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eJournal of Tax Research

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The Effects of Attribute Framing and Political Party Affiliation on Taxpayer Preferences

John Hasseldine^{*} and Peggy A. Hite[†]

Abstract

Understanding how tax reforms, tax agency initiatives, and taxpayer characteristics influence attitudes such as perceptions of tax fairness is an important issue for tax researchers, administrators, and policy makers. Public support for the tax system has serious implications for taxpayer compliance as well as for political support on tax-related proposals. This study examines whether attitudes toward the federal income tax system and the 2001 tax rebate vary by political party affiliation and by attribute frames. Using data from a randomized telephone survey we find that perceptions differ significantly by political party affiliation. In addition, our study extends prior research by showing that simply manipulating the perspective or frames of an attribute can significantly affect normative evaluations of tax law preferences. Specifically, we test attribute framing in a tax context and find that negative frames elicit significantly different preferences about the tax system compared to positive frames with essentially equivalent information.

INTRODUCTION

For tax reform to occur, a major political party must support the reform, but this is not likely to happen unless politicians believe the reforms will be embraced by the voting public. Consequently, any study of taxpayer attitudes would benefit from examining whether the attitudes are dependent on underlying political affiliations. Prior research, however, has shown that taxpayer attitudes are highly variable and context-dependent (McCaffery and Baron 2001). These researchers warn that politicians who best “frame” their arguments will rally public opinion. The present study examines two potential influences on taxpayer attitudes—political party affiliation and attribute framing.

Our study contributes to the framing literature by examining how positive and negative attribute frames affect taxpayer responses on attitudes toward the fairness or unfairness of the current tax system. McCaffery and Baron (2001; 2002) did not study attribute framing but they examined and found other potentially biasing frames. Given the liability of public judgments, they warned that conclusions about taxpayer preferences may be illusive. Our study adds attribute framing to the list of biases that need to be considered before drawing conclusions about taxpayer judgments.

In addition to attribute framing, attitudes towards taxes may vary with political affiliation. McGowan (2000) found that Republicans were more likely to prefer flat tax and sales tax systems over the current system than were Democrats and Independents.

Since tax attitudes may be influenced by one’s political preferences, taxpayer attitudes towards the current system are tested for differences by political affiliation (Democrat,

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Republican, and Independent). We also test for political party effects on taxpayer attitudes towards a specific aspect of the income tax system, the tax rebate in 2001. Given new Congressional and Presidential proposals that include the use of rebates and given the constant political rhetoric about unfair taxes, academics will want to be informed about how the proposals and their presentation may impact their subsequent acceptance.

Our results support four basic conclusions. First, taxpayer preferences differ when they are in response to negative attributes such as unfairness rather than in response to positive attributes such as fairness. Second, political party affiliation is linked to taxpayer preferences. Third, the more closely identified the tax provision is to a specific party, the more favorably it will be received by members of that party relative to taxpayers with other political party affiliations. Fourth, the 2001 tax rebate tended to be viewed positively by taxpayers, and those who did perceive it positively also tended to perceive the current system as more fair.

This paper proceeds by reviewing the relevant literature, explaining the research method used for this study, presenting the results, and then discussing the conclusions and limitations from the study.

BACKGROUND

Framing Effects

Public opinion on the U.S. tax system can be a relevant factor for determining the characteristics of that system. Prior studies have attempted to measure the impact of traits, such as equity and complexity, on tax attitudes and compliance. Although some of the results are seemingly inconsistent, several studies document influential effects of these attitudes, especially for fairness (Roth et al. 1989; Roberts 1994; Forest and Sheffrin 2002). Given the potential impact of attitudes, it is important that the effect is not misrepresented because of a framing effect.

Prior research has shown that attitudes are biased by the way they are solicited. A growing body of literature has found a variety of framing effects. At a general level, Druckman (2001) notes in the political science literature that framing effects are subject to a lack of agreement in terms of their definition, and lack of understanding as to when they occur and why. This problem has been somewhat alleviated by Levin et al. (1998) who show that all frames are not equal and propose a taxonomy of three separate types of framing effects (risky choice, attribute, and goal framing).

In a tax context, prior research has shown that tax attitudes differ according to how information is presented, e.g., when tax rate preferences are framed in percents rather than dollar amounts (Hite and Roberts 1991; McCaffery and Baron 2001). McCaffery and Baron (2002) confirm that finding and also show that preferences are affected by a disaggregation bias. That is, subjects repeatedly assess a smaller tax when asked to calculate the sum of income and payroll taxes compared to when one tax is assigned and subjects calculate the remaining tax.

McCaffery and Baron (2001) also document a “penalty aversion” bias in which taxpayer preferences vary with framing manipulations that portray the tax system as either providing a bonus or assessing a surcharge. They found that subjects preferred to give a bonus (lower taxes) to couples with children rather than assess additional tax

to couples without children. The bonus/surcharge terminology is consistent with the literature on attribute framing (Levin et al. 1998).

The tendency for losses to loom larger than gains (Kahneman and Tversky, 1979) is closely associated with the framing literature. Prospect theory was originally described as an explanation for economic risk preferences, but researchers have validated it in many decision contexts (Payne et al., 1984; Levin et al. 1987). Levin et al. (1998) and Rothman and Salovey (1997) conclude that objectively equivalent information can differentially affect attitudes, depending on whether it is positively or negatively framed. For example, Ganzach and Karsahi (1995) found that negative messages that emphasized disadvantages of using checks or cash payments had a much stronger effect on the subsequent use of credit cards than did a positive message emphasizing the benefits of using a credit card.

In summary, prior research suggests that attitudes will differ for positively and negatively framed information. As no prior study has examined whether attribute framing will affect taxpayer attitudes, our study applies these contrasting frames to the measurement of taxpayer attitudes toward the current income tax system, as no prior study has examined whether taxpayer attitude toward the tax system is affected by positive or negative wording. The first proposition tests whether attitudes toward the current income tax system vary when asked whether the system has become more fair and less complex (positive frame) or more unfair and complex (negative frame). The framing literature suggests a significant difference is expected. Thus, the first hypothesis is:

H1: Taxpayer attitude towards the current income tax system will not differ when framed positively (fair system) or negatively (unfair system).

Political Party Affiliation

An association between political affiliation and taxpayer attitude was documented by McGowan (2000) in a July 1995 nationwide telephone survey of U.S. homeowners. Wildavsky (1996), however, did not find a significant relationship in her October 1995 telephone survey. McGowan (2000) attributed the inconsistent results to the wording of the attitude questions. Wildavsky's results (1996) were based on the question, "What is the highest percentage of income that would be fair for a family of four making \$200,000 to pay in all taxes combined?" In contrast, McGowan's results (2000) were based on taxpayers' preferences for a flat tax, value-added tax, sales tax, or the current income tax system. Thus, agreement exists in regards to maximum desired tax burden, yet political party affiliation influences preferences for different types of tax systems. Differences in the two studies emphasize the importance of acknowledging exactly what attitude is being examined. The differing results could be attributed to the distinct tax issues—maximum tax rates versus type of tax structure. This is supported by Gerbing (1988) who examined tax fairness and found that tax burden and tax structure represented distinctly different dimensions of tax fairness.

McGowan's hypothesis (2000) was based on Political Affiliation Theory, which posits that people with a strong party identification are more likely to support policies that their own party supports. Many researchers have documented the association between political beliefs and judgments about public policy issues (Sears et al. 1980; Rasinski and Tyler, 1988). Alvarez and McCaffery (2000) examined exit poll data from the 1996 presidential election and found that only 4.8 percent of the voters thought tax

was the most important issue facing the nation. Nonetheless, if voters thought of taxes as the most important issue, they were 15 percent less likely to vote for the Democratic presidential candidate, 13 percent less likely to vote for a Democratic senator, and 11 percent less likely to vote for a Democrat in the House of Representatives.

Prior research has not demonstrated which comes first, support for tax programs and then support for a specific party, or support for a political party and therefore support for its tax policies. In McGowan's study (2000) respondents were more likely to favor a flat tax or a national sales tax since those ideas had been previously proposed by prominent Republicans. That finding is based on a statistical correlation, making the cause-and-effect relationship difficult to establish. Similarly, our study does not test the chronological order of support for tax policies and support for a political party, as the results are based on statistical associations.

We test for the effect of political party affiliation on two tax attitudes: 1) overall taxpayer attitude about the current income tax system and 2) attitude towards a specific tax issue, the 2001 income tax rebate. It seems plausible that political party effects are more visible on specific issues rather than on general attitude towards the overall system. Roberts et al. (1994) found that tax preferences on progressivity varied by whether the question was an abstract or concrete one. An abstract idea tends to have a more diverse interpretation than a concrete application. Hence, systematic differences due to political party preferences could be harder to detect on an abstract question. Thus, the hypotheses we test are:

H2: Taxpayer attitude towards the current income tax system will vary by political party affiliation.

H3: Taxpayer attitude towards the 2001 income tax rebate issue will vary by political party affiliation.

Tax Rebate

In 2001 the U.S. Congress passed a tax relief plan that gave single taxpayers a \$300 tax rebate, head of households a \$500 rebate, and married filing joint taxpayers a \$600 rebate. The rebate represented a reduction in tax rates from 15 percent to 10 percent on the first \$6,000, \$10,000, or \$12,000 of respective taxable income. Treasury Secretary O'Neill stated that the tax relief plan "softened the economic downturn" (*Wall Street Journal*, February 27, 2002, p. A1), yet the Office of Tax Policy Research at the University of Michigan found that only 22 percent of respondents in a University of Michigan survey indicated that they anticipated they would spend the rebate. The present study was conducted a couple of months after the Michigan survey, and over 50 percent indicated they spent the rebate.

Given current tax reform proposals, attitude towards a tax rebate is both policy relevant and of practical interest. In early 2003 tax reforms were proposed to spur economic growth. Although the Democrat and Republican proposals differed on several dimensions, one element that both proposals included was a rebate feature (*Wall Street Journal* 2003). Apparently, both parties believe that providing a quick rebate is an effective strategy. Successfulness of the 2001 rebate has not been documented, yet clearly the idea is being embraced by both political parties.

In his State of the Union address on January 29, 2002, President George W. Bush stated that the “tax relief was just right.” To date, however, sentiment toward the tax rebate has not been documented, nor has its effect on taxpayers’ overall attitude towards the current income tax system. Thus, the fourth hypothesis is as follows:

H4: A positive attitude toward the rebate will be associated with a positive attitude toward the current income tax system.

METHOD

Approximately 500 subjects from Indiana participated in a statewide telephone survey during November-December, 2001. Households were selected by a professional survey firm using the Genesys list-assisted method. This method allows for unpublished numbers and new listings to be included in the sample. All subjects were asked whether for 2001 they expected to have a balance due or a refund. They were also asked whether they had received a rebate check, when they received it, and to describe what they did with the rebate check (e.g., spent it, saved it, gave it to charity, or did nothing yet).

Equity and simplicity have long been considered important criteria for determining good or bad tax policy. We use these two dimensions to examine framing effects. One-half of the subjects were asked if they agreed or disagreed with the statement “Recent tax laws are proof that the federal income tax laws are becoming more unfair and complex” For parsimony, this NEGATIVE FRAME is shortened throughout the paper as the “unfair” system. The other half were asked if they agreed or disagreed with the statement “Recent tax laws are proof that the federal income tax laws are becoming more fair and less complex” This POSITIVE FRAME is referred to as the “fair” system. To strengthen the positive versus negative frames we used two positive attributes, more fair and less complex, and two corresponding negative attributes, more unfair and complex. Thus, the nature of our test emphasizes the contrast between positive and negative frames.

