

CENTRE FOR TAX SYSTEM INTEGRITY



The multiplicity of taxpayer identities
and their implications for tax ethics

Michael Wenzel



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The Centre for Tax System Integrity (CTSI) is a specialised research unit set up as a partnership between the Australian National University (ANU) and the Australian Taxation Office (Tax Office) to extend our understanding of how and why cooperation and contestation occur within the tax system.

This series of working papers is designed to bring the research of the Centre for Tax System Integrity to as wide an audience as possible and to promote discussion among researchers, academics and practitioners both nationally and internationally on taxation compliance.

The working papers are selected with three criteria in mind: (1) to share knowledge, experience and preliminary findings from research projects; (2) to provide an outlet for policy focused research and discussion papers; and (3) to give ready access to previews of papers destined for publication in academic journals, edited collections, or research monographs.

Abstract

It is argued that many social factors (ethics, norms, legitimacy) affecting tax compliance derive their meaning and potency from taxpayers' identities, the way they position themselves socially relative to other taxpayers, and the tax authority. Study 1 explored how 1200 Australians categorised themselves spontaneously in the tax context. Study 2 used survey data from 965 Australians to investigate what implications different identities (personal, subgroup, national) have for tax ethical attitudes. An inclusive identity in terms of one's nation was related to attitudes most conducive to tax compliance. It is concluded that the concept of identity is key to responsive regulation.

The multiplicity of taxpayer identities and their implications for tax ethics.

Michael Wenzel

INTRODUCTION

Tax evasion and avoidance are a burden for modern societies, a strain on government revenue, and a threat to social justice (see Andreoni, Erard & Feinstein, 1998; Braithwaite, 2003a; Roth, Scholz & Witte, 1989). For tax administrations, the challenge is to maintain or increase compliance of a vast number of taxpayers, with a great diversity in their objective tax situations as well as in the many social and psychological factors that impinge on their taxpaying behaviour. Taxpayers are not a homogenous collective but vary greatly in terms of their backgrounds, demographics, and group memberships. In fact, taxpayers are members of many different groups and social categories, whose impact on tax morale and behaviour is likely to depend on the way taxpayers position themselves in different groups, categorise themselves, and define their identity in a given situation (Taylor, 2003). Taxpayers' identities affect their commitments and solidarities, their endorsement of certain values and goals, their internalisation of social norms, and their emotions and motivations.

Therefore, an understanding of taxpayer identities could be essential for effective tax administration, specifically in terms of responsive regulation (Ayres & Braithwaite, 1992; Braithwaite, 2002; Braithwaite & Braithwaite, 2000). The notion of responsive regulation can be characterised by three elements: tactical, meta-strategic, and democratic responsiveness. First, the model of responsive regulation proposes that regulators use a plurality of regulatory techniques and styles from which they tactically select the one that responds best to the regulatees' motivations and circumstances (Sparrow, 2000). Second, responsive regulation entails the meta-strategy of always encouraging voluntary compliance and self-regulation, through persuasion and/or 'big guns' that loom in the background (Ayres & Braithwaite, 1992). Third, responsive regulation embraces democratic principles of seriously engaging with regulatees, listening to their views and concerns, and working towards a shared understanding of principles and values in the regulatory domain (Braithwaite, 2003c).

I contend that regulatees' identities, in relation to other regulatees and to the regulator, are key to responsive regulation in each of its three meanings, because:

- (1) they affect people's motivations and attitudes and, thus, the appropriateness of regulatory tactics;
- (2) they affect people's willingness to comply voluntarily and, thus, the strategies to yield their cooperation; and
- (3) they affect people's commitment to goals and values and, thus, the effectiveness of processes to reach consensus.

Regulators therefore need to understand how these identities come into effect, impact on regulatees' behaviour, and can be managed toward greater levels of compliance. The present paper contributes to an understanding of identity processes in taxpaying behaviour by empirically exploring the variety of identities people adopt in the tax context and investigating what impact certain identities have on tax attitudes and ethics.

Social factors in tax compliance

Traditionally the decision to comply or not comply with tax laws has been understood as an individual's rational pursuit of material outcome maximisation, weighing expected costs of detection and fines against the expected benefit of not paying the tax (Allingham & Sandmo, 1972). Accordingly, deterrence has been considered the regulatory strategy of choice, as it attempts, through detection and punishment, to reduce the expected outcomes from tax evasion and to make tax compliance a relatively more attractive option (Fischer, Wartick & Mark, 1992).

However, in particular more recent research has argued and shown that such a perspective is too limited and that more social factors also influence taxpaying behaviour. Specifically, taxpayer ethics in the sense of a felt moral obligation to pay taxes honestly have been shown to affect tax compliance (for example, Bosco & Mittone, 1997; Reckers, Sanders & Roark, 1994; Schwartz & Orleans, 1967). Likewise, it has been argued social norms, that is, the perceived practice or endorsement of evasion among reference others, impact on tax compliance (for example, De Juan, Lasheras & Mayo, 1994; Spicer & Lundstedt, 1976;

Wallschutzky, 1984; Webley, Cole & Eidjar, 2001; Wenzel, 2004a). Personal ethics and social norms have been understood as implying other forms of costs, such as guilt and self-concept dissonance, or shame and reputation loss, which can deter taxpayers from evading tax (Gordon, 1989; Grasmick & Bursik, 1990). However, ethics and norms may not only add other deterrents to the equation but also moderate the effectiveness of formal sanctions. First, strong personal ethics can make deterrence superfluous, because taxpayers driven by strong tax ethics are motivated to comply irrespective of personal costs or benefits (Wenzel, 2004c; see also Paternoster & Simpson, 1996). Second, perceived social norms against tax evasion can increase the effects of formal sanctions, because they imply additional, socially mediated costs (loss of opportunities, severance of relationships, and so on) when tax evasion is detected and/or punished (Wenzel, 2004c). Third, formal sanctions can be counterproductive because they undermine ethics and/or reduce trust in other people's cooperative behaviour (Frey, 2002; see also Mulder et al., 2003).

Another category of social factors that has been shown to affect taxpaying attitudes and behaviour are perceptions of fairness. Taxation involves numerous considerations of justice and fairness, including the perceived fairness of outcomes (for example, tax burdens and tax-funded benefits), fairness of procedures and treatment (for example, rights and respectful treatment), and fairness of sanctions (for example, punishment and amnesties; Wenzel, 2003). It has been argued that perceptions of fairness can affect tax attitudes and behaviour because, through tax evasion, taxpayers may want to compensate or adjust for the unfairness of their tax burdens and benefits. Perceptions of unfairness may also reduce satisfaction with, or the perceived legitimacy of, the tax system; and this leads to resentment, resistance, and a reduced sense of moral obligation to comply with tax laws (for example, Cowell, 1992; Falkinger, 1995; Kinsey, Grasmick & Smith, 1991; Kirchler, 1997; Magner et al., 2000; Murphy, 2003; Wenzel, 2002; see also Tyler, 1990, 2001a).

