supported a positive relationship between *Professional orientation* and compliance across the teardrop clusters. The consistency of the *Professional orientation* effect supports Quinney's proposition concerning the importance of professionalism to

compliance. That commitment to one's profession's standards and alignment with its ideals consistently relate to higher levels of compliance supports the argument for the privileges afforded to the profession of tax practice. Although regulators must bear in mind that this reflects internalised professionalism rather than acquiescence to a code of conduct, and not all will internalise such standards.

Hypothesis 3(c) Aggressive practitioners have a stronger personal *Wealth orientation* than Contingent practitioners.

The *Wealth orientation* hypothesis was not supported. While the Aggressive practitioners did report a slightly higher *Wealth orientation* than the Contingent practitioners, this difference was negligible. *Wealth orientation* was not related to either the *Professional* or *Business orientations*. Nevertheless, *Wealth orientation* was related to other predictors of preparation non-compliance: *Wealth orientation* was positively related to *Risk-taking* and negatively to *Preparation ethics*. The suggestion for the lack of contribution of *Wealth orientation* to the prediction of preparation non-compliance raised in the previous chapter remains relevant here: the lack of direct financial gain for the practitioner as the result of preparation non-compliance means that *Wealth orientation* and non-compliance are less likely to be directly related.

The practitioner identity hypotheses were designed to examine whether practitioners' identity – *Competent* and *Principled* – was predictive of their level of preparation compliance. Neither of the following practitioner identity hypotheses was supported at the upper level of the practitioner teardrop.

Hypothesis 4(a) Contingent practitioners identify as more *Competent* than Aggressive practitioners.

Hypothesis 4(b) Contingent practitioners identify as more *Principled* than Aggressive practitioners.

Practitioners' strong sense of *Competence* and *Principles* which differentiated the Duteous cluster was unable to differentiate between the Contingent and Aggressive clusters. It seems that Aggressive practitioners have a perception of themselves as no less competent or, most interestingly, principled than practitioners who are more (although contingently so) compliant in their preparation practices. Weak scores on *Preparation ethics* for the Aggressive cluster cautions against interpreting this result as a demonstration of resistant defiance, or engaging in principled non-compliance. Rather, it is likely that cognitive dissonance has caused Aggressive practitioners to redefine their self-image in a more positive light. Cognitive dissonance allows individuals to resolve discomfort caused by conflicting beliefs and feelings through changing or introducing new attitudes, beliefs or ideas (Festinger, 1957). McBarnet's (2003; McBarnet & Whelan, 1999) notion of creative compliance is an example of how a practitioner might enter into overly aggressive positions while simultaneously holding to professional norms of competence and principles.

The lack of significance for the *Powerful* practitioner identity as a main effect was expected. A *Powerful* identity was instead hypothesised to moderate the *Competent* and *Principled* identity relationships with preparation compliance. Two hierarchical logistic regression analyses were performed to assess whether the interaction between the *Powerful* practitioner identity and the *Principled* and *Competent* identities added significantly to the variance accounted for by the main effects of the practitioner identity variables. Centred variables (variable scores

minus their mean) were used in the analysis. The proposed practitioner identity interaction terms were not supported.

Hypothesis 4(c)i A high *Powerful* identity combined with a high *Competent* identity predicts Contingent cluster membership and a high *Powerful* identity combined with a low *Competent* identity predicts Aggressive cluster membership.

The regression analysis established that, when entered together (Block 1), the main effects of neither the *Competent* nor *Powerful* practitioner identities were significant in the prediction of Aggressive versus Contingent cluster membership. The interaction of *Competent X Powerful* was entered in Block 2 of the regression (See Table 8.2) where it was also found not to be significant in the prediction ($\chi^2(1) = 0.27, \underline{ns}$).

Table 8.2 B values (Odds ratio) for a hierarchical binary logistic regression predicting Aggressive versus Contingent cluster membership^a from the main and interaction effects of Competent and Powerful identity

Independent variables	Block 1	Block 2
Nagelkerke R ²	0.01	0.06
Constant	-0.38 (0.69)	-0.46 (0.63)
Main effect		
Competent	-0.10 (0.90)	-0.08 (0.92)
Powerful	-0.11 (0.90)	-0.12 (0.89)
Interaction		
Competent X Powerful		0.06 (1.06)

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

^a 0 = Contingent and 1 = Aggressive

Hypothesis 4(c)ii A high *Powerful* identity combined with a high *Principled* identity predicts Contingent cluster membership and a high

Powerful identity combined with a low *Principled* identity predicts Aggressive cluster membership.

The second interaction analysis also established that neither the *Principled* nor *Powerful* main effects were significant in the prediction of Aggressive versus Contingent cluster membership (Block 1). The interaction term for *Principled* and *Powerful* was entered in Block 2 of the regression (see Table 8.3) where it too was found not to significantly improve the prediction of cluster membership ($\chi^2(1) = 0.51, \underline{ns}$).

Table 8.3 B values (Odds ratio) for a hierarchical binary logistic regression predicting Aggressive versus Contingent cluster membership^a from the main and interaction effects of Principled and Powerful identity

Independent variables	Block 1	Block 2
Nagelkerke R ²	0.01	0.01
Constant	-0.03 (0.97)	0.26 (1.30)
Main effect		
Principled	-0.15 (0.87)	-0.20 (0.82)
Powerful	-0.11 (0.90)	-0.10 (0.91)
Interaction		
Principled X Powerful		-0.09 (0.91)

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

^a 0 = Contingent and 1 = Aggressive

Unlike the lower end teardrop, not all propensity hypotheses were supported at the top end. Contingent practitioners reported stronger *Preparation ethics* and *Professional* work-value orientation than Aggressive practitioners, whereas Aggressive practitioners were found to hold stronger attitudes toward *Risk-taking* than the Contingent. There was no significant difference in the *Business* or *Wealth orientations* or characteristics of practitioner identity (*Competent, Principled* or *Powerful*) between the upper teardrop clusters. The significant effects will be

carried forward into the multivariate testing of the propensity and opportunity model through hierarchical logistic regression analysis.

8.3 Impact of opportunity on Aggressive versus Contingent cluster membership

The opportunity hypotheses are modified for the upper end of the practitioner teardrop. The bivariate relationships between the proposed opportunity variables and preparation compliance at the top of the practitioner teardrop are evaluated. Specifically, it will be determined whether the expected differences in the opportunity variables are demonstrated among Contingent and Aggressive practitioners.

8.3.1 Opportunity hypotheses

The hypotheses designed to test opportunity for predicting Aggressive versus Contingent cluster membership, are restated below. See Table 7.5 in the previous chapter for a summary of the opportunity measures.

Hypothesis 5 Aggressive practitioners perceive higher *Opportunity* for preparation non-compliance than Contingent practitioners.

Hypothesis 6(a) Contingent practitioners perceive higher probability of *Detection* than Aggressive practitioners.

Hypothesis 6(b) Contingent practitioners perceive higher probability of *Punishment* than Aggressive practitioners.

Hypothesis 7 Aggressive practitioners consider their clients' tax returns more *Ambiguous* than Contingent practitioners.

8.3.2 Bivariate results of opportunity hypotheses testing

The bivariate relationships between the opportunity variables and the binary practitioner preparation non-compliance variable (Aggressive versus Contingent cluster membership) were assessed using t-tests. Among the Contingent and Aggressive practitioners, there were 15 cases with univariate opportunity variable outliers. Preliminary t-tests were conducted including, then excluding the outliers. No substantive differences between the results were obtained when the outliers were retained and when they were omitted. Outliers were thus retained.

Inspection of the preliminary statistics found no concern for violations of t-test assumptions. Levene's test confirmed the homogeneity of variances for probability of *Detection* ($W(1, 1,041) = 1.97, \underline{ns}$) and client return *Ambiguity* ($W(1, 1,046) = 0.26, \underline{ns}$), although not for *Opportunity* ($W(1, 1,033) = 5.27, p < .05$) and probability of *Punishment* ($W(1, 1,044) = 8.70, p < .01$). Analyses of the mean differences between Contingent and Aggressive practitioners for the opportunity variables were conducted in accordance with the Levene's test results.

Pearson's correlation coefficients were employed to understand the relationships between the opportunity variables among the Contingent and Aggressive practitioners. The results of the bivariate analyses are presented in Table 8.4.

Table 8.4 Opportunity variable means, tests of mean differences and Pearson's correlation coefficients for the Contingent and Aggressive practitioners

Opportunity variables	M (SD)		Significant difference test (df)	Pearson's correlation coefficient		
	Contingent	Aggressive		1	2	3
1. Opportunity	2.84 (1.27)	3.02 (1.22)	-1.79 (296.57) ^a			
2. Probability of detection	6.09 (2.57)	5.76 (2.67)	1.61 (1,041) ^b	-0.23***		
3. Probability of punishment	8.39 (1.90)	7.99 (2.18)	2.34 (263.69) ^{a *}	-0.14***	0.34***	
4. Client return ambiguity	2.69 (0.66)	3.03 (0.67)	-6.58 (1,046) ^{b ***}	0.04	-0.02	-0.05

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

^a t-test with equal variance not assumed

^b t-test with equal variance assumed

Hypothesis 5 Aggressive practitioners perceive higher *Opportunity* for preparation non-compliance than Contingent practitioners.

The hypothesis that perceived *Opportunity* for successful preparation non-compliance will predict Aggressive cluster membership was not supported. Although the Aggressive cluster perceived greater *Opportunity* for non-compliance, this perception was not significantly different to Contingent practitioners. As with the lower teardrop, significant negative relationships were found between *Opportunity* and the deterrence variables. Higher perceived likelihood of *Detection* and *Punishment* for preparing non-compliant returns were both associated with lower perceived *Opportunity* for preparation non-compliance.

That perceived *Opportunity* differentiated the Duteous and Contingent clusters but was not able to differentiate the Contingent and Aggressive clusters indicates that a certain level of opportunity is necessary for preparation non-compliance. However, once this is available, additional *Opportunity* does not have much effect. To use a metaphor – once the door to a safe is open, it does not matter how wide the opening is.

There was mixed support for the set of deterrence hypotheses presented under Hypothesis 6³².

³² The interactive term was tested for *Detection X Punishment*. It was not found to contribute to the prediction of cluster membership.

Hypothesis 6(a) Contingent practitioners perceive higher probability of *Detection* than Aggressive practitioners.

Hypothesis 6(b) Contingent practitioners perceive higher probability of *Punishment* than Aggressive practitioners.

Of the deterrence hypotheses, only *Punishment* was related to preparation compliance at the upper teardrop. Contingent practitioners reported a significantly higher likelihood of *Punishment* for preparation non-compliance than Aggressive practitioners. Despite Contingent practitioners reporting a higher perceived likelihood of *Detection* if engaged in preparation non-compliance, there was no significant difference between the upper teardrop practitioners. The lack of relationship between likelihood of *Detection* and non-compliance for these practitioners is of great interest. The general finding is that detection is the most important factor in deterrence, punishment is less so.

This pattern of results is in contrast with those of the lower teardrop multivariate model. Probability of *Detection* predicted Duteous practitioners but was not able to differentiate between the Contingent and Aggressive clusters. The deterrent effect of *Detection* for the Duteous was believed to be a function of informal sanctions. The shame of being caught for preparation non-compliance is likely to be felt more keenly by those with a Duteous identity defined by being *Competent* and *Principled*. These identity characteristics are weakest among Aggressive practitioners (although not significantly more so than the Contingent) who also describe having the poorest relationship with the tax authority. This suggests that they do not care what the Tax Office thinks of them (see ATO Respectful Relations in Table 6.9). Aggressive practitioners are, therefore, thought likely to have the least concern for damaging this relationship. Thus, *Detection* on its own has no deterrent properties at the upper teardrop.

Punishment, which did not differentiate between the Duteous and the Contingent in the lower teardrop multivariate model, was a significant predictor for Aggressive versus Contingent cluster membership. It is suspected that, due to the higher levels of non-compliance present among the top of the teardrop practitioners, prospective punishment is considered to be the only thing that will rein in non-compliant practices. In accordance with responsive regulation, the treatment of preparation non-compliance should be matched to the intentions and behaviours of practitioners. The Aggressive practitioners have acknowledged low levels of *Preparation ethics* and client return compliance. This means that persuasion about obligation is not going to have the regulatory effectiveness that it might with the Duteous and Contingent clusters. Thus, *Punishment* is a more salient feature for top of teardrop practitioners.

Hypothesis 7 Aggressive practitioners consider their clients' tax returns more *Ambiguous* than Contingent practitioners.

The *Ambiguity* hypothesis was supported. Aggressive practitioners reported significantly higher *Ambiguity* within their clients' tax affairs than Contingent practitioners. *Ambiguity* is an important concept for upper teardrop practitioners and will be discussed in greater depth following the multivariate propensity and opportunity model analysis. It is noted here that this result combined with that of the lower teardrop presents a constant positive relationship between *Ambiguity* and preparation non-compliance at each ascending cluster of the teardrop.

In conclusion, the opportunity hypotheses were not unanimously supported at the upper end of the practitioner teardrop. Contingent practitioners believed that there was a higher likelihood of *Punishment* if one was to engage in non-compliant preparation practices than did Aggressive practitioners. Aggressive practitioners perceived that their clients' tax affairs were more *Ambiguous* than the

Contingent practitioners. There was no significant difference between the upper end practitioners with regard to their perception of general *Opportunity* and likelihood of *Detection* for non-compliant practice.

8.4 The propensity and opportunity model for predicting Aggressive versus Contingent cluster membership

In this section, the thesis that *both* propensity *and* opportunity factors together contribute to preparation non-compliance is assessed. The analyses presented above revealed that, unlike the lower end of the practitioner teardrop, only some of the hypothesised bivariate relationships were present. For the propensity and opportunity thesis to be verified at this upper end of the practitioner teardrop, variables representing both of the higher-order constructs must provide unique contributions in the prediction of Aggressive versus Contingent cluster membership.

8.4.1 Propensity and opportunity model hypothesis

The thesis is restated for the upper teardrop practitioners:

Thesis *Both* higher (lower) propensity *and* higher (lower) opportunity for preparation non-compliance predict Aggressive (Contingent) teardrop cluster membership.

8.4.2 Propensity and opportunity model analyses

A hierarchical logistic regression was performed to establish whether, when entered together, the propensity and opportunity constructs could account for unique variance in Aggressive versus Contingent cluster membership. Only predictor variables that demonstrated a bivariate relationship with the Aggressive versus Contingent cluster membership variables were entered into the regression analysis. Entered first were the control variables, followed by the propensity

variables and finally the opportunity variables. There were no cases with multivariate outliers³³. Preliminary analyses were conducted including, then excluding the univariate outliers. There was no substantive difference between the results when the outliers were retained to when they were omitted. Therefore, following previous practice univariate outliers were retained.

The results of the hierarchical logistic regression analysis are presented in Table 8.5. The power of each set of predictor variables was compared in the explanation of Aggressive versus Contingent cluster membership at each staged entry. Overall, the model accounted for 12 percent of the variance in Aggressive versus Contingent cluster membership (Nagelkerke $R^2 = 0.12$). The greater proportion of this (7.2 percent) was the unique contribution of the propensity and opportunity model (the control variables accounted for 5 percent of the variance).

The control variables were entered in Block 1 to predict cluster membership. Of these, practitioners' evaluation of their relationship with the ATO (*ATO Respectful relations*) and the perception that the *ATO is Firm* were statistically significant. This is consistent with the Aggressive cluster being dismissive of the ATO. They considered themselves beyond ATO control. Contingent practitioners were more likely to report that the ATO treated them with respect and considered them as trustworthy. They also held stronger views of the ATO as firm and strong. The control variables increased the model fit significantly ($\chi^2(7) = 26.79, p < 0.001$) from the -2 log-likelihood value of the constant only model (-2 LL = 851.42). *ATO Respectful relations*, however, lost significance in the final model.

The propensity variables were entered at Block 2. Of the three propensity variables found to differentiate at the bivariate level (*Risk-taking*, *Preparation ethics* and *Professional orientation*), only *Preparation ethics* was significant in the

³³ Multivariate outliers calculated as Cooks distance greater than 1 (Cook & Weisber, 1982).

multivariate model. *Preparation ethics* positively predicted Contingent cluster membership, significantly increasing the model fit ($\chi^2(3) = 14.61, p < 0.01$).

Block 3 represented entry of the opportunity variables. Probability of *Punishment* was not significant in the prediction of Aggressive versus Contingent cluster membership. *Ambiguity* was significant, positively predicting Aggressive cluster membership and contributing to an increase in the model fit ($\chi^2(2) = 30.86, p < 0.001$).

Table 8.5 B values (Odds ratio) for a hierarchical binary logistic regression predicting Aggressive cluster membership (as opposed to Contingent cluster membership) from propensity and opportunity variables³⁴

Independent variables	Control Block 1	Propensity Block 2	Opportunity Block 3
Nagelkerke R ²	0.05	0.07	0.12
Constant	0.44 (1.56)	2.04 (7.72)	-1.14 (0.32)
Control			
Gender (male)	0.45 (1.57)	0.33 (1.39)	0.34 (1.41)
Years of practice	0.01 (1.01)	0.01 (1.01)	0.01 (1.01)
Sole Practitioner	-0.10 (0.90)	-0.11 (0.90)	-0.04 (0.97)
Business Partner	0.29 (1.33)	0.29 (1.34)	0.32 (1.37)
ATO Respectful relations	-0.41 (0.67)*	-0.32 (0.72)*	-0.27 (0.76)
ATO is Fair	-0.01 (0.99)	0.02 (1.02)	0.08 (1.09)
ATO is Firm	-0.20 (0.82)*	-0.17 (0.84)*	-0.19 (0.83)*
Propensity			
Risk-taking		0.07 (1.07)	0.09 (1.09)
Preparation ethics		-0.41 (0.66)**	-0.37 (0.69)**
Professional orientation		-0.17 (0.85)	-0.12 (0.88)
Opportunity			
Probability of punishment			0.01 (1.00)
Client return ambiguity			0.79 (2.21)***

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

^a 0 = Contingent and 1 = Aggressive

The full model correctly classified 66.4 percent of the Contingent and 64.9 percent of the Aggressive practitioners after the differences in teardrop cluster sizes

³⁴ A model that used the same variables as the Contingent versus Duteous practitioner multivariable model of Chapter 7 was also applied. This model accounted for similar variance when applied to the Contingent and Aggressive practitioners (Nagelkerke R² = 0.115), although lacks the methodological integrity of the above model which uses only variables significant in differentiating the Contingent and Aggressive clusters at the bivariate level.

were controlled (cut value of 0.19)³⁵. This resulted in an overall classification accuracy of 66.1 percent (see Table 8.6). The propensity and opportunity model was best able to predict Aggressive practitioners. On their own, the control variables were able to predict the Aggressive with barely higher than random accuracy (56.0 percent accuracy). The classification success rate improved by 8.9 percent once the propensity and opportunity variables were entered. There was marginal improvement in the prediction accuracy for the Contingent practitioners from using the control variables only as predictors (64.0 percent accuracy) to the final model (an increase of 2.4 percent).

Table 8.6 Classification table for hierarchical binary logistic regression predicting Aggressive versus Contingent cluster membership from propensity and opportunity model

Predicted (N)	Observed (N)		Percent Correct
	Contingent	Aggressive	
Contingent	505	59	66.4
Aggressive	256	109	64.9
Total	761	168	66.1

The propensity and opportunity model was supported at the upper end of the teardrop. The logistic regression analysis established that both propensity and opportunity variables were significant in the differentiation between the Aggressive and Contingent practitioners. Of utmost interest is the difference in the particular variables contributing to the higher-order propensity and opportunity constructs at the top-end of the teardrop compared with those contributing at the lower teardrop. At the top, propensity for preparation non-

³⁵ Cut value adjusted to represent proportion of Aggressive practitioners in the analysis (Garson, 2010b).

compliance was defined solely by *Preparation ethics* and opportunity solely by client return *Ambiguity*. Nonetheless, these two variables along with the control variable *ATO is firm* provide a prediction accuracy rate that approached that of the lower end teardrop model that had multiple variables representing the propensity and opportunity constructs (lower end prediction accuracy rate overall was 67.8 percent). The cluster of Aggressive practitioners, who reported the highest level of preparation non-compliance for their clients, were defined by a weaker sense of ethics in preparation and perceptions of client ambiguity with some sense that the ATO yielded to their arguments and viewpoint.