After subjects were asked for their agreement or disagreement with the fairness or unfairness of the current tax system, they were then asked about their attitude toward the rebate. Subjects were asked whether they agreed or disagreed with the following statement, “Sending taxpayers a rebate check was the right thing for Congress to do.” The fair/unfair descriptors were not included in the rebate question to avoid creating a demand artifact that would overly influence a correlation between a fair [unfair] rebate and fair [unfair] tax laws.

Demographic information was collected at the end of the survey. Data included age, income level, education level, number of children in the household, gender, marital status, and political party affiliation (Democrat, Republican, Independent, or other). Parametric and non-parametric tests were calculated to ensure that the two randomly assigned groups for positive and negative frames did not differ on the rebate question or on any of the demographics. No statistical differences were found.

RESULTS

Table 1 shows the demographic statistics for 421 respondents who answered all of the survey questions. Political party affiliation was fairly balanced: 26 percent indicated they were Democrats; 34 percent indicated Republican, and 40 percent indicated either Independent or “other” (e.g., “I vote for the person,” “I don’t have a party,”...). The

Independents and those indicating “other” were tested for differences on demographic variables and on the attitude variables. No significant differences were found. Thus, the two groups were categorized as one larger group of Independents.

TABLE 1 DEMOGRAPHIC STATISTICS

<u>GENDER</u>	<u>AGE*</u>	<u>EXPECTED TAX STATUS*</u>
Male (1) 44%	18-29 (1) 17%	Refund (1) 75%
Female (2) 56%	30-44 (2) 35%	Balance Due (2) 25%
	45-64 (3) 33%	
	65+ (4) 15%	
<u>INCOME*</u>	<u>EDUCATION</u>	<u>POLITICAL AFFILIATION</u>
Under \$25,000 17%	1-11 years (1) 6%	Democrat (1) 26%
\$25,000-<\$75,000 60%	High School (2) 32%	Republican (2) 34%
\$75,000 or More 23%	Some College (3) 27%	Independent (3) 40%
	B.S. or higher (4) 35%	
<u>FAIR TAX SYSTEM+</u>	<u>UNFAIR TAX SYSTEM+</u>	<u>TAX REBATE CHECK*</u>
Strongly Agree (1) 4%	Strongly Agree (1) 19%	Strongly Agree (1) 34%
Agree (2) 38%	Agree (2) 32%	Agree (2) 27%
Unsure (3) 18%	Unsure (3) 25%	Unsure (3) 9%
Disagree (4) 23%	Disagree (4) 18%	Disagree (4) 14%
Strongly Disagree (5) 17%	Strongly Disagree (5) 6%	Strongly Disagree (5) 16%

*These demographics differed significantly ($p < .05$) by political party. Republicans tended to be older than the Democrats and Independents. More Republicans believed they would have a balance due than the others believed, and Republicans tended to have a higher income level.

+When FAIR TAX SYSTEM was reverse coded, the means for the two differently framed questions varied significantly (means 3.09 for FAIR and 2.59 for UNFAIR; $F = 7.00$, $p = .008$).

Demographic statistics (gender, age, expected tax refund, income, and education) were tested for differences by political party affiliation. Table 1 indicates that significant differences ($p < .05$) were found on age, expected tax refund, and income level. The lack of a significant effect on gender is consistent with the argument of Alvarez and McCaffery (2000) who found that men and women have similar “primary” tax preferences but significantly differ on those preferences when taxes are linked to social policies (e.g., pro-social spending positions). The researchers found that gender was not significant in explaining 1996 presidential voter choice once they controlled for specific issues such as pro-choice, social security, education, economy and jobs.

Republican respondents tended to be older than the Democrats and Independents. More Republicans expected a balance due than did the Democrats and Independents, and the Republican respondents had a higher average income level. Because of the

significant differences, these demographic variables are included as additional variables in a subsequent regression analysis to control for rival explanations.

In regards to the tax rebate check, 64 percent indicated they spent the money; 29 percent said they saved or invested it. A few said they gave it to charity, and the rest indicated they had not yet done anything with the money. The majority agreed that the “rebate check was the right thing for Congress to do” with 61 percent agreeing and 30 percent disagreeing.

In response to the question about an “unfair” tax system, 19 percent strongly agreed, 32 percent somewhat agreed, 18 percent somewhat disagreed, six percent strongly disagreed, and 25 percent were unsure. Thus, over half (51 percent) agreed the current income tax system was “becoming more unfair.” On the other hand, in response to the question about a “fair” tax system, four percent strongly agreed, 38 percent somewhat agreed, 23 percent disagreed, 17 percent strongly disagreed and 18 percent were unsure. That is, 40 percent disagreed the system is becoming more fair and less complex while 51 percent agreed that the current income tax system is becoming more unfair and complex.

To get a combined measure of attitude toward the current income tax system for all of the subjects, the question on a fair system [POSITIVE FRAME] was reverse coded to match the complementary responses to the question on an unfair system [NEGATIVE FRAME]. For example, when the POSITIVE FRAME is reverse coded, an original response of “1” for strongly agree the system is fair becomes a “5.” This equates that response with a “5” on the NEGATIVE FRAME, which indicates strong disagreement that the system is unfair. The combined measure then was used to test the first hypothesis, whether general attitude toward the current income tax system would differ by positive and negative frames. Respondents receiving the NEGATIVE FRAME were significantly more likely to believe the current income tax system was unfair ($F=7.00$, $p=.008$) with a mean of 2.59 versus a mean of 3.09 for the POSITIVE FRAME on a scale from one to five with “1” indicating strong agreement. Hence, the first hypothesis is supported as the framing effects did significantly affect the responses.

The second hypothesis posited that attitude toward the current income tax system would vary by political party affiliation. Since there were three categories for political party, a Bonferroni test was calculated to test for which groups significantly differed ($p<.05$). The results are presented in Table 2. Respondents who identified themselves as Republicans were significantly less likely to believe the system is unfair ($F=6.15$, $p=.002$) than were the Independents, with respective means of 2.97 (s.d. 1.25) and 2.56 (s.d. 1.12). The difference between the Republicans (mean 2.97, s.d. 1.25) and the Democrats (mean 2.78, s.d. 1.18) did not significantly differ. When Republicans were compared to all other respondents (e.g., both Democrats and Independents), the difference was still significant. These results provide support for the second hypothesis.

TABLE 2 ONEWAY ANOVA BY POLITICAL PARTY AFFILIATION

Dependent Variable: UNFAIR TAX SYSTEM [NEGATIVE FRAME]*

	Means (s.d.)	n	F-test	p Value	Bonferoni test
Republicans (R)	2.83 (1.22)	67	4.51	.012	R > I
Democrats (D)	2.76 (1.19)	45			
Independents (I)**	<u>2.36</u> (<u>.97</u>)	<u>92</u>			
	2.59 (1.13)	204			

Dependent Variable: FAIR TAX SYSTEM [POSITIVE FRAME]*

	Means (s.d.)	n	F-test	p Value	Bonferoni test
Republicans (R)	2.90 (1.27)	79	3.09	.048	R = D = I
Democrats (D)	3.27 (1.18)	55			
Independents (I)**	<u>3.14</u> (<u>1.20</u>)	<u>83</u>			
	3.09 (1.22)	217			

Dependent Variable: UNFAIR/FAIR SYSTEM [COMBINED FRAMES]*

	Means (s.d.)	n	F-test	p Value	Bonferoni test
Republicans (R)	2.97 (1.25)	146	6.15	.002	R > I
Democrats (D)	2.78 (1.18)	100			
Independents (I)**	<u>2.56</u> (<u>1.12</u>)	<u>175</u>			
	2.75 (1.19)	421			

Dependent Variable: TAX REBATE CHECK*

	Means (s.d.)	n	F-test	p Value	Bonferoni test
Republicans (R)	2.21 (1.41)	146	7.36	.001	R < I; R < D
Democrats (D)	2.64 (1.47)	100			
Independents (I)**	<u>2.68</u> (<u>1.49</u>)	<u>175</u>			
	2.51 (1.48)	421			

*See TABLE 1 for the coding of TAX REBATE CHECK, UNFAIR TAX SYSTEM and FAIR TAX SYSTEM. The latter was reversed coded for the COMBINED FRAMES.

**Those indicating "other" were grouped with those indicating they were Independents. When contrast tested, the means for Independents did not significantly differ from the "other" category.

The third hypothesis posited that taxpayer attitude toward the tax rebate, a concrete tax issue, would vary by political party affiliation with Republicans tending to favor the rebate more than the Democrats or Independents. The results in Table 2 indicate that the third hypothesis is supported. According to the Bonferoni test, Republicans were the most likely to agree with the Congressional decision to issue rebate checks (mean 2.21, s.d. 1.41). This was significantly more positive than either the Democrats' attitude (mean 2.64, s.d. 1.51) or the Independents' response (mean 2.68, s.d. 1.48).

Age, income, and expected refund status were significantly associated with political party affiliation. To ensure that the political party effects on tax attitudes reported in Table 2 were not being driven by these demographic variables, regression analyses were computed on overall attitude toward the current income tax system, fair tax system, unfair tax system, and on attitude toward the tax rebate. Independent variables included political party, framing effect, expected tax status (refund or balance due), age, and income level. In addition, since taxpayer rebate attitude was affected by political party affiliation, taxpayer rebate attitude was added to the model. By doing this, any resulting impact of political party affiliation would be over and beyond the influence of the tax rebate. The results are presented in Table 3.

The regression results for the combined measure of attitude towards the tax system (negative frame and reverse-coded for positive frame) are presented in the first column of Table 3. To simultaneously test differences between Democrats, Republicans, and Independents, two dummy variables were created, one for Democrats versus all others and another for Republicans versus all others. Furthermore, the multivariate models were tested with a linear model and a non linear model. Since the dependent variables are ordinal, a linear regression could be inappropriate if the data are not normally distributed. Thus, the dependent variables were recoded as discrete variables (fair/unfair or agree/disagree) and then tested using logistic regressions. The results were statistically equivalent, suggesting the statistical results are robust. Hence, the results presented in Table 3 reflect the data in its original form (using scales from 1-5).

The data show that after controlling for taxpayer rebate attitude, framing effects, age, income, and expected refund status, political party affiliation still had a significant impact on attitude towards the current income tax system (combined frames). Republicans were less likely to believe the system is unfair than were the other respondents. The variable comparing Democrats to all other respondents was not significant. In addition, framing effect and taxpayer rebate attitude were significantly correlated ($p < .05$) with attitude towards the tax system. Negatively framed attitude was associated with a greater tendency to perceive the tax system as unfair than was the positive frame. Agreeing with the tax rebate was associated with agreeing the system is fair (and disagreeing that the system is unfair), thus supporting the fourth hypothesis.

The impact of rebate attitude on attitude toward the system is further verified in the regression on FAIR SYSTEM, which analyzes only the subjects who were asked to agree or disagree that the current tax system is fair (POSITIVE FRAME). In other words, the more subjects agreed with the rebate, the more they believed the current tax system is fair. That relationship was not significant in the regression on UNFAIR SYSTEM. This implies that the rebate was salient to taxpayers and was likely to have been included in their mental schema representing what is fair about the system but not in their schema representing what is unfair about the system. Consequently, the implication suggests that the rebate may have increased overall positive attitudes towards current tax laws. Yet, it did not reduce any of the negative attitudes. A premise underlying attribute framing is that the positive terms cause the respondent to recall positive aspects while negative terms cause the respondent to focus on negative aspects (Levin et al. 1998).