Indeed, among moral factors, personal ethics and legitimacy may be considered the most proximal predictors of tax compliance, with personal ethics attributable to the person (that is, oneself) and legitimacy being attributed to the system or authority. Personal ethics depend on one's socialisation, the perceived social norms of one's reference groups, and one's trust in other people (which may then also extend to the tax authority and thus to

legitimacy; Job & Reinhart, 2003). Perceptions of legitimacy depend on the perceived justice of the tax system, trust in the tax authority based on the perceived fairness of its procedures and conduct (see Tyler & Huo, 2002), and the institution's perceived representativeness of oneself or one's relevant social group, its goals and values (see Turner & Haslam, 2001). Essentially, both personal ethics and perceptions of legitimacy are therefore socially determined by the way taxpayers position themselves towards other people and the tax authority, and thus:

- (1) whether they let themselves be influenced and socialised, or by whom,
- (2) whose outcomes and treatment they are concerned about (in terms of fairness or favourability), and
- (3) what goals and values they are committed to and use to judge the representativeness of the tax authority.

Such positioning relative to others and the institution, it is argued here, is reflected in one's self-categorisation and identity in the given social context, as I will explain now.

Identity and self-categorisation

People structure their environment and derive meaning from their social world through a process of categorisation (see McGarty, 1999). Through categorisation, they attribute relative similarity to objects or people grouped together as elements of one category in contrast to other categories, which in turn they consider as relatively different from the former category. Categorisation thus involves the attribution and accentuation of intracategory similarities and intercategory differences (Tajfel & Wilkes, 1963). If perceivers are themselves involved and considered as members of a category, the process is one of self-categorisation (Turner, 1987). Self-categorisation can be regarded as the cognitive foundation of social identity (Tajfel & Turner, 1986), which has comprehensive effects on people's social behaviour (see Ellemers, Spears & Doosje, 1999; Haslam, 2004; Simon, 2004). Importantly, self-categorisation leads to self-stereotyping: the ascription of traits, norms, and goals of one's social group to oneself (Turner, 1987). People who categorise themselves as members of a certain social group are likely to adopt their group's

positions as their own position and internalise its norms; and they are likely to regard their group's objectives as their own objectives and are committed to these group goals.

Which self-categorisation is psychologically relevant, or salient, in a given context is an interactive function of situation and perceiver factors (Oakes, 1987). First, a categorisation is more likely to be salient if it fits a pattern of similarities and differences in a given context, and if it does so consistent with expectations, theories, or ideologies about the categories involved. Second, perceivers may be differently prepared to use one rather than another category, for instance, depending on how well the categorisation serves their goals and needs. For example, if a tax authority decides to take action against the emergent widespread use of tax shelters among what is seen as ordinary taxpayers, after it is perceived to have tolerated the use of similar tax shelters among wealthy taxpayers (see Hobson, 2002; Murphy, 2003), the categorisation between ordinary and wealthy taxpayers fits the apparently differential treatment by the tax authority. This categorisation may further be consistent with the perceivers' preconceptions about government institutions favouring the wealthy and big business. Moreover, the ordinary/wealthy taxpayer categorisation may be beneficial to the perceivers' goals in this context, as it supports their claim of inconsistent application of the law and thus illegitimacy of the tax authority's actions. Another perceiver factor determining the salience of self-categories is the centrality for one's self-concept or the level of identification with the respective group (Oakes, 1987). To continue the example, taxpayers who identify strongly with their blue-collar heritage, or who take pride in their tendency to fight for causes of the disadvantaged, may be more inclined to adopt an ordinary/wealthy categorisation and brand the tax authority's actions as discriminatory in this respect.

Moreover, people can categorise themselves as members of variously inclusive categories (Turner, 1987). For example, as we have seen, people may regard themselves as members of a taxpayer subgroup such as ordinary versus wealthy taxpayers, or as employed rather than self-employed taxpayers, and so on. Alternatively, people may not draw such subcategorisations and regard themselves instead as taxpayers or citizens of their country, which is probably the most abstract and most inclusive category relevant in the tax arena. However, people could also categorise themselves at a less inclusive level, for instance as

members of a certain occupation (that is, a subcategory among the employed taxpayers). They may even perceive themselves as individuals, that is, as not sharing a relevant category with others. Importantly, whatever the salient level of self-categorisation, one's self-stereotyping in terms of that category means self-ascription of similarities with fellow members and differences to other categories. This implies that those similarities are less likely to be seen as differences to fellow members, inhibiting self-categorisation at a lower level of inclusiveness, and those differences are less likely to be seen as similarities to members of other groups, therefore inhibiting self-categorisation at a more inclusive level (Turner, 1987). For example, when self-categorising as citizens, people may be committed to a perceived social norm of honestly contributing one's lawful share of taxes to the welfare of one's country. This would inhibit the self-categorisation as, say, low-income taxpayers, if their perceived norm was to use tax evasion to protest against disadvantages in the tax system. (Note, however, that subgroups can also justify such protest behaviour exactly through reference to values that they claim are shared within the more inclusive category, such as principles of fairness; Wenzel, 2004d).

Multiplicity of taxpayer identities

I have argued that taxpayers can perceive themselves in various ways and define their social place through self-categorisations at various levels of inclusiveness (for example, as individuals or in terms of occupation, income-level, or citizenship). These self-categorisations and identities determine the norms people adhere to, the goals and values they feel committed to, and the interests they try to maximise. Consistent with this, recent research has provided evidence that self-categorisations and social identities can affect taxpaying attitudes and behaviour. For example, research by Sigala (1999; see also Sigala, Burgoyne & Webley, 1999) has shown that different occupational groups have different norms. Cash-in-hand payments and their underreporting are considered normal and more acceptable in some occupations, whereas such practice is considered inconsistent with norms and potentially jeopardises one's professional reputation in others. However, whether or not people adhere to perceived social norms, and/or whether they internalise them as their own ethics and act upon them, should depend on their level of identification with the respective reference group (Wenzel, 2004a).

There is some evidence that taxpayers who identify strongly with their nation are less inclined to evade tax (Wenzel, 2002). That is, identified with the inclusive group that benefits collectively from the tax system and that is represented by the political and public institutions that administer the tax system, they seem more committed to make sacrifices for its welfare and accept the legitimacy of its institutions. Further, such inclusive self-categorisation and commitment to collective goals appear incompatible with a self-categorisation as individuals and the maximisation of purely individual outcomes, which would instead dictate not paying tax while enjoying tax-funded benefits. Correspondingly, findings showed that the perceived favourability (to the individual) of tax decisions was related to tax compliance only when respondents did not identify strongly with the inclusive category, their nation (Wenzel, 2002).

