

# Centre for Tax System Integrity - Research Note 1

## Non-filers: What we know

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Non-lodgers, or non-filers as they are often known, are individuals who do not lodge or file a tax return. By not lodging a tax return statement these people are not part of 'the system' and consequently, as they have not provided any information on themselves for analysis, are rarely included in research.

This Research Note contains two parts each of which provides information on non-filers. Part I is an analysis and interpretation of the information about non-filers gained from two of the Centre for Tax System Integrity's (CTSI) surveys of the Australian community. Part II is a review of the currently available international literature which profiles the activities of non-filers from overseas.

### Part I: CTSI research findings

The following information was gained from utilising the data collected in two CTSI surveys; the 'Community Hopes, Fears and Actions' survey (CHFAS) and 'The Australian Tax System: Fair or not?' survey (ATSFS). These surveys were conducted in 2000 and 2001-02 respectively and were designed to gain an insight into the attitudes of Australians towards the tax system and Australian Taxation Office.

Quantitative and qualitative analysis was undertaken by studying responses to both the CHFAS and the ATSFS. The CHFAS provided data on the 1998/99 financial year and the ATSFS on both the 1999/00 and 2000/01 financial years. A subset of the CHFAS and ATSFS respondents completed survey's on both occasions and it is from this group that we drew our sample of consistent non-filers.

Each survey contained questions on non-filing behaviour, although the numbers falling into this category in a general population survey are unavoidably small. However, our analysis of qualitative responses produced some insights into the attitudes of this group.

Part I of the research note therefore provides:

- Data on the percentage of regular and irregular non-filers from the 1998/99 financial year through to the 2000/01 financial year;
- Qualitative data on regular non-filers; and
- Quantitative demographic and attitudinal data on non-filers for at least one financial period from 1998 – 2001. Findings are reported when the differences are statistically significant, of substantive interest and replicated across both surveys.

## Consistent Non-filers

There were only five (0.05%) out of the 1115 survey respondents who completed the questions on filing in both the CHFAS and the ATSFs who stated that they had not completed a tax return for any of the three financial years (98/99, 99/00 & 00/01), even though they should have. These people do not have a profile that is markedly different from other taxpayers in the survey.

All participants were asked to provide comments on their expectations of the Tax Office. The responses of those people (n = 5) who should have filed a tax return in all three financial years covered by the surveys but did not are listed below:

1. In your own words, what do you expect the Tax Office to deliver to you?  
(ATSFs)

“A fair assessment of my situation so I am able to live a reasonable life with my children and not have to struggle all the time.”
“A fair tax system and in return <u>good</u> services eg: good hospitals, roads and education.”
“Not much other than fair assessment and treatment during disputes. “
<ul style="list-style-type: none"> <li>• “Fair assessment</li> <li>• Assistance when required ie advice</li> <li>• Open policy on the way it assesses income tax.”</li> </ul>
<p>“Reliable, consistent and timely information. Provide <u>written</u> advice when asked. A system that is comprehensible to non-accountants ie average person. Flexibility – if the need arises eg instalment arrangements if ever necessary.”</p>

2. In your own words, what do you expect the Tax Office to deliver to the Australian community? (ATSFs)

“A fair across the board tax system that is fair. The pensioners and low wage earners can get by. The high wage earners can get ahead and better themselves and big companies to pay a fair tax and take the pressure off the little people.”
“A fair tax system and in return <u>good</u> services eg: good hospitals, roads and education.”
“Revenue for the Federal Government. They should not be directly delivering to the community.”
“Equitable tax – it is not just an urban myth that there are some wealthy individuals who can claim Austudy because they have the ability to “hide” their income in a company ie the company pays for the expensive cars/houses/holidays whilst they declare a minimum income.”
<p>“Fairness and openness to all. Information to assist those who are not in a financial position to obtain it from tax advisers etc. Particularly to those groups who consistently are in tax trouble because of ignorance of the laws.”</p>

3. In your own words, what is your responsibility to the Tax Office? (ATSFS)

“To declare my earnings honestly. Declare my deductions honestly for the benefit of my family.”
“To pay tax – I pay too much tax, I’m just too lazy to claim it! But I’d rather have a decent health system and pay more.“
“Pay the tax I am responsible to pay whilst utilising the system to legally minimise that amount.”
“Pay the tax but one does not have to over pay it which can easily be done by a PAYE employee if they are not aware of deductions.”
“To pay my fair share of tax.”