Being a cross-sectional rather than longitudinal study, we are not able to establish directionality. There is no way of deciphering from the data which comes first – weak ethical stance, sensitivity to the opportunities provided by legal ambiguity or an aggressive approach to preparation. The underlying assumption of preparers as ‘enforcers’ in unambiguous situations and ‘exploiters’ in ambiguous situations (Klepper & Nagin, 1989b) is that ambiguity leads to aggressive practices. In this study, it might equally be the case that aggressive practitioners seek out ambiguity in tax law for the purpose of exploitation. Evidence for this active seeking and exploitation of ambiguity is found within the literature regarding legal entrepreneurs (J. Braithwaite, 2003b) and game players (V. Braithwaite, 2003a). Further, justification for both the exploitation of legal ambiguity and the engagement in aggressive practice might be more easily rationalised by an amoral calculator (Kagan & Scholz, 1984). Without longitudinal data, theorising on direction of influence remains speculative.

Ambiguity is not only the sole propensity or opportunity variable that is significant in both the lower and upper teardrop multivariate models, but is also the dominant predictor in each of these (according to interpretation of the odds

ratio of 1.77 in the lower teardrop and 2.21 in the upper teardrop)³⁶. As such, explanation for this effect demands further consideration. Two options are considered. The first is that ambiguity reduces preparer confidence in their ability to attain compliance. With uncertainty surrounding possible interpretations, an assured position of compliance is more difficult to achieve. The second and converse option is that ambiguity reduces certainty that a position is in fact non-compliant. With uncertainty of interpretation, an intentional position of non-compliance is more difficult to prove. It is proposed that this is not an 'either or' argument. Ambiguity may be functioning in both capacities across the teardrop clusters.

Follow-up analyses were conducted to test for differences in the relationship between *Ambiguity*, *Competence* and the opportunity variables within each of the three primary teardrop clusters. The rationale is that the more competent a practitioner is, the less their confidence in preparation compliance is likely to be swayed by ambiguity. It is expected that competence equips practitioners with the ability to take a position with relative confidence.

³⁶ This is the value by which the odds of the event change when the independent variable increased by one unit. If the value is greater than one the odds are increased, if the value is less than one the odds are decreased. A value of one leaves the odds unchanged. (SPSS 19)

Table 8.7 Within teardrop cluster Pearson’s correlations of Ambiguity with the Competence and opportunity variables

Independent variables	Ambiguity		
	Duteous	Contingent	Aggressive
Propensity			
Competent	-0.18**	-0.20***	-0.11
Opportunity			
Opportunity	0.09	0.02	0.07
Probability of detection	-0.03	0.03	-0.17*
Probability of punishment	-0.01	-0.04	-0.02

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

A negative relationship was found between *Ambiguity* and *Competence* for both the Duteous and Contingent practitioners. We have previously established that these clusters perceive less *Ambiguity* when preparing their clients’ tax returns. It would seem, however, that when they do encounter tax law ambiguity their sense of competence falters. This pattern of results supports the ‘ambiguity as lack of confidence in getting it right’ argument. This relationship was not present among Aggressive practitioners for whom there was no significant association between *Ambiguity* and *Competence*. For the Aggressive practitioners, ambiguity appears instead to function as opportunity for exploitation. A negative relationship was found between *Ambiguity* and probability of *Detection* within the Aggressive cluster only. This demonstrates that as perceptions of *Ambiguity* increase, Aggressive practitioners assess there to be a lower likelihood of *Detection*. These results reveal that the relationships between perceptions of ambiguity and the other propensity and opportunity measures manifested differently across the clusters.

8.5 Outlier cluster analysis

Outlier analysis investigates extreme events with the intent of revealing their idiosyncrasies. In the case of this study, it was concluded that the Outlier practitioners who reported such exceedingly high levels of non-compliance are extreme yet valid points in the distribution of preparation behaviour. Events that occur at extremes are thought to have unique properties (Steindel & Novis, 1999). Outlier analysis has previously been employed to better understand regulatory failure and guide appropriate regulatory responses. For example, analysis of the collapse of Arthur Anderson and associated extreme corporate failures of the time resulted in the Sarbanes–Oxley Act (2002) to improve corporate and auditing accountability and responsibility. Analysis of the financial crisis of the late 2000's resulted in the Dodd–Frank Wall Street Reform and Consumer Protection Act (2010). In the field of tax regulation, detecting and understanding these outliers can aid in the response to the outliers themselves and in the proactive development of preventive strategies to discourage others from moving into this space.

There were 12 practitioners in the Outlier cluster, which was less than one percent of the total practitioner sample. These practitioners represent the tip of the teardrop distribution, revealing an extremely high level of non-compliance in the preparation of their clients' tax returns. Methods of outlier analysis available to this research are restricted due to constraints on the available data. Firstly, in accordance with assurances made at the time of data collection, the respondents are anonymous. Therefore, in-depth case study of the organisations (history, structure and culture) or interviews to gather a richer understanding of these practitioners is out of the question. The only data available is that which is provided on the questionnaire. Second, statistical analysis that was conducted on the other teardrop clusters cannot be applied to the Outliers due to the small membership size. The analysis conducted here provides a descriptive comparison of the

reported propensity and perceived opportunity for preparation non-compliance of the Outlier cluster with the Duteous, Contingent and Aggressive groups.

8.5.1 Descriptive analysis of propensity for preparation non-compliance

Considering that the Outliers are at the tip of the practitioner teardrop, it was expected that their position on the propensity and opportunity variables might be correspondingly extreme. This was not the case. Although most of their mean scores lie on the non-compliance side of those of the Aggressive cluster, these tended not to be tremendously different from the Aggressive practitioners (see Table 8.8). Among the propensity variables, the Outlier practitioners reported the strongest tendency for *Risk-taking* and the weakest *Preparation ethics*. For work-value, the Outliers held the lowest *Business* and *Professional* orientation and the strongest orientation toward personal *Wealth*. The Outliers identified least as *Competent*, *Principled* and *Powerful*.

Table 8.8 Descriptive statistics for propensity variables for all teardrop clusters

Propensity variables	M (SD)			
	Duteous	Contingent	Aggressive	Outlier
Risk-taking	2.50 (1.30)	2.88 (1.25)	3.13 (1.25)	3.45 (1.29)
Preparation ethics	4.31 (0.68)	4.09 (0.67)	3.87 (0.75)	3.71 (0.78)
<i>Work-value orientation</i>				
Business	4.18 (0.49)	4.00 (0.53)	4.04 (0.52)	3.94 (0.71)
Professional	4.25 (0.52)	4.12 (0.48)	4.04 (0.52)	3.92 (0.68)
Wealth	2.69 (0.87)	2.80 (0.80)	2.85 (0.82)	2.92 (0.85)
<i>Practitioner identity</i>				
Competent	5.80 (0.73)	5.51 (0.71)	5.43 (0.71)	5.07 (1.17)
Principled	6.49 (0.67)	6.36 (0.64)	6.28 (0.62)	6.25 (0.56)
Powerful	4.95 (1.10)	4.99 (1.02)	4.86 (0.96)	4.36 (1.16)

The greatest deviations and, therefore, the most intriguing involved the *Competent* and *Powerful* identities. A *Competent* practitioner identity was defined by a sense of sophistication, energy and smarts. The strength of the *Competent* identity characteristic was in decline from its peak among the Duteous practitioners. However, the fall to its low point among the Outliers was the most marked drop in this downward trend. Identification as *Powerful* (defined by a sense of power and industry) also fell quite dramatically to its low point among the Outliers. It is interesting to note that these are not the types of characteristics that describe common conceptions of an egregious practitioner. Low competence and a sense of powerlessness hardly bring to mind a criminal tax mastermind. These characteristics are reminiscent of youth deviance rather than white collar offending.

8.5.2 Descriptive analysis of opportunity for preparation non-compliance

The opportunity variables largely followed the expected trend for the Outlier cluster. Outlier practitioners reported the highest *Opportunity* for preparation non-compliance and believed that their clients' tax affairs were most *Ambiguous*. Their perceived probability of *Detection* was reasonably high but they reported the lowest perceived likelihood of *Punishment* if they were detected, which is in line with the findings of the upper end practitioners presented earlier in the chapter.

The Outliers perception of likelihood of *Detection* was the most dramatic deviation from trend among these variables. The Outliers reversed the downward trend, reporting substantially higher chances of *Detection* of preparation non-compliance than both the Contingent and Aggressive but not the Duteous. This is surprising considering the extreme preparation non-compliance of this cluster. They seem to believe that they will be caught but do not care. This casts doubt on the rationality of these practitioners.

Table 8.9 Descriptive statistics for opportunity variables for all teardrop clusters

Opportunity variables	M (SD)			
	Dutious	Contingent	Aggressive	Outlier
Opportunity	2.41 (1.27)	2.84 (1.27)	3.02 (1.22)	3.33 (0.89)
Probability of detection	7.09 (2.34)	6.09 (2.57)	5.76 (2.67)	6.58 (2.94)
Probability of punishment	8.86 (1.57)	8.39 (1.90)	7.99 (2.18)	7.88 (2.46)
Ambiguity	2.42 (0.72)	2.69 (0.66)	3.03 (0.67)	3.07 (0.89)

This pattern of propensity and opportunity for the Outliers was rather unexpected. The Outliers do not appear to be dealing with substantively different tax returns – at least not so different from the Aggressive group – but their attitude to their job seemed to be quite different. They reported a similar level of *Ambiguity* as the Aggressive cluster, however, coupled with the lowest level of *Competence* and sense of *Power* do not give the impression of being deviant masterminds for their clients’ fiscal gain. Being most clearly defined by a relative lack of competence and sense of powerlessness combined with a belief that the level of preparation non-compliance that they are engaged in will be caught out describes practitioners who are disengaged rather than actively out to thwart the system. This interpretation is supported by the post hoc finding that 58 percent of Outlier practitioners agreed with the statement, “If I could choose my career over, I would choose something other than being a tax practitioner”.

The motivational posture of disengagement traditionally conveys disillusionment with the tax system (V. Braithwaite, 2003a). The disengaged believe that the tax system or its administration is unacceptable. Instead of active resistance, they turn their backs on the system psychologically and, if possible, in practice. They see the tax system as ‘beyond redemption’ and distance themselves from it as best they can. This posture, when taken by a taxpayer, is of utmost concern for a tax authority (V. Braithwaite, 2009). The problem posed by a

disengaged taxpayer, however, pales into insignificance compared to that of a disengaged practitioner. The primary purpose of a practitioner is to serve as an intermediary between taxpayers and the tax system. If they are disillusioned and do not wish to engage in this system, how can they properly fulfil their role? This would suggest that both the tax system and their clients are at risk from these practitioners.

8.6 Summary and conclusions

In this chapter, the propensity and opportunity model was evaluated for predicting preparation compliance at the top of the practitioner teardrop. The main task was to differentiate between practitioners in the Aggressive and Contingent clusters. Only a handful of the predicted propensity and opportunity variables showed the hypothesised differences between the Aggressive and Contingent practitioners at the bivariate level. This was much less encouraging than the unanimous confirmation of bivariate relationships for the lower end of the practitioner teardrop found in the previous chapter.

Of the propensity and opportunity variables that were significant in the bivariate analyses, only two were significant in the hierarchical logistic regression in addition to the control variable *ATO is Firm*. At the top of the teardrop, propensity for preparation non-compliance was represented by *Preparation ethics (-ve propensity)*. Opportunity for preparation non-compliance was represented by client return *Ambiguity (+ve opportunity)*. The results of the multivariate analysis demonstrate that both propensity and opportunity contribute to the understanding of preparation compliance at the top end of the practitioner teardrop. This provides almost the same classification accuracy as at the bottom of the teardrop, but with far fewer of the propensity and opportunity variables contributing to this result.

In combination with the findings for the lower end teardrop, the propensity and opportunity thesis has been confirmed. Both the propensity held and opportunity perceived for preparation non-compliance contribute to predicting the extent to which a practitioner judges his or her clients' tax returns as compliant, regardless of whether they are at the upper or lower end of the practitioner teardrop. The propensity and opportunity hypothesis was tested at different levels of the practitioner teardrop (rather than the aggregate sample) as it was posited that these constructs might operate differently across the clusters. This proposition was confirmed by the substantial difference in the particular propensity and opportunity variables that differentiated between practitioner groups at the lower and upper levels of the teardrop.

The descriptive analysis of the Outlier cluster showed that although the propensity and opportunity trends were largely continued in the expected direction by these practitioners, the results were not as correspondingly extreme as might be expected considering their reported client non-compliance. These were not the Machiavellian actors whom one might expect at the tip of non-compliance. Rather than being the prototype of the egregious practitioners who would stop at nothing to get the best tax savings possible, this group appears to have arrived at the extremes of non-compliance through a lack of competence and disengagement from the tax system and their profession.

Chapter 9: Implications for understanding tax practice

9.1 Introduction

Before taking a tax position, CPAs must consider the technical provision of the law, client interests, possible taxpayer and preparer penalties and the ethical application of professional standards – a process that’s as clear-cut as distinguishing between shades of gray. (Bandy, et al., 1993, p. 51)

Tax compliance is crucial for the functioning of a democracy. Revenue raised through taxation provides the means by which governments support and protect their citizens. The tax system is, however, becoming increasingly complex. Combined with greater accountability for taxpayers, the past two decades has seen the tax base expanded³⁷ and the tax system increasingly used to implement social policy programs such as expanded superannuation and family assistance (Reinhardt & Steel, 2006). As a result, taxpayers have flocked to tax practitioners who navigate the complexities of the tax system on their behalf. These experts interpret tax legislation relevant to client circumstances and provide professional assurance of compliance or at least acceptable reporting within a self-assessment system. The pervasiveness of practitioner representation combined with the influence that practitioners have on reporting positions has profound implications for the management of the tax system. This makes tax practitioners and their preparation practices of considerable interest to tax authorities.

³⁷ For example - capital gains tax, fringe benefits tax, and the goods and services tax in Australia.

Given the value of taxation to the community, it is fortunate indeed that we have found that most Australian practitioners are committed to professionalism and competence, to ethical practice and getting the law right. A consequence is that these practitioners do substantially more law enforcement work than officers of the ATO. John Braithwaite (personal communication, 11 November 2011) has concluded from the work of the Centre for Tax System Integrity that when Australians are tapped on the shoulder and told that they must correct wayward intentions for their tax returns, it is overwhelmingly tax practitioners who do the tapping and not government tax inspectors. Therefore, in practical terms tax enforcement is for the most part outsourced to private tax practitioners in Australia. Tax practitioners are gatekeepers of the tax system after all³⁸.

Encouraging practitioner compliance with the spirit of tax law and promoting their commitment to shoulder tapping requires a fine balance of regulatory support, encouragement, deterrence and legislative crafting³⁹. In order to achieve this balance of sensitive regulation, an intimate understanding of the drivers and obstacles for compliance and for non-compliance is necessary (Baldwin & Black, 2008). Beyond awareness of these influences, a regulator must also understand how they interact for a holistic and integrated understanding of the behaviour of its regulatees. Only with such understanding can effective regulatory strategy be designed and optimum compliance achieved.

The intent of this study was to contribute to the practitioner compliance literature through providing theoretical cohesion. Research in this field tends to be

³⁸ See section 9.2.2 *A rethink on professional and business orientation* for further discussion of practitioners as gatekeepers.

³⁹ Although even the 'spirit' can be disputed: "The spirit of the law does influence my tax planning advice. According to (the Commissioner), the spirit of the law is to pay more tax. I do not agree" (Tomasic & Pentony, 1990, p. 46)

empirically driven which has resulted in a body of knowledge that provides an excellent description of behaviour with many known indicators. Increasingly rich as this knowledge is, it lacks the cohesion that comes with theoretical integration and deprives the field of advances in understanding how to deal effectively with tax non-compliance (Erard, 1993). Practitioner compliance research has been defined by a focus on *what* rather than a deeper consideration of *why*.

A further fundamental weakness lies in the lack of connection of tax preparation research with the wider literature on behavioural compliance (Klepper, et al., 1991). Contributing to this disconnect is the problem that previous studies have largely shied away from discussing tax preparation in terms of behavioural compliance. Preparation is instead considered in terms of 'aggressive' practice. This thesis places tax preparation firmly in the realm of behavioural compliance, providing a foundation from which to develop theoretical cohesion.

Nagin and Paternoster's (1993) individual differences and rational choice framework was adapted from the compliance literature to form the propensity and opportunity model of practitioner non-compliance. This chapter examines the main findings that emerged from the analysis of the propensity and opportunity model for understanding practitioner compliance and discusses the implications of these findings for the regulation of tax practice.

9.2 Discussion of main findings

9.2.1 The teardrop of preparation compliance

One of the most compelling findings from this research was unanticipated. The practitioner teardrop of preparation compliance emerged through dependent variable development, rather than the principal analyses of testing opportunity and propensity as predictors of non-compliance. The practitioner teardrop turned out

to be the analytically and theoretically emblematic finding of this thesis. Far from simply serving as a dependent measure of preparation compliance, the multidimensional cluster structure of the teardrop and the differential pattern of relationships the practitioner clusters held with measures of propensity and opportunity forced a rethink on how we think about practitioner compliance. Gone was the assumption of compliance linearity where aggressive practitioners are simply more so than their peers on all compliance related dimensions. In its place was the knowledge that practitioners form distinct and very different clusters of preparation compliance, where in fact an Aggressive practitioner is an entirely different entity to a Duteous one.

Client tax returns as practitioner compliance

Practitioner research and regulatory policy for tax preparation is founded on the assumption that clients' tax reporting positions reflect their practitioner's approach to preparation. This relationship elevates the importance of practitioners from a mere mechanism of tax return submission to influential intermediaries in the tax system. Although widely assumed, the relationship between preparation practices and the compliance of the returns themselves does not have strong empirical support. Differences between returns lodged by practitioners and self-preparers provide evidence for a general effect of practitioners on reporting (Erard, 1993). Furthermore, practitioners' preparation schema have been found typically to predict reporting intentions in specific scenarios (Carnes, et al., 1996a; Kaplan, et al., 1988). Confirmation of the relationship between practitioners' preparation approach and their client reporting positions was crucial to this study. Practitioner compliance was defined as the level of individual tax return compliance lodged by a practitioner on behalf of his or her client base of individual taxpayers.

This uncommon measure of practitioner compliance was selected to differentiate intentions from behaviour and recognise that compliance at the point

of the tax return is the endgame in tax regulation. Governments invest enormous resources in tax education, improving technology infrastructure and support services. Programs are commissioned to encourage community and professional engagement with tax authorities (e.g. the ATO Tax Practitioner Forums and IRS Nationwide Tax Forums), and compliance activities administered to catch and sanction offenders and reassure law abiding citizens that the system is just. All of these activities are designed with the single underlying goal of collecting the maximum revenue in accordance with the law. Collection of revenue might be made more efficient through an educated citizenry or sophisticated lodgement methods, or more forthcoming through community and professional engagement. Nonetheless, achieving the collection of maximum revenue in accordance with the law is not measured in these terms but as compliance at the point of the tax return. Or, in this study, the level of compliance of the individual tax returns lodged by a practitioner on behalf of his or her client base of individual taxpayers.

The relationship between clients' tax reporting positions and practitioners' approach to preparation is not precise. Knowledge of a practitioner's preparation approach would not be sufficient to make a prediction on a specific client's tax reporting position. There are many factors that may influence the compliance of that taxpayer, their practitioner being but one of these. Likewise, a practitioner should not be judged by one 'bad egg' client. The relationship between clients' tax reporting positions and practitioners' approach to preparation is more general. This study captured the nature of the general relationship through having practitioners report on the level of compliance of their individual client base overall, not of an individual client. Furthermore, compliance was measured across all commonly used labels on the individuals' tax return, not for a specific tax scenario. The central proposition is that the level of compliance across a

practitioners' client base on a wide range of tax issues constitutes an adequate measure of the compliance record of a practitioner.