It needs to be said, however, that inclusive identification does not unconditionally mean greater levels of tax compliance. This is so, first, because the inclusive category may be perceived to represent particular values and principles of fairness, which those who identify with this category are committed to and use to evaluate tax system and authority. The tax system needs to be seen as consistent with these values in order to be considered fair and legitimate, and thus worthy of being complied with (Wenzel & Jobling, 2004). Indeed, in a recent study, perceptions of unfairness were found to be related to self-reported tax evasion only for respondents who identified strongly with their nation (Wenzel, 2002). Second, when taxpayers see their (inclusive) self-categorisation as hard-working, decent, and good citizens being disputed by a tax authority treating them as tax cheats (implicitly accusing them of deliberately and selfishly exploiting the tax system), such inclusive identity can in fact turn into resistance against the tax authority and fuel tax protest (Hobson, 2002). Third, a commitment to fairness based on inclusive self-categorisation can be moderated by simultaneous sublevel identities that determine whose fair treatment taxpayers are more narrowly concerned about (Wenzel, 2004b). That is, people's fairness judgments or arguments are likely to be shaped by the perspective of the particular subgroup they identify with (see Wenzel, 2004d). Finally, when the inclusive category (for example, the nation in the context of taxation) is perceived to represent individualist values and norms, identification could paradoxically encourage individualist self-serving behaviour, and this process could at least attenuate the positive effects of

identification on group-serving, collectivist orientations (Jetten, Postmes & McAuliffe, 2002; McAuliffe et al., 2003).

Generally, however, it can be argued an inclusive identity tends to abstract from particularistic interests and goals, such as those of one's taxpayer subgroup or of oneself personally. It should instead imply a commitment to shared goals and common institutions such as the tax system. A self-categorisation at a subgroup level, in contrast, should entail greater commitment to the outcomes and interests of that particular group. Given that this group is likely to be defined in opposition to other groups and perhaps even to the tax authority itself, this subgroup identity could tend to reduce commitment to projects and goals shared at an inclusive level and could involve outright resistance to the tax authority. In contrast, taxpayers self-categorising primarily as an individual, as being relatively different and independent from others (Kampmeier & Simon, 2001), should neither feel particularly bound by the goals and values of the inclusive category nor by any subgroup interests. They should instead focus on their individual outcomes.

To sum up, there are strong arguments and emerging evidence that the way taxpayers see themselves and define their identity in the context of taxation affects their attitudes and views with regard to taxpaying. However, so far very little is known about the identities that taxpayers do adopt – unprompted and spontaneously – in the area of tax. This question will be addressed in the first study reported here, while a second study will investigate implications of selected social identities for tax attitudes and ethics.

STUDY 1

What kinds of identities do people adopt in the context of taxation? To answer this question, I am using here data from a mail survey of Australian citizens (Braithwaite, 2000). At this point our interest is in unprompted self-categorisations of taxpayers in the taxation arena, and a qualitative measure with an open response format was therefore used.

Data

The self-completion questionnaire was sent to a random sample of 7003 Australian citizens drawn from the Australian electoral roll (not counting out-of-scope cases such as mail returned to sender). After repeated appeals for participation, 2040 questionnaires, or 29%, were returned. The sample proved broadly representative for the Australian adult population, but – as most surveys – it somewhat over-represented older and more highly educated citizens (for details, see Mearns & Braithwaite, 2001). However, the present analysis focuses on an open-format question for which a relatively great proportion of cases had missing values; there were exactly 1200 valid entries (another 18 responses betrayed misunderstandings of the question and were ignored). Comparing cases of non-response with valid cases, a binomial logistic regression yielded no effects of sex or personal or family income. However, responders were somewhat younger and more highly educated than non-responders.

Measures

Of main concern in the present context is the question of how respondents see, define, or identify themselves in the context of taxation. To avoid an abstract or academic tone of this question (and thus reduce the risk of non-response), a more concrete formulation and operational instruction was used: ‘Can you describe the sort of people who you think of as being in the same boat as you in terms of paying tax?’ Respondents were given one line to write down their answer, but responses varied in length and number.

Two independent coders categorised the responses; there were overall 1200 valid cases. Most respondents indicated a single identity ($n = 729$), but in other cases there were two ($n = 358$) or three categorisable responses ($n = 113$). In rare cases where even more self-categories were listed, the coders only categorised the first three responses and skipped the rest (assuming that the first entries were the most relevant ones); when entries were very similar or even redundant, the coders used their discretion and coded three entries that represented the range of alternatives. Generally, the two coders had to decide on the number of distinct responses and categorise the responses into a classification scheme. The scheme was developed inductively over the first 200 cases (beginning with a broad outline)

and comprised 66 response categories ordered in 16 broader classes. A test for inter-rater reliability was based on the coding of the next 400 cases. Overall, the two coders agreed initially in their classification of 78% of categorised responses, which indicated a satisfactory level of reliability. Responses on which there was no initial agreement were settled through consensus between coders.

Because respondents could have multiple responses, each response category was treated as a separate variable. That is, for each of the 66 response categories, respondents were given a score of 0 (= *no*) or 1 (= *yes*), depending on whether they gave a response that was classified as an instance of that category; similarly for the 16 broader classes. It should be noted that, because the majority of respondents provided only one answer to the self-categorisation question, the class (and category) variables tended to be mutually exclusive and negatively related. Therefore, statistical techniques (for example, factor analysis, multi-dimensional scaling) usually used to empirically derive more abstract dimensions from a set of variables were not appropriate here.

Prior to the open-answer question about the relevant self-category, respondents were also asked to rate the perceived tax burden of their self-category: 'Think about people who are in the same boat as you when it comes to paying tax. In your opinion, do they pay ... 1 = *much more than their fair share*, 2 = *a bit more*, 3 = *about their fair share*, 4 = *a bit less*, or 5 = *much less than their fair share*'. Of course, in cases where respondents proceeded by mentioning more than one self-category, it is unclear to which self-category's tax burden their rating referred, or whether it was an aggregate rating of tax burdens of all self-categories mentioned. This added some white noise to this measure, which should thus permit only conservative estimates of its relationships to other variables.

Results

Altogether, the 1200 respondents provided 1784 responses to the question of who they thought of as being in the same boat as themselves when it comes to tax. The responses were categorised into 66 basic categories, which reflect a wide range of self-categorisations that respondents adopted in this context. Table 1 shows the frequencies for

these basic categories as well as the 16 more abstract classes. With regard to classes, it can be seen that self-categorisations most frequently referred to employment status ($n = 474$), economic situation (335), professional group (262), status as recipient (or non-recipient) of government benefits (139), moral attributes (109), and family status (90).