TABLE 3 REGRESSION RESULTS ON COMBINED FRAMES, FAIR SYSTEM, UNFAIR SYSTEM, AND TAX REBATE CHECKS

Independent Variables	Dependent Variables [Coefficient Estimates (t-statistics)]			
	<u>COMBINED FRAMES</u>	<u>FAIR SYSTEM</u>	<u>UNFAIR SYSTEM</u>	<u>TAX REBATE</u>
Democrats vs. Others	-.08 (-1.48)	-.01 (-.19)	-.22 (-2.94)***	.00 (-.02)***
Republicans vs. Others	-.13 (-2.54)**	.04 (.57)	-.23 (-3.06)***	.16 (2.94)***
Expected Tax Status	.07 (1.30)	-.07 (-1.00)	.08 (1.14)	.13 (2.61)***
Age	-.09 (-1.86)*	.15 (2.21)**	-.05 (-.54)	.03 (.58)
Income	.02 (.34)	.00 (.06)	.02 (.30)	.08 (1.72)*
Framing Effect	-.13 (-2.73)***	na	na	-.02 (-.40)
Tax Rebate	-.17 (-3.57)***	.39 (6.09)***	.09 (1.22)	na
Combined Frames [^]	na	na	na	-.17 (-3.57)***
Intercept	(8.22)***	(2.76)***	(2.66)***	(2.35)**
Adjusted R-square	.06	.16	.05	.06
F-test	5.00***	7.75***	2.66**	5.06***
N	421	217	204	421

*Indicates level of significance: *p<.10; **p<.05; ***p<.01.

[^]Positive frame (Fair system) was reverse coded and then combined with the responses to negative frame (Unfair system). Thus, a low score of “1” means either agree system is more unfair or disagree system is more fair; “5” represents disagreement system is unfair or agreement system is fair.

Consistent with Table 2, political party affiliation was not associated with attitude towards a fair system [POSITIVE FRAME], but it was associated with attitude towards an unfair system [NEGATIVE FRAME]. Republicans and Democrats were less likely to agree the current tax system is unfair than were the Independents. Given the theory that losses loom larger than gains, it is plausible that attitudes were more salient in the NEGATIVE FRAME evoking a stronger response from the subjects.

The fourth regression in Table 3 presents the results on attitude towards the rebate for all of the subjects. Once again, responses by Democrats were compared to all other respondents, and Republican responses were compared to all other respondents. Thus, the model tests for the political party effect, while controlling for framing effect, combined tax system attitude, age, income, and expected refund status. The model was significant ($F=5.06$, $p=.000$) confirming that Republicans responded more favorably to the tax rebate than did other respondents and that subjects with a more positive attitude toward the system (disagreeing the system is unfair or agreeing system is fair) had a more positive attitude toward the rebate. Furthermore, those who expected a refund on their 2001 tax return were significantly more pleased with the rebate ($t=2.61$, $p<.01$) than were those who expected to pay additional taxes, and lower income respondents were slightly more likely to have a positive attitude towards the rebate. When the same model was tested using a discrete dependent variable for agree/disagree in a logistic regression, the results were statistically equivalent, confirming the results are statistically robust.

CONCLUDING REMARKS

Our study supports and extends prior research on attribute framing (Levin et al. 1998) and on penalty aversion (McCaffery and Baron 2001) by confirming that manipulations of perspectives or frames significantly affect normative evaluations of tax law preferences. When asked whether, given recent tax law changes, the current tax system is more unfair and complex, 51 percent agreed. This significantly differs from the 40 percent who disagreed when asked whether, given recent tax law changes, the current system is more fair and less complex.

A possible limitation, however, is the use of two descriptors in one statement. “More unfair and complex” was compared to “more fair and less complex” to provide salient manipulations of negative and positive attributes, respectively. However, asking for agreement to two terms could have mitigated the likelihood of an effect if the two were inconsistently combined. For example, if respondents agree the system is more complex but disagree the system is more unfair, then level of agreement on one could mitigate disagreement on the other. The same would be true for the opposite descriptors. For example, agreeing the system is more fair could offset disagreement that the system is less complex. The end result would be two responses that both gravitate toward the midpoint decreasing the likelihood of any significant differences between the responses, and therefore biasing *against* the likelihood of finding significant results. Nonetheless, a significant difference was found in our study.

Future research may want to test each attribute separately. To offer additional evidence for the fairness attribute, we asked students in an undergraduate tax class to answer a couple of tax attitude questions. Some of the students were asked to agree or disagree with the statement, “For the most part, the income tax system is an unfair system.” Others responded to “For the most part, the income tax system is a fair system.” Those asked about a fair tax system were significantly more likely to agree the system is fair (79%; $F=5.22$, $p=.03$) than those asked about an unfair system (only 43% disagreed that the system is unfair, or supposedly agreeing it is fair).

Another interesting finding in our study is the significantly negative attitude of the “Independent” respondents on fair/unfair system. The implication is that political party strategists may want to capitalize on the negative tax attitude that Independents have. The results suggest that tax reforms promoting a fairer system (or less unfair

system) could be a promising strategy for getting Independents to support proposed tax reforms. Alvarez and McCaffery (2001) reported that 1996 voter choices for the President, the Senate, and the House of Representatives were more likely to be Republican when the voters thought tax policy was an important issue.

McGowan (2000) reported that 64 percent of the 1995 survey respondents indicated the tax system was unfair. In the present study, the 2001 survey respondents did not judge the system quite as negatively. When asked whether the current tax system is unfair, 51 percent agreed. When asked whether the current tax system is fair, only 40 percent disagreed. Clearly, the wording of the attitude measure affects the response. In addition, perceptions could have changed over time. Perceptions of the respondents from Indiana could differ from the nationwide-homeowner respondents in the McGowan study. In addition, the major tax reform in 2001 could have significantly affected taxpayer opinions. Moreover, increased levels of patriotism after the events of 9/11 could have influenced taxpayer attitudes at least in the short term. Future research should test for long-term effects, for nationwide effects, and for other aspects of tax reforms that may have a positive impact on taxpayer perceptions of the current tax system. While nationwide generalizability on overall attitudes cannot be made, this study does demonstrate that the perceptions are affected by attribute framing effects. This finding is important not only for promoters of tax reforms but also for researchers, as any future reports of taxpayer attitudes should carefully scrutinize how the attitude measure is worded.

In addition, our study demonstrates a significant political party effect on tax rebate attitude. Overall, 61 percent of the statewide respondents indicated they agreed with Congress' decision to issue tax rebate checks. Republican respondents, however, were more likely to agree with the rebates than were Democrats and Independents. This is consistent with prior research by McGowan (2000) since President Bush and the Republican Party were the initial backers of this tax reform. A limitation of our study, however, is that it does not prove the directionality of the results. Future research may want to design a study that tests whether respondents accept a policy because their political party supports it or whether the political party adopts a policy because its constituents support it.

Another interesting finding of the present study is the correlation between favorable attitude on the rebate check and favorable attitude toward the current income tax system. A limitation of the study is that cause and effect cannot be proven. However, rebate checks were mailed a few months before this survey and subjects were asked to agree or disagree with a statement that referred to "recent tax laws." It is, therefore, plausible that the rebate was salient to the respondents and affected taxpayers' general attitude towards the system, at least in the short term. In addition, our study did not explore the reasons why taxpayers reported a favorable or unfavorable attitude toward the rebate. Agreeing the rebate was "the right thing to do" was considered a favorable or positive attitude towards the rebate, even though the "right thing" could be justified for a variety of reasons (e.g., fair, present value of a dollar, or good for the economy).

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Tax Harmonization and Competition in the European Union

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Abstract

This paper presents a comprehensive review and analysis of tax harmonization and tax competition in the European Union. It is shown that while tax burdens in the European Union have increased substantially in the past 35 years, they did not converge. Also, there is no evidence of the 'race to the bottom' in taxing income from capital. However, small European Union country members tend to set lower effective tax rates than larger member countries. There is also a trend to abolish imputation systems in favour of a schedular tax on distributed profits.

I. INTRODUCTION

Economic integration in the European Union (EU) has progressed to a considerable extent culminating in the launch of Economic and Monetary Union (EMU) in 1999. Tax integration, however, has been relatively limited. Tax competition has attracted increasingly international attention, also within the EU. In itself, tax competition is generally welcome as a means of benefiting citizens and of imposing downward pressure on public spending. Unrestrained tax competition for mobile factors, however, can be harmful, for example by biasing tax systems against employment. In 1998, the Organisation for Economic Co-operation and Development (OECD) published a report on this subject presenting recommendations and guidelines (OECD, 1998). This report foresaw that OECD member countries would complete a self-review of their preferential tax regimes by April 2000 and recommended that they eliminate any harmful features of such regimes by April 2003.

Under the 1998 Report, a tax haven is a jurisdiction that:

- imposes no or only nominal taxes (generally or in special circumstances),
- offers itself, or is perceived to offer itself, as a place to be used by non-residents to escape taxation in their country of residence, and
- possesses confirming criteria.

These confirming criteria are:

- lack of effective exchange of information;
- lack of transparency; and
- attracting business with no substantial activities.

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These criteria are consistent with the nature of the tax poaching schemes that are the object of the OECD's work: schemes that impede the ability of home countries to enforce their own tax laws.

Tax havens are often, but not always, somewhat peripherally located countries with extremely favorable tax regimes for certain groups of taxpayers. Examples are the Netherlands Antilles, the Bahamas, and the Cayman Islands. Examples in Europe are Andorra, Monaco, and the Channel Islands. Private investors who shelter their wealth in these tax havens do not pay income tax, wealth tax, or legacy duties provided that they are prepared to practice fraud by hiding their wealth and its returns for the tax man in their own country. The OECD does not confine itself to classic tax havens, but also targets harmful tax practices in industrialized countries. Virtually every industrialized country has certain favorable tax facilities to divert savings, financial activities, or investments from other countries. The OECD aims at phasing out a large number of these harmful facilities by 2006 by means of consultation and exerting pressure.

The EU also favors a coordinated approach to harmful tax competition. The EU (European Commission, 1997) recognizes the need for action at the European level in order to:

- reduce distortions to the single market;
- prevent significant losses of tax revenue; and
- reverse the trend of an increasing tax burden on labor as compared to more mobile tax bases.

Therefore, the EU aims at developing a tax policy that:

- serves the interests of citizens and businesses wishing to avail themselves of the four freedoms¹ of the internal market;
- contributes to a higher efficiency in the functioning of the goods, services and capital markets as well as to a properly functioning labor market; and
- facilitates efforts to cut nominal rates while broadening the tax base, thus reducing the economic distortions associated with national tax systems.

There are two routes to integration: through harmonization and through competition (Kay, 1993). In the first of these approaches the creation of free trade requires prior alignment of the policies and practices of the states involved. Under the second the favored mechanism is to promote integration as rapidly as possible, and let the consequences for rules follow from that. Generally, the EU's role in taxation has been relatively minor, so far. The EU favors tax harmonization, but it has mainly confined itself to harmonization of indirect taxes. Insofar the EU has been involved in direct taxation, it mainly pertains to corporate taxes.

Kirchgässner and Pommerehne (1996) point out that the European Commission first aimed to maximize rather than optimize tax harmonization, which was later followed by a strategy allowing more leeway to the individual member states with respect to their tax policies. Frey and Eichenberger (1996) state that tax harmonization is

¹ These freedoms are the free movement of persons, goods and capital, and the freedom to provide services.

normally advocated because it reduces *economic* distortions and tax competition because it reduces *political* distortions. Politicians pursue their own goals, which may deviate from the preferences of the citizens. One mechanism to ensure that politicians respect citizens' preferences is the exit possibility (voting by feet). Harmonization narrows the exit option by reducing tax differences. Therefore, Frey and Eichenberger (1996) consider harmonization an effective instrument to raise the tax level.