This study confirmed the link between practitioners' assessments of overall client return compliance and practitioners' approach to preparation. Drawing on the work of Tan (2009), practitioners who described their preparation schema as being aggressive while lacking technical proficiency and a sense of cautiousness also described lower levels of compliance among the individual tax returns they lodged on behalf of their clients. This confirmed the underlying assumption of practitioner research and regulatory policy, paving the way for client tax return positions to be used as a valid indicator of practitioner compliance. One might ask at what point does bad luck for having a few 'bad egg' clients turn into poor compliance standards of the practitioner. Ideally records over time would give confidence in this kind of judgment. Conscientious tax practitioners might be caught with too many crooked clients at one point, but then most would learn how to be selective or more persuasive in getting clients straightened out if they were indeed conscientious. A practitioner who did not care would show no improvement, just consistently higher than average levels of non-compliant returns.

The teardrop distribution of practitioner compliance

Practitioners fell into four distinct clusters of preparation compliance, which formed the practitioner teardrop. This finding supports the notion that tax compliance and non-compliance are not best conceived as unitary phenomena (Collins, et al., 1992). As the clusters were constructed in multidimensional space, they cannot be considered as ordinal in the traditional sense. However, the pattern of results across the client compliance dimensions revealed a semblance of order within this space. Each cluster maintained their sequenced position across each of

the client compliance dimensions (see Figure 9.1 below), even though the steps were not always statistically significant.

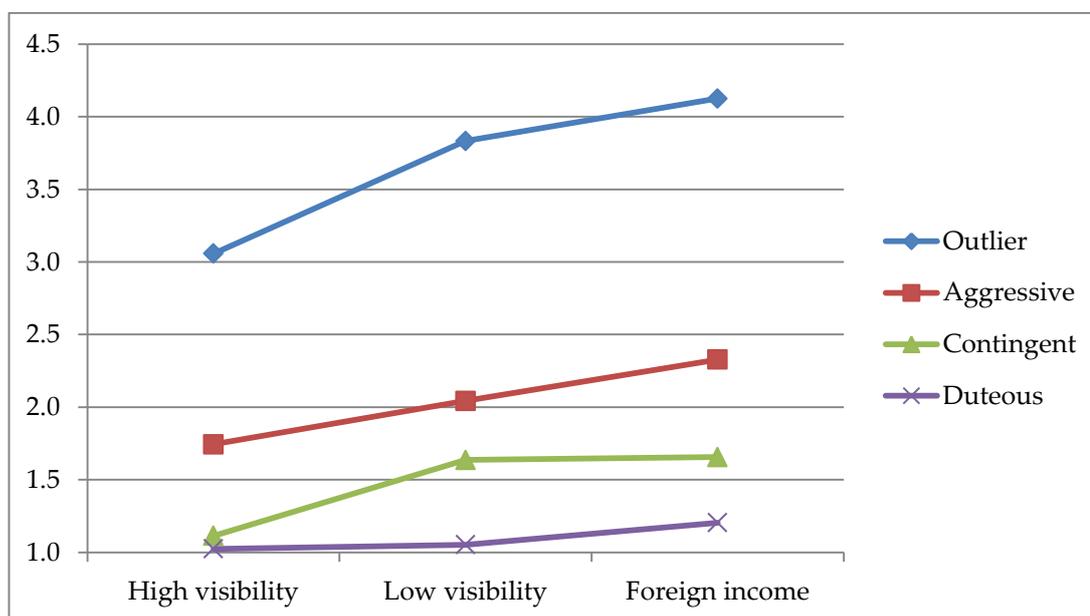


Figure 9.1 Sequence of teardrop clusters across preparation compliance scales

The Duteous cluster of practitioners reported both the lowest mean level of client non-compliance across the compliance scales and the most virtuous preparation practices. These are practitioners who are committed to abiding by the law and providing a low risk service that is evidenced in the compliance of their clients' tax returns. These factors combined lead the Duteous to be considered the most compliant of the practitioner clusters.

Contingent practitioners reported similarly low levels of client non-compliance to the Duteous when transactions were visible to the ATO. However, in conditions of low visibility and for foreign income transactions, these practitioners reported higher levels of non-compliance. They are faithful private enforcers of tax obligations whenever these are high in visibility. Most tax obligations of individual taxpayers in a comparatively well managed tax system, such as that of Australia, are visible most of the time. Therefore, the majority of

practitioners are contingently vigilant in enforcing these visible obligations. The Contingent cluster also described less virtuous preparation practices. Although not significantly more aggressive than the Duteous, they do not hold the same commitment to practices of technical proficiency and cautiousness. The position taken by these practitioners is neither committed to preparation compliance nor aggressive practices, but is instead 'contingent' on extenuating factors.

The Aggressive cluster demonstrated the highest client non-compliance across each of the dimensions (among the non-outlier clusters). The low level of preparation compliance, combined with a preparation approach that was distinctly aggressive in combination with weaker technical proficiency, describes a cluster that is aggressively pushing the boundaries in their preparation practices. This dedication to aggressive practice is in contrast to the opportunistic approach of the Contingent practitioners. Where the Contingent will exploit opportunities as they arise, the Aggressive will actively seek out these opportunities. This cluster is the least compliant of the three primary clusters. Finally, the Outlier cluster reported the highest level of client non-compliance by a substantial distance, which coincided with the least virtuous of preparation approaches.

This relative ordering of the clusters on general preparation compliance combined with the number of practitioners which they contain approximated a teardrop distribution. The Duteous at the compliant base represented 22 percent of the practitioner sample. The Contingent at the next level represented the majority bulge of 63 percent. The Aggressive at the level above diminished to 14 percent and the Outliers made up less than 1 percent of practitioners. This pattern demonstrates that while individual taxpayer compliance may be pyramidal (V. Braithwaite, 2003a) the compliance of practitioners in preparing individual taxpayer returns is not.

The teardrop of practitioner compliance shares similarities with the egg-shaped interpretation of the distribution of large corporate compliance (J. Braithwaite, 2003a; Freedman, et al., 2010), with the majority of both groups satisfied with a 'reasonably argued position' rather than aspiring for compliance with the spirit of the law. Although challenging for tax authorities, the central bulge of contingent compliance is not a new phenomenon nor unique to practitioners. The teardrop distribution was effectively described by Chester Bowles' in the observation that, "20 percent of the regulated population will automatically comply with any regulation, 5 percent will attempt to evade it, and the remaining 75 percent will comply as long as they think that the 5 percent will be caught and punished" (Bowles, 1971 cited in Ayres and Braithwaite 1992, p. 26). Implications for the regulation of such a distribution of practitioners are discussed later in this chapter.

The level of correspondence between the primary (non-outlier) teardrop clusters and Sakurai and Braithwaite's (2003) idealized types of practitioners is striking. The *low risk, no fuss* practitioner who is honest and risk averse appears consistent with the Duteous practitioner of this research. At the other extreme were the *creative, aggressive tax planners*, which is seemingly a match with the Aggressive cluster. Sitting between these was the *cautious minimiser of tax*, who avoids conflicts while being sophisticated about minimising tax. This idealised type shares some similarity with the Contingent cluster, in its considered engagement in various practices depending on the consequences. Of note is the incongruence between the degree of preference for idealised types to the size of the teardrop clusters. In Sakurai and Braithwaite's study, taxpayers state that the low risk, no fuss practitioner is most preferred. However, here the predominant practice as described by practitioners themselves is the Contingent. Aggressive practice is the least popular in both studies. This is consistent with the tax

compliance literature. While taxpayers report a preference for low risk preparation, practitioners report that it is taxpayers who request that practitioners give more aggressive advice (Hite & McGill, 1992; Sakurai & Braithwaite, 2003; Schisler, 1994; Tan, 1999).

The expectations that taxpayers hold regarding their practitioner are complex. The idealised types represent a collection of dimensions that might all be important for taxpayers at different times and in different circumstances. A preference for low risk, no fuss preparation in 'business as usual' might coincide with an appetite for creative, aggressive tax advice for speculative projects. The Contingent cluster is best suited to meet these coinciding client demands. In the context of the market model of preparation, Contingent practitioners have a suite of 'products' on offer with a greater range of preparation positions they are willing to take. They are neither constrained by the compliance ideals of the Duteous nor likely to frighten away potential clients through talk of aggressive risk-taking. The dominance of the Contingent cluster is perhaps Darwinian. Through their greater flexibility in the preparation marketplace, the high proportion of this cluster represents the greatest adaptability to their environment.

The propensity and opportunity model and the practitioner teardrop

The propensity and opportunity model was proposed as a framework with which to interpret and understand practitioner compliance. The model provides the organising theoretical framework with which to consolidate the existing knowledge of practitioner compliance. Based on Nagin and Paternoster's (1993) premise that both characteristics of the individual and their environment predict offending, it follows that an individual differences (propensity) approach to understanding preparation non-compliance does not preclude the potential sensitivity of practitioners to the opportunities for preparation non-compliance. Instead, propensity and opportunity were believed to be compatible and were

considered together to gain a more comprehensive and integrated understanding of compliance behaviour.

The principal hypothesis of this thesis was that greater levels of *both* propensity *and* opportunity for preparation non-compliance will predict greater preparation non-compliance. When the propensity and opportunity model was applied to the prediction of our measure of practitioner compliance – teardrop cluster membership – the result was revealing. The propensity and opportunity model was a useful tool for interpreting and understanding practitioner compliance at both the lower (Contingent versus Duteous) and upper (Aggressive versus Contingent) teardrop. However, the features of propensity and opportunity that differentiated the lower teardrop practitioners were different to those that differentiated the upper teardrop practitioners. The teardrop clusters thus brought to light the differential effects of propensity and opportunity.

Duteous practitioners are wholly committed to preparation compliance. This is evidenced in both their thoughts and their deeds. They hold a preparation propensity that is defined by a commitment to business best practice and competence. They do not see great opportunity for non-compliance. Nor do they see individual taxation as especially ambiguous. Overall, Duteous practitioners have the lowest propensity for preparation non-compliance, while simultaneously perceiving the least opportunity to engage in such actions. The cross-sectional design of this study means that we are unable to test whether propensity and opportunity co-occur or whether one triggers the other. For example, through a lack of propensity for non-compliance does one become blind to opportunity? Or, through perceived lack of opportunity, is one's propensity for preparation non-compliance held in check?

Dutious practitioners appear to hold a motivational posture of commitment which describes dedication to supporting the tax system and a sense of duty for tax compliance (V. Braithwaite, 2003a). Among taxpayers, motivational postures indicate where they wish to position themselves with regard to the tax authority. Commitment reflects a close relationship in-so-far as a taxpayer is aligned with the goals of the tax system and receptive to the authority. For practitioners, however, commitment to the tax system should not be confused with acquiescence to the tax authority. Dutious practitioners are competent and conscientious, engaged in running upstanding and successful businesses. Navigating the tax system is what they do for a living and do well. They do not require the tax authority to keep them on the straight and narrow. As smart and capable operators, Dutious practitioners are likely to hold the tax authority to a higher standard.

Contingent practitioners present conditional preparation compliance depending on the transaction circumstances of their clients. They hold a greater propensity for preparation non-compliance, being greater risk-takers and having a sense of power in their ability to influence outcomes within the tax system. Contingent practitioners perceive a greater level of ambiguity in the tax affairs of their clients and see that there is opportunity to get away with non-compliant practices if they so wish. These practitioners are committed to neither compliant nor aggressive practices. The Contingent cluster represents the majority bulge within the teardrop which defies the popular assumption that most practitioners are committed to compliance. It is seen that, in fact, most practitioners are somewhat ambivalent when it comes to preparation and will be influenced by client transaction circumstances. Although of concern to tax authorities who would prefer a dutious majority, this finding would be reassuring to Brody and Masselli (1996) who were alarmed by the low level of client advocacy expressed by preparers. An interpretation of the Contingent majority might be of a profession

that has largely been successful in resisting capture by both the tax authority and the more aggressive element of their taxpayer clientele.

Aggressive practitioners demonstrated a stronger propensity for preparation non-compliance through increased willingness to compromise their preparation ethics and to exploit the opportunity afforded by ambiguity within their clients' tax affairs. Practitioner ethics is the characteristic of the individual that is most constant in predicting practitioner compliance (Cruz, et al., 2000; Shafer & Simmons, 2008) and tax ambiguity is the most constant environmental effect (Carnes, et al., 1996b; Magro, 1999; Spilker, et al., 1999). This pattern of results reflects the conventional understanding of aggressive tax practice which has traditionally dominated tax practitioner research.

The Outlier cluster, with its extreme tendencies toward non-compliance, was initially believed to represent a minority of egregious tax practitioners who were attacking the system with purpose and skill. This enquiry dispelled such an interpretation. These practitioners were most clearly defined by a sense of their own lack of competence and a sense of powerlessness. They also presented the illogical combination of admitting to preparing client returns of extremely low compliance while simultaneously holding among the highest perception of the likelihood of detection for such practices. These characteristics together appear to describe a state of disengagement more than nefarious intent. Disengagement represents the most socially distant posture. Disengaged taxpayers "do not believe in the standards enough to be guided by them. Moreover, they are dismissive of what the regulator can do to harm them" (V. Braithwaite, 2009, p. 90). In this situation, they see the regulator as being in a position to catch them, but they are beyond caring enough to have that belief influence their behaviour. This may be a purposeful and rational position taken by taxpayers putting them outside the reach of influence of the regulating authority. Disengagement is not, however, a viable

posture for a tax practitioner as it undermines their core function which is to represent their clients within the tax system.

Two suggestions are offered in respect of practitioners reaching a state of such dysfunction. Firstly, disengagement might reflect a point-in-time crisis. This might be personal in nature such as a relationship breakdown, chronic illness or substance abuse⁴⁰. Or perhaps represent professional despondency, questioning "Is this all there is?" or "What do I really want to do with the rest of my life?" Core beliefs and values, self-worth, and fundamental behaviours are questioned during such periods of crisis (Yerushalmi, 2007). Testing this speculation was not possible as relevant data were not collected. Although the finding that more than half of the Outlier cluster would choose another career if given the chance supports this notion. Second, the lack of competence, sense of powerlessness and associated extreme non-compliance might be the result of failure to adjust to an extended period of legislative and technological change. Recent decades have seen the introduction of capital gains tax, fringe benefits tax, and the goods and services tax, and moved lodgement from paper based to computerised systems. The Outlier cluster might represent those practitioners that McKerchar (2005) found were 'overwhelmed' by the demands made on practitioners. Disengagement is the most difficult posture for a regulator to deal with (V. Braithwaite, 2009). These practitioners have withdrawn from the regulatory relationship and have no interest in 'working out' their concerns with the authority.

In summary, the application of the propensity and opportunity model to the understanding of practitioner compliance has uncovered a number of noteworthy results. Firstly, the propensity and opportunity model was confirmed as a worthy

⁴⁰ Anecdotes shared by tax officers describe these factors in some cases of serious non-compliance.

tool for interpreting preparation behaviour. Both of the higher-order constructs were useful in differentiating between practitioners at each of the ascending teardrop clusters.

Second, the recognition and treatment of practitioners as distinct behavioural clusters revealed that propensity and opportunity operated differently at each of the practitioner clusters. This was evidenced by the different variables that represented propensity and opportunity and that differentiated clusters at the lower and upper parts of the teardrop. These differences justified the iterated testing of the propensity and opportunity hypothesis at each ascending teardrop step. As proposed by Collins, Milliron and Toy (1992), "Aggregate modeling of heterogeneous samples may mask many of the complex relations between non-compliance behavior and the predictor variables of interest". Testing the propensity and opportunity model against subsets of the population uncovered these complex relations.

Finally, an analysis of distinct types of practitioners each with their unique characteristics allowed a refocusing of practitioner compliance research away from aggressive practice. Practitioner research has traditionally held aggressive practice as the 'behaviour of interest' which has limited the relevance for regulating to shape the actions of the broader population. One of the most compelling findings to emerge from this research is the Contingent cluster which makes up the largest group of practitioners. The defining feature of this group is that it is responsive to the law, both positively and negatively. If tax authorities crack down on certain activities, the Contingent group is likely to read the signal for greater compliance. If the tax authority adopts a 'turn a blind eye' response, the Contingent group will read the signal and exploit the opportunity. The focus of research and regulatory attention must be broadened, giving greater consideration to this group of tax practitioners.

Implications for tax regulation

There are two primary implications of the practitioner teardrop for the regulation of tax practice. The first is to do with the teardrop distribution itself and what it means for regulation when the majority are not committed to compliance but, instead, are somewhat ambivalent in their preparation. Best practice design of compliance risk management strategy by the Organisation for Economic Cooperation and Development is guided by the pyramid theory of responsive regulation (OECD, 2004). The broad base of the regulatory pyramid reflects the optimal position of cooperation which minimises regulatory costs for the regulatee and maximises compliance for the regulator. Deterrent responses are applied only as regulatees default from positions of cooperation. The graduated escalation of offences is matched by a range of enforcements of equal measure. Optimal regulatory strategy must have recourse to a wide range of interventions and severity of sanctions which are applied according to the principle of minimal-sufficiency. The pyramid takes the shape of the graduated escalation of punitive regulatory response to tax offences (I. Ayres & Braithwaite, 1992).

When compliance behaviour does not exhibit a majority cooperative base, compliance strategies become more complicated and expensive. Responses become more resource intensive as enforcement is escalated and compliance resources must be redirected from aggressive planning to address those 'playing for the grey' (J. Braithwaite, 2003a). The teardrop distribution with its smaller base of voluntary, self-regulated compliance would, thus, appear dire for tax administrations. However, escalation up the teardrop does not reflect the traditional escalation in aggressiveness. This thesis found that each practitioner cluster (indicating a step up the teardrop) was substantively different from the others in their approach to compliance. While Duteous practitioners manifest the

cooperative base and Aggressive practitioners require intensive compliance enforcement according to their preference for playing the game, the Contingent majority do not reflect the mid-way point between these positions. In fact, although less compliant, Contingent practitioners are no more aggressive than the Duteous. Their preparation is instead conditional on circumstances: their stance is relatively receptive. Thus, the treatment of Contingent practitioners does not require a step toward the more resource intensive strategies required for the Aggressive, but instead an entirely distinct strategy focused on salient circumstantial features.

This brings us to the second implication for tax regulation, which is that the practitioner clusters will respond in vastly different ways to a single system of regulatory responses. The different practitioner types require differentiated sets of regulatory strategies, not simply different intensities of the same set of responses. To use the example of fishing, increasing hook size will catch bigger fish. However, if you want to catch a different beast you put aside hooks of all sizes and use another weapon altogether. Each practitioner cluster requires a custom-made treatment system. Although this might initially appear overwhelming for a regulator, it follows Sparrow's (2000) approach of breaking down broad policy objectives into more do-able and well-defined activities. The very least that tax administrators should take from this research is that practitioner non-compliance cannot be solved by only negotiating practitioner propensities through 'one size fits all' support or only by shutting down opportunity.

9.2.2 Challenging the assumption of professional versus business orientation

Quinney's (1977) view on the effects of professional versus business orientation on occupational activity is well represented in popular culture. The professional ideal of occupational selflessness and virtuous conduct is regularly

commemorated in film and literature (for recent examples see *Living in Emergency* (2008) and *The Kindness of Strangers* (2006)). Conversely, devotion to business is a theme synonymised with amoral pursuit of profits (popularised in documentaries such as *Capitalism: A Love Story* (2009) and *The Corporation* (2003)). This thesis challenged the widely held assumptions of 'altruistic professional' and 'amoral businessperson' through testing the validity of these constructs and the representativeness of these characterisations for tax practice. It put to the test whether professionalism was in fact associated with higher levels of preparation standards and whether an orientation toward business did indicate avaricious tendencies and a willingness to violate laws and regulations.