The most frequent basic category was *employed* (295) from the employment class. On the one hand, this result reflects of course the simple fact that most taxpayers and most survey respondents earn their income as employees. On the other hand, the finding indicates that many do not see this as a simple fact but rather as worthwhile stating, as defining their identity and role within the tax system. The importance of this identity may derive from the view that their status as pay-as-you-earn taxpayers (whose taxes are withheld by their employers) defines their tax situation in comparison to the self-employed and employers. As employees, taxpayers lack very much the flexibility of controlling their income situation and of structuring their tax affairs which is considered typical of self-employed and business taxpayers. Our data do not allow detailed conclusions about the wider implications of this self-definition. However, out of 11 respondents who defined themselves explicitly as having *little opportunity for tax minimisation*, 9 categorised themselves also as employed taxpayers, a result that is clearly beyond chance (Fischer's Exact Test: $p < 0.001$). It may thus be the case that employed taxpayers define themselves as such because they think this self-category fits the situation where they are deprived of tax minimisation opportunities that other taxpayer groups have.

The second most frequent basic category for self-definitions was *low income* (159) immediately followed by *middle income* (144). Of course, at one level it is again a rather trivial fact that the economic situation determines one's tax situation, for example simply due to different tax rates applying to different income brackets. However, the importance of one's economic situation for self-definition may also reflect a class identity in the context of taxation that is due to feelings of relative deprivation and perceived social unfairness. Indeed, the discourse about tax is very much dominated by distinctions between the rich and the poor, big business and small business, where the rich are viewed as having the means and the quality of legal advice to get away with hardly paying any tax at all. In contrast, the poor cannot escape their tax burden. Instead, because they may also be

recipients of income support that they also find reduced when their income increases, in Australia their effective tax rates may even top the nominal tax rates for the wealthiest taxpayers.

To investigate this further, the relationships between self-categories nominated in the open-format question and the rating of the self-categories' tax burden were analysed by point-biserial correlations (Table 1, most right-hand column). Of course, due to the fact that numerous self-categories basically competed for nomination and only a fraction of respondents agreed on the same self-category, the variance was low and correlation coefficients could thus not be expected to be sizable. Nonetheless, in line with the previous discussion respondents who nominated *low-income* earners as their self-category, more than those who did not, indicated that their tax burden exceeded their fair share ($r = -0.08$, $p = 0.012$). Self-categorisation as *middle-income* earners was similarly related to the perceived amount and unfairness of the self-category's tax burden ($r = -0.09$, $p = 0.003$). However, interestingly, the same result emerged for people self-categorising as *high-income* earners: they also tended to regard their self-category's tax burden as unfairly high ($r = -0.09$, $p = 0.003$). Thus, whatever their economic situation was, respondents who self-categorised in terms of their economic standing tended to regard their self-category's tax burden as high and unfair. For high-income earners this may be due to the higher formal tax rates that apply to them.

Table 1: Classification of open-format self-categorisations in the context of taxation: Frequencies and correlation with the self-category's perceived tax burden

Class	<i>n</i>	<i>Category</i>	Examples	<i>n</i>	<i>r</i>
<i>Inclusive</i>	72	<i>abstract</i>	everybody, humans	3	-0.02
		<i>national</i>	Australian [residents/citizens/taxpayers]	3	0.01
		<i>average</i>	Mr. Average, average [Australian]	65	0.03
		<i>other</i>		3	-0.04
<i>Economic</i>	335	<i>low income</i>	low income, battlers, working class	159	-0.08*
		<i>middle income</i>	average/middle income, middle class	144	-0.09**
		<i>high income</i>	high income earners, well-off, wealthy	33	-0.09**
		<i>other</i>		1	0.02
<i>Educational</i>	12	<i>less educated</i>	untrained, unqualified, semi-skilled	2	-0.01
		<i>highly educated</i>	educated, skilled, qualified	9	0.02
		<i>other</i>		1	0.09**
<i>Employment</i>	474	<i>unemployed</i>		12	0.06*
		<i>employed</i>	PAYE, wage earners, ordinary workers	295	-0.03
		<i>self-employed</i>	(sub)contractors, sole traders	55	-0.02
		<i>part-time</i>	casual workers, seasonal worker	49	0.04
		<i>cash recipients</i>		1	0.09**
		<i>retired</i>	retired, retirees	36	0.06*
		<i>student</i>		42	0.02
		<i>house keeper</i>	house wife	17	0.03
<i>Professional</i>	262	<i>other</i>	contract worker, full-time volunteer	2	-0.06
		<i>trainee</i>	trainees, apprentices	1	-0.02
		<i>farmer</i>	farmers, primary producers	21	0.04
		<i>blue-collar</i>	blue-collar workers, labourers, tradies	38	-0.05
		<i>sales person</i>	sales persons, retailers	5	0.03
		<i>office worker</i>	public servants, clerical workers	20	-0.00
		<i>professional</i>	(semi)professional, white collar	46	0.07*
		<i>manager</i>	directors, executives	15	0.04
		<i>academic</i>	university lecturer, professor	1	--
		<i>small business</i>	small business [owner, proprietor]	66	0.04
<i>Moral</i>	109	<i>entrepreneurs</i>	businessmen, entrepreneurs	8	-0.00
		<i>other</i>	specific occupations (e.g., bricklayers)	56	-0.00
		<i>moral</i>	honest, law-abiding, community-minded	46	0.01
		<i>deserving</i>	hardworking, diligent, clever [people]	65	-0.06*
<i>Gender</i>	4	<i>victim</i>	highest tax bracket but not rich	25	-0.08*
		<i>male</i>	men, males	1	-0.02
<i>Age</i>	24	<i>female</i>	women, females	3	-0.01
		<i>young</i>	young, youth	16	0.01
<i>Family status</i>	90	<i>middle-aged</i>		5	-0.01
		<i>mature</i>	mature/older [people]	3	0.02
		<i>single</i>		20	-0.01
		<i>married/de facto</i>	couple	4	-0.04
		<i>family</i>	parents, people with kids	46	0.00
		<i>sole parent</i>	sole parent, single with kid(s)	21	-0.03
		<i>divorcee</i>		1	-0.02