Tax burdens in the EU increased in the past 35 years, but they did not converge.² Table 1 shows that the average tax/GDP ratio in EU countries amounted to 27.9% in 1965 and 41.6% in 2000.³ In 1965, tax burdens ranged from 14.7% of GDP in Spain to 35% in Sweden implying a range of 20.3 percentage points. In 2000, the range had broadened to 23.1 percentage points. Ireland had the lowest tax burden (31.1%) and Sweden the highest (54.2%). The widening of the range is a result of the EU's enlargement. Total tax burdens in the six founding countries (Germany, France, Italy and the three Benelux countries) ranged from 25.5% in Italy to 34.5% in France in 1965 and from 37.9% in Germany to 45.6% in Belgium in 2000. Thus, the range among the founding countries narrowed from 9.0 percentage points in 1965 to 7.7 points in 2000.⁴

EU member states participating in EMU have given up the possibility of an independent monetary policy. Therefore, they have fewer policy options, so they might have incentives to use taxes to achieve competitive advantages. This may intensify tax competition, create additional economic distortions and cause an erosion of tax revenues. Since the introduction of the Euro taxation is higher on the EU agenda than it has been before. The launch of the Euro has strengthened the need for more tax coordination in the field of direct taxes (Monti, 1998). Capital, especially financial capital, is very mobile. Labor is much less mobile, not only because of language and cultural barriers, but also because of differences between EU member states in social benefit systems and taxation of pensions and annuities⁵, labor regulations, etc. As a result, part of the tax burden has shifted to labor. Effective tax rates on labor steadily increased in the period 1970-1998 and are considerably higher than effective tax rates on capital, which hardly rose in the same period (European Commission, 2000, p. 78). However, the shift of the tax burden towards labor is not wholly attributable to tax competition. It is partly the result of ageing of the population, the evolution of tax rates and the fact that employment income is a relatively stable and easily taxable base (European Commission, 1997, p. 4).

² Though I use tax/GDP ratios, it should be noted that this measure does not capture government's influence on the economy through regulation, state-owned enterprises, etc. Moreover, governments can easily manipulate this measure, for example by transforming direct expenditures into tax expenditures or vice versa.

³ In 1965, the EU comprised six member countries. Denmark, Ireland and the UK joined in 1973, followed by Greece in 1981, Portugal and Spain in 1986, and Austria, Finland and Sweden in 1995. Moreover, the former German Democratic Republic (Eastern Germany) joined the EU as a result of the reunion with the Federal Republic of Germany in 1991. For reasons of comparison I have listed all current EU member states from 1965.

⁴ The years used are crucial. For example, the range among EU countries had narrowed to 17.7 percentage points in 1995 from 20.3 in 1965.

⁵ Although member states have regulated the taxation of pensions and annuities by bilateral treaties, double taxation and double non-taxation of benefits still occur resulting in problems for the free movement of workers.

TABLE 1 TOTAL TAX REVENUE AS PERCENTAGE OF GDP

	1965	1970	1975	1980	1985	1990	1995	2000
Austria	33.9	34.6	37.4	39.8	41.9	40.4	41.6	43.7
Belgium	31.1	34.5	40.1	42.4	45.6	43.2	44.6	45.6
Denmark	29.9	39.2	40.0	43.9	47.4	47.1	49.4	48.8
Finland	30.4	31.9	36.8	36.2	40.1	44.8	45.0	46.9
France	34.5	34.1	35.9	40.6	43.8	43.0	44.0	45.3
Germany	31.6	32.3	35.3	37.5	37.2	35.7	38.2	37.9
Greece	20.0	22.4	21.8	24.2	28.6	29.3	31.7	37.8
Ireland	24.9	28.8	29.1	31.4	35.0	33.5	32.7	31.1
Italy	25.5	26.1	26.1	30.4	34.4	38.9	41.2	42.0
Luxembourg	27.7	24.9	37.3	40.2	44.8	40.8	42.0	41.7
Netherlands	32.8	35.8	41.6	43.6	42.6	43.0	41.9	41.4
Portugal	15.8	19.4	20.8	24.1	26.6	29.2	32.5	34.5
Spain	14.7	16.3	18.8	23.1	27.8	33.2	32.8	35.2
Sweden	35.0	38.7	42.3	47.5	48.5	53.6	47.6	54.2
UK	30.4	37.0	35.3	35.2	37.7	36.8	34.8	37.4
EU-15	27.9	30.4	33.2	36.0	38.8	39.5	40.0	41.6
Australia	21.9	22.5	26.6	27.4	29.1	29.3	29.7	31.5
Japan	18.3	20.0	21.2	25.1	27.2	30.1	27.7	27.1
USA	24.7	27.7	26.9	27.0	26.1	26.7	27.6	29.6

Source: OECD (2002).

The remainder of this paper is organized as follows. Section 2 deals with tax competition by reviewing arguments for and against and putting them in perspective of the development of tax structures in the period 1965-2000. Section 3 discusses tax harmonization in the EU, while section 4 reviews the legal framework. Section 5 looks at what has been achieved in the EU. Finally, section 6 summarizes the main conclusions.

II. TAX COMPETITION AND TAX STRUCTURE

A major argument against tax competition between countries to attract investment and capital is that it may lead to an inefficient allocation of resources. Tax competition may force governments to decrease taxes and, consequently, public services to a sub-optimal level, i.e., a level lower than the median voter prefers. However, the assumption that voters can fully express their preferences about size and composition of the public sector seems questionable. Modern public finance theory, in particular the public choice school, doubts that political structures within a closed governmental system are able to achieve an efficient allocation of resources and an optimal supply of public services. Tax competition that leads to a lower tax level can even bring a gain in total welfare if a substantial share of public spending is wasteful or unproductive and lower tax rates would lead to a reduction of this share (Tanzi and Zee, 1998).

If capital moves from countries with higher taxes to countries with lower taxes total tax revenue might decrease. Reducing tax rates may be in the domestic interests of a country gaining tax revenues by attracting capital. However, it may be inefficient from

an international point of view. If the revenue losses in high-tax countries are not offset by revenue gains in low-tax countries, the overall tax revenue will decrease. Also, it may be unfair from the viewpoint of international equity because one country gains at the expense of other countries losing part of their tax bases. Fairness becomes a problem if some distribution of tax revenue resulting from the greater mobility of factors of production and tax bases is politically unacceptable to certain EU member states (Devereux and Pearson, 1989).

Sinn (1990) points out that though tax harmonization is needed to avoid distortions, it does not necessarily require centrally coordinated actions by European governments. Via a process of iterative adjustment tax competition might bring about the required harmonization. The losers of tax competition will be those unable to escape high taxation (including immobile workers and landowners) and those benefiting from a large government sector. The poor will also lose because governments will no longer be able to maintain their current scales of redistribution. Thus, unmitigated tax competition will be the death of Europe's welfare states.

Klaver and Timmermans (1999), however, question that tax competition will hurt the European welfare states. They argue that the rising tax burden on labor in a number of countries has more to do with their failure to make structural adjustments in the public sector and their traditionally low tax burden on capital than with excessive tax competition. Tax competition tends to keep tax/GDP ratios low, while low tax burdens encourage wage cost moderation and foster a more attractive business climate. In addition, if low labor mobility causes over-taxation of labor and high unemployment, the solution might be the implementation of policies increasing labor mobility.

Table 2 shows major changes in the share of personal income taxes in total tax revenues in individual EU member states.⁶ For example, it almost doubled in Greece and Ireland, whereas it nearly halved in the Netherlands. In six EU countries (Finland, Germany, Luxembourg, the Netherlands, Sweden and the UK) the share of personal income taxes in total taxation was lower in 2000 than in 1965. In the other EU member states this share increased. On average, however, the EU's reliance on personal income taxes did not change very much. The development in Australia was more or less similar as in the EU though more pronounced. In the 1970s and 1980s, Australia increased its reliance on personal income taxes, but reduced it in the 1990s. In 2000 it was almost back at its 1965 level. The development in Japan was not fundamentally different. Initially, the share of personal income taxes rose somewhat, but in the 1990s it decreased again. In contrast, the USA's reliance on personal income taxes as a source of tax revenues was considerably higher in 2000 compared to 1965. This is the more remarkable since it is commonly assumed that labor is more mobile in the USA than in Europe and Japan.

Tax competition may force countries to adopt other tax structures than they would have preferred in the absence of tax competition. Competition for mobile tax bases may lead to a "race to the bottom", which could even result in the abolition of taxes on capital. As a result, the tax burden may shift to less mobile factors of production, which are easier to tax. Thus, tax competition may lead to inequality in tax treatment between mobile and less mobile factors. Also, the fairness and acceptability of EU

⁶ Note that table 1 focuses on the tax *level* (relative to GDP), whereas tables 2-5 focus on the tax *structure* by showing the share of a particular tax in total taxation.

member states' tax laws could be jeopardized because their capacity to tax income from capital on the basis of recipients' ability to pay is undermined (Ruding Committee, 1992, p. 38). Table 2, however, does not show a strong trend towards a rising share of personal income taxes in total revenues with the exception of the USA.

TABLE 2 TAXES ON PERSONAL INCOME AS PERCENTAGE OF TOTAL TAXATION

	1965	1970	1975	1980	1985	1990	1995	2000
Austria	20.0	20.7	21.6	23.2	22.9	21.0	20.9	22.1
Belgium	20.5	24.9	32.6	36.3	35.6	32.1	32.0	31.0
Denmark	41.4	48.6	55.9	52.0	50.5	52.7	54.1	52.6
Finland	33.3	39.2	44.1	38.8	41.6	38.5	36.2	30.8
France	10.6	10.7	10.6	11.6	11.5	11.8	11.3	18.0
Germany	26.0	26.7	30.0	29.6	28.7	27.6	27.5	25.3
Greece	6.8	9.7	8.9	14.9	13.9	14.1	12.3	13.5
Ireland	16.7	18.3	25.2	32.0	31.3	31.9	30.7	30.8
Italy	10.9	10.9	15.2	23.1	26.7	26.3	26.0	25.7
Luxembourg	24.9	25.9	27.7	27.3	25.6	23.4	21.4	18.3
Netherlands	27.7	26.8	27.1	26.3	19.4	24.7	18.9	14.9
Portugal						15.9	18.0	17.5
Spain	14.3	11.5	14.5	20.4	19.7	21.7	23.6	18.7
Sweden	48.7	49.8	46.1	41.0	38.7	38.5	35.3	35.6
UK	33.1	31.5	40.0	29.4	26.0	27.1	27.1	29.2
EU-15	23.9	25.4	28.5	29.0	28.0	27.2	26.3	25.6
Australia	34.4	37.3	43.6	44.0	45.2	43.0	40.6	36.7
Japan	21.7	21.5	23.9	24.3	24.7	26.8	21.4	20.6
USA	31.7	36.6	34.6	39.1	37.8	37.7	36.3	42.4

Source: OECD (2002).

Table 3 displays the development of the share of property taxes in total tax revenues. Since property is a typical immobile factor, tax competition may induce countries to rely more on this tax base. This assumption does not find strong support in empirical data. In only four EU countries (France, Luxembourg, the Netherlands, and Sweden) the 2000 share of property taxes in total tax revenues exceeded the 1965 share. In the EU as a whole and in Australia, however, the share of property taxes in total tax taxation was somewhat lower in 2000 than in 1965. Compared to 1975 the share of property taxes in total tax revenues in the EU and Australia was approximately the same in 2000. In Japan, the share of property taxes in total taxation slightly increased. It clearly declined in the USA, however, which occurred in particular in the late 1970s.⁷ Another base that is relatively easy to tax is consumption. Empirical data shows, however, that the share of taxes on goods and services in total revenues declined rather than increased (table 4). This occurred in the EU-15, Australia, Japan

⁷ Most likely, this reflects the impact of the so-called tax revolt in the USA. This started in 1978, when Californian voters adopted proposition 13 that was aimed at reducing the property tax. It seems that the high visibility of property taxes prevents governments from considerably increasing the burden on this immobile tax base, not only in the USA, but also in other countries.

and the USA. Luxembourg and the Netherlands are the only EU member states where the share of taxes on goods and services increased somewhat in the period 1965-2000.