There are two fundamental assumptions central to Quinney's (1964) conception of business-orientation. This first was that involvement in business is tantamount to acquisitive self-interest. This notion was disputed in this thesis. While the primary purpose of a business is, no doubt, to turn a profit, it does not necessarily follow that the individuals involved in business have fully internalised this goal to the exclusion of all other business aspirations. The operation of a business (business best practice) and acquisitive self-interest (personal wealth orientation) were considered to be distinct constructs and were, in fact, found to be unrelated in this study. The 'avaricious businessperson' stereotype was not supported among tax practitioners.

Having separated acquisitive self-interest from business best practice, Quinney's (1977) second assumption of the relationship between avariciousness and occupational compliance was tested. Partial support was found for an association between an emphasis on wealth and a willingness to compromise one's preparation ethics. This somewhat supports Quinney's modern twist on "(t)he love of money is a root of all kinds of evil" (1 Timothy 6:10). Despite this, an emphasis on wealth was not found to predict preparation non-compliance. This would seem

to counter the common narrative for those at the top of non-compliance to be characterised as Gordon Gekkos with a 'greed is good' philosophy ("Wall Street", 1987). However, it must be remembered that tax return preparation non-compliance generally provides no direct fiscal benefit for the practitioner. Love of money might still predict other non-compliant practitioner activities that result in direct advantage, such as the marketing of aggressive schemes or embezzlement of client funds.

The more pertinent story for tax preparation emerged instead from professionalism and the reconceptualised business orientation. Business orientation here described the way in which individuals conduct themselves in carrying out a business and the appeal such activities held for them. This operational perspective of business orientation is evidenced even among those who have achieved wealth. Interviews with the 'young rich' did not reflect a focus on 'how much' and 'most profitable' projects but instead on innovation, entrepreneurship, and operational strategy ("On the money," 2011). Hypothetically, fulfilling the business role might be directed toward the efficient and systematic achievement of compliance or non-compliance. Nonetheless, the pattern of relationships between the measures of propensity indicated that preparation compliance was the most likely outcome. Business best practice and professionalism were positively related and presented a similar pattern of relationships with the other propensity variables. Most telling was that those oriented toward business best practice and professionalism saw themselves as more competent, with stronger preparation ethics and more principled. This implies that an orientation toward professionalism and business are two sides of the same coin for many practitioners. The commitment given to professional ideals also applies to business management. These together appear as a best practice approach to tax practice.

It is interesting to note that professionalism is based on shared expectations concerning professional behaviour. These expectations are underscored more formally by professional codes of ethics, which state the purpose to the body of knowledge and the manner in which the body of knowledge may be practiced (Grover, 1993). Business best practice is not so formally regulated. While there is a certain level of expectation on behaviour, this is not as bound by codes of ethics and the same level of prescriptive regulation. It seems that a dedication to competency underlies both these orientations. Underpinning this best practice approach is a sense of competency in tax practice.

These elements of practitioner best practice came together to predict preparation compliance for the Duteous cluster only. Competence and business orientation dominated and were the most important features defining propensity at the lower teardrop. It was this dedication to best practice and competence that was the glue tying the Duteous to the compliant base. These characteristics were not relevant in the upper teardrop model predicting Aggressive practitioners. This model shows that when the propensity and opportunity variables are considered together there is no great difference in the dedication to best practice and competence among Contingent and Aggressive practitioners. It is the Duteous – a minority – who are defined by a commitment to doing all parts of their job well and doing the right thing.

Implications for tax regulation

This glue of competent best practice has connotations for cycles of vice and virtue in the preparer market. Aggressive tax planning begins with a supply of schemes exploiting opportunity for legal loopholing and patchworking (Picciotto, 2007; Rawlings, 2005). Initially, this is driven by promoters of shelters. However, when the demand of tax shelters passes a tipping point, an aggressive tax planning craze creates a demand-driven market. A herding phenomenon occurs where a

supply-driven market transforms into a demand-driven problem (J. Braithwaite, 2005). It is the practitioners of the Aggressive cluster that are most likely to lead the charge, designing and supplying aggressive schemes. The Contingent, according to their tendencies for conditional compliance, are the herd likely to follow once the Aggressive have demonstrated that they can get away with it and demand becomes apparent. Standing apart from this notion of supply and demand of preparation aggressiveness are the Duteous. The Duteous will not follow the herd when it turns toward aggressive practice but will instead hold to the compliant base. They remain committed to competent best practice and serve as the conscience for the industry, leading practitioners back to a market in virtue as conservative clients seek a safe haven in their practice.

Harris (2011) proposes the notion of ethical identity to describe that part of ourselves that captures the capacities and the character attributes of which we are proud. Overall, the practitioner population expressed a best practice ideal (to varying levels) of competence and professionalism. Harris argues that identities of which we are less proud can be brought to face our ethical identity through regulatory crafting. Once the individual is forced to confront these two identities, dissonance will require the psychological resolution of this conflict. Aggressive practitioners are less likely to be troubled by such reflection as their propensity is defined by looser preparation ethics. Psychological resolution might in fact entail a dismissiveness of competent best practice as irrelevant when playing the game of tax preparation. Contingent practitioners, however, are not committed to aggressive practice and are following the herd as circumstances permit. These practitioners are more likely to respond positively to such dissonance and realign their preparation behaviours to reflect the competent best practice identity they cherish. Tax authorities must, therefore, work with the Duteous and hold their

practice in view of the industry. The competent best practice of the Duteous might, therefore, be held up as a mirror to ensure the Contingent face their ethical identity.

An example of the duteous base resisting the herd was seen in the mid-1990s when United States tax lawyers were becoming involved in the emergent market of abusive tax shelters (Beck, 1999). Rather than following their colleagues and sharing in the riches, a cohort of New York lawyers believed that dealing in abusive tax shelters harmed the profession and expressed ‘a deep sense of personal regret that this level of code gamesmanship goes on’ (Holden, 1999, p. 369). Members of this group actively engaged with policy makers in designing law reforms to rein in the tax shelter market. These practitioners held higher ideals for the meaning of their profession and could not be swayed either by the riches on offer or the demands of the market. They reflected a “professional ideology of tax practice in which tax lawyers, by virtue of their expertise, serve as gatekeepers for the tax system” (Rostain, 2006, p. 77).

The gatekeeper model for tax practice was originally considered inadequate, largely due to the mismatch in client versus tax authority expectations on practitioners (see Chapter 1). This conclusion, however, was reached looking through the lens of the conventional question, “tax preparers – whose team are they on?”, with the conventional options being clients or the tax authority (Brody & Masselli, 1996, p. 18). Their commitment to the profession and business of tax practice suggests that the answer is to which team they are on is – their own. When regulators must move to put the brakes on a free fall market in vice, they might work with and promote members of the practitioners’ own professional community to act as the lodestone and bring the industry back into virtue.

9.2.3 The pervasive effect of ambiguity

The impact of tax law ambiguity on preparation behaviour cannot be overstated. Client tax return ambiguity was the single constant predictor of increasing levels of preparation non-compliance. It provided significant contributions in the propensity and opportunity models differentiating both Aggressive practitioners from the Contingent and Contingent practitioners from the Duteous. Not only was ambiguity the single constant significant predictor within these models, it was also the strongest, accounting for the largest proportion of unique variance in each. The significant increase in ambiguity at each of the ascending teardrop clusters reflects Klepper and Nagin's (1989b) discovery that preparers act as guardians against unambiguous breaches of the legal code on one hand and exploit legally ambiguous features of the tax code to the advantage of the taxpayer on the other. That is, non-compliance increases as with tax law ambiguity. The ambiguity enforcer-exploiter effect is one of the most pervasive effects within practitioner compliance research (F. L. Ayres, et al., 1989; Carnes, et al., 1996b; Klepper, et al., 1991; Magro, 1999; Spilker, et al., 1999).

This dual role, as 'enforcers' in unambiguous situations and 'exploiters' in ambiguous situations, is held as stable across the practitioner population. However, the existence of distinctly different practitioner types who approach preparation from unique perspectives encourages further consideration of this assumption. The primary analyses investigated differences *between* the practitioner clusters. Additional analyses of ambiguity conducted *within* the clusters revealed that perceptions of ambiguity manifested differently across the clusters. Duteous and Contingent practitioners associate ambiguity with a weakened capacity to competently prepare tax returns. This supports the 'ambiguity as lack of confidence in getting it right' argument. Contingent practitioners' lower confidence in their technical abilities is likely to compound this issue. As such,

ambiguity limits the ability of these lower teardrop clusters to enforce compliance. Ambiguity might also act as a 'fuzzy boundary' (Roth, et al., 1989), unconsciously allowing lower teardrop practitioners, who would not normally consider non-compliant preparation, to lower their usual standards while being able to retain a sense of 'ethical' self.

For the Aggressive practitioners, ambiguity is driving something very different. Aggressive practitioners associate ambiguity with an opportunity for eluding detection for non-compliant practice. Lure is an arrangement or situation that turns heads, describing a target that is both exposed and attractive to the motivated (Shover & Hochstetler, 2006). Ambiguity represents the lure of opportunity to game the law. Examples of actively seeking and exploiting tax ambiguity is found within the literature on legal entrepreneurs (J. Braithwaite, 2003b), game players (V. Braithwaite, 2003a) and 'creative' compliers (McBarnet, 1991, 2003). Such players see the exploitation of ambiguity as a legitimate means of escaping the intent of the law.

The differential operation of ambiguity across the teardrop clusters does not conflict with Klepper and Nagin's (1989b) 'ambiguity enforcer-exploiter' effect. No evidence is provided to dispute the premise that, overall, practitioners perform a dual role, as 'enforcers' in unambiguous situations and 'exploiters' in ambiguous situations. What these results suggest is that the clusters will vary in their predilection for enforcing or exploiting ambiguity in tax return preparation.

Implications for tax regulation

The implication for the regulation of tax practice is that tax return ambiguity impedes the preparation of those who want to comply and opens up opportunity for those who do not. As the single constant and strongest predictor of preparation non-compliance, ambiguity must be front and centre in considerations of

compliance strategy design. The primary position of an effective regulator is of cooperation and gentle persuasion. If the regulatee defaults from this position, the tax authority should resort to legal force. The problem is that ambiguity blunts the law as an enforcement tool as it creates a 'fuzzy boundary' around compliance and non-compliance. Even at lower levels of enforcement, it is difficult to persuade a preparer to give up a practice that is not clearly non-compliant. A tax authority cannot enforce a practice until it contests the claim to compliance. Ambiguity muddies the waters, making the issue not "one of enforcement, but one of enforceability" (McBarnet, 2003, p. 233).

Ambiguity in tax law is paradoxically caused by too much information. As tax legislation is constantly being updated in the attempt to cover all possible factual situations "the more complex and prolix the legislation will become and, almost invariably, the less clear the meaning of the legislation will become" (Allerdice, 1996, p. 164). To counter the growth and exploitation of tax law ambiguity, Braithwaite (2002, 2003b) proposes a balance of the current rules-based system with a principles-based approach to regulation. In this hybrid system, rules are secondary to overarching principles. Rules would be retained to provide guidance on the most common transactions of business arrangements in a complex field of taxation. However, rules are used only to assist in applying the principle. In a contest between a rule and an overarching principle, it is the principle that is binding on taxpayers. In a hybrid system such as this the valuable asset of practitioners as enforcers for transactions of certainty is preserved and expanded while the 'penumbra' of ambiguity exposed to exploitation is simultaneously diminished.

The successful implementation of a hybrid system of rules and principles based regulation is dependent on sustaining the dominance of principles and preventing them being converted or reduced to rules that are gamed. Reduction of

principles and resurgence of rules can occur through demands for guidance on how principles will be applied in specific contexts (McBarnet & Whelan, 1999) or through the build-up of legal precedent (Clayton Utz, 1999). This can be neutralised through sophistication in crafting. Elegant principles must be matched to smart rulings, press releases and bright line rules, with clarity and consistency in the relationship between principles and rulings. Badly designed principles with uncertain or confusing rules or confusion in the proffering of conflicting interpretations will exacerbate rather than resolve ambiguity.

9.3 Concluding remarks

Review of the regulatory compliance literature established that effective regulation of tax practice requires a fine balance of support, encouragement, deterrence and legislative crafting. The foundation for such regulatory balance is built on a comprehensive and integrated understanding of practitioner compliance. Subsequent review of the practitioner compliance literature revealed that, despite providing an excellent description of preparation behaviours with many known indicators, the body of knowledge remains “largely empirical and without formal theoretical connection to the larger literature on the determinants of compliance choices” (Klepper, et al., 1991, p. 207). The intent of this thesis was to provide theoretical cohesion to the practitioner compliance literature, contributing to a comprehensive and integrated understanding of tax practitioner compliance.

The propensity and opportunity model of practitioner compliance was proposed in an attempt to provide this cohesion. This model integrated the existing empirical knowledge into a theoretical framework and, as an adaptation of Nagin and Paternoster’s (1993) individual differences and rational choice framework, provides a connection between the body of practitioner compliance research to the wider compliance literature. Support for the propensity and

opportunity model was established empirically through its ability to predict tax practitioner preparation compliance and theoretically through its contribution to a deeper understanding of preparation compliance. Both practitioner propensity and perception of opportunity consistently predicted preparation non-compliance at each step up the practitioner teardrop clusters. The propensity and opportunity model also proved flexible in accounting for the preparation behaviours of the distinct practitioner types. While the higher-order propensity and opportunity constructs were applicable at all levels of preparation compliance, the specific aspects of these constructs that differentiated the groups varied across the practitioner teardrop clusters.

The discovery of the practitioner clusters of preparation compliance shines new light on the lack of theoretical development in the practitioner compliance literature. Early indication of an underlying conceptual problem was given in the often contradictory findings within the literature review. With the exception of practitioner ethics and tax return ambiguity, research findings testing the features of tax practice are often inconsistent. In revealing that the practitioner population cannot be considered a homogeneous group, but is instead a collection of distinct practitioner types with vastly different thoughts and actions, it seems likely that the inconsistent results are due to varying levels of representation of these groups in study samples. Collins et al. (1992) had previously recognised this as a risk to tax compliance research and cautioned against the aggregated modelling of heterogeneous samples due to potential masking of the complexity of relationships.

The findings of this study form a foundation for future research. Four directions are briefly touched upon here. Firstly, from a methodological perspective, the stability of teardrop cluster membership requires further investigation. The cross-sectional design of this study prevented evaluation of the meaning of changes in behaviour over time for cluster membership. For example,

is cluster membership enduring? If so, cycles of industry aggressiveness would see a stretching of the teardrop upwards with more Contingent and Aggressive practitioners, while remaining in their distinct cluster, exhibiting greater degrees of aggressive practice. Duteous practitioners would secure the elongated teardrop to a compliant base. Alternately, is cluster membership fluid? Under this paradigm, the relative sizes of the clusters would expand and shrink with cyclical changes in the market. Practitioner compliance might not represent a teardrop distribution during markets of vice, but perhaps instead may take the form of an oblong or inverted egg. Longitudinal analysis is required to establish the stability of teardrop cluster membership in the face of upsurges in aggressive tax planning.

Second, consideration of the propensity and opportunity model is also required from a cultural perspective. As this model was established among Australian tax practitioners, its relevance for explaining tax practice in other jurisdictions requires validation. Cross-cultural differences in taxpaying attitudes and behaviour indicate a likelihood of corresponding practitioner variation across tax jurisdictions (Torgler, 2003; Torgler & Schneider, 2007). It is speculated that the higher-order constructs of propensity and opportunity are likely to be stable in the prediction of cross-cultural preparation compliance. If anything, it is the manifestation of the specific propensity and opportunity characteristics that might show cultural differences.

Third, while accurate tax return preparation is important, this is only one indicator of compliant participation in the tax system. In addition to 'reporting complete and accurate information', performance indicators include correct registration of clients in the system, on time lodgement of tax information and payment of obligations (Australian Taxation Office, 2011b). Practitioner compliance involves an additional array of behaviours from the perspective of the profession, including but not limited to the veracity of practitioners' personal tax

affairs, their treatment of conflict of interest, maintaining confidentiality and providing competent tax services (Tax Agent Services Act, 2009). While the propensity and opportunity model has been confirmed for tax return preparation, this is only one component of tax practice.

A final consideration is the relevance of the teardrop of compliance identified within the practitioner population for the wider field of financial regulation. The challenge of tax administrations of doggedly working on pulling the weight of the teardrop downwards toward its base, of preventing the contingent from stampeding to follow the aggressive players into a market in vice may be a more general challenge of financial regulation. Many of these tax practitioners are corporate preparers of tax returns. It is an interesting hypothesis to ask whether the shape of corporate financial compliance more generally is not pyramid shaped (V. Braithwaite, 2003b), not egg-shaped (Freedman, et al., 2010), but distributed as a teardrop. It would be interesting to test whether the financial conduct on Wall Street and beyond, that stampeded the United States economy and then the world economy into the Global Financial Crisis, was patterned as a teardrop, or not. Was there interplay between aggressive and contingent actors? And what, if any, role did the duteous play?

Appendices

Appendix A. Letter of invitation to participate in study

(Date)

(Participant's work address)

Dear (Participant),

We would like to invite you to participate in a research project which is being conducted by the Australian National University (ANU) to develop an understanding of tax agents' attitudes, opinions and tax return preparation practices.

You have been invited to be a part of this project as your tax practice prepares returns on behalf of individual clients and we believe that your experiences would provide valuable insight into the tax agents' perspective of return preparation.

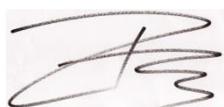
Participation in this research is voluntary. If you choose to participate we ask you to complete the enclosed survey and return it to the address provided on the reply paid envelope. As an extra precaution in protecting your anonymity we have commissioned a third party data collection agency to administer the survey and render all responses non-identifiable.

On completion of the study, interested participants will be provided with a report detailing the attitudes, beliefs and return preparation practices of Australian tax agents. If you would like a copy of this report please indicate your interest with your returned questionnaire.

We enclose an information sheet which sets out the details of the project and a copy of the *Tax agent opinion survey*. If you have any questions regarding this project the contact details of the ANU principal researcher and the ANU Research Ethics Committee can be found on the information sheet attached.

Thank you for considering this invitation.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'EW', written on a light-colored rectangular background.

Elea Wurth (PhD Scholar)
Regulatory Institutions Network
Australian National University

Appendix B. Participant information sheet

Tax agents' opinions survey

We are researching the opinions and tax return preparation practices of Australian tax agents. Tax agents play a vital role in the tax system through providing information, advice, education and representational services to taxpayers. This research project explores the social environment, personal attitudes and beliefs of tax agents along with tax preparation practices. The Australian Tax Office has provided scholarship funding and access to data for this research.

What does the research involve?

To participate in this research project, we ask you to complete the opinions survey included with this information sheet. The survey takes around 20 minutes. The survey data will be added to material provided by the Tax Office. Both the survey responses and the Tax Office material are rendered non-identifiable in a rigorous process that ensures that it cannot be traced to you by any party.

Participation in the project is voluntary. Completion and return of the survey is taken as your consent to participate in this research.

The results of this study will be reported in a PhD thesis and may be published in academic journals or books. We will provide interested participants with a summary of the survey findings detailing the attitudes, beliefs and return preparation practices of Australian tax agents.

Are there any risks if I participate?

To ensure your anonymity we have taken the extra precaution of commissioning a third party agency, Creative Data Solutions Pty Ltd, to gather the data and supply us with the non-identifiable results. We assure you that all aspects of the survey will be treated with the utmost integrity.

Contact names and phone numbers

If you have any questions or complaints about the study please feel free to contact:

Elea Wurth (PhD Scholar)

Regulatory Institutions Network

Australian National University

Tel: 0408 876 625

email: Elea.Wurth@anu.edu.au

Professor John Braithwaite

Regulatory Institutions Network

Australian National University

Tel: 02 612 52332

email: John.Braithwaite@anu.edu.au

If you have concerns regarding the way the research was conducted you can also contact the ANU Human Research Ethics Committee:

Human Ethics Officer

Human Research Ethics Committee

Australian National University

Tel: 02 6125 7945

email: Human.Ethics.Officer@anu.edu.au

Appendix C. The Tax Agent Opinion Survey



Tax agent opinion survey

This research focuses on tax agents in context of Individuals clients. As such, when a questionnaire item asks you to consider a 'client' or 'return' this refers to Individuals clients or the Individuals return.