<i>Urban/Rural</i>	4	<i>urban</i>	urban, suburban	2	-0.02
		<i>rural</i>	rural	2	-0.03
<i>Family income</i>	53	<i>single inc. family</i>		28	-0.07*
		<i>single inc. couple</i>		4	-0.01
		<i>dual inc. family</i>		18	-0.03
		<i>dual inc. couple</i>		4	-0.03
<i>Gov. Benefits</i>	139	<i>allowance</i>	welfare, unemployment benefits	7	-0.07*
		<i>pension</i>	age, disability	89	0.02
		<i>self-funded</i>	self-funded retirees, superannuants	46	0.03
		<i>no benefits</i>		7	0.04
<i>Social Net</i>	29	<i>family and friends</i>		18	0.03
		<i>work colleagues</i>		22	0.04
<i>Investment</i>	41	<i>investors</i>	(small) investments, shareholders	16	0.06
		<i>property</i>	landlords, property owners	7	-0.00
		<i>own house</i>		2	0.02
		<i>other income</i>		3	0.01
		<i>debt</i>	debts, mortgages, HECS (student loan)	15	-0.01
<i>Dependents</i>	16	<i>no dependents</i>		5	-0.04
		<i>with dependents</i>		9	-0.04
		<i>dependent</i>		2	0.02
<i>Tax avoidance</i>	12	<i>tax minimiser</i>		1	0.02
		<i>low opportunity</i>	... for tax minimisation	11	0.03

Discussion

Overall, this first study shows that taxpayers perceive themselves in terms of a large range of social categories. The most frequent self-categories refer to taxpayers' employment status, economic status, and their professional group. This may be so partly because these self-categories describe fittingly their factual legal tax situation. But these self-categorisations in the tax context could also reflect concerns about unfairness and a sense of deprivation as members of that category. This is supported by the finding that self-categorisation in terms of one's income situation, whether it is low, medium or high, was related to the view that one's self-category had an unfairly high tax burden.

Relative to these 'oppositional identities' (Akerlof & Kranton, 2000) in terms of economic status and perhaps occupation, we would expect self-categorisations as honest taxpayers and Australian citizens/residents to have more beneficial implications for tax morale. Interestingly, these groups were less often spontaneously referred to as self-categories in

the tax context, in particular so the inclusive category of being Australian. The second study will investigate these identities further.

Also, it needs to be critically noted that, while the operational formulation of the self-categorisation measure was deliberately chosen to facilitate understanding of the question, in other respects it might have limited options of self-definition. This is so because it referred to self-categories that included other people and thus, by default, it did not seem to allow for self-definitions in terms of individuality (that is, one's personal rather than social self). In the second study, a measure of individual identity was also included.

STUDY 2

The first study provided us with insights into the range of self-categories and identities which may play a role in the area of taxation, and also why certain self-categories may be salient and relevant. In a second study, I investigated more explicitly the implications of certain taxpayer identities for tax attitudes and ethics. The analysis focused initially on five possible identities, namely identity in terms of economic status, occupational/industry group, membership in the Australian community, honest taxpayer, and individual.

Self-categorisation in terms of economic status proved particularly salient in Study 1. It seemed to be related to perceptions of unfairness and possibly perceived shared resentment against the tax system. Being of more oppositional nature, we would expect such an identity to be related to relatively low tax ethics, perceptions of low legitimacy of the tax system, and non-compliance out of protest and retaliation. Self-categorisation in terms of occupation or industry was likewise very salient in Study 1. While there were no empirical data on this in the first study, it can be argued that such an identity again refers to an interest group believed to share a common fate (perhaps a relative deprivation) and norms of furthering its goals. Hence, such identity should again be related to reduced tax ethics, less perceived legitimacy, and non-compliance motivated by protest.

Spontaneous self-categorisation as honest taxpayer was moderately frequent in Study 1, while an inclusive categorisation as Australian was rare. Both identities should have

mainly positive implications for tax ethics and perceptions of legitimacy. In fact, an identity as honest taxpayer seems to amount to a self-definition via positive tax ethics. Alternatively, it may be an identity as a compliant taxpayer, whether this compliance is driven by positive tax ethics or other factors (such as perceived deterrence or lack of opportunity). In any case, an identity as honest taxpayer should be a close precursor to tax compliance, and in this respect it might be considered a dependent variable in its own right whose determination by other identities is of interest. National identity, in fact, can be expected to be related to an identity as honest taxpayer as well as to positive tax ethics and legitimacy. National identification should imply putting the interest of one's country first, above the particular interests of one's subgroup and above one's personal interests. It should motivate cooperation with others included in this social category, including representative institutions such as the tax system. And it should involve pride in serving one's country and the well-being of fellow citizens, thus in being an honest taxpayer.

Further, Study 2 also explored the meaning and implications of a personal identity, a self-definition in terms of one's individuality. On the one hand, it could be argued such an identity implies a sense of independence, of not owing anything to anyone, and thus of following one's personal interests freely (see Kampmeier & Simon, 2001). If such taxpayers were motivated to evade tax, they would be more likely to do so out of a sense of justified self-interest, rather than feelings of resentment or antagonism towards the tax system. On the other hand, however, personal identity could also involve a sense of personal integrity, of living up to one's ethical standards, which should thus be related to an identity as honest taxpayer and to positive taxpaying ethics.

Data

The data were taken from a survey of Australian citizens (Wenzel, Ahmed & Murphy, 2002). A self-completion questionnaire was sent to a sample of 3284 Australian citizens randomly selected from the Australian electoral roll (not counting out-of-scope-cases). After repeated appeals to participate, 965 respondents, or 29%, returned their questionnaire. In the following analyses, deviations from this total N are due to missing values.

Measures

Five different identities (individual, occupational, economic, Australian, and honest taxpayer) were each measured by three standardised 7-point ratings. First, ‘Where do you position yourself within the tax system? When you think about tax, do you see yourself primarily...(1) as an individual, (2) in terms of your occupational group, (3) as a member of the Australian community, (4) in terms of your income group, (5) as an honest taxpayer?’ (each option with a scale from 1= *not at all*, to 7 = *very much*; the same response format applied to all following items unless otherwise noted). Second, ‘What is important to you? (1) Your individuality, (2) your occupational group, (3) the Australian community, (4) your income group, (5) being an honest taxpayer?’. Third, ‘What do you feel pride in? (1) Being who you are personally, (2) belonging to your occupational group, (3) being a member of the Australian community, (4) belonging to your income group, (5) being an honest taxpayer?’. For each identity the three-item scale proved sufficiently internally consistent: personal identity ($\alpha = 0.66$), occupational identity ($\alpha = 0.82$), economic identity ($\alpha = 0.76$), Australian identity ($\alpha = 0.79$) and honest taxpayer identity ($\alpha = 0.83$). For each construct, items were averaged to obtain scale scores.