TABLE 3 TAXES ON PROPERTY AS PERCENTAGE OF TOTAL TAXATION

	1965	1970	1975	1980	1985	1990	1995	2000
Austria	4.0	3.7	3.1	2.9	2.4	2.7	1.5	1.3
Belgium	3.7	3.1	2.3	2.4	1.8	2.7	2.5	3.3
Denmark	8.0	6.0	5.9	5.5	4.2	4.2	3.5	3.3
Finland	4.0	2.2	1.9	1.9	2.7	2.4	2.3	2.5
France	4.3	4.8	5.1	4.8	5.8	5.1	7.4	6.8
Germany	5.8	4.9	3.9	3.3	3.0	3.4	2.8	2.3
Greece	9.7	9.3	9.7	4.6	2.7	4.6	3.4	5.1
Ireland	15.1	12.2	9.7	9.7	4.0	4.7	4.5	5.6
Italy	7.2	6.0	3.3	3.3	2.5	2.3	5.6	4.3
Luxembourg	6.2	7.1	5.1	5.1	5.5	8.4	7.2	10.6
Netherlands	4.4	3.3	2.4	2.4	3.5	3.7	4.1	5.4
Portugal	5.1	4.2	2.5	2.5	1.9	2.7	2.5	3.2
Spain	6.4	6.5	6.3	6.3	3.5	5.5	5.5	6.4
Sweden	1.8	1.5	1.1	1.1	2.3	3.5	2.9	3.4
UK	14.5	12.5	12.7	12.7	12.0	10.3	10.4	11.9
EU-15	6.7	5.8	5.0	5.0	3.9	4.4	4.4	5.0
Australia	11.4	11.0	8.8	7.8	7.8	9.0	8.8	8.9
Japan	8.1	7.6	9.1	8.2	9.7	9.1	11.7	10.3
USA	15.9	14.2	13.9	10.7	10.7	11.4	11.3	10.1

Source: OECD (2002).

Theoretical economic models predict that tax competition between governments will result in diminution of source-based corporation taxes towards zero (Ruding Committee, 1992, pp. 143-151). Gordon (1986) shows that a small country would not find it attractive to impose a corporate income tax. Razin and Sadka (1995) foresee that capital income taxes will vanish in small open economies faced with perfect capital mobility because residence countries cannot enforce taxes on foreign source capital income, whereas they are able to tax immobile factors. Frenkel, Razin and Sadka (1991) show that zero taxation of capital is optimal if two small countries can coordinate their tax policies, while capital can flow without costs to tax havens in the rest of the world and escape residence taxation. However, empirical evidence shows that EU countries did not reduce their reliance on corporate taxation. Table 5 displays that the share of taxes on corporate income in total taxation was fairly stable in the period 1965-1995 and slightly increased in the late 1990s. In Japan it decreased considerably in the 1990s, whereas in the USA it declined particularly in the period 1965-1985. Australia shows a mixed picture with a decrease of the share of corporate income taxes in total taxation in the period 1965-1985 followed by a considerable increase both in the late 1980s and in the late 1990s.

TABLE 4 TAXES ON GOODS AND SERVICES AS PERCENTAGE OF TOTAL TAXATION

	1965	1970	1975	1980	1985	1990	1995	2000
Austria	37.4	37.4	34.5	31.5	32.6	31.5	27.7	28.4
Belgium	37.2	36.5	27.4	27.2	25.3	26.4	25.7	25.4
Denmark	40.6	38.8	33.6	37.4	34.2	33.5	32.2	32.5
Finland	42.5	39.6	32.4	35.7	33.9	32.6	29.6	29.1
France	38.4	38.1	33.3	30.4	29.7	28.4	27.4	25.8
Germany	33.0	31.8	26.9	27.1	25.7	26.7	28.0	28.1
Greece	48.8	48.2	46.8	41.2	42.7	44.5	42.1	36.1
Ireland	52.6	52.4	46.5	43.7	44.4	42.3	40.7	37.2
Italy	39.8	38.7	29.4	26.5	25.4	28.0	27.3	28.4
Luxembourg	24.7	14.3	21.1	20.9	24.1	24.8	26.7	27.3
Netherlands	28.6	27.8	24.2	25.2	25.6	26.4	27.2	29.0
Portugal	44.2	44.6	40.7	44.9	42.8	43.8	43.5	39.9
Spain	40.8	35.9	24.2	20.7	28.7	28.4	28.6	29.8
Sweden	31.2	28.2	24.3	24.0	26.6	25.0	24.2	20.7
UK	33.1	28.8	25.0	29.2	31.5	30.5	35.4	32.3
EU-15	38.2	36.1	31.4	31.0	31.5	31.5	31.1	30.0
Australia	34.7	32.0	29.3	31.1	32.8	27.8	29.0	27.5
Japan	26.2	22.4	17.3	16.3	14.0	13.2	15.2	18.9
USA	22.8	20.0	19.5	17.6	18.8	17.3	17.9	15.7

Source: OECD (2002).

Tax competition may lead to resource allocation on the basis of tax minimization rather than comparative economic advantages, which will lead to welfare losses. Tax differences between countries may cause allocative distortions in the capital market because capital will move to the country with the lowest effective tax rate rather than the most efficient use. In addition, differing tax rates may lead to trade diversion, which in turn also may result in welfare losses. However, this has been challenged by Bracewell-Milnes (1999, p. 87). He draws an analogy with a supermarket competing with its rivals on price or otherwise, trying to attract geographically mobile customers and to affect the location of their activities. The promotional activities of this store may also be accompanied by a dead-weight loss, which is considered normal part of its business.

Tax competition theory suggests that small countries set lower tax rates than large countries. The reason is that small countries attract more capital relative to their own size by reducing their tax rate (Kanbur and Keen, 1993). There is, indeed, some empirical evidence that small countries set relatively low effective tax rates compared to large countries. More specifically, the five largest EU members, Germany, France, Italy, UK and Spain, have an effective tax rate that is, on average in the period 1990-1999, 11.2% higher than in the smaller member states. The mean effective tax rate of small EU countries was 24.6%, whereas the mean effective tax rate of large member states was no less than 35.8%. The difference between small and large countries declined, however, from 10.8% in 1990 to 8.5% in 1999 (Gorter and de Mooij, 2001, p. 61).

Tax competition may serve as a disciplinary mechanism to prevent governments from growing bigger than the electorate prefers. Moreover, competition by other tax jurisdictions may put pressure on governments to increase their efficiency. A counter argument, however, is that tax competition will not lead to a lower tax level, but only to a shift of the tax burden from mobile factors to less mobile factors that are easier to tax (labor, consumption, real estate). If tax competition in the EU occurs, there is no evidence that it has led to lower overall tax burdens. Table 1 shows that the average tax burden in the EU-15 rose to 41.6% of GDP in 2000 from 27.9% in 1965, an increase of nearly 50%. This relative increase is comparable to that in Australia and Japan, though the overall tax levels in these countries are still considerably lower than in the EU. In the USA, the tax level has risen to 29.6% in 2000 from 24.7% in 1965, which is an increase of only 20%. Notably, though statutory corporate income tax rates in EU countries declined in the 1990s, effective tax rates on corporations did not decline irrespective of the measure of the effective tax rate (Gorter and de Mooij, 2001, p. 59). The share of corporate income taxes in total taxation increased by one third in the EU in the late 1990s.

TABLE 5 TAXES ON CORPORATE INCOME AS PERCENTAGE OF TOTAL TAXATION

	1965	1970	1975	1980	1985	1990	1995	2000
Austria	5.4	4.4	4.3	3.5	3.5	3.6	3.7	4.7
Belgium	6.2	6.9	7.4	5.1	5.6	5.5	6.7	8.1
Denmark	4.5	2.6	3.1	3.2	4.8	3.2	4.0	4.9
Finland	8.1	5.3	4.0	4.0	3.7	4.7	4.1	11.8
France	5.3	6.3	5.2	5.1	4.5	5.3	4.8	7.0
Germany	7.8	5.7	4.4	5.5	6.1	4.8	2.8	4.8
Greece	1.8	1.6	3.4	3.8	2.7	5.5	6.5	11.6
Ireland	9.1	8.8	4.8	4.5	3.2	5.0	8.5	12.1
Italy	6.9	6.5	6.3	7.8	9.2	10.0	8.7	7.5
Luxembourg	11.0	20.8	15.6	16.4	17.7	15.8	17.5	17.7
Netherlands	8.1	6.7	7.7	6.6	7.0	7.5	7.5	10.1
Portugal						8.0	8.0	12.2
Spain	9.2	8.2	6.9	5.1	5.2	8.8	5.4	8.6
Sweden	6.1	4.4	4.3	2.5	3.5	3.1	6.1	7.5
UK	4.4	8.7	6.2	8.4	12.6	11.2	9.4	9.8
EU-15	6.7	6.9	6.0	5.8	6.4	6.8	6.9	9.2
Australia	16.3	17.0	12.4	12.2	9.4	14.1	14.8	20.6
Japan	22.2	26.3	20.6	21.8	21.0	21.6	15.3	13.5
USA	16.4	13.2	11.4	10.8	7.5	7.7	9.4	8.5

Source: OECD (2002).

III. TAX HARMONIZATION IN THE EU

The 1987 proposal of the European Commission with regard to indirect taxes was based on a rather ambitious goal of tax harmonization. Though tax harmonization ensures an efficient international resource allocation within the private sector by equalizing relative prices across borders, it does not ensure an efficient resource

allocation between the private and the public sectors since it does not respect cross-country differences in the preference for income redistribution (Hagen et al., 1998).

A less ambitious strategy is to fix some minimum rates leaving more latitude for member states.⁸ Nonetheless, low-tax countries would suffer welfare losses because they are forced to raise their tax rates to the minimum. The European Commission abandoned its original plan for harmonization of indirect taxes. Instead, the EU agreed on low minimum tax rates representing a binding constraint only for very few member states. This is not surprising given the extent of diversity among EU member states. Diversity does not only result from different national preferences with regard to income redistribution, but also from differences in factor productivities, population size and composition, capital composition, and mobility of various types of capital. The extent of diversity between EU member states will further increase as a result of the eastern enlargement of the EU in 2004.

It can be expected that the welfare effects of tax harmonization will be unequally distributed, both over countries and over interest groups within countries. Large countries tend to benefit more from tax harmonization than small countries. Since large countries have certain advantages over small countries, they can impose higher taxes and yet remain competitive. Enterprises in small countries more often need to cross borders if they want to expand their activities than companies in large countries. Moreover, companies in a small country have fewer opportunities for loss compensation and depreciation relief than enterprises in a large country.

EU decision-making on taxation requires unanimity reflecting that taxation is in the heart of national sovereignty. Given the differences between and different interests of large and small countries it seems very difficult to agree on a tax level that is in the best interest of all EU member states. This seems a prisoner's dilemma. Harmonization can lead to a sub-optimal allocation of resources and welfare losses, if it is accomplished at too high a level. Therefore, tax harmonization can most likely only be achieved if the winners from harmonization compensate the losers. This not only requires that the efficiency gains exceed the efficiency losses, but also that winners are willing to compensate losers. Tax harmonization in the EU might thus lead to higher tax levels, may protect inefficient governments, and may lead to reduced competitiveness relative to other trading blocks.

IV. THE LEGAL FRAMEWORK OF HARMONIZATION

The general harmonization provisions (articles 94 and 95 of the EC Treaty) form the main legal basis for harmonizing taxes. Article 94 pertains to "directives for the approximation of such laws, regulations or administrative provisions of the Member States as directly affect the establishment or functioning of the common market." So far, however, only three directives have been issued,⁹ though the European Commission has proposed several corporate tax directives. The Single European Act amending the EC Treaty introduced article 95 stipulating that the Council will adopt

⁸ Janeba and Smart (2003) show that under specific conditions a minimum tax rate is superior to a restriction of tax preferences.