There are no right or wrong answers and your first impressions are best. To ensure your anonymity, this questionnaire will be administered by a third party data collection agency, Creative Data Solutions, who will render all responses non-identifiable. For any concerns regarding the confidentiality of your responses please contact either the principal ANU researcher or the ANU research ethics officer –

Elea Wurth
Regulatory Institutions Network
Australian National University
Tel: 0408 876 625
email: Elea.Wurth@anu.edu.au

Human Ethics Officer
Human Research Ethics Committee
Australian National University
Tel: 02 6125 7945
email: Human.Ethics.Officer@anu.edu.au

INSTRUCTIONS:

- Use a blue/black ballpoint pen or 2B pencil
- Do not use a red or felt tip pen
- Do not make any extra marks on this form
- If you make a mistake, either erase or place a cross through the incorrect oval and fill in the correct oval

Please MARK LIKE THIS:

NOT LIKE THIS:

Please CORRECT LIKE THIS:

1. YOU AND YOUR ORGANISATION

To begin with we would like to ask some general questions about you and your organisation.

How long have you been practising as a tax agent? years

What is your age? years

What is your gender? Male Female

How many tax preparers operate within your organisation?

Which of these best describes your position with your organisation? (Please select one option only)

Sole practitioner Business partner Company director

Employee - Senior management Employee - Middle management Employee - General staff

Which of these services does your organisation offer? (Select as many options as appropriate)

Tax return preparation Bookkeeping services Financial planning

Business consultancy Other - please specify:

Which of these best describes the principal service of your organisation? (Please select one option only)

Tax return preparation Bookkeeping services Financial planning

Business consultancy Other - please specify:

No dominant principal service

Which of these services do you personally perform? (Select as many options as appropriate)

Tax return preparation Bookkeeping services Financial planning Business management

Business consultancy Other - please specify:

1

2. DIFFERING ASPECTS OF THE TAX AGENT ROLE

Here are some statements about potential aspects of your role. If a statement refers to a role you are not involved in, such as 'business management', please imagine yourself in this role and respond appropriately. The terms 'organisation' and 'business' refer to the structure of the operation in which you work, whether it be a sole practice, partnership or perhaps a company department.

Please indicate how much you agree or disagree with these statements	Strongly disagree	Disagree	Neither	Agree	Strongly agree
I enjoy the technical challenge of tax preparation	1	2	3	4	5
I enjoy talking to colleagues about loopholes in the tax system	1	2	3	4	5
I would work in a role that I did not enjoy if the pay was high enough	1	2	3	4	5
If I could chose my career over, I would chose something other than being a tax practitioner	1	2	3	4	5
Running a profitable business gives me a sense of satisfaction	1	2	3	4	5
I am a committed member of one or more tax professional associations	1	2	3	4	5
I enjoy applying innovative business strategies to meet the opportunities and challenges that my organisation faces	1	2	3	4	5
I find that my values and the tax profession's values are very similar	1	2	3	4	5
Applying my specialist knowledge in tax preparation gives me a sense of satisfaction	1	2	3	4	5
I enjoy spending time working out how changes in the tax system will affect me and my clients	1	2	3	4	5
If I wanted to it would be easy to complete non-compliant returns for the benefit of my Individual clients	1	2	3	4	5
I enjoy applying my business knowledge to ensure my organisation is working efficiently and effectively	1	2	3	4	5
Maintaining and/or improving my tax technical knowledge is important to me	1	2	3	4	5
I like the game of finding the grey areas of tax law	1	2	3	4	5
Increasing my personal wealth is a high priority	1	2	3	4	5
Customer satisfaction is not important to me	1	2	3	4	5
I enjoy the challenge of minimising the tax my clients have to pay	1	2	3	4	5
Maintaining and/or improving my knowledge of best business practice is important to me	1	2	3	4	5
I do not enjoy the challenge of business management	1	2	3	4	5
I am a committed member of one or more business associations	1	2	3	4	5

3. THOUGHTS ON THE INDIVIDUALS' TAX RETURN

Do you feel that parts of the Individuals' tax return are complex or ambiguous? The definitions of these terms used here are:

Complex: composed of many parts and/or involving effortful calculations

Ambiguous: lacking in clarity and/or open to various interpretations

3.1 The following parts of the Individuals' return are COMPLEX:	Strongly disagree	Disagree	Neither	Agree	Strongly agree
Rental expenses	1	2	3	4	5
Salary and wages	1	2	3	4	5
Business expenses	1	2	3	4	5
Interest and dividend deductions	1	2	3	4	5
Lump sum payments	1	2	3	4	5
Allowances, tips, bonuses, director's fees	1	2	3	4	5
Work related expenses	1	2	3	4	5
Business income	1	2	3	4	5

3.1 (continued) The following parts of the Individuals' return are COMPLEX:

	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neither</i>	<i>Agree</i>	<i>Strongly agree</i>
Dividends	1	2	3	4	5
Rental income	1	2	3	4	5
Personal services income	1	2	3	4	5
Gross interest	1	2	3	4	5
Australian government allowances and pensions	1	2	3	4	5
Capital gains	1	2	3	4	5
Partnerships and trusts	1	2	3	4	5
Eligible termination payments	1	2	3	4	5
Gifts and donations	1	2	3	4	5
Foreign entities	1	2	3	4	5
Foreign source income	1	2	3	4	5
Tax offsets	1	2	3	4	5
Other Australian pensions or annuities - including superannuation pensions	1	2	3	4	5

3.2 The following parts of the Individuals' return are AMBIGUOUS:

	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neither</i>	<i>Agree</i>	<i>Strongly agree</i>
Rental expenses	1	2	3	4	5
Salary and wages	1	2	3	4	5
Business expenses	1	2	3	4	5
Interest and dividend deductions	1	2	3	4	5
Lump sum payments	1	2	3	4	5
Allowances, tips, bonuses, director's fees	1	2	3	4	5
Work related expenses	1	2	3	4	5
Business income	1	2	3	4	5
Dividends	1	2	3	4	5
Rental income	1	2	3	4	5
Personal services income	1	2	3	4	5
Gross interest	1	2	3	4	5
Australian government allowances and pensions	1	2	3	4	5
Capital gains	1	2	3	4	5
Partnerships and trusts	1	2	3	4	5
Eligible termination payments	1	2	3	4	5
Gifts and donations	1	2	3	4	5
Foreign entities	1	2	3	4	5
Foreign source income	1	2	3	4	5
Tax offsets	1	2	3	4	5
Other Australian pensions or annuities - including superannuation pensions	1	2	3	4	5

3.3 Now, think of your Individual clients:

	<i>Strongly disagree</i>	<i>Disagree</i>	<i>Neither</i>	<i>Agree</i>	<i>Strongly agree</i>
In comparison to other agents, my clients generally have more complex tax affairs	1	2	3	4	5
In comparison to other agents, the tax provisions relevant to my clients are more ambiguous than for other agents	1	2	3	4	5
More of the income in my clients' returns can be checked against third party sources than the income of other agents' clients	1	2	3	4	5

4. ROLE EXPECTATIONS

In this section, we would like to find out what most of your clients expect of you as a tax practitioner.

4.1 Most of my Individual clients generally expect me to:	Strongly disagree	Disagree	Neither	Agree	Strongly agree
Help them file an accurate tax return	1	2	3	4	5
Help them minimize tax	1	2	3	4	5
Help them avoid tax penalties	1	2	3	4	5
Know many ways to save on taxes	1	2	3	4	5
Be able to exploit tax loopholes to their advantage	1	2	3	4	5
Be creative in dealing with their tax matters	1	2	3	4	5
Reduce uncertainties in tax matters that concern them	1	2	3	4	5
Be up to date with the latest changes in tax law	1	2	3	4	5
Save them considerable time in dealing with tax matters	1	2	3	4	5
Advise them not to take deductions that fall within any grey areas of tax law	1	2	3	4	5
Be clear about the risks associated with the recommended advice	1	2	3	4	5
Provide them with aggressive advice in areas where the tax law is ambiguous	1	2	3	4	5
Provide them with conservative advice in areas where the tax law is not ambiguous	1	2	3	4	5
Promote any tax effective schemes to them so that they don't have to pay too much tax	1	2	3	4	5
Assist them to make claims only when they are clearly legitimate	1	2	3	4	5

We have just considered your clients expectations. Now we would like to find out what you do for most of your Individual clients.

4.2 In practice, I generally:	Strongly disagree	Disagree	Neither	Agree	Strongly agree
Help them file an accurate tax return	1	2	3	4	5
Help them minimize tax	1	2	3	4	5
Help them avoid tax penalties	1	2	3	4	5
Know many ways to save on taxes	1	2	3	4	5
Am able to exploit tax loopholes to their advantage	1	2	3	4	5
Am creative in dealing with their tax matters	1	2	3	4	5
Reduce uncertainties in tax matters that concern them	1	2	3	4	5
Am up to date with the latest changes in tax law	1	2	3	4	5
Save them considerable time in dealing with tax matters	1	2	3	4	5
Advise them not to take deductions that fall within any grey areas of tax law	1	2	3	4	5
Am clear about the risks associated with the recommended advice	1	2	3	4	5
Provide them with aggressive advice in areas where the tax law is ambiguous	1	2	3	4	5
Provide them with conservative advice in areas where the tax law is not ambiguous	1	2	3	4	5
Promote any tax effective schemes to them so that they don't have to pay too much tax	1	2	3	4	5
Assist them to make claims only when they are clearly legitimate	1	2	3	4	5

4.3 How do others see your role as a tax agent?

How much would the following people agree that it is sometimes necessary for you to compromise your ethics to meet your clients' expectations?

	Strongly disagree	Disagree	Neither	Agree	Strongly agree	Not applicable
Family	<input type="radio"/>					
Manager/s	<input type="radio"/>					
Tax agent colleagues	<input type="radio"/>					
Friends	<input type="radio"/>					
Clients	<input type="radio"/>					
Tax Office	<input type="radio"/>					

How much would the following people approve of you refusing to continue to act for a client if you become aware that the client is attempting to lodge a misleading return?

	Strongly disapprove	Disapprove	Neither	Approve	Strongly approve	Not applicable
Family	<input type="radio"/>					
Manager/s	<input type="radio"/>					
Tax agent colleagues	<input type="radio"/>					
Friends	<input type="radio"/>					
Clients	<input type="radio"/>					
Tax Office	<input type="radio"/>					

On a scale of 1 to 5, how important are the opinions of the following people to you in your tax preparation?

	Not at all important	Not very important	Slightly important	Quite important	Very important	Not applicable
Family	<input type="radio"/>					
Manager/s	<input type="radio"/>					
Tax agent colleagues	<input type="radio"/>					
Friends	<input type="radio"/>					
Clients	<input type="radio"/>					
Tax Office	<input type="radio"/>					

5. THOUGHTS ON YOURSELF AS A TAX PRACTITIONER

Please indicate how you feel about yourself as a tax practitioner using the following descriptive terms.

5.1 As a tax practitioner, I am:

	Extremely	Quite	Slightly	Neither	Slightly	Quite	Extremely	
quick	<input type="radio"/>	slow						
content	<input type="radio"/>	discontent						
alert	<input type="radio"/>	inattentive						
sophisticated	<input type="radio"/>	unsophisticated						
honourable	<input type="radio"/>	dishonourable						
powerless	<input type="radio"/>	powerful						
good	<input type="radio"/>	bad						
professional	<input type="radio"/>	amateur						
stimulated	<input type="radio"/>	bored						
trustworthy	<input type="radio"/>	untrustworthy						
lazy	<input type="radio"/>	industrious						
energetic	<input type="radio"/>	lethargic						
smart	<input type="radio"/>	not smart						
assertive	<input type="radio"/>	submissive						

5.2 How do you see your role as a tax agent?

	Strongly disagree	Disagree	Neither	Agree	Strongly agree
I see my primary duty to my clients as being limited only by a duty to uphold the letter of the law	<input type="radio"/>				
It is sometimes necessary for me to compromise my ethics to meet my clients' expectations	<input type="radio"/>				
I do not see it as my duty to make enquires when clients supply information or documentation that appears to be incorrect	<input type="radio"/>				
I will refuse to continue to act for a client when I become aware that a client is attempting to mislead me	<input type="radio"/>				

5.3 On a scale of 1 to 7, how would you describe your attitude towards risk taking with respect to income tax decisions made for your clients?



6. THOUGHTS ON THE TAX OFFICE

6.1 Please indicate how much you agree with these statements about the Tax Office

	Strongly disagree	Disagree	Neither	Agree	Strongly agree
Once the Tax Office has you branded as a bad tax agent, they never change their mind	<input type="radio"/>				
The Tax Office has always treated me with respect	<input type="radio"/>				
It doesn't matter how much I cooperate with the Tax Office, the Tax Office will treat me the same way	<input type="radio"/>				
The Tax Office treats me as someone who will only do the right thing when forced to	<input type="radio"/>				
The Tax Office can be a very powerful enemy for a tax agent to have	<input type="radio"/>				
The Tax Office is more interested in catching you for doing the wrong thing than in helping you	<input type="radio"/>				
The Tax Office has not given me enough opportunity to put my point of view to them	<input type="radio"/>				
The Tax Office treats me as an agent who can be trusted to do the right thing	<input type="radio"/>				
The Tax Office has taken notice of the things I have said to them	<input type="radio"/>				
If you are cooperative with the Tax Office, they will be cooperative with you	<input type="radio"/>				
The Tax Office has always treated my clients with respect	<input type="radio"/>				
The Tax Office respects agents who can give them a run for their money	<input type="radio"/>				
The Tax Office can be trusted to do the right thing	<input type="radio"/>				

Take a moment to think about the Tax Office. Please indicate how you feel about the Tax Office using the following descriptive terms.

6.2 The Tax Office is:

	Extremely	Quite	Slightly	Neither	Slightly	Quite	Extremely	
thorough	<input type="radio"/>	slapdash						
unfair	<input type="radio"/>	fair						
quick	<input type="radio"/>	slow						
sophisticated	<input type="radio"/>	unsophisticated						
beneficial	<input type="radio"/>	harmful						
benevolent	<input type="radio"/>	malevolent						
stupid	<input type="radio"/>	smart						
alert	<input type="radio"/>	inattentive						
honourable	<input type="radio"/>	dishonourable						
industrious	<input type="radio"/>	lazy						
weak	<input type="radio"/>	strong						
trustworthy	<input type="radio"/>	untrustworthy						
good	<input type="radio"/>	bad						
permissive	<input type="radio"/>	firm						

6.3 What do you think are the chances (on a scale of 0% to 100%) of detection by the Tax Office if a tax agent was engaging in tax return non-compliance for the benefit of Individual clients?



6.4 If found to be guilty of engaging in tax fraud for the benefit of Individual clients, what do you think are the chances of significant financial penalties for a tax agent?



6.5 If found to be guilty of engaging in tax fraud for the benefit of Individual clients, what do you think are the chances of being deregistered as a tax practitioner?

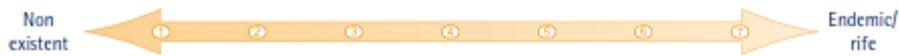


6.6 Cheating on tax if you have the chance is



7. TAX RETURN PREPARATION

7.1 On a scale of 1 to 7, how prevalent do you think non-compliance is among the tax preparation of other agents?



7.2 There are many different items on the Individuals' tax return. Think about each of the items listed below and select the response that best describes your clients' income tax returns overall.

	Absolutely confident they were all legitimate	Slightly unsure about some of them	Slightly unsure about quite a lot	Pretty unsure about quite a lot of them	Pretty sure most are not completely legitimate
Rental expenses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Salary and wages	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business expenses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Interest and dividend deductions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lump sum payments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Allowances, tips, bonuses, director's fees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Work related expenses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Dividends	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Rental income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Personal services income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Gross interest	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Australian government allowances and pensions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital gains	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Partnerships and trusts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Eligible termination payments	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Gifts and donations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Foreign entities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Foreign source income	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tax offsets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other Australian pensions or annuities - including superannuation pensions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Thank you for taking the time to complete this survey.

If you would like a copy of the survey results report please shade this bubble:

Please return the survey in the reply paid envelope provided.

If you have misplaced the envelope, please return to (no stamp required):

ANU Tax Agent Opinion Survey
 Creative Data Solutions Pty Ltd
 Reply Paid 3111
 NUNAWADING VIC 3131

Appendix D. Cluster differences across client return compliance items

The relevance of the 19 client return compliance items for differentiating cluster membership was tested. Levene's test of homogeneity of variance found significant differences at each of the 19 client return compliance items among the clusters (see Table D.1).

Table D.1 Homogeneity of variance test for client return compliance items

Items	Levene Statistic	df1	df2	Sig.
Dividends	867.00	2	1344	.000
Government pensions	425.91	2	1344	.000
Lump sum payments	231.14	2	1338	.000
Gross interest	163.14	2	1343	.000
Salary and wages	328.44	2	1343	.000
Allowances	137.62	2	1344	.000
Interest and dividend deductions	222.69	2	1340	.000
Eligible termination payments	55.85	2	1340	.000
Other Australian pensions or annuities	59.57	2	1341	.000
Rental income	206.88	2	1343	.000
Business deductions	42.32	2	1339	.000
Work related expenses	51.18	2	1340	.000
Rental deductions	730.18	2	1345	.000
Gift deductions	274.72	2	1342	.000
Business income	387.96	2	1342	.000
Capital gains	78.50	2	1343	.000
Partnerships and Trusts income	396.57	2	1340	.000
Foreign source income	53.60	2	1337	.000
Foreign entities income	68.65	2	1331	.000

Table D.2 Client compliance items means and test of mean differences across the practitioner clusters of client compliance^a

Items	ANOVA	Practitioner clusters of client compliance means		
		Cluster 1	Cluster 2	Cluster 3
Dividends	326.75***	1.01 ^{C3}	1.03 ^{C3}	1.52 ^{C1,C2}
Government pensions	425.62***	1.03 ^{C3}	1.04 ^{C3}	1.68 ^{C1,C2}
Lump sum payments	360.05***	1.03 ^{C2,C3}	1.07 ^{C1,C3}	1.77 ^{C1,C2}
Gross interest	317.28***	1.03 ^{C2,C3}	1.11 ^{C1,C3}	1.73 ^{C1,C2}
Salary and wages	155.28***	1.01 ^{C2,C3}	1.08 ^{C1,C3}	1.50 ^{C1,C2}
Allowances	265.80***	1.02 ^{C2,C3}	1.17 ^{C1,C3}	1.84 ^{C1,C2}
Interest and dividend deductions	235.58***	1.01 ^{C2,C3}	1.17 ^{C1,C3}	1.73 ^{C1,C2}
Eligible termination payments	407.86***	1.04 ^{C2,C3}	1.15 ^{C1,C3}	1.94 ^{C1,C2}
Other Australian pensions or annuities	358.96***	1.05 ^{C2,C3}	1.18 ^{C1,C3}	1.96 ^{C1,C2}
Rental income	332.90***	1.00 ^{C2,C3}	1.14 ^{C1,C3}	1.76 ^{C1,C2}
Business deductions	541.86***	1.05 ^{C2,C3}	1.85 ^{C1,C3}	2.06 ^{C1,C2}
Work related expenses	925.80***	1.00 ^{C2,C3}	1.95 ^{C1,C3}	2.10 ^{C1,C2}
Rental deductions	246.32***	1.02 ^{C2,C3}	1.52 ^{C1,C3}	1.91 ^{C1,C2}
Gift deductions	163.88***	1.05 ^{C2,C3}	1.54 ^{C1,C3}	1.93 ^{C1,C2}
Business income	242.25***	1.04 ^{C2,C3}	1.49 ^{C1,C3}	2.03 ^{C1,C2}
Capital gains	273.29***	1.15 ^{C2,C3}	1.69 ^{C1,C3}	2.22 ^{C1,C2}
Partnerships and Trusts income	281.05***	1.06 ^{C2,C3}	1.40 ^{C1,C3}	2.05 ^{C1,C2}
Foreign source income	206.07***	1.22 ^{C2,C3}	1.65 ^{C1,C3}	2.33 ^{C1,C2}
Foreign entities income	213.07***	1.19 ^{C2,C3}	1.66 ^{C1,C3}	2.32 ^{C1,C2}

Note: C1, C2 or C3 specifies that the mean is statistically different from cluster 1 (C1), cluster 2 (C2) or the cluster 3 (C3) at the 0.001 level of significance.