Personal tax ethics and perceived social tax norms were measured by three items each (Wenzel, 2004a). The same three items were used for each concept, except that the subject of the question was either ‘you’ (personal ethics) or ‘most people’ (social norms): ‘Do you [most people] think one should honestly declare all income on one’s tax return?’, ‘Do you [most people] think it is acceptable to overstate tax deductions on one’s tax return?’ (reverse-coded), and ‘Do you [most people] think working for cash-in-hand payments is a trivial offence?’ (reverse-coded). The alpha consistency for either scale was rather low: personal tax ethics ($\alpha = 0.51$) and social norms ($\alpha = 0.57$). However, these measures were maintained in this form to be consistent with previous research (Wenzel, 2004a, in press).

Anticipated feelings of shame/guilt if one were found out having defrauded the tax system were measured by four items. For each of two scenarios, (1) not declaring a cash payment of \$5000 and (2) falsely claiming \$5000 as work-related expenses, respondents were asked, if they got caught, ‘Would you feel embarrassed?’ and ‘Would you feel guilty?’ The

four items showed high internal consistency ($\alpha = 0.93$) and were averaged to obtain scale scores.

Perceived legitimacy of the tax system was measured by nine items that tapped into the perceived fairness of the Tax Office (for example, 'Our tax system is fair'), the Tax Office representing Australian norms and values (for example, 'The Tax Office is an institution that represents what the Australian people believe in') as well as favourability toward and trust in the tax authority (for example, 'The Tax Office can be trusted to administer the tax system so that it is right for the country as a whole'). Scale scores were obtained by averaging across items ($\alpha = 0.91$).

Finally, the survey included measures of two possible broad motivations to evade tax: 'People who evade tax probably do so for many different reasons. Even if you would never evade tax, we are asking you to imagine why you might do it if you did. In other words, if you were to ever evade tax, what would be a likely reason for doing so? If I ever evaded tax, I would do so because...' Four items measured an *antagonistic motivation* to defy the tax authority out of resentment or game-playing (for example, 'I would enjoy tricking the Tax Office', 'I would have had a bad experience with the Tax Office and would want to get even'; $\alpha = 0.85$). Five items measured a motivation of *justified self-interest* where taxpayers look after their own interests and may justify this with arguments of fairness (for example, 'I would look after my own interests first, as everybody else does', 'I would want to compensate myself for being unfairly disadvantaged by the tax system'; $\alpha = 0.69$).

Respondent sex (1 = *male*, 2 = *female*), age (in years), education level (1 = *not much formal schooling*, 8 = *post-graduate degree*), family income (0, 5, 10, ... 75, 100, 250+ thousand dollars) and language spoken at home (non-English speaking background, 1 = *no*, 2 = *yes*) were also obtained and included here as background characteristics. However, they will not be discussed in detail.

Results

Table 2 shows overall means, standard deviations, and intercorrelations for the five identity measures. Respondents indicated strongest identification as honest taxpayer, then as an individual and Australian; levels of identification with one's economic and occupation groups were somewhat lower. Importantly, the latter two identities were strongly correlated ($r = 0.71$). Because these two concepts could therefore mutually inhibit their regression effects on other variables, the two scales were joined to form a single measure of subgroup identity (factor analyses confirmed that the six items of economic and occupational identities loaded on one factor). All six items were averaged for a score of subgroup identity ($\alpha = 0.87$); its descriptive statistics are also included in Table 2.

Regression analyses were used to investigate the implications of the different taxpayer identities for tax attitudes and ethics. First, because the identity as honest taxpayer is likely not only to affect, but also to be affected by one's tax ethics, it could be considered partly a derivative of other identities.

Table 2: Descriptive statistics and correlations of identity variables

Identity variable	M	SD	1	2	3	4	5
1. Individual	5.90	1.07	–				
2. Economic	4.32	1.50	0.04	–			
3. Occupational	4.16	1.60	0.04	0.71***	–		
4. Subgroup	4.24	1.43	0.04	0.92***	0.93***	–	
5. Inclusive	5.59	1.25	0.33***	0.35***	0.32***	0.35***	–
6. Honest taxpayer	6.16	1.01	0.41***	0.19***	0.14***	0.17***	0.47***

Note. The variable *subgroup* is an aggregation of *economic* and *occupational* items.

† $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Table 3 (left-hand column) shows how an identity as honest taxpayer was related to the other taxpayer identities. While subgroup identity shows no relationship, both individual and Australian identities were positively related to an honest taxpayer identity. This indicates that a self-definition as honest taxpayer derives, on the one hand, from one's most inclusive self-definition, presumably because it implies concern for the welfare of country

and fellow citizens who are considered part of one's extended self. On the other hand, an honest taxpayer identity is also related to an individual identity that seems to include personal integrity and noncorruptability as positive attributes.

Because an identity as honest taxpayer can thus bundle and mediate effects of the other taxpayer identities, all following analyses will be conducted in two steps: Step 1 without honest taxpayer identity and Step 2 including it as a predictor variable. Table 3 shows the results for the prediction of personal ethics, perceived social norms, and anticipated shame or guilt. The regression model for personal ethics yielded in the first step, consistent with the previous analysis, positive effects of both individual identity and Australian identity. Again, positive taxpayer ethics seem to derive partly from one's personal integrity as a defining positive attribute of individual identity, and partly from one's inclusive self-definition that implies concern for collective welfare. However, subgroup identity was significantly negatively related to personal ethics: the more strongly taxpayers identified with their (economic or occupational) subgroup, the less they endorsed positive tax ethics. Highly identified with their interest group, taxpayers may not believe that conforming tax ethics are in the interest of their group, and they may instead perceive group norms as opposing the tax system. When the honest taxpayer identity was included in the model, it mediated the effect of individual identity completely, but the effects of Australian identity only partially. Even when controlling for honest taxpayer identity, Australian identification had still a significant effect on tax ethics. The effect of subgroup identity remained unchanged.

Table 3: Regression analyses (1)

Predictor	Honest taxpayer identity (β)	Personal ethics		Social norms		Shame/guilt	
		Step 1 (β)	Step 2 (β)	Step 1 (β)	Step 2 (β)	Step 1 (β)	Step 2 (β)
Sex	0.07*	0.04	0.01	-0.04	-0.05	0.11**	0.08*
Age	0.04	0.20***	0.18***	0.05	0.05	0.05	0.03
Education	-0.07*	0.05	0.08*	-0.05	-0.04	-0.02	0.01
Family income	-0.00	0.06 [†]	0.06 [†]	0.02	0.02	-0.01	-0.01
NESB	-0.01	-0.10**	-0.10***	0.05	0.06	-0.03	-0.03
Individual identity	0.29***	0.11**	0.00	0.05	0.02	0.04	-0.07 [†]
Subgroup identity	0.01	-0.19***	-0.20***	0.07 [†]	0.07 [†]	-0.06 [†]	-0.06 [†]
Australian identity	0.35***	0.21***	0.08*	0.04	0.01	0.26***	0.12**
Honest taxpayer identity	--	--	0.37***	--	0.09*	--	0.38***
R^2	0.30	0.15	0.24	0.02	0.03	0.09	0.19
F	44.00***	17.53***	28.66***	2.50*	2.69**	9.25***	20.25***
df	8; 807	8; 803	9; 802	8; 797	9; 796	8; 798	9; 797

[†] $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

The regression model for perceived social norms showed a marked absence of substantial effects. Interestingly, subgroup identity tended to be positively related to social norms conforming with the tax system. A speculative interpretation of this finding is that, when identifying with an interest group, respondents may regard their group as being rather antagonistic to the tax system, compared to which they consider the wider public as more conforming. It may be added that, while this effect was only marginally significant, it became significant and stronger ($\beta = 0.12$, $p = 0.002$) when personal ethics were controlled, suggesting that the effect indeed applied to norms attributed externally, to others outside one's personal or social self. The small but significant positive effect of honest taxpayer identity indicates that respondents either derived their self-defining tax ethics from wider social norms or projected their own ethics onto the wider public (Wenzel, in press).