## Non-filers (for at least one financial year from 1998 – 2001)

### Demographics

A larger group of the respondents who completed both surveys indicated that they had not filed a tax return for at least one of the 1998 – 2001 financial years when they should have. Some demographic information about these respondents can be found in the table below.

Item	Category	Non-filers			Consistent filers across both Surveys
		Year 98/99 (CHFAS data) N=76	Year 99/00 (ATSFS data) N=63	Year 00/01 (ATSFS data) N=314*	Years 98/99 – 00/01 (CHFAS & ATSFS data) N=637
Sex	Female	48%	41%	45%	49%
Employer	Private	48%	51%	40%	48%
	University or Govt	31%	27%	30%	37%
	Own Business	21%	22%	30%	16%
Work status	Full time	51%	36%	50%	53%
	Part time	12%	12%	19%	22%
	Not working	37%	52%	31%	26%
Occupation	Managers & Professionals	53%	43%	66%	49%
	Skilled & Semi-skilled	32%	46%	26%	38%
	Unskilled	15%	11%	8%	13%
Age	18-30	22%	13%	7%	12%
	31-55	59%	65%	61%	60%
	56-90	19%	22%	32%	28%
Personal Income (\$)	0-18,000	41%	49%	26%	27%
	18,001-47,000	36%	33%	41%	54%
	47,001-250,000	23%	18%	33%	19%
Country born	Non-Australian	12%	28%	21%	20%
	Australian	88%	72%	79%	80%
Marital status	Married	64%	54%	74%	74%
	Not married	37%	46%	26%	26%
Children	No children	51%	45%	51%	54%
	Children	49%	55%	49%	46%

\*- The second CTSI survey was conducted early in 2002. As a result the number of respondents who answered they had not filed a tax return for the Financial Year 2000/2001, but should have, would be inflated by individuals using tax agents who are not required to file until May 2002 and those who are/were 'late filers' rather than 'non-filers'.

### Attitudinal Variables

Comparisons across various attitudinal variables were made between the ‘non-filer’ groups and those who had filed their returns. There was little variation between the groups, however, several differences were noticed against the following variables:

*Item 1* “The Tax office is encouraging to those who have difficulty meeting their obligations through no fault of their own.” (CHFAS)

Response	Consistent Filers* (CHFAS data)	Year 98/99 (CHFAS data)		Year 99/00 (ATSFS data)		Year 00/01 (ATSFS data)	
		Non-filers	Filed	Non-filers	Filed	Non-filers	Filed
Disagree or Strongly Disagree	22%	29%	23%	31%	26%	31%	24%

\* - Consistent Filers are individuals who indicated they filed returns for all three financial years surveyed.

*Item 2* “We should abolish the tax system.” (CHFAS)

Response	Consistent Filers* (CHFAS data)	Year 98/99 (CHFAS data)		Year 99/00 (ATSFS data)		Year 00/01 (ATSFS data)	
		Non-filers	Filed	Non-filers	Filed	Non-filers	Filed
Agree or Strongly agree	10%	24%	12%	15%	9%	7%	10%

### Tax-related Behaviour Variable

*Item 3* “Have you ever paid anyone cash-in-hand payments in the last 12 months for work or services they provided to you? By cash-in-hand we mean cash money that tax is not paid on.” (CHFAS)

Response	Consistent Filers* (CHFAS data)	Year 98/99 (CHFAS data)		Year 99/00 (ATSFS data)		Year 00/01 (ATSFS data)	
		Non-filers	Filed	Non-filers	Filed	Non-filers	Filed
Yes	15%	25%	14%	17%	16%	26%	14%

## Motivational Postures

Motivational postures are composites of attitudes and beliefs that represent how Australian individuals position themselves in relation to a regulatory body - in this case, the Tax Office (Braithwaite, Reinhart, Mearns & Graham, 2001).

There was some variation between those who regularly filed their tax return and 'irregular non-filers' in two postures – the Capitulation and Disengagement postures.

Capitulation indicates an acceptance of the Tax Office as a legitimate power and includes such items as 'If you cooperate with the Tax Office, they are likely to cooperate with you' and 'No matter how cooperative or uncooperative the Tax Office is, the best policy is to always be cooperative with them'.