^aCluster mean differences tested using Dunnett's T3

References

- Achbar, M., & Abbott, J. (2003). *The Corporation: Zeitgeist Films*.
- Ahmed, E., & Braithwaite, V. (2005). Understanding small business taxpayers: Issues of deterrence, tax morale, fairness and work practice. *International Small Business Journal*, 23(5), 539-568.
- Ahmed, E., & Braithwaite, V. (2007). Higher education loans and tax evasion: A response to perceived unfairness. *Law and Policy*, 29(1), 121-158.
- Aiken, L. S., & West, S. G. (1991). *Multiple regression: Testing and interpreting interactions*. Newbury Park: Sage Publications.
- Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes*, 50, 179-211.
- Ajzen, I. (2005). *Attitudes, personality and behavior* (2nd ed.). Maidenhead: Open University Press.
- Ajzen, I., & Fishbein, M. (1977). Attitude-behavior relations: A theoretical analysis and review of empirical research. *Psychological Bulletin*, 84, 888-918.
- Akers, R. L. (1990). Rational choice, deterrence, and social learning theory in criminology: The path not taken. *Journal of Criminal Law and Criminology*, 81(3), 653-676.
- Al-Hindawe, J. (1996). Considerations when constructing a semantic differential scale. *LaTrobe Papers in Linguistics*, 9(7).
- Allen, P. W., & Ng, C. K. (2001). Self interest among CPAs may influence their moral reasoning. *Journal of Business Ethics*, 33(1), 29-36.
- Allerdice, R. C. (1996). The swinging pendulum: Judicial trends in the interpretation of revenue statutes. *UNSW Law Journal*, 19(1), 162-180.
- Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of Public Economics*, 1, 323-338.
- Alm, J. (1991). A perspective on the experimental analysis of taxpayer reporting. *The Accounting Review*, 66(3), 577-593.
- Alm, J., McClelland, G. H., & Schulze, W. D. (1992). Why do people pay taxes? *Journal of Public Economics*, 48(1), 21-38.
- Alm, J., Sanchez, I., & de Juan, A. (1995). Economic and noneconomic factors in tax compliance. *Kyklos*, 48(1), 3-18.
- Anand, A. I. (2008). Rules v. principles as approaches to financial market regulation. *Harvard International Law Journal Online*, 49, 111-151.
- Andreoni, J., Erard, B., & Feinstein, J. (1998). Tax compliance. *Journal of Economic Literature*, 36(2), 818-860.

- Aranya, N., & Ferris, K. R. (1984). A re-examination of accountants' organizational-professional conflict. *The Accounting Review*, 59(1), 1-15.
- Aranya, N., Pollock, J., & Amernic, J. (1981). An examination of professional commitment in public accounting. *Accounting, Organizations and Society* 6(4), 271-280.
- Australian Public Service Commission. (2003). *The Australian experience of public sector reform*.
- Australian Taxation Office. (1997). The Taxpayers' Charter. from <http://www.ato.gov.au/corporate/content.asp?doc=/content/25824.htm>
- Australian Taxation Office. (1998). Presentation by Large Business and Internationals. *NSW Annual State Seminar of the Taxation Institute of Australia*
- Australian Taxation Office. (2009). 2009-10 Compliance Program. from http://www.ato.gov.au/content/downloads/COR00205435_NAT7769CP0910.pdf
- Australian Taxation Office. (2011a). 2011-12 Compliance Program. from <http://www.ato.gov.au/corporate/content.aspx?doc=/content/00284023.htm>
- Australian Taxation Office. (2011b, 25 February 2011). Four pillars of compliance: Participation in the system indicators from <http://www.ato.gov.au/content/00277405.htm>
- Ayres, F. L., Jackson, B. R., & Hite, P. S. (1989). The economic benefits of regulation: Evidence from professional tax preparers. *The Accounting Review*, 64(2), 300-312.
- Ayres, I., & Braithwaite, J. (1992). *Responsive regulation: Transcending the deregulation debate*. New York: Oxford University Press.
- Baldwin, R., & Black, J. (2008). Really responsive regulation. *The Modern Law Review*, 71(1), 59-94.
- Bandura, A. (1998). Health promotion from the perspective of social cognitive theory. *Psychology and Health*, 13, 623-649.
- Bandy, D., Judd, A. J., & Kelliher, C. (1993). Dealing with shades of gray: The realistic possibility standard. *Journal of Accountancy*, 176(6), 51-58.
- Banks, B. (2003, 2 October 2003). *The good, the bad and the ugly: Economic perspectives on regulation in Australia*. Paper presented at the Conference of Economists, Business Symposium, Hyatt Hotel Canberra.
- Barber, B. M., & Odean, T. (2001). Boys will be boys: Gender, overconfidence, and common stock investment. *The Quarterly Journal of Economics*, 116(1), 261-292.
- Barnett, T., & Vaicys, C. (2000). The moderating effect of individuals' perceptions of ethical work climate on ethical judgments and behavioral intentions. *Journal of Business Ethics*, 27, 351-362.
- Bartlett, M. S. (1954). A note on the multiplying factors for various chi square approximations. *Journal of the Royal Statistical Society*, 16, 296-298.
- Barua, A., Davidson, L., Rama, D., & Thiruvadi, S. (2010). CFO gender and accruals quality. *Accounting Horizons*, 24(1), 25-39.

- Beauregard, E., Lussier, P., & Proulx, J. (2007). Criminal propensity and criminal opportunity: An investigation of crime scene behaviours of sexual aggressors of women. In R. Kocsis (Ed.), *Criminal profiling: International theory, research and practice*. Totowa: Humana Press.
- Beck, S. (1999). The trojan accountant. *American Lawyer*, 18.
- Becker, G. S. (1968). Crime and punishment: An economic approach. *The Journal of Political Economy*, 76(2), 169-217.
- Becker, G. S. (1993). Nobel lecture: The economic way of looking at behavior. *The Journal of Political Economy*, 101(3), 383-409.
- Birsch, D., & Fielder, J. H. (1994). *The Ford Pinto case: A study in applied ethics, business and technology*. Albany: SUNY Press.
- Bobek, D. D., Hageman, A. M., & Radtke, R. R. (2010). The ethical environment of tax professionals: Partner and non-partner perceptions and experiences. *Journal of Business Ethics*, 92(4), 637-654.
- Bobek, D. D., & Radtke, R. R. (2007). An experiential investigation of tax professionals' ethical environments. *The Journal of the American Taxation Association*, 29(2), 118.
- Bordignon, M. (1993). A fairness approach to income tax evasion. *Journal of Public Economics*, 52, 345-362.
- Bosco, L., & Mittone, L. (1997). Tax evasion and moral constraints: Some experimental evidence. *Kyklos*, 50(3), 297-324.
- Bowles, C. (1971). *Promises to keep: My years in public life 1941-1969*. New York: Harper and Row.
- Braithwaite, J. (1989a). *Crime, shame and reintegration*. Cambridge: Cambridge University Press.
- Braithwaite, J. (1989b). Criminological theory and organizational crime. *Justice Quarterly*, 6(3), 333-358.
- Braithwaite, J. (2002). Rules and principles: A theory of legal certainty. *Australian Journal of Legal Philosophy*, 27, 47-82.
- Braithwaite, J. (2003a). Large business and the Compliance Model. In V. Braithwaite (Ed.), *Taxing democracy: Understanding tax avoidance and evasion*. Hants: Ashgate Publishing Limited.
- Braithwaite, J. (2003b). Making tax law more certain: A theory. *Australian Business Law Review*, 31(2), 72-80.
- Braithwaite, J. (2005). *Markets in vice, markets in virtue*. Sydney and New York: Federation Press and Oxford University Press.
- Braithwaite, J., & Drahos, P. (2000). *Global business regulation*. Cambridge: Cambridge University Press.
- Braithwaite, J., & Makkai, T. (1991). Testing an expected utility model of corporate deterrence. *Law and Society Review*, 25(1), 7-40.
- Braithwaite, J., & Makkai, T. (1994). Trust and compliance. *Policing and Society*, 4, 1-12.

- Braithwaite, J., Makkai, T., & Braithwaite, V. (2007). *Regulating aged care: Ritualism and the new pyramid*. Cheltenham: Edward Elgar.
- Braithwaite, V. (2001). The community hopes, fears and actions survey: Goals and measures. *Centre for Tax System Integrity Working Paper*.
- Braithwaite, V. (2003a). Dancing with tax authorities: Motivational postures and non-compliant actions. In V. Braithwaite (Ed.), *Taxing democracy: Understanding tax avoidance and evasion*. Hants: Ashgate Publishing Limited.
- Braithwaite, V. (2003b). A new approach to tax compliance. In V. Braithwaite (Ed.), *Taxing democracy: Understanding tax avoidance and evasion*. Hants: Ashgate Publishing Limited.
- Braithwaite, V. (2007). Responsive regulation and taxation: Introduction. *Law and Policy*, 29(1), 3-10.
- Braithwaite, V. (2009). *Defiance in taxation and governance: Resisting and dismissing authority in a democracy*. Cheltenham: Edward Elgar.
- Braithwaite, V. (2010). *Compliance with migration law*. Canberra: Australian National University.
- Braithwaite, V., & Braithwaite, J. (2006). Democratic sentiment and cyclical markets in vice. *The British Journal of Criminology*, 46(6), 1110-1127.
- Braithwaite, V., Reinhart, M., Mearns, M., & Graham, R. (2001). Preliminary findings from the community hopes, fears and actions survey. *Centre for Tax System Integrity Working Paper*.
- Brock, J. K.-U. (2003). The 'power' of international business research. *Journal of International Business Studies*, 34(1), 90-99.
- Brody, R. G., & Masselli, J. J. (1996). Tax preparers: Whose team are they on? *The National Public Accountant*, 41(3), 18-46.
- Burns, J. O., & Kiecker, P. (1995). Tax practitioner ethics: An empirical investigation of organisational consequences. *The Journal of the American Taxation Association*, 17(2), 20.
- Bursik Jr, R. J. (1988). Social disorganization and theories of crime and delinquency. *Criminology*, 26, 519-552.
- Bursik Jr, R. J., & Grasmick, H. G. (1993). *Neighborhoods and crime: The dimensions of effective social control*. New York: Lexington Books.
- Byatt, A. S. (1992). *Angels and Insects*. London: Chatto & Windus Ltd.
- Byrnes, J. P., Miller, D. C., & Schäfer, W. D. (1999). Gender differences in risk taking: A meta-analysis. *Psychological Bulletin*, 125, 367-383.
- Carnes, G. A., & Cuccia, A. D. (1996). An analysis of the effect of tax complexity and its perceived justification on equity judgments. *The Journal of the American Taxation Association*, 18(2), 40-57.
- Carnes, G. A., & Englebrecht, T. D. (1995). An investigation of the effects of detection risk perceptions, penalty sanctions and income visibility on tax compliance. *The Journal of the American Taxation Association*, 17(1), 26-41.

- Carnes, G. A., Harwood, G. B., & Sawyers, R. B. (1996a). A comparison of tax professionals' individual and group decisions when resolving ambiguous tax questions. *The Journal of the American Taxation Association*, 18(2), 1-18.
- Carnes, G. A., Harwood, G. B., & Sawyers, R. B. (1996b). The determinants of tax professionals' aggressiveness in ambiguous situations. *Advances in taxation*, 8, 1-26.
- Cash Economy Task Force. (1998). *Improving tax compliance in the cash economy*. Canberra: Australian Taxation Office.
- Caygill, H. (1989). *The art of judgement*. Oxford: Blackwell.
- Cherney, A. (1997). Trust as regulatory strategy: A theoretical review. *Current Issues in Criminal Justice*, 9(1), 71-84.
- Christensen, A. L. (1992). Evaluation of tax services: A client and preparer perspective. *The Journal of the American Taxation Association*, 14(2), 60-87.
- Cialdini, R., & Trost, M. (1998). Social influence: Social norms, conformity, and compliance. In D. Gilbert, S. Fiske & G. Lindzey (Eds.), *The handbook of social psychology* (4th ed.). New York: Oxford University Press.
- Clayton Utz. (1999). *Challenging private rulings*. Sydney: Clayton Utz.
- Clotfelter, C. T. (1983). Tax evasion and tax rates: An analysis of individual returns. *The Review of Economics and Statistics*, 65(3), 363-373.
- Cloward, R. A. (1959). Illegitimate means, anomie, and deviant behavior. *American Sociological Review*, 24(2), 164-176.
- Cloyd, C. B. (1995). The effects of financial accounting conformity on recommendations of tax preparers. *The Journal of the American Taxation Association*, 17(2), 50-70.
- Cloyd, C. B., & Spilker, B. C. (1999). The influence of client preferences on tax professionals' search for judicial precedents, subsequent judgments and recommendations. *The Accounting Review*, 74(3), 299-322.
- Cobanoglu, C., Warde, B., & Moreo, P. J. (2001). A comparison of mail, fax and web-based survey methods. *International Journal of Market Research*, 43(4), 441-452.
- Coffee, J. C. (2003). *Gatekeeper failure and reform: The challenge of fashioning relevant reforms*. New York: Columbia Law School.
- Coffee, J. C. (2006). *Gatekeepers*. Oxford: Oxford University Press.
- Cohen, A. K., & Short Jr, J. F. (1961). Juvenile delinquency. In R. K. Merton & R. A. Nisbet (Eds.), *Contemporary social problems*. New York: Harcourt Brace Jovanovich.
- Cohen, J. (1988). *Statistical power analysis for the behavioral sciences*. New Jersey: Lawrence Erlbaum Associates Inc.
- Cohen, J. (1992). A power primer. *Psychological Bulletin*, 112(1), 155-159.
- Cohen, J. R., Pant, L. W., & Sharp, D. J. (1996). Measuring the ethical awareness and ethical orientation of Canadian auditors. *Behavioral Research in Accounting*, 8(Supplement), 98-119.

- Cohen, L. E., & Felson, M. (1979). Social change and crime rate trends: A routine activity approach. *American Sociological Review*, 44(4), 588-608.
- Cohen, R. J., & Swerdlik, M. E. (1999). *Psychological testing and assessment: An introduction to tests and measurement* (4th ed.). Mountain View: Mayfield Publishing Company.
- Collins, J. H., Milliron, V. C., & Toy, D. R. (1990). Factors associated with household demand for tax preparers. *The Journal of the American Taxation Association*, 12, 9-25.
- Collins, J. H., Milliron, V. C., & Toy, D. R. (1992). Determinants of tax compliance: A contingency approach. *The Journal of the American Taxation Association*, 14(2), 1-29.
- Comrey, A. L., & Lee, H. B. (1992). *A first course in factor analysis* (2nd ed.). Hillsdale: Lawrence Erlbaum Associates.
- Cook, R. D., & Weisber, S. (1982). *Residuals and influence in regression*. New York: Chapman & Hall.
- Cornish, D., & Clarke, R. (1986). *The reasoning criminal: Rational choice perspectives on offending*. New York: Springer-Verlag.
- Cowell, F. A. (1992). Tax evasion and inequity. *Journal of Economic Psychology*, 13, 521-543.
- Cruz, C. A., Shafer, W. E., & Strawser, J. R. (2000). A multidimensional analysis of tax practitioners' ethical judgments. *Journal of Business Ethics*, 24(3), 223-244.
- Cuccia, A. D. (1994). The effect of increased sanctions on paid tax preparers: Integrating economic and psychological factors. *The Journal of the American Taxation Association*, 16(1), 41-66.
- D'Ascenzo, M. (2005, 11 November 2005). *Relationships between tax administrations and tax agents / taxpayers*. Paper presented at the Asia-Oceania Consultants Association general meeting, Manilla.
- Dabner, J. (2008). Partners or combatants: A comment on the Australian Tax Office's view of its relationship with the tax advising profession. *Journal of Australasian Tax Teachers Association*, 3(1), 76-94.
- Dabner, J., & Burton, M. (2008). The relationship between tax administrators and tax practitioners: The Australasian environment. *New Zealand Journal of Taxation Law and Policy*, 14(1), 99-115.
- Dawis, R. V. (1987). Scale construction. *Journal of Counseling Psychology*, 34(4), 481-489.
- De Cremer, D., & Tyler, T. (2005). Managing group behavior: The interplay between procedural justice, sense of self, and cooperation. In M. Zanna (Ed.), *Advances in experimental social psychology* (Vol. 37). New York: Academic Press.
- De Cremer, D., & Tyler, T. R. (2007). The effects of trust in authority and procedural fairness on cooperation. *Journal of Applied Psychology*, 92(3), 639-649.
- de Leeuw, E. D. (1992). *Data quality in mail, telephone, and face-to-face surveys*. Amsterdam TT Publications.

- de Leeuw, E. D. (2005). To mix or not to mix data collection modes in surveys. *Journal of Official Statistics*, 21(2), 233–255.
- de Vaus, D. A. (2002). *Surveys in social research*. London: Routledge.
- Dhami, S., & al-Nowaihi, A. (2007). Why do people pay taxes? Prospect theory versus expected utility theory. *Journal of Economic Behavior and Organization*, 64(1), 171-192.
- Dodd–Frank Wall Street Reform and Consumer Protection Act. (2010). Pub L. 111-203. *United States Congress*.
- Doyle, E., Frecknall-Hughes, J., & Glaister, K. W. (2009). Linking ethics and risk management in taxation: Evidence from an exploratory study in Ireland and the UK. *Journal of Business Ethics*, 86(2), 177-198.
- Drutman, L., & Cray, C. (2002). The top 10 financial scams of the 2002 corporate crime wave. *Multinational Monitor*, 23(12), 20-23.
- Dubin, J. A. (2007). Criminal investigation enforcement activities and taxpayer noncompliance. *Public Finance Review*, 35(4), 500-529.
- Duncan, W. A., LaRue, D., & Reckers, P. M. J. (1989). An empirical examination of the influence of selected economic and noneconomic variables on decision making by tax professionals. *Advances in Taxation*, 2, 91-106.
- Dusenbury, R. (1994). The effect of prepayment position on individual taxpayers' preferences for risky tax-filing. *The Journal of the American Taxation Association*, 16(1), 1-16.
- Dworkin, R. (1977). *Taking rights seriously*. Cambridge: Harvard University Press.
- Dworkin, R. (1996). *Freedom's law: The moral reading of the American constitution*. Cambridge: Harvard University Press.
- Edwards, J. (2003). Individual and corporate compliance competence: An ethical approach. *Journal of Financial Regulation and Compliance*, 11(3), 225-235.
- Elffers, H., & Hessing, D. J. (1997). Influencing the prospects of tax evasion. *Journal of Economic Psychology*, 18, 289-304.
- Elster, J. (1986). *Rational choice*. New York: New York University Press.
- Erard, B. (1993). Taxation with representation: An analysis of the role of tax practitioners in tax compliance. *Journal of Public Economics*, 52(2), 163-197.
- Erard, B. (1997). Self-selection with measurement errors: A microeconomic analysis of the decision to seek tax assistance and its implications for tax compliance. *Journal of Econometrics*, 81, 319-356.
- Eriksen, K., & Fallan, L. (1996). Tax knowledge and attitudes towards taxation: A report on a quasi-experiment. *Journal of Economic Psychology*, 17, 387-402.
- Eysenck, H. J. (1977). *Crime and personality*. London: Routledge and Kegan Paul.
- Falkinger, J. (1995). Tax evasion, consumption of public goods and fairness. *Journal of Economic Psychology*, 16, 63-72.