The regression model for anticipated shame or guilt showed, in the first step, only a substantial effect of Australian identity: the more strongly identified in an inclusive sense, the more shame or guilt respondents anticipated in case of being caught for evading tax. Interestingly, individual identity was not related to shame/guilt, different from the findings for personal ethics. This indicates that shame/guilt are truly social emotions that derive from one's commitment to the norms of one's moral community. These emotions are not engaged in respondents who define themselves as autonomous and independent from others, even though personal integrity may be a relevant attribute of one's individual self. The second step of the analysis showed that an honest taxpayer identity only partially mediated the effect of Australian identity on anticipated shame/guilt, further testimony to the social foundation of these important self-regulatory emotions. Controlling for honest taxpayer identity, individual identity even tended to be negatively related to shame/guilt, indicating that this identity may be about distancing oneself from the conformity pressures of the wider community.

Table 4 shows the results of equivalent regression models for legitimacy, antagonistic motivation, and justified self-interest. First of all, the model for legitimacy yielded again a significant and substantial effect of Australian identity: the more strongly respondents defined themselves in this inclusive sense, the more legitimate they perceived the tax

system to be. Identification with one's nation implies commitment to the values that are (supposed to be) reflected in its public institutions, as well as perceived representativeness of these institutions for one's extended self (Wenzel & Jobling, 2004). Perceptions of legitimacy thus derive from an inclusive self-definition. In contrast, individual identity was negatively related to perception of legitimacy. This, again, suggests that an individual identity resists capture by a social group, strives to maintain independence from inclusive social values, or holds divergent views about what these values should be. Interestingly, however, subgroup identity, for which similar arguments could be made, was not systematically related to legitimacy. Honest taxpayer identity had likewise no effect and its inclusion, therefore, did not affect the other results.

Finally, let us investigate the relationships between taxpayer identity and two broad motivations to evade tax. An antagonistic motivation to evade tax out of defiance, resistance, or retaliation against the tax authority showed small negative effects of individual and Australian identities. However, Step 2 revealed that these were fully explained by identification as honest taxpayer, which substantially inhibited such an antagonistic motivation. Subgroup identity, in contrast, had a weak but significant positive effect, suggesting that identification with subgroups, commitment to their particular perspective and perhaps collectively shared resentment about their treatment, contributes to an antagonistic motivation to evade tax. Subgroup identity also positively contributed to justified self-interest as a motivation to evade tax. However, individual identity had here also a significant positive effect. Thus, taxpayers strongly identifying as individuals, as independent and autonomous agents, may disengage themselves enough not to hold any antagonistic motivation against the Tax Office, but they feel free and justified to pursue their own interests.

Table 4: Regression analyses (2)

Predictor	Legitimacy		Antagonistic motivation		Justified self-interest		
	Step 1 (β)	Step 2 (β)	Step 1 (β)	Step 2 (β)	Step 1 (β)	Step 2 (β)	
Sex	0.03	0.02	-0.07 [†]	-0.05	-0.07*	-0.07*	
Age	.11**	.10**	0.01	0.02	-0.08*	-0.08*	
Education	0.02	0.03	-0.04	-0.06	-0.09*	-0.09*	
Family income	0.03	0.03	0.02	0.02	-0.02	-0.02	
NESB	0.03	0.03	0.01	0.01	0.01	0.01	
Individual identity	-0.09*	-.10**	-0.08*	-0.02	.14***	.15***	
Subgroup identity	0.01	0.01	0.09*	0.09*	.12**	.12**	
Australian identity	.23***	.21***	-0.07 [†]	0.00	-0.07 [†]	-0.07	
Honest taxpayer identity		0.06		-.21***		-0.01	
	R^2	0.06	0.06	0.03	0.06	0.04	0.04
	F	6.24***	5.78***	2.51*	5.21***	4.48***	3.98***
	df	8; 784	9; 783	8; 800	9; 799	8; 803	9; 802

[†] $p < 0.10$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Discussion

This second study investigated various taxpayer identities in terms of their implications for tax attitudes and ethics. The findings show that both a socially very exclusive identity as an individual as well as a very inclusive identity in terms of one's nation (the relevant inclusive category in the context of a national tax regime) have positive implications for tax ethics. However, for an individual identity these seem to be more limited. A strong personal identity seems to engage a sense of personal integrity as a positive attribute, which implies an identity as honest taxpayer and the self-ascription of positive tax ethics. However, the independence and disengagement from the social environment, which are inherent in such an exclusive self-definition, means that these ethics have limited self-regulatory impact. They do not seem to imply feelings of shame or guilt anticipated for the case that one were caught evading tax. There also appears to be an attempt to maintain independence and escape any capture that the attribution of legitimacy to the tax system could imply. Moreover, there is a sense that tax evasion could be justified after all on the basis of justified self-interest.

In contrast, an inclusive identity in terms of the nation puts one's tax ethics on a social basis, with much broader effect. Consistent with the assumption that such an identity implies a commitment to the greater collective good, concern for the welfare of other fellow citizens as well as a sense of cooperation and cohesion, strongly inclusively identified taxpayers tend to define themselves as honest taxpayers and have positive tax ethics. Moreover, inclusive identity implies commitment to and internalisation of collective norms and values, leading to the anticipation of shame and guilt if one were caught evading tax – a powerful social control (Grasmick & Bursik, 1990). Further, inclusive identity means being committed to political processes that put public institutions in place as well as regarding these institutions as representing collectively shared values (but note that institutions also need to confirm these expectations, specifically by maintaining justice and fairness; Tyler, 1997; Wenzel & Jobling, 2004). Hence, institutions such as the tax authority and the tax system are considered more legitimate, instilling a sense of duty to comply with them (Tyler, 2001b).