⁹ The first aims at mutual assistance by tax administrations of member states and was issued in 1977. The second directive (Parent-Subsidiary Directive) aims at elimination of double taxation of dividends of parent companies and subsidiaries of different member states and was issued in 1990. The third directive (Merger Directive) was also issued in 1990 and stipulates that capital gains arising from a merger or a similar operation will only be taxed upon realization.

the measures for the approximation of the provisions aiming at the establishment and functioning of the internal market. By way of derogation from article 94 it allows for qualified majority decision-making, but according to paragraph 2 this does not apply to fiscal provisions. In addition, some non-binding instruments have been applied.¹⁰

Obviously, EU member states have retained their national fiscal competence, although they will have to observe the limits imposed by EU legislation and policies. In particular the common objective of an internal market without borders restricts national governments' autonomy to design their own tax policies. The most significant progress in harmonizing member states' tax systems, however, has been achieved by decisions taken by the European Court of Justice (ECJ). These decisions are not based on provisions on taxation in the EC Treaty, but rather on the provisions on non-discrimination and the four freedoms of the internal market. The four freedoms imply the right of cross-border movements (market access and exit) and the prohibition of discrimination by reason of nationality of persons or origin of goods. The ECJ has ruled that national legislation must avoid any overt or covert discrimination by reason of nationality to be consistent with EU legislation.

Generally, EU legislation only affects European citizens and companies engaged in intra-community cross-border economic activities. They can claim protection under the EC Treaty if they encounter discriminatory or restrictive measures while making use of one of the four freedoms. The ECJ interprets the free movement provisions broadly by prohibiting not only distinctions based on nationality or origin (direct or overt discrimination), but also distinctions based on other criteria if they result in disadvantages for foreign products or factors (indirect or covert discrimination). Obviously, this concept of discrimination goes beyond that of international tax law. The OECD Model Tax Convention, for example, assumes that non-residents are in a different position and may be subject to different tax treatment. Therefore, it only prohibits direct discrimination.

The ECJ has ruled that residents and non-residents from other member states must be treated equally. For example, different treatment on the basis of residency may imply covert discrimination if it results in a different tax treatment of a group mainly comprising foreign nationals. Another example is that the ECJ interprets the four freedoms as prohibiting the enactment of national legislation impeding or rendering unattractive the exercise of any such freedoms, even if this legislation does not consider nationality. However, different treatment may be justified either because the EC Treaty allows for an exception or because it is necessary in the overriding public interest and is proportional.¹¹

Though discriminatory tax measures are prohibited, the ECJ has held that they are compatible with EU law if they can be justified by acceptable reasons. Restrictions on the four freedoms can only be justified if they:

- pursue a legitimate aim compatible with the EC Treaty;

¹⁰ The European Commission has adopted recommendations on taxation of frontier workers and on taxation of small and medium-sized enterprises. Moreover, the Council has adopted a code of conduct on harmful tax competition and the Arbitration Convention aiming at a solution of double taxation issues in connection with adjustments to transfer prices.

¹¹ A national measure fails to meet the proportionality criterion if the overriding public interest can also be achieved by measures that are less restrictive on intra-community trade or if it is not in proportion to the goal pursued.

- are justified by pressing reasons of public interest;
- are of such a nature as to ensure achievement of the aim in question; or
- are proportional.

A measure restricting free movement may be justified on the basis of two categories of grounds:

- The measure falls within the scope of one of the derogations the EC Treaty explicitly provides for.
- The measure can be justified on grounds the EC Treaty does not provide for, but which the ECJ has recognized and accepted as overriding requirements in the general interest.

With regard to income taxation the ECJ has developed both a non-discrimination and a non-restriction approach. The *non-discrimination* principle prohibits treating non-residents from other member states less favorably for the income tax than residents. However, there is no violation of the EC Treaty if residents and non-residents are treated equally, but non-residents face a barrier while operating in another member state. The *non-restriction* principle is based on the free movement of goods and is more radical. It forbids national rules leading to a disadvantageous treatment of people, goods or investments from other member states.

In most EU member states tax treatment is distinct on the basis of residence. If a particular tax rule is discriminatory or restricts the free movement of factors in the internal market member states may try to justify this rule. The only justification the ECJ has accepted so far is the cohesion argument: the need to protect the integrity of national tax systems. However, member states can only refer to the need to preserve fiscal coherence if there is a direct link between any fiscal advantage and a corresponding disadvantage. The cohesion argument must be viewed in the light of European regulations, bilateral tax treaties, and the possibilities of mutual assistance in tax matters. Arguments that the ECJ has refused to accept include:

- the lack of harmonization of income tax legislation;
- the need to prevent a reduction of tax revenues;
- the presence of an offsetting advantage;
- the problem of obtaining necessary information from other member states;
- the fact that the disadvantageous effect of a tax measure can easily be avoided; and
- the need to protect consumers.

V. ACHIEVEMENTS

The achievements with regard to tax harmonization in the EU have been most pronounced in the field of indirect taxes. In particular the adoption of a common Value Added Tax (VAT) system has brought about uniformity, since it is the only system that member states are allowed to use. Notably, the current VAT system is still a transitional one. The move to a definitive system requires an agreement on approximation of VAT rates and rules as well as a compensation mechanism to ensure that revenues continue to accrue to the countries in which consumption occurs. However, the member states are unwilling to accept the changes that would be needed for a definitive system to be implemented (Bolkestein, 2000). Nonetheless, the rules

determining the tax base have been harmonized to a large extent. The same holds true with regard to the procedures for tax collection and administration (VAT Information Exchange System, VAT identification numbers, multiple registration of companies for VAT purposes, tax representatives of foreign traders not established in the EU, thresholds, etc.). Statutory minimum rates have been established (15% for the standard rate and 5% for the reduced rate), but there are no maximum rates. Thus, actual rates are subject to intra-community tax competition. They still vary, but they converged in the period 1987-2002 (see table 6).¹² In 1987, the standard VAT rates varied from 12% in Luxembourg and Spain to 25% in Ireland. In 2002, this range of 13 percentage points had narrowed to 10 points. Standard rates range from 15% in Luxembourg to 25% in Denmark and Sweden. Effective VAT rates differ from the statutory rates, however, since tax bases differ across member states as a result of derogations and exemptions.

Cnossen (2001, p. 35) observes that the coordination of excises in the EU is based on three sets of directives:

- three directives on the structures of the excises on manufactured tobacco, alcohol and alcoholic beverages and mineral oils;
- four directives on the approximation of the rates of duty applicable to these products; and
- a directive on the duty-free movement and monitoring of excisable products between member states.

TABLE 6 STANDARD VAT RATES

	1987	2003
Austria	20	20
Belgium	19	21
Denmark	22	25
Finland		22
France	18.6	19.6
Germany	14	16
Greece	18	18
Ireland	25	21
Italy	18	20
Luxembourg	12	15
Netherlands	20	19
Portugal	17	19
Spain	12	16
Sweden	23.46	25
UK	15	17.5

Source: European Commission (2003), p. 2 and 19-22.

¹² Table 6 only shows standard VAT rates and no other rates because these vary widely. Countries may have one or more reduced rates, while they may combine them with super reduced rates and/or a zero rate.

However, progress on harmonization of excise taxes has been very slow. Often, excise harmonization has been spontaneous. As borders were abolished and mobility grew, excises were reduced to their lowest common rate. Total excise revenues for the EU as a whole amounted to 3.8% of GDP, down from 4.4% in 1970, whereas in the same period the total tax/GDP ratio increased (see table 1). As a result, excise revenues decreased relative to total tax revenues. Table 7 shows that excise revenues still widely vary across EU member states. In 2001, the share of excises in total taxation ranged from 14.9% in Greece to 5.3% in Belgium, while the share in GDP ranged from 5.7% in Denmark to 2.4% in Belgium.

Cnossen (2001, p. 37) argues that harmonization of excises is more urgent than harmonization of VAT for four reasons. First, excises, particularly on drinking and smoking interfere less with production efficiency than VAT, let alone taxes on labor and capital. Harmonization would enable the member states to use the revenue to reduce more distortionary taxes on labor and capital. Second, harmonization would reduce the incentive for tax-base snatching and bootlegging. Cross-border shopping is mainly caused by differences in excises, not in VAT. Third, harmonization would improve the efficiency of exchange. Fourth, if fuel and motor vehicles are used in the production process, harmonization of the related excises reduces intercountry distortions from excise-induced differences in cost structures.

TABLE 7 EXCISES IN THE EU, 2001

	Excise revenue as percentage of	
	GDP	Total tax revenue
Denmark	5.7	11.5
Portugal	4.8	14.0
Luxembourg	4.8	11.5
Greece	4.7	14.9
Finland	4.7	10.2
Ireland	4.6	14.2
UK	4.1	10.9
Sweden	3.7	7.0
Italy	3.5	8.1
Netherlands	3.3	8.0
France	3.0	6.6
Spain	2.8	8.3
Austria	2.7	6.2
Germany	2.6	7.0
Belgium	2.4	5.3
EU-15	3.8	9.6

Source: Cnosse (2001), p. 36.

Major differences still exist between corporate tax systems in EU member states. Cnossen (2001, p. 53) points out that corporation taxes are commonly distinguished depending on whether and to what extent they reduce double taxation (corporation tax and personal income tax) on distributed profits. The classical system does not provide

any relief of double taxation, whereas imputation systems provide full or partial relief by granting shareholders a tax credit against their personal income tax for the corporation tax that can be imputed to the dividends they received. Subjecting dividend income to a separate or schedular personal income tax rate lower than the top rate can also mitigate double taxation.

Six member states (Austria, Belgium, Denmark, Germany, Luxembourg and Sweden) apply a schedular treatment system that provides dividend relief to shareholders by taxing distributed profits at a schedular personal income tax rate separate from other personal income. Six member states (Finland, France, Italy, Portugal, Spain and the UK) employ an imputation system providing full or partial relief by permitting shareholders a tax credit against their personal income tax for the corporation tax that can be imputed to the dividends (grossed up by the tax credit) they received. Usually, the gross-up and tax credit are expressed as a fraction of the net dividend. Finland and Italy are the only member states that permit a full tax credit against the personal income tax for the corporation tax attributable to the shareholder's dividend income. Two member states (Greece and the Netherlands) apply a dividend exemption system for shareholders. However, the Netherlands levies a net wealth tax, which is called a presumptive capital income tax. One member state (Ireland) employs the classical system and subjects dividend income fully to both the corporation tax and the personal income tax. There is a trend to abolish imputation systems in favor of schedular taxes on distributed profits as well as other capital income. Notably, member states providing shareholders relief for the corporation tax generally confine this to dividends received from domestic firms implying double taxation of foreign dividends.

VI. CONCLUSIONS

EU member states participating in EMU have given up the possibility of an independent monetary policy. Therefore, they have fewer policy options, so they might have incentives to use taxes to achieve competitive advantages, which may intensify tax competition. However, tax burdens in the EU increased on average by almost 50% in the past 35 years, while they did not converge. Since capital is much more mobile than labor it can be expected that the tax burden has partly shifted from capital to labor. Yet, there is no evidence for a "race to the bottom". In the 1990s, effective tax rates on corporations did not decline in the EU. Unlike the USA there is no strong trend towards a rising share of personal income taxes in total taxation in the EU. Moreover, there is no evidence of a rising share of property taxes in total tax revenues. On the contrary, in the EU as a whole this share decreased in the period 1965-2000, while the same holds true for Australia and the USA.

Tax competition theory suggests that small countries set lower tax rates than large countries. It appears that the five largest EU members have indeed an effective tax rate that is on average higher than in the smaller member states. The mean effective tax rate of small EU countries was 24.6%, whereas the mean effective tax rate of large EU member states was no less than 35.8%. The difference between small and large countries declined, however, from 10.8% in 1990 to 8.5% in 1999.