- Fehr-Duda, H., de Gennaro, M., & Schubert, R. (2006). Gender, financial risk, and probability weights. *Theory and Decision*, 60(2-3), 283-313.
- Feld, L. P., & Frey, B. S. (2002). Trust breeds trust: How taxpayers are treated. *Economics of Governance*, 3(2), 87-99.
- Feld, L. P., & Frey, B. S. (2007). Tax compliance as the result of a psychological tax contract: The role of incentives and responsive regulation. *Law and Policy*, 29(1), 102-120.
- Festinger, L. (1957). *A theory of cognitive dissonance*. Stanford: Stanford University Press.
- Finn, D. W., Chonko, L. B., & Hunt, S. D. (1988). Ethical problems in public accounting: The view from the top. *Journal of Business Ethics*, 7(8), 605-615.
- Flory, S. M., Phillips Jr., T. J., Reidenback, R. E., & Robin, D. P. (1992). A multidimensional analysis of selected ethical issues in accounting. *The Accounting Review*, 67(2), 284-302.
- Foote, N. N. (1951). Identification as the basis for a theory of motivation. *American Sociological Review*, 26, 14-21.
- Ford, R. C., & Richardson, W. D. (1994). Ethical decision making: A review of the empirical literature *Journal of Business Ethics* 13(3), 205-221.
- Forest, A., & Sheffrin, S. (2002). Complexity and compliance: An empirical investigation. *National Tax Journal*, 55(1), 75-89.
- Forte, A. (2004). Antecedents of managers' moral reasoning. *Journal of Business Ethics*, 51(4), 315-347.
- Francas, M., Coase, P., Paterson, D., Haak, M., & White, K. (2002). *Review of the Taxpayers' Charter: NFO Donovan Research*.
- Frean, A. (2011, 14 April, 2011). Goldman Sachs 'lied to Congress' over the global financial crisis: US Senate report. *The Australian (Online)*. Retrieved from <http://www.theaustralian.com.au/business/news/goldman-sachs-lied-to-congress-over-the-global-financial-crisis/story-e6frg90o-1226039119960>
- Freedman, J., Loomer, G., & Vella, J. (2010). *Analyzing the enhanced relationship between corporate taxpayers and revenue authorities: A U.K. case study*. Paper presented at the 2009 IRS Research Conference Washington DC.
- Frey, B. S. (1997). A constitution for knaves crowds out civic virtues. *The Economic Journal*, 107(443), 1043-1053.
- Frey, B. S. (2003). Deterrence and tax morale in the European Union. *European Review*, 11(3), 385-406.
- Frey, B. S., & Feld, L. P. (2002). *Deterrence and morale in taxation: An empirical analysis: CESifo*.
- Frey, B. S., & Torgler, B. (2007). Tax morale and conditional cooperation. *Journal of Comparative Economics*, 35(1), 136-159.
- Gargalas, V. N. (2010). Employing a tax practitioner: A different perspective. *Journal of Business and Economics Research*, 8(2), 129-138.

- Garson, D. G. (2010a, 25/02/2010). Cluster analysis. Retrieved 23/04/2010, from <http://faculty.chass.ncsu.edu/garson/PA765/cluster.htm>
- Garson, D. G. (2010b, 20/05/2010). Logistic regression. Retrieved 19/06/2010, from <http://faculty.chass.ncsu.edu/garson/PA765/logistic.htm>
- Ghosh, D., & Crain, T. L. (1995). Ethical standards, attitudes toward risk and intentional noncompliance: An experimental investigation. *Journal of Business Ethics*, 14(5), 353-365.
- Goode, W. (1969). The theoretical limits of professionalization. In A. Etzioni (Ed.), *The semi-professionals and their organization*. New York: Free Press.
- Gottfredson, M., & Hirschi, T. (1990). *A general theory of crime*. Stanford: Stanford University Press.
- Grasmick, H. G., Bursik Jr, R. J., & Kinsey, K. A. (1991). Shame and embarrassment as deterrents to noncompliance with the law: The case of an antilittering campaign. *Environment and Behavior*, 23(2), 233-251.
- Grasmick, H. G., & Bursik Jr., R. J. (1990). Conscience, significant others and rational choice: Extending the deterrence model. *Law and Society Review*, 24(3), 837-861.
- Grasso, L. P., & Kaplan, S. E. (1998). An examination of ethical standards for tax issues. *Journal of Accounting Education*, 16(1), 85-100.
- Gravetter, F. J., & Wallnau, L. B. (1992). *Statistics for the behavioral sciences*. St. Paul: West Publishing Company.
- Gregory, R. J. (1999). Social capital theory and administrative reform: Maintaining ethical probity in public service. *Public Administration Review*, 59(1), 63-75.
- Grey, C. (1998). On being a professional in a "Big Six" firm. *Accounting, Organizations and Society*, 23(5/6), 569-587.
- Groenland, E. A. G., & van Veldhoven, G. M. (1983). Tax evasion behaviour: A psychological framework. *Journal of Economic Psychology*, 3, 129-144.
- Grover, S. L. (1993). Why professionals lie: The impact of professional role conflict on reporting accuracy. *Organizational Behavior and Human Decision Processes*, 55(2), 251-272.
- Gunningham, N., & Grabosky, P. (1998). *Smart regulation: Designing environmental policy*. Oxford: Clarendon Press.
- Haar, D.-H., & Wikstrom, P.-O. (2010). Crime propensity, criminogenic exposure and violent scenario responses: Testing situational action theory in regression and Rasch models. *European Journal of Applied Mathematics*, 21(4-5), 307-324.
- Han, J., & Kamber, M. (2001). *Data mining: Concepts and techniques*. San Diego: Morgan Kaufmann Publishers.
- Hansen, D. R., Crosser, R. L., & Laufer, D. (1992). Moral ethics v. tax ethics: The case of transfer pricing among multinational corporations. *Journal of Business Ethics*, 11(9), 679-686.
- Hansen, L. L. (2009). Corporate financial crime: Social diagnosis and treatment. *Journal of Financial Crime*, 16(1), 28-40.

- Harris, N. (2011). Shame, ethical identity and justice interventions: Lessons from research on the psychology of influence. In S. Karstedt, I. Loader & H. Strang (Eds.), *Emotions, crime and justice*. Oxford: Hart Publishing.
- Harsanyi, J. C. (1986). Advances in understanding rational behavior. In J. Elster (Ed.), *Rational choice*. New York: New York University Press.
- Hartley, J. E. (2004). Should American studies study itself? *Academic Questions*, 17(2), 33-44.
- Head, B., & McCoy, E. (1997). *Deregulation or better regulation? Issues for the public sector*. Melbourne: Macmillan Education Australia.
- Herrnstein, R. J. (1989). Some criminogenic traits of offenders. In R. Rosner & H. I. Schafer (Eds.), *Juvenile psychiatry and the law*. New York: Plenum Press.
- High Court of Australia. (2010). Commissioner of Taxation vs. Anstis, *HCA 40*.
- Hindelang, M. J., Gottfredson, M. R., & Garofalo, J. (1978). *Victims of personal crime: An empirical foundation for a theory of personal victimization*. Cambridge: Ballinger.
- Hirschi, T. (2004). Self-control and crime. In R. F. Baumeister & K. D. Vohs (Eds.), *Handbook of self-regulation: Research, theory and applications*. New York: Guilford Press.
- Hirschi, T., & Gottfredson, M. R. (1994). *The generality of deviance*. New Brunswick: Transaction.
- Hite, P. A., & McGill, G. A. (1992). An examination of taxpayer preference for aggressive tax advice. *National Tax Journal*, 45(4), 389-403.
- Holden, J. P. (1999). Erwin N. Grisword lecture before the American College of Tax Counsel: Dealing with the aggressive corporate tax shelter problem. *Tax Lawyer*, 52(2), 369-380.
- Holtfreter, K., Reising, M. D., Leeper Piquero, N., & Piquero, A. R. (2010). Low self-control and fraud. *Criminal Justice and Behavior*, 37(2), 188-203.
- Hopkins, M. N. (2008). Living in emergency: Stories of doctors without borders. *Red Floor Pictures*.
- Houghton, K. A., & Hronsky, J. J. F. (1993). The sharing of meaning between accounting students and members of the accounting profession. *Accounting and Finance*, 33(2), 131-148.
- Hume, E. C., Larkins, E. R., & Iyer, G. (1999). On compliance with ethical standards in tax return preparation. *Journal of Business Ethics*, 18(2), 229-238.
- Income Tax Assessment Act. (1997). Act No. 38. *Parliament of Australia*.
- Infanti, A. C. (2003). Eyes wide shut: Surveying erosion in the professionalism of the tax bar. *Virginia Tax Review*, 22(3), 589-614.
- Inglis, M. (2002). Is self-assessment working? The decline and fall of the Australian income tax system. *Australian Tax Review*, 31, 64-78.
- Internal Revenue Service. (1996). *Individual income tax gap estimates for 1985, 1988, and 1992*. Retrieved from <http://www.irs.gov/pub/irs-soi/p141596.pdf>.

- Internal Revenue Service. (2009). *Return Preparer Review*.
- Internal Revenue Service. (2010). Number of returns filed electronically, by type of return and state and fiscal year. *SOI Tax Stats*.
- Internal Revenue Service. (2011, 5 April 2011). New PTIN requirements for tax return preparers. Retrieved 29 April 2011, from <http://www.irs.gov/taxpros/article/0,,id=210909,00.html>
- Ivec, M., Braithwaite, V., & Harris, N. (2009). "Resetting the relationship" in *Indigenous child protection: Public hope and private reality*: Regulatory Institutions Network, Australian National University.
- James, S., & Alley, C. (1999). Tax compliance, self-assessment and administration in New Zealand: Is the carrot or the stick more appropriate to encourage compliance? *New Zealand Journal of Taxation Law and Policy*, 5(1), 3-14.
- Jarrar, Y. F., & Zairi, M. (2000). Best practice transfer for future competitiveness: A study of best practices. *Total Quality Management and Business Excellence*, 11(4-6), 734-740.
- Jenkins, A. (1994). The role of managerial self-efficacy in corporate compliance with the law. *Law and Human Behavior*, 18(1), 77-88.
- Jepson, C., Asch, D. A., Hershey, J. C., & Ubel, P. A. (2005). In a mailed physician survey, questionnaire length had a threshold effect on response rate. *Journal of Clinical Epidemiology*, 58(1), 103-105.
- Joint Committee of Public Accounts. (1993). *An assessment of tax 1992-1993: Minutes of evidence*.
- Joyce, M. (1996). *Taxpayers' Charter - Summary of feedback on, and changes to (discussion draft)*. Canberra: Australian Taxation Office.
- Kadous, K., & Magro, A. M. (2001). The effects of exposure to practice risk on tax professionals' judgements and recommendations. *Contemporary Accounting Research*, 18(3), 451-475.
- Kadous, K., Magro, A. M., & Spilker, B. C. (2008). Do effects of client preference on accounting professionals' information search and subsequent judgments persist with high practice risk? *The Accounting Review*, 83(1), 133-156.
- Kagan, R. A., & Scholz, J. T. (1984). The criminology of the corporation and regulatory enforcement strategies. In K. Hawkins & J. M. Thomas (Eds.), *Enforcing regulation*. Boston: Kluwer-Nijhoff.
- Kahle, J. B., & White, R. A. (2004). Tax professional decision biases: The effects of initial beliefs and client preference. *The Journal of the American Taxation Association*, 26, 1-29.
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263-292.
- Kaiser, H. F. (1974). An index of factorial simplicity. *Psychometrika*, 39, 31-36.
- Kaplan, S. E., Reckers, P. M. J., West, S. G., & Boyd, J. C. (1988). An examination of tax reporting recommendations of professional tax preparers. *Journal of Economic Psychology*, 9(4), 427-443.

- Karlinsky, K., & Koch, B. S. (1987). Impact of tax law complexity on professionals. *The Journal of the American Taxation Association*, 9, 24.
- Kelman, H. C., & Hamilton, V. L. (1989). *Crimes of obedience: Toward a social psychology of authority and responsibility*. New Haven: Yale University Press.
- Kerlinger, F. N., & Lee, H. B. (2000). *Foundations of behavioral research* (4th ed.). Fort Worth, TX: Harcourt College Publishers.
- Kidder, R., & McEwen, C. (1989). Taxpaying behavior in social context: A tentative typology of tax compliance and noncompliance. In J. A. Roth, J. T. Scholz & A. Dryden Witte (Eds.), *Taxpayer compliance* (Vol. 2). Philadelphia: University of Pennsylvania Press.
- King, S., & Sheffrin, S. M. (2002). Tax evasion and equity theory: An investigative approach. *International Tax and Public Finance*, 9(4), 505-521.
- Kinsey, K. A., & Grasmick, H. G. (1993). Did the tax reform act of 1986 improve compliance? Three studies of pre- and post- TRA compliance attitudes. *Law and Policy*, 15(4), 293-325.
- Kinsey, K. A., Grasmick, H. G., & Smith, K. W. (1991). Framing justice: Taxpayer evaluations of personal tax burdens. *Law and Society Review*, 25(4), 845-873.
- Kirchler, E. (1998). Differential representations of taxes: Analysis of free associations and judgments of five employment groups. *Journal of Socio-Economics* 27(1), 117-131.
- Kirchler, E. (2007). *The economic psychology of tax behaviour*. Cambridge: University Press.
- Kirchler, E., Hoelzl, E., & Wahl, I. (2008). Enforced versus voluntary tax compliance: The "slippery slope" framework. *Journal of Economic Psychology*, 29(2), 210-225.
- Kirchler, E., & Maciejovsky, B. (2001). Tax compliance within the context of gain and loss situations, expected and current asset position, and profession. *Journal of Economic Psychology*, 22, 173-194.
- Kirchler, E., Niemirowski, P., & Wearing, A. (2006). Shared subjective views, intent to cooperate and tax compliance: Similarities between Australian taxpayers and tax officers. *Journal of Economic Psychology*, 27(4), 502-517.
- Kirchler, E., & Wahl, I. (2010). Tax compliance inventory TAX-I: Designing an inventory for surveys of tax compliance. *Journal of Economic Psychology*, 31(3), 331-346.
- Klepper, S., Mazur, M., & Nagin, D. (1991). Expert intermediaries and legal compliance: The case of tax preparers. *Journal of Law and Economics*, 34(1), 205-229.
- Klepper, S., & Nagin, D. (1989a). The criminal deterrence literature: Implications for research on taxpayer compliance. In K. Hawkins & J. M. Thomas (Eds.), *Taxpayer compliance* (Vol. 2). Philadelphia: University of Pennsylvania Press.
- Klepper, S., & Nagin, D. (1989b). The role of tax preparers in tax compliance. *Policy Sciences*, 22(2), 167-194.

- Larkins, E. R., Hume, E. C., & Garcha, B. S. (1997). The validity of the randomized response method in tax ethics research. *Journal of Applied Business Research*, 13(3), 25-32.
- Lee, A., & Rabenort, M. (2009). The changing role of the tax professional. *International Tax Review*.
- Lewis, A. (1982). *The psychology of taxation*. Oxford: Martin Robertson.
- Listwan, S., Piquero, N. L., & Van Voorhis, P. (2010). Recidivism among a white-collar sample: Does personality matter? *Australian and New Zealand Journal of Criminology*, 43(1), 156-174.
- Löffler, E. (2000). Best-practice cases reconsidered from an international perspective. *International Public Management Journal*, 3(2), 191-204.
- Longshore, D. (1998). Self-control and criminal opportunity: A prospective test of the general theory of crime. *Social Problems*, 45(1), 102-113.
- Lopez-Leon, M., & Rosner, R. (2010). Intellectual quotient of juveniles evaluated in a forensic psychiatry clinic after committing a violent crime. *Journal of Forensic Sciences*, 55(1), 229-231.
- Lynam, D., Moffitt, T. E., & Stouthamer-Loeber, M. (1993). Explaining the relation between IQ and delinquency: Class, race, test motivation, school failure, or self-control? *Journal of Abnormal Psychology*, 102, 187-196.
- Maddison, R., & Prapavessis, H. (2004). Using self-efficacy and intention to predict exercise compliance among patients with ischemic heart disease. *Journal of Sport and Exercise Psychology*, 26(4), 511.
- Madeo, S. A., Schepanski, A., & Uecker, W. C. (1987). Modeling judgments of taxpayer compliance. *The Accounting Review*, 62(2), 323-342.
- Magro, A. M. (1999). Contextual features of tax decision-making settings. *The Journal of the American Taxation Association*, 21, 63-73.
- Makkai, T., & Braithwaite, V. (1993). Professionalism, organizations and compliance. *Law and Social Inquiry*, 18, 33-61.
- Manfreda, K. L., Bosnjak, M., Berzelak, J., Haas, I., & Vehovar, V. (2008). Web surveys versus other survey modes. *International Journal of Market Research*, 50(1), 79-104.
- Markus, H., & Nurius, P. (1986). Possible selves. *American Psychologist*, 41, 954-969.
- Marshall, R., Armstrong, R., & Smith, M. (1998). The ethical environment of tax practitioners: Western Australian evidence. *Journal of Business Ethics*, 17(12), 1265-1279.
- Marshall, R., Smith, M., & Armstrong, R. (1997). Self-assessment and the tax audit lottery: The Australian experience. *Managerial Auditing Journal*, 12(1), 9.
- Marshall, R., Smith, M., & Armstrong, R. (2005). *Ethical issues facing tax professionals: A comparative survey of tax agents and Big 5 tax practitioners in Australia* Joondalup, WA: Edith Cowan University.

- Marshall, R., Smith, M., & Armstrong, R. (2006). The impact of audit risk, materiality and severity on ethical decision making. *Managerial Auditing Journal*, 21(5), 497-519.
- Mason, J. D. (2010). The use of certainty threshold criteria for tax compliance enforcement in ambiguous tax scenarios. *Academy of Accounting and Financial Studies Journal*, 14(1), 7-28.
- McBarnet, D. (1984). Law and capital: The role of legal form and legal actors. *International Journal of the Sociology of Law*, 12(3), 231-238.
- McBarnet, D. (1991). Whiter than white collar crime: Tax, fraud insurance and the management of stigma. *The British Journal of Sociology*, 42(3), 323-344.
- McBarnet, D. (2003). When compliance is not the solution but the problem: From changes in law to changes in attitude. In V. Braithwaite (Ed.), *Taxing democracy: Understanding tax avoidance and evasion*. Aldershot: Ashgate.
- McBarnet, D., & Whelan, C. (1999). *Creative accounting and the cross-eyed javelin thrower*. Chichester: John Wiley.
- McGee, R. W. (2006). Three views on the ethics of tax evasion. *Journal of Business Ethics*, 67(1), 15-35.
- McGloin, J. M., Sullivan, C. J., Piquero, A. R., & Pratt, T. C. (2007). Local life circumstances and offending specialization/versatility: Comparing opportunity and propensity models. *Journal of Research in Crime and Delinquency*, 44(3), 321-346.
- McKerchar, M. (2005). The impact of income tax complexity on practitioners in Australia. *Australian Tax Forum*, 20(4), 529-554.
- McKerchar, M., Ingraham, L., & Karlinsky, S. (2005). Tax complexity and small business: A comparison of the perceptions of tax agents in the United States and Australia. *Journal of Australian Taxation*, 8(2), 289-327.
- Merton, R. K. (1938). Social structure and anomie. *American Sociological Review*, 3(5), 672-682.
- Milliron, V. C. (1985). A behavioral study of the meaning and influence of tax complexity. *Journal of Accounting Research*, 23(2), 794-816.
- Moore, M. (2009). Capitalism: A love story. *Paramount Vantage*.
- Moser, D. V., Evans, J. H., & Kim, C. K. (1995). The effects of horizontal and exchange inequity on tax reporting decisions. *The Accounting Review*, 70(4), 619-634.
- Muehlbacher, S., Kirchler, E., & Schwarzenberger, H. (2011). Voluntary versus enforced tax compliance: empirical evidence for the "slippery slope" framework. *European Journal of Law and Economics*, 32(1), 89-97.
- Murphy, K. (2003). Procedural justice and tax compliance. *Australian Journal of Social Issues*, 38(3), 379-407.
- Murphy, K. (2004a). Aggressive tax planning: Differentiating those playing the game from those who don't. *Journal of Economic Psychology*, 25, 307-329.