Finally, identification at an intermediate level of inclusion, with a subgroup or interest group of taxpayers, tends to have adverse consequences for (conforming) tax ethics. It undermines personal tax ethics, tends to reduce anticipated feelings of shame and guilt, and instead fuels motivation to evade tax out of antagonistic posturing, resentment, and revenge, as well as out of justified sentiments to look after one's own interests (see Braithwaite, 2003b). These effects are likely due to the feeling that one's resentment is shared with others, which forges a subgroup identity and gives rise to group norms of dissent and noncompliance (which mean that tax evasion is not shameful but perhaps rather heroic). Such perceived subgroup consensus and social support trigger opposition and defiance against the tax authority as an outgroup (Taylor, 2003), or at least they lead to the view that it is time to look after one's ingroup interests first.

CONCLUSIONS

The present research revealed that taxpayers consider themselves members of a large variety of social categories and groups. This result reflects the great heterogeneity of taxpayers in terms of their backgrounds and circumstances; but more importantly, it is testimony that these differences matter to them in the context of tax. Most taxpayers referred to their employment situation, their income status, and their professional group to position themselves; they categorised themselves mainly at intermediate levels of inclusiveness. They thus seemed to perceive greater division among taxpayers than they saw unity and similarity in contributing as taxpayers to the welfare of their country. In fact, only three out of 1200 respondents in Study 1 categorised themselves more inclusively as Australian citizens or taxpayers. While perhaps the framing of the question prompted greater self-categorisation at a subgroup level (even though nothing in the wording itself prevented respondents from using an inclusive category, as it probably did for individual self-categorisation), taken at face value and in light of the findings of the second study this result suggests a problem, at least for tax compliance in the Australian context.

The second study showed that subgroup identities (in terms of profession and income) were negatively related to tax ethics and self-regulatory emotions such as shame and guilt; and they were positively related to two motivations to evade tax. In contrast, an inclusive

identification in terms of one's nation was positively related to a range of attitudes and ethics conducive to tax compliance, namely an identity as honest taxpayer, conforming tax ethics, shame and guilt if found evading tax, and perceived legitimacy of the tax system. These positive effects of an inclusive identity are consistent with other research findings in social and organisational psychology, for example, that an inclusive group identity increases cooperation in social dilemmas (Brewer & Kramer, 1986; Brewer & Schneider, 1990), rule compliance and extra-role behaviour in organisations and other contexts (Tyler & Blader, 2000; Tyler, DeGoeij & Smith, 1996), work motivation (Haslam, Powell & Turner, 2000), trust (Kramer, 1999), and attribution of leadership (Haslam & Platow, 2001).

The direct implication for tax administration and regulation more generally seems to be that social identity, specifically a sense of inclusion, can provide considerable leverage for compliance. Similar to leaders in organisational or political contexts, regulatory authorities may want to think of themselves as 'entrepreneurs of identity' (Reicher & Hopkins, 1996; see Haslam, 2004). Effective regulation, this suggests, should induce, maintain, and harness social identities that promise to be beneficial to the attitudes and compliance of the regulated. At least, regulators should be aware that whatever regulatory actions they take these could have negative side effects on people's sense of identity, undermining compliance levels.

A cynical interpretation could understand this as a call for mass manipulation through feigning a nice and harmonious inclusive identity, and there may indeed be some danger of this sort. However, first, I do not believe that the threat of punishment (as the standard regulatory means), even if it allows would-be offenders an informed weighing of costs and benefits of compliance, is more respectful of liberal values such as autonomy and freedom (see Duff, 2001). Second, a sense of inclusion can hardly be enforced. If it is seen as a manipulative and insincere means of control, this, as with other forms of coercion, will likely be attributed to an outgroup (Taylor & McGarty, 2001) – undermining the very attempt of portraying the regulator as a legitimate representative of an inclusive category. As a consequence, one-off measures that aim at quick fixes are unlikely to lead to positive results; rather the regulator will need to engage in a long-term process of sincere

relationship building. Such a process may build on principles of justice and fairness, treating people with respect, consulting broadly with one's clientele, and conveying that one's rules and actions are consistent with values broadly shared within the inclusive category (Tyler, 2001b).

Moreover, while it can be concluded from the present findings that regulators should appeal to a sense of inclusive identity and avoid appearing socially divisive, they also should not simply ignore existing subgroup identities. On the contrary, similar to the forging of an organisational identity or the negotiation of a consensual conflict settlement (Eggins, Haslam & Reynolds, 2002; Eggins, Reynolds & Haslam, 2003), it is better to acknowledge the identities that matter to people, give these groups their say, and work with them towards a consensual understanding of a more inclusive identity. This would seem more effective in particular in a broad regulatory area such as taxation with its vast numbers of regulatees. To consensualise an inclusive identity, the hierarchical structure of social categories could here exactly be utilised by engaging first with smaller interest groups, enabling them to form their voice, towards building views about shared inclusive goals and values, and establishing how the subgroup's role and standing fit in with these. Consulted and respected in their relevant subgroup identities, people are more likely to regard the system as fair and to feel ownership of and commitment to the inclusive goals and values (see Haslam, Eggins & Reynolds, 2003).

The concept of identity thus informs regulatory theory and, specifically, the notion of responsive regulation (Braithwaite, 2002) in several ways. Namely, it speaks to each of the three elements of responsive regulation identified at the beginning of this article. First, as shown in the present studies, the concept of identity acknowledges the diversity of regulatees and the social foundation of their motives and values. An understanding of people's identity and their positioning in relation to the regulator and other regulatees facilitates a diagnosis of their motivational postures (Braithwaite, 1995, 2003b) to which regulators can respond with appropriate measures selected from a suite of regulatory strategies (Ayres & Braithwaite, 1992). Second, such an analysis points to the potential of, and barriers for, voluntary compliance and self-regulation. Personal ethics and moral emotions of shame and guilt are mechanisms of self-regulation at the level of individual

regulatees. As the present results suggest, these depend in particular on a sense of inclusive identity. Therefore, identity formation could be a crucial process for meta-regulation, the 'regulation of self-regulation' (Parker, 2002; see also Braithwaite, 2003) of individuals.

Whether and how these processes apply to corporate entities or their representatives remains to be explored. However, it could well be that a company's commitment to national identity and welfare (or its attempt to maintain a public image of this kind) also provides a basis for effective corporate self-regulation.

Third, regulatees' identification in terms of any subgroup, if it occurs, is subjectively real and needs to be acknowledged and respected. Regulators cannot simply impose a sense of inclusive identity, inclusive norms and values, but rather need to be responsive to the identities that regulatees perceive as relevant for themselves in the given context. Regulators need to acknowledge regulatees' subgroup identities and, in fact, work with these identities towards a consensus about higher-order values and goals, and means to achieve them.

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