EU decision-making on taxation still requires unanimity making progress in tax harmonization a difficult and cumbersome process. So far, the achievements with regard to tax harmonization in the EU have been most pronounced in the field of indirect taxes, in particular the VAT. Minimum rates have been set, but no maximum

rates. As a result, VAT rates differ across EU member states. Moreover, VAT tax bases differ between member states because of derogations and exemptions. Less progress has been achieved with regard to harmonization of excise taxes. Harmonization in this field has been very slow and often spontaneous.

Insofar the EU has been involved in direct taxation, it mainly pertains to corporate taxes. The most significant progress in this field has been achieved by decisions taken by the ECJ. These decisions are not based on provisions on taxation in the EC Treaty, but rather on the provisions on non-discrimination and the four freedoms of the internal market. The ECJ has ruled that national legislation must avoid any overt or covert discrimination by reason of nationality to be consistent with EU legislation. However, major differences still exist between corporate tax systems in EU member states. Six member states apply a schedular treatment system providing dividend relief to shareholders by taxing distributed profits at a schedular personal income tax rate separate from other personal income. Six member states employ an imputation system providing full or partial relief by permitting shareholders a tax credit against their personal income tax for the corporation tax that can be imputed to the dividends they received. Two member states apply a dividend exemption system for shareholders. One member state employs the classical system and subjects dividend income fully to both the corporation tax and the personal income tax. However, there is a trend to abolish imputation systems in favor of schedular taxes on distributed profits as well as other capital income.

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Taxing Women: The politics of gender in the tax/transfer system⁺

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Abstract

The Australian literature on the politics of taxation is almost totally silent on the gender of taxpayers. This silence reflects a broader division in social science analysis between economic and social policy. While gender equity debates are central to the discussion of social policy (particularly the income transfer and welfare systems), taxation is often represented as operating within a distinct realm of economic policy in which gender considerations are extraneous. This paper explores the changes to family-based tax and transfer policies in the post-war period, with a particular emphasis on policy shifts introduced by the Coalition Government since 1996. We argue that the shift to policies based on (apparently) contrasting family types – couple families with a stay-at-home parent and families in which both parents are participate in paid work – represents a substantial and regressive move away from the principles of equity which underpinned policy from the mid 1970s to the mid 1990s. We argue that current arrangements are inimical to the fundamental principles of horizontal, vertical and gender equity.

TAX MATTERS CANNOT BE UNDERSTOOD IN ISOLATION FROM THE TRANSFER SYSTEM

The Australian literature on the politics of taxation is distinguished by its almost total silence on the gender of taxpayers. While feminist economists and lawyers have explored the treatment of individuals and families in the taxation system (Apps 2000; Stewart 2000; Young 2000), political and sociological treatments of the topic are far less common. This silence reflects a broader division in social science analysis between economic and social policy. While gender equity debates are central to the discussion of *social* policy (particularly the income transfer and welfare systems), taxation is often represented as operating within a distinct realm of *economic* policy in which gender considerations are extraneous. This division between the economic and the social effectively hides the economic purposes of social policy, and glosses over the fact that transfer policies have economic objectives. In analysing Australian family policies, it is important to address both the tax and transfer systems, since, from the early part of the twentieth century onwards, they have been based on complementary logics and expected to work in parallel.

Considerations of shifting family policy regimes in Australia must focus on the tax/transfer system as an integrated mechanism. However, use of one or the other route of redistribution (tax or transfer payment) is a significant matter, since the

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assumption of inter-changeability of assistance fails to acknowledge the profound gender issues involved. While in both parts of the tax/transfer equation men and women appear to be treated equally, as individual tax-paying and benefit-receiving citizens in a liberal democracy, in fact, the Australian tax, social security and family payment systems are not “sex-blind functions of citizenship” but are highly gendered (Shaver, 1988: p.150). Women, like men, pay income tax as individuals; but when it comes to tax and transfer arrangements for women with partners and women as mothers with dependent children, gendered circumstances enter the system of eligibility and entitlement. The system of family payments appears to be gender-neutral, but because the vast majority of people taking principal care of children are women, there is in effect, if not in legislation, a profound gender impact of the tax/family transfer payments system. These considerations are not encompassed within a concept of individualised citizenship. Instead, an officially legitimated social or “family” relationship determines who is eligible to receive the benefits to be derived from the tax/transfer interaction, under what conditions and at what rate.

In some ways women have been treated *equally* in the tax/transfer system; in other salient ways they have been treated *differently*, (according to their relational circumstances as wives and mothers) and the mix of equality and difference has varied in different periods since 1915. Different treatment according to family circumstances and income circumstances is not necessarily inequitable – it may be justifiable and appropriate recognition of the additional responsibilities of caring for dependent children or paying for non-parental child care. The design and implementation of particular policies needs to be explored in order to assess their redistributive consequences. The principles of equity, efficiency and simplicity are frequently invoked as the standards by which taxation systems should be evaluated (AIFS 1990: 7-8). In this paper, we analyse the redistributive impacts of family-focused tax and transfer policies since 1915, especially in the post-world-war II period.

We draw upon three aspects of equity in order to explore the redistributive impacts of tax/family transfer policies:

- horizontal equity, concerned with the extent to which tax/transfer payments redistribute income to the carers of children, in recognition of the additional costs of child rearing, so as to augment the post tax/post transfer incomes of family units with dependent children, compared with units without dependent children in the same income groups;
- vertical equity, concerned with the extent to which tax/transfer arrangements redistribute additional income to low income households, so as to augment the post tax/post transfer incomes of family units with dependent children who are disadvantaged in the distribution of market incomes, as a form of redress (redistributive justice) for market-generated inequalities;
- gender equity, concerned with the extent to which tax/transfer arrangements redistribute income to the principal carers of children, in recognition of the additional costs of child rearing which they bear, in terms of both direct costs and the indirect costs of their foregone workforce earnings - in Australia and all similar countries, a responsibility which is borne predominantly by women as mothers.

WHY GENDER MATTERS IN CONSIDERING THE TAX/TRANSFER SYSTEM

Why does gender equity matter when analysing the tax/transfer system, when the transfers in question are concerned with the recognition of family responsibilities? Has not the male-breadwinner model as the basis for all Australian public policy been superseded by a dual-earner model? The increased labour force participation of women, the subsequent impacts on family relationships, and the public policies which have either constrained or supported these developments have been analysed in a comparative framework as variants of a “male breadwinner model” embedded in cultural expectations, labour market and employment conditions and tax/transfer policies. Jane Lewis (1992) and O'Connor, Orloff and Shaver (1999) argue persuasively that the various ways in which different social policy systems treat the market work and the non-market family-based caring work of women are associated with the strength and pervasiveness of the "male breadwinner model" in labour market conditions, employment patterns and cultural expectations. While all modern welfare regimes have subscribed to some degree to a male breadwinner model, where men are expected to be either the only or the primary breadwinner in a couple family, and married women/mothers are expected to be either fully financially supported as home-based non-market carers or partially supported as secondary earners, and expectations about the policy treatment of sole mothers wavers ambivalently through the continuum of the citizen worker/citizen mother, the extent to which a male breadwinner model prevails in its pure form in actual social and economic arrangements (in all social classes and ethnic/cultural population sectors), and the extent to which such a model is institutionalised as one of the bases of social protection, is variable.

It has been well substantiated that the Australian income support system is redistributive (Castles and Mitchell, 1992; Whiteford, 1994; Castles, 1997), and even more pertinently, it provides a number of specific benefits which support women both as paid workers and as carers: precisely because access to benefits does *not* depend upon prior workforce attachment or the payment of contributions (except with regard to occupational superannuation which is altering the pathway of redistribution), Australian women have greater access to income support on an individual basis for contingencies such as unemployment, sole parenthood, being a parent in a low income couple family, caring for a severely ill or disabled spouse or other family member, incapacity to work in the market because of their own illness or disability and in retirement and old age compared with women in insurance-based welfare regimes and other liberal welfare regimes (O'Connor, Orloff and Shaver, 1999).

Nevertheless, from the time of Federation in 1901, all the elements of the Australian benefits/tax and wage fixation system were firmly predicated on a male breadwinner model (Baldock, 1988; Cass, 1995); while the paucity of maternity and parental leave and child care services entrenched women's role as unpaid carers and relegated them to the margins of employment (Brennan, 1998). But, from the early 1970s, the assumption of women's dependence was significantly weakened and the basis of many policies shifted from 'difference' to 'equality' (Cass 1995; Mitchell, 1998). Using the framework of Diane Sainsbury (1994), Deborah Mitchell (1998) notes that “the assumptions which underpin the Australian model of welfare state provision have shifted gradually from one which confers social citizenship on women through a male breadwinner towards a model which addresses social rights on an individual basis”.

A range of 'feminist-influenced' reforms were initiated and consolidated during the 1980s and early 1990s, particularly as a result of interactions between the women's movement, the trade union movement, the work of "femocrats" with the Federal and State bureaucracies, and Labor governments (O'Connor, Orloff and Shaver, 1999). Two policy initiatives stand out as particularly significant in this period. The first was the establishment of a comprehensive, quality-regulated childcare system, nationally funded, and subsidised on the basis of family income need; a childcare system more in keeping with the generous, public provision of social democracies such as Denmark and Sweden and the corporatist, family-supportive France than with the virtual absence of national support exemplified by other liberal regimes such as the United States, Canada and Britain (Brennan, 2002). The second was the reform of family payments which were increased and restructured so as to ensure that the principal carer (predominantly the mother) received direct assistance, and that the effects of reform were significantly redistributive to lower income families (Whiteford, 1994). In considering these changes, Mitchell concludes that the resulting gendered model of the Australian welfare system "is best described as being a hybrid, where policy assumptions based on the 'norm' of the male breadwinner family co-exist with policies which recognize gender equality and individual social rights." (Mitchell, 1998: p. 20).

However, the reforms in the income support and childcare systems and the transformations in gendered patterns of employment and care did not depart fully or wholeheartedly from the male-breadwinner norm either in practice or social policy. Parents/mothers might be both carers and paid workers (citizen mother/citizen worker) but the necessary policy infrastructure to support these dual responsibilities remains far from comprehensive.

In respect of gendered patterns of employment and care:

The employment pathways for the majority of women in families (sole mothers and partnered mothers) consist of phases and transitions in employment/family care combinations, a series of part-time, casual and full-time jobs, or periods of labour force withdrawal, according to the ages of children, other family caring responsibilities (eg for frail elderly relatives or a family member with a disability), and also according to the availability of suitable and accessible job opportunities and child care services. While the difference between male and female labour force participation rates has decreased considerably since the late 1970s, and both have seen a strong increase in part-time employment, significant gendered differences remain (Cass, 2002; Landt and Pech, 2000). Women's involvement in long hours of unpaid work and the emotional commitments associated with caring obligations reduce the time and energy available in many instances to enter the labour force or to be employed full-time (Baxter, 1998; Mitchell, 1998). These family commitments reduce women's life-time earnings capacity (Beggs and Chapman, 1988). Women's work of family-based care, which may be compounded by reduced access to jobs because of the location of their housing or long periods spent outside the labour force with a subsequent erosion of recognised employment-related skills, may make it difficult for them to re-enter the labour force when children are older. Women's pathways then are framed by both family responsibilities and how they define their identities and commitments within their family-world, as well as by their educationally-constituted employment opportunities. Pathways for the overwhelming majority of men in families on the other hand are comprised of full time employment, except where this is disrupted by unemployment, illness or disability. The decline in employment rates for men over the last 20 years

occurred in the times of the recessions of the early 1980s and the early 1990s, indicating that labour market circumstances rather than family responsibilities play the largest part in shaping men's work pathways.

There are some indications in Australia that trends in gender and family relationships and labour force participation have moved towards a dual breadwinner model, and this is particularly pertinent when considering the significance of women's income in augmenting family incomes and supporting home ownership. However, because of the part-time and interrupted nature of most women's employment patterns when they have dependent children, and the propensity for men (with children) employed full-time to be involved in long, indeed increasing hours of paid work and the fewer hours of household work in which they are engaged, the trend could be better described as a modified male-breadwinner model, characterised by deep ambivalence. Not only is this a significant issue in considering matters of gender equity, but it is also significant in considering the impact of tax/transfer policies designed (ostensibly) to maximise parents', more pertinently women's choices, but which might in effect, have employment disincentive effects which inhibit choice and reduce income earning potential for women affecting vitally the long-term well-being of their families (Travers, 2001).

The inherent problems with a hybrid model of family policy (as defined by Mitchell (1998) is the existence of fault lines which may be exploited, indeed widened by a conservative/neo-liberal government to move the gender assumptions of social policy further to the male breadwinner norm. In the Australian case, the Coalition Government since 1996 has instituted a retreat from the former bipartisan policy of family income support directed to the primary carer which embraced a principle of individual right constituted by care-giving. Policies have moved in favour of the discursive rhetoric of providing "choice" to single income families to remain outside of market work, by increasing the level of family payments to single income families (establishing them as the family-type most in need of support, both morally and financially) and re-instating the legitimacy in family tax/benefit policy, of a male breadwinner model by allowing for receipt of payment through the tax system, where the beneficiary need not be the principal carer. In addition, government reluctance to act in respect of national provision of paid maternity leave is embedded in this shaky policy hybridity and the evident propensity for the re-instatement of the male-breadwinner model under the guise of gender-neutral parental choice.

These changes must also be placed within another significant policy shift – towards recommodification as the nub of social policy transformations, which has been recognised in international analyses as constituted by the move to workfare (compulsory workforce participation as the eligibility criterion for receipt of benefits), rather than welfare entitlement, accompanied by the tightening of eligibility rules for income support such that a person's livelihood is increasingly dependent on market participation (Sainsbury, 2001; Pierson, 2001). This trajectory has been well demonstrated in Australia in the work of Carney and Ramia (2002) amongst others. Sainsbury, in a significant review essay on the recent international literature on welfare state restructuring, notes that analyses which place recommodification at the centre of the explanation and disregard the gendered effects of income support and transfer policies and their transformations are omitting a significant dimension. She asks: "Why should welfare state restructuring deal with recommodification and not refamilialisation of benefits" (Sainsbury, 2001, p. 264). It is our contention in this

paper that both trends are growing in Australia, in tandem, but they operate in different social class contexts.

THE TAX/FAMILY TRANSFER SYSTEM, ITS INTERACTIONS AND IMPACTS ON EQUITY: 1941 TO 1996

Child Endowment, a transfer payment to the mothers of dependent children was introduced nationally in 1941, in particular conditions of war-time wage constraint and as part of the inflation-control policy of the Menzies United Australia Party/Country Party government. There were wage and fiscal policy reasons for the introduction by the Commonwealth of a payment for mothers at this time (Cass, 1988a). However, the introduction of a transfer payment to mothers of dependent children had been a vital element of feminist organisations and trade unions' advocacy from the 1920s, envisioned by labour movement women as an augmentation of the inadequate family wage and as an adjunct to their equal pay claims, and by feminists like Jessie Street as the essential counterpart to arguments for equal pay for men and women (Heagney, 1935; Street, 1966). Feminist and labour women's advocacy converged on the issue of which parent should receive a payment in respect of their children – the mother whose domestic and caring work went unrecognised.

Through the post-war period, child endowment paid to mothers of dependent children, universally without an income test, met the principle of horizontal equity and gender equity, but did so with considerable ineffectiveness. The payments were not indexed to price rises and lost in both real value and in public/political salience. At the same time, the tax deductions for tax payers with dependent children (introduced in 1915) and for a dependent spouse (introduced in 1936), both received predominantly by husbands/fathers, constituted an inequitable system of redistribution, since higher income parents received considerably more than low income parents, very low income parents received no tax-based support, which applied in particular to families in receipt of pensions and benefits, and the parent with the major responsibility for child care was not the beneficiary. Further, the tax deduction (for fathers) was effectively indexed to price rises, in clear contrast to child endowment (for mothers) (Cass, 1988a; Downing, 1964).

It was not until the late 1960s that this regressive and gender-discriminatory tax/family transfer system was challenged, not in recognition of gendered inequity, but in the context of the "rediscovery of poverty (Commission of Inquiry into Poverty, 1975). The objectives of the recommendations of the First Main Report of the Commission of Inquiry into Poverty to increase child endowment and abolish regressive tax deductions were to alleviate poverty in large families, to maintain horizontal equity between families of different sizes in the same income group and to establish income differentials between low-paid families with a breadwinner in the workforce and families dependent on social security. All aspects of equity were seen to cohere and not to be contradictory: horizontal, vertical and gender equity were to be brought together in the relief of poverty.

The Whitlam Labor Government began the process of reform in 1975, when tax deductions for children and for a dependent spouse were replaced by less regressive tax rebates. The rebates benefited equally most taxpayers with dependent children and a dependent spouse (in most cases husbands/fathers), but provided no or little additional support to parents on low incomes. In 1976 the Fraser Coalition Government reformed (partially) the dual system of child endowment and tax rebates:

tax rebates for dependent children were abolished and the revenue disbursed in the form of large increases in child endowment, renamed Family Allowance. Low income women, previously unable to benefit from either tax deductions or rebates, were the major beneficiaries. However the Family Allowance reform, fundamental and progressive in many ways, was marred since no decision was made to index the payment to rises in the cost of living. As a result, intermittent political decisions and the advocacy of community and church-based organisations and women's groups were the unpredictable, irregular means by which increases in the rate of family payments were achieved, until the late 1980s.

From the late 1970s, various groups including the Australian Council of Trade Unions (ACTU) called for increases in and indexation of both family allowance and the additional income-tested payments for children made to families in receipt of pensions and benefits, to ensure that they did not erode in real value. Their advocacy highlighted the poverty suffered by children in low income families resulting from their parents' unemployment, or joblessness as sole parents, or low workforce earnings exacerbated by the erosion of the real value of all family payments (Vipond, 1986). Although all pensions and most benefits were indexed to rises in the Consumer Price Index from 1976, neither family allowance nor the additional income-tested payments for dependent children made to parents in receipt of pensions and benefits were indexed and were increased only on an ad-hoc basis. It could certainly be argued that family allowance, as a universal payment made to the principal child carer and therefore predominantly to women, satisfied the principles of horizontal equity and gender equity, but because of the lack of indexation of family allowance and of other child-related payments for low income families, these payments in their cumulative impact failed to meet the principle of vertical equity in an adequate way. The value of the amount redistributed fell in real terms and the evidence of increased poverty in families with children, especially in women-headed families, highlighted the increasing inadequacy of the tax/transfer system (Gallagher, 1985; Cass, 1988b). With family poverty placed on the political agenda by the Australian Council of Social Service (ACOSS), church-based welfare organisations and women's organisations, family income support became a highly contested political issue.

From 1983 to 1996 the Hawke/Keating Labor Governments adopted a 'needs-based targeting' policy in family income support, framed explicitly within a poverty alleviation objective, and rejected a rights-based, or universal system of allocation. Political discourse justified this approach as the most cost effective route to a more equitable and adequate tax/transfer and social security system, focusing on the needs of low income families and private renters in a period of imposed restraint on social expenditures. These developments generated strong debate about the apparently contradictory principles of alleviating poverty or maintaining a more universal rights-based system (Harding and Mitchell, 1992; Mitchell, Harding and Gruen, 1994; Saunders, 1994; Whiteford, 1994).

The principle of maintaining horizontal equity through universal family allowance was officially deligitimated as being in conflict with the principle of vertical equity and as undermining the priority which needed to be given to low income families (see Harding, 1986, for the terms of the debate). Alleviating poverty was given primacy in the Labor Government's agenda supported by both trade union leadership through the ACTU and business organisations with both claiming that universal family allowance involved a considerable degree of unwarranted and unjustifiable "middle class

welfare". However, redistribution to the parent primarily responsible for children's care, gender equity, remained the central issue in the advocacy of women's organisations across the political spectrum, including the Women's Electoral Lobby, the National Council of Women of Australia, the National Women's Consultative Council, the Council for the Single Mother and her Child and the Women's Action Alliance.

The first step in family income support reform in the 1980s was the introduction in 1983 of a tightly income-tested payment, Family Income Supplement (FIS), a bipartisan measure put forward originally by the Fraser Coalition government and implemented by the Hawke Labor Government, and directed to families in low paid employment. It was paid to mothers, in addition to family allowance, at the same rate as the additional children's payments made to families receiving pension or benefit. The key policy consideration was to minimise the work disincentive effects which might arise when family breadwinners moved into low paid work and lost their additional children's payments. Family income supplement was expected to rectify this problem, but the income test was very tight and the visibility of the payment very slight. As a result, only 1-2 per cent of families received it in the period from 1983-1986, and this was considered to be partly a consequence of low take-up by parents who had an entitlement (Cass, 1986; Harding, 1986).

In 1986, the First Issues Paper of the Social Security Review, established in that year by the Minister for Social Security, Brian Howe, was published and became the focus of debate within community organisations and the Australian Council of Trade Unions. The Paper, *Income Support for Families with Children* (Cass, 1986) recommended that the universal family allowance be retained, increased and indexed and paid to all carers in recognition of the increased costs which child rearing incurs, both directly and indirectly through women's foregone earnings. At the same time, the Paper recommended that immediate Government attention be given to substantial increases in income tested payments for low income families, followed by the indexation of these payments. The Issues Paper argued that both horizontal and vertical equity measures have merit in family payments: since they fulfil overlapping and not contradictory objectives, providing parents with additional income, sometimes their only source of income to support their caring work, and being of profound importance for low income families. The Paper also argued for the retention of the gender equity principle: that payments be made to the principal carer, usually the mother, in recognition of the increased direct and indirect costs of care which they bear, and that transfer payments rather than tax measures were the most effective way to meet this principle.

The Labor Government's policy changes were introduced in two stages. In the May Economic Statement of 1987 the treasurer, Paul Keating, announced the intention to income-test family allowances in conjunction with other cuts in social security expenditure designed to reduce the budget deficit. The income test on family allowance was set at \$50,000 of joint parental income, where there was one child, with steps of \$2,500 for each additional child, and the abatement rate was set at 25 cents in every dollar by which joint parental income exceeded the relevant threshold. The income test was to be indexed annually in line with increases in the Consumer Price Index. About ten per cent of families with dependent children lost their entitlement to family allowances as a result of the income test (Cass, 1990).

The next step was the introduction of the Family Assistance Package in the budget of 1987/88, providing a significant increase in income-tested payments for children in families receiving pension or benefit and in low paid employed families. The Family Allowance Supplement (FAS) replaced Family Income Supplement and the totality of measures comprised a significant redirection of family payments towards the principle of vertical equity, with about 63 per cent of expenditure on family payments directed to 30 per cent of families in the lowest income groups. The measures included:

- an increased FAS payment in two tiers, for children aged 0-12, with a higher payment for children aged 13 to 15 to recognise the increased costs associated with teenagers;
- a commitment to increase the payments in stages to achieve 'benchmarks' of 15 percent of the married rate of pension for children under 13 and 20 per cent of the married rate for older children, and then to index the payments. These benchmarks were reached in 1989;
- introduction of rent assistance for family allowance supplement recipients in private rental housing, an innovation for low income workers who were previously not eligible for rent assistance;
- provision of most payments to the parent primarily responsible for children's care;
- an increase in the income threshold at which the family allowance supplement could be received to \$300 per week of parental income for a one child family, plus \$12 a week for each additional child, thus bringing eligibility to receive income