- Murphy, K. (2004b). The role of trust in nurturing compliance: A study of accused tax avoiders. *Law and Human Behavior*, 28(2), 187-209.
- Murphy, K. (2005). Regulating more effectively: The relationship between procedural justice, legitimacy, and tax non-compliance. *Journal of Law and Society*, 32(4), 562-589.
- Murphy, K. (2008). Enforcing tax compliance: To punish or persuade? *Economic Analysis and Policy*, 38(1), 113-135.
- Murphy, K., & Byng, K. (2002). Preliminary findings from the Australian tax system survey of tax scheme investors. *Centre for Tax System Integrity Working Paper*.
- Murphy, K., & Harris, N. (2007). Shaming, shame and recidivism: A test of reintegrative shaming theory in the white-collar crime context. *The British Journal of Criminology*, 47, 900-917.
- Nagin, D. S. (1998). Criminal deterrence research at the outset of the twenty-first century. *Crime and Justice*, 23, 1-42.
- Nagin, D. S., & Paternoster, R. (1993). Enduring individual differences and rational choice theories of crime. *Law and Society Review*, 27(3), 467-496.
- Newberry, K. J., Reckers, P. M. J., & Wyndelts, R. W. (1993). An examination of tax practitioner decisions: The role of preparer sanctions and framing effects associated with client condition. *Journal of Economic Psychology*, 14(2), 439-452.
- Niemirowski, P., Mobbs, C., Wearing, A., & Baldwin, S. (2002). *The determinants of Australian taxpayers' compliance behavior: The influence of tax related values, beliefs, attitudes and behaviour*. Canberra: Australian Tax Office.
- O'Donnel, E., Koch, B., & Boone, J. (2005). The influence of domain knowledge and task complexity on tax professionals' compliance recommendations. *Accounting, Organizations and Society*, 30(2), 145-165.
- OECD. (2001). *Principles of good tax administration: Practice note*. Paris: Committee of Fiscal Affairs Forum on Strategic Management.
- OECD. (2004). *Compliance risk management: Audit case selection system*. Paris: Centre for tax policy and administration.
- Ogilvie, J., & Stewart, A. (2010). The integration of rational choice and self-efficacy theories: A situational analysis of student misconduct. *Australian and New Zealand Journal of Criminology*, 43(1), 130-155.
- On the money. (2011). *BRW*, 33, 30-34.
- Osgood, C. E. (1952). The nature and measurement of meaning. *Psychological Bulletin*, 49(3), 197-237.
- Osgood, C. E. (1969). On the whys and wherefores of E, P, and A. *Journal of Personality and Social Psychology*, 12(3), 194-199.
- Osgood, C. E., & Suci, G. J. (1955). Factor analysis of meaning. *Journal of Experimental Psychology*, 50(5), 325-338.
- Parsons, T. (1949). 'The professions and social structure' *Essays in sociological theory*. Glencoe, Illinois: The Free Press.

- Pei, B. K. W., Reckers, P. M. J., & Wyndelts, R. W. (1992). Tax professionals belief revision: The effects of information presentation sequence, client preference, and domain experience. *Decision Sciences*, 23(1), 175-199.
- Picciotto, S. (2007). Constructing compliance: Game playing, tax law, and the regulatory state. *Law and Policy*, 29(1), 11-30.
- Piquero, A. R., & Tibbetts, S. G. (1996). Specifying the direct and indirect effects of low self-control and situational factors in offenders' decision making: Toward a more complete model of rational offending. *Justice Quarterly*, 13(3), 481-510.
- Pogarsky, G. (2002). Identifying 'deterable' offenders: Implications for research on deterrence. *Justice Quarterly*, 19, 431-452.
- Porcano, T. M. (1988). Correlates of tax evasion. *Journal of Economic Psychology*, 9(1), 47-67.
- Powell, M., & Ansic, D. (1997). Gender differences in risk behavior in financial decision-making: An experimental analysis. *Journal of Economic Psychology*, 18(6), 605-628.
- Pratt, T. C., & Cullen, F. T. (2000). The empirical status of Gottfredson and Hirschi's general theory of crime: A meta-analysis. *Criminology*, 38(3), 931-964.
- Quinney, R. (1964). Adjustment to occupational role strain: The case of retail pharmacy. *Southwestern Social Science Quarterly*, 44(4), 367-376.
- Quinney, R. (1977). Occupational structure and criminal behaviour: Prescription violations by retail pharmacists. In G. Geis & R. F. Meier (Eds.), *White collar crime: Offences in business, politics and the professions*. New York: The Free Press.
- Quinney, R. (1978). Crimes of the powerful: Marxism, crime and deviance. *The Insurgent Sociologist*, 8(1), 82-84.
- Quinney, R. (1984). Law and order: Arguments for socialism. *The Insurgent Sociologist*, 12(1-2), 171-173.
- Rawlings, G. (2005). Mobile people, mobile capital and tax neutrality: Sustaining a market for offshore finance centres. *Accounting Forum*, 29, 289-310.
- Reckers, P. M. J., Sanders, D. L., & Roark, S. J. (1994). The influence of ethical attitudes on taxpayer compliance. *National Tax Journal*, 47(4), 825-836.
- Reckers, P. M. J., Sanders, D. L., & Wyndelts, R. W. (1991). An empirical investigation of factors influencing tax practitioner compliance. *The Journal of the American Taxation Association*, 13, 30-46.
- Reinhardt, S., & Steel, L. (2006). *A brief history of Australia's tax system*. Paper presented at the APEC Finance Ministers' Technical Working Group.
- Reinhart, M., Job, J., & Ahmed, E. (2006). *Baby steps to structural equation modelling with AMOS*. Canberra: Regulatory Institutions Network, Australian National University.
- Richardson, G. (2006). Determinants of tax evasion: A cross-country investigation. *Journal of International Accounting Auditing and Taxation*, 15(2), 150-169.

- Roberts, M. L. (1990). An examination of tax practitioners' valuation judgements for closely-held corporations. *Advances in Taxation*, 3, 213-231.
- Roberts, M. L. (1998). Tax accountants' judgment/decision making research: A review and synthesis. *The Journal of the American Taxation Association*, 20(1), 78-102.
- Robertson, R. (1998). *Judicial discretion in the House of Lords*. Oxford: Oxford University Press.
- Rostain, T. (2006). Sheltering lawyers: The organised tax bar and the tax shelter industry. *Yale Journal on Regulation*, 23, 77-120.
- Roth, J. A., Scholz, J. T., & Witte, A. D. (1989). *Taxpayer compliance* (Vol. 1 & 2). Philadelphia: University of Pennsylvania Press.
- Sakurai, Y., & Braithwaite, V. (2003). Taxpayers' perceptions of practitioners: Finding one who is effective and does the right thing? *Journal of Business Ethics*, 46(4), 375-385.
- Sarbanes, P., & Oxley, M. G. (2002). Sarbanes-Oxley Act. *Pub.L. 107-204, 116 Stat. 745*.
- Schaefer, J., & Welker, R. B. (1994). Distinguishing characteristics of certified public accountants disciplined for unprofessional behaviour. *Journal of Accounting and Public Policy*, 13, 97-119.
- Schauer, P. C., & Bajor, L. (2007). The impact detection risk has on tax compliance: An alternative view. *Academy of Accounting and Financial Studies Journal*, 11(2), 15-33.
- Schepanski, A., & Shearer, T. (1995). A prospect theory account of the income tax withholding phenomenon. *Organizational Behavior and Human Decision Processes*, 63(2), 174-186.
- Schisler, D. L. (1994). An experimental examination of factors affecting tax preparers' aggressiveness: A prospect theory approach. *The Journal of the American Taxation Association*, 16(2), 124-142.
- Schmidt, D. R. (2001). The prospects of taxpayer agreement with aggressive tax advice. *Journal of Economic Psychology*, 22, 157-172.
- Scholz, J. T. (1984a). Cooperation, deterrence and the ecology of regulatory enforcement. *Law and Society Review*, 18(2), 179-224.
- Scholz, J. T. (1984b). Voluntary compliance and regulatory policy. *Law and Policy*, 6, 385-404.
- Scholz, J. T., & Lubell, M. (1998). Trust and taxpaying: Testing the heuristic approach to collective action. *American Journal of Political Science*, 42(2), 398-417.
- Scholz, J. T., McGraw, K. M., & Steenbergen, M. R. (1992). Will taxpayers ever like taxes?: Responses to the U.S. Tax Reform Act of 1986. *Journal of Economic Psychology*, 13(4), 625-656.
- Schwartz, R. D., & Orleans, S. (1967). On legal sanctions. *University of Chicago Law Review*, 34, 274-300.

- Scotchmer, S. (1989). The effect of tax advisors on tax compliance. In J. A. Roth & J. T. Scholz (Eds.), *Taxpayer compliance* (Vol. 2). Philadelphia: University of Pennsylvania Press.
- Seipel, C., & Eifler, S. (2010). Opportunities, rational choice, and self-control: On the interaction of person and situation in a general theory of crime. *Crime and Delinquency*, 56(2), 167-197.
- Selznick, P. (1992). *The moral commonwealth: Social theory and the promise of community*. Berkeley: University of California Press.
- Shafer, W. E., & Simmons, R. S. (2008). Social responsibility, Machiavellianism and tax avoidance. *Accounting, Auditing and Accountability Journal*, 21(5), 695-720.
- Shaub, M. K., Finn, D. W., & Munter, P. (1993). The effects of auditors' ethical orientation on commitment and ethical sensitivity. *Behavioral Research in Accounting*, 5, 145-170.
- Shover, N., & Hochstetler, A. (2006). *Choosing white-collar crime*. Cambridge: Cambridge University Press.
- Sikka, P. (2004). Some questions about the governance of auditing firms. *International Journal of Disclosure and Governance*, 1(2), 186-200.
- Sikka, P. (2008). Enterprise culture and accountancy firms: New masters of the universe. *Accounting, Auditing and Accountability Journal*, 21(2), 268-295.
- Sikka, P., & Hampton, M. P. (2005). The role of accountancy firms in tax avoidance: Some evidence and issues. *Accounting Forum*, 29, 325-343.
- Simon, H. (1957). A behavioral model of rational choice *Models of man, social and rational: Mathematical essays on rational human behavior in a social setting*. New York: Wiley.
- Simpson, S. S., & Piquero, N. L. (2002). Low self-control, organizational theory, and corporate crime. *Law and Society Review*, 36(3), 509-550.
- Skirving, R. (2006). *The kindness of strangers*. Australia: Prospero Productions.
- Slemrod, J. (1985). An empirical test for tax evasion. *The Review of Economics and Statistics*, 67(2), 232-238.
- Slemrod, J. (1989). Complexity, compliance costs and tax evasion. In K. Hawkins & J. M. Thomas (Eds.), *Taxpayer compliance* (Vol. 2). Philadelphia: University of Pennsylvania Press.
- Slemrod, J., Blumenthal, M., & Christian, C. (2001). Taxpayer response to an increased probability of audit: Evidence from a controlled experiment in Minnesota. *Journal of Public Economics*, 79(3), 455-483.
- Smith, J., Terry, D., Manstead, A., Louis, W., Kotterman, D., & Wolfs, J. (2008). The attitude-behavior relationship in consumer conduct: The role of norms, past behavior, and self-identity. *The Journal of Social Psychology*, 148(3), 311-333.
- Song, Y., & Yarbrough, T. E. (1978). Tax ethics and taxpayer attitudes: A survey. *Public Administration Review*, 38, 442-457.

- Sparks, P., & Guthrie, C. A. (1998). Self-identity and the theory of planned behavior: A useful addition or an unhelpful artifice? *Journal of Applied Social Psychology, 28*(15), 1393-1410.
- Sparrow, M. (2000). *The regulatory craft: Controlling risks, solving problems, and managing compliance*. Washington, DC: Brookings Institution Press.
- Spicer, M. W., & Becker, L. A. (1980). Fiscal inequity and tax evasion: An experimental approach. *National Tax Journal, 33*(2), 171-175.
- Spilker, B. C., Worsham, R. G., & Prawitt, D. F. (1999). Tax professionals' interpretations of ambiguity in compliance and planning decision contexts. *The Journal of the American Taxation Association, 21*(2), 75.
- Stanlans, L., Kinsey, K. A., & Smith, K. W. (1991). Listening to different voices: Formation of sanction beliefs and taxpaying norms. *Journal of Applied Social Psychology, 21*(2), 119-138.
- Steindel, S. J., & Novis, D. A. (1999). Using outlier events to monitor test turnaround time: A college of American Pathologists Q-Probes study in 496 laboratories. *Archives of Pathology and Laboratory Medicine, 123*(7), 607.
- Stewart, J., W. H., Carland, J. C., & Carland, J. W. (1996). Empirically defining the entrepreneur. *Journal of Business and Entrepreneurship, 5*(1), 1-18.
- Stone, O., & Weiser, S. (1987). *Wall Street: 20th Century Fox*.
- Storer, G., & Rajan, A. (2002). New mindsets and new skills: The strategic importance of continuous competence in emerging financial services business models. *Journal of Financial Regulation and Compliance, 10*(2), 106.
- Streiner, D. L., & Norman, G. R. (1995). *Health measurement scales*. Oxford: Oxford University Press.
- Stryker, S. (1986). Identity theory: Developments and extensions. In K. Yardley & T. Honess (Eds.), *Self and identity: Psychosocial perspectives*. Chichester: John Wiley and Sons.
- Sykes, G. M., & Matza, D. (1957). Techniques of neutralization: A theory of delinquency. *American Sociological Review, 22*(6), 664-670.
- Tabachnick, B. G., & Fidell, L. S. (2001). *Using multivariate statistics* (4th ed.). Boston, MA: Allyn and Bacon.
- Tajfel, H. (1978). *Differentiation between social groups*. London: Academic.
- Tan, L. M. (1999). Taxpayers' preference for type of advice from tax practitioner: A preliminary examination. *Journal of Economic Psychology, 20*, 431-447.
- Tan, L. M. (2009). *Towards an understanding of the tax practitioner-client role relationship: A role analysis*. Thesis submitted for PhD at Australian National University, Canberra.
- Tan, L. M. (2011). Giving advice under ambiguity in a tax setting. *Australian Tax Forum, 26*, 73-101.
- Tax Agent Services Act. (2009). Act No. 13. *Parliament of Australia*.
- Tax Agent Services Bill. (2008). Bill No. 64. *Parliament of Australia*.

- Tax Agents Board Arrangements Act. (1943). Act No. 28 *Parliament of Australia*.
- Tax form baffles even Prof. Einstein. (1944, March 11). *New York Times*, p. 1.
- Tax Practitioners Board. (2010). Board overview. Retrieved 29 April 2011, from http://www.tpb.gov.au/TPB/board/Overview/TPB/TheBoard/Board_overview.aspx
- Tittle, C. R. (1980). *Sanctions and social deviance: The question of deterrence*. Westport: Praeger Publishers.
- TNS Social Research. (2008). *Relationships research*. Canberra: Prepared for the Australian Tax Office.
- Tomasic, R., & Pentony, B. (1990). *Defining acceptable tax conduct: The role of professional advisers in tax compliance*. Canberra: Australian Institute of Criminology.
- Torgler, B. (2003). *Tax morale and tax compliance: A cross culture comparison*. Paper presented at the Proceedings of the Annual Conference on Taxation, Washington.
- Torgler, B., & Schneider, F. (2007). What shapes attitudes toward paying taxes? Evidence from multicultural European countries. *Social Science Quarterly*, 88(2), 443–470.
- Travis, C. P., & Francis, T. C. (2000). The empirical status of Gottfredson and Hirschi's general theory of crime: A meta-analysis. *Criminology*, 38(3), 931.
- Trevino, L. K., Weaver, G. R., & Brown, M. (2008). It's lovely at the top: Comparing senior managers' and employees' perceptions of organizational ethics. *Business Ethics Quarterly*, 18(2), 233-252.
- Trivedi, V. U., Shehata, M., & Lynn, B. (2003). Impact of personal and situational factors on taxpayer compliance: An experimental analysis. *Journal of Business Ethics*, 47(3), 175-197.
- Turner, M. G., & Piquero, A. R. (2002). The stability of self-control. *Journal of Criminal Justice*, 30(6), 457-471.
- Tyler, T. R. (1990). *Why people obey the law*. New Haven: Yale University Press.
- Tyler, T. R. (1997). The psychology of legitimacy: A relational perspective on voluntary deference to authorities. *Personality and Social Psychology Review*, 1(4), 323-345.
- Tyler, T. R. (2001). Public trust and confidence in legal authorities: What do majority and minority group members want from the law and legal institutions? *Behavioral Sciences and the Law*, 19(2), 215-235.
- Tyler, T. R., & Huo, Y. J. (2002). Trust in the law: Encouraging public cooperation with the police and courts. In K. S. Cook, R. Hardin & M. Levi (Eds.), *Trust*. New York: Russell Sage Foundation.
- UK Department of Trade and Industry. (2001). *Mirror Group Newspapers* (Vol. 2). London: The Stationery Office.
- Varma, K. N., & Doob, A. N. (1998). Deterring economic crimes: The case of tax evasion. *Canadian Journal of Criminology*, 40(2), 165-184.

- Vogel, J. (1974). Taxation and public opinion in Sweden: An interpretation of recent survey data. *National Tax Journal*, 21, 499-513.
- Vollmer, H. M., & Mills, D. L. (1966). *Professionalization*. Englewood Cliffs: Prentice-Hall.
- Wallis, D. (2006). The tax complexity crisis. *Australian Tax Review*, 35(4), 274-286.
- Wallschutzky, I. G. (1984). Possible causes of tax evasion. *Journal of Economic Psychology*, 5, 371-384.
- Webley, P., Robben, H. S. J., Elffers, H., & Hessing, D. J. (1991). *Tax evasion: An experimental approach*. Cambridge: Cambridge University Press.
- Wenzel, M. (2004). The social side of sanctions: Personal and social norms as moderators of deterrence. *Law and Human Behavior*, 28, 547-567.
- Wenzel, M. (2005a). Misconceptions of social norms about tax compliance: From theory to intervention. *Journal of Economic Psychology*, 26(6), 862-883.
- Wenzel, M. (2005b). Motivation or rationalisation? Causal relations between ethics, norms and tax compliance. *Journal of Economic Psychology*, 26(4), 491-508.
- Wenzel, M. (2007). The multiplicity of taxpayer identities and their implications for tax ethics. *Law and Policy*, 29(1), 31-50.
- Westat Inc. (1980). *Individual income tax compliance factors study qualitative research*. Rockville: Prepared for the Internal Revenue Service.
- Whelan, C. J. (2007). Some realism about professionalism: Core values, legality, and corporate legal practice. *Buffalo Law Review*, 54, 1067-1136.
- Wikstrom, P. H., Clarke, R. V., & McCord, J. (1995). *Integrating crime prevention strategies: Propensity and opportunity*. Paper presented at the Integrating Crime Prevention Strategies: Propensity and Opportunity, Stockholm, SWE.
- Wilson, J. Q., & Herrnstein, R. J. (1985). *Crime and human nature*. New York: Simon and Schuster.
- Wines, G. (2006). The connotative meaning of independence in alternative audit contexts: An exploratory study. *Pacific Accounting Review*, 18(1), 90-122.
- Wolfe, T. (1987). *Bonfire of the vanities*. New York: Farrar, Straus and Giroux.
- Yerushalmi, H. (2007). Paradox and personal growth during crisis. *American Journal of Psychoanalysis*, 67(4), 359-380.
- Yetmar, S. A., Cooper, R. W., & Frank, G. L. (1998). Ethical issues facing CPA tax practitioners. *The CPA Journal*, 68(10), 28-33.
- Yetmar, S. A., & Eastman, K. K. (2000). Tax practitioners' ethical sensitivity: A model and empirical examination. *Journal of Business Ethics*, 26(4), 271-288.
- Zhang, L., Smith, W., & McDowell, W. (2009). Examining digital piracy: Self-control, punishment, and self-efficacy. *Information Resources Management Journal*, 22(1), 24-44.