Disengagement indicates a widespread disenchantment with the system whereby individuals have 'given up' on the Tax Office and tax system. Some of the items included in this posture are 'I don't care if I am not doing the right thing by the Tax Office' and 'I don't really know what the Tax Office expects of me and I'm not about to ask' (Braithwaite, 2003)

Percentages of respondents who had 'high' Capitulation and Disengagement postures as measured by 2000 survey:

Posture	Consistent Filers (CHFAS data)	Year 98/99 (CHFAS data)		Year 99/00 (ATSFS data)		Year 00/01 (ATSFS data)	
		Non-filers	Filed	Non-filers	Filed	Non-filers	Filed
Capitulation	75%	63%	73%	67%	72%	66%	73%
Disengagement	4%	14%	6%	12%	7%	8%	7%

## Summary

As one might expect, those who do not file have a less positive view of the Tax Office's tax system than those who do file their returns, although these differences are not substantial. Moreover, on most attitudinal and behavioural indicators, those who don't file are not discernibly different from those who do.

## Part II – International Research

Studies reviewed from the CTSI Library:

1. 'A Profile of Non-filers' by US Dept. of Treasury. Matched 1991 Census Current Population Survey data with that of 1990 Federal tax returns. Focuses on people who "were apparently" not required to file a return (Cilke, 1998).
2. 'Searching for ghosts: who are nonfilers and how much tax do they owe?', Journal of Public Economics. Sample created by matching IRS tax filing records with Social Security records of Births & Deaths and coming up with 23,000 potential non-filers. The non-filers may have been ghosts, late filers or people who were not required to file a return. 18,689 of the 23,286 people identified were found and interviewed by IRS staff (Erard & Ho, 2001)
3. 'Taxpayers pay up to avoid Internet publicity about Tax Delinquencies', State Tax Review, May 1997. A short article about the success of a program in place in Connecticut whereby the top 100 delinquent taxpayers have their names published on the Dept. of Revenue Services website.

### Empirical Evidence – Demographics of Non-filers

- Of 18689 non-filers located by IRS Auditors, 3549 subsequently had to file tax returns (19%) (Erard & Ho, 2001)
- Having filed a return previously, increases the chance of filing in the current year by 60% (Erard & Ho, 2001)
- Non-filing was more prevalent among the self-employed. Mechanics and 'helpers' are least likely to file returns whereas individuals employed in construction were most likely (Erard & Ho, 2001)
- Persons with an education level at or below 10<sup>th</sup> grade are less likely to file (Cilke, 1998)
- 36.4% of non-filers were single-dependents going to school, i.e not required to file a return (Cilke, 1998)
- 31.7% are persons 62 years and over (Cilke, 1998)
- 13% are unmarried persons with children, of whom approximately 90% were women.
- 10.4% are unmarried persons without children and under 62 years of age. (Cilke, 1998).

### Empirical Evidence – Income of Non-filers

- Having income increases likelihood of filing. 33.5% of people who file a tax return have some earnings compared with 17.3% of non-filers (Cilke, 1998).
- Having a taxable transfer income (pension, unemployment benefit etc.) increased chances of filing – 14.5% of filers had such an income while only 10% of non-filers did (Cilke, 1998)
- Total income before adjustments for filers was on average 2.5 times that of non-filers (Erard & Ho, 2001).
- 29% of all ghosts had no tax liability and 22.2% were entitled to a refund, the median size of which was \$407 (Erard & Ho, 2001)

### Policy Implications: Fruitful Directions for Dealing with Non-filers

- Erard & Ho extrapolated on their sample to apply estimations to entire US population. Their estimated size of the US non-filer population was 7.9 million people (Erard & Ho, 2001)
- Only 57% of a non-filer population could be located through an intensive search by the IRS (Erard & Ho, 2001)
- In Connecticut an old 'scofflaw' was used to publish the states top 100 delinquent taxpayers on the Tax Office's website. At the time of the article a four-month period since the strategy had been implemented had resulted in \$17 million in debts having been collected, the total no. of delinquent taxpayers had fallen from 45,000 to 32,000 and there have been no complaints about the system (Adams, 1997)

### Summary of International Research Reviewed

Non-filers as a group are not homogeneous and the evaders who fall into this group are not easy to distinguish from others. Evaders also do not appear to represent a substantial segment of the non-filer group.



## References

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- Braithwaite, V. (2003). Dancing with tax authorities: Motivational postures and non-compliant actions. In V. Braithwaite (Ed.), *Taxing Democracy*. Aldershot: Ashgate.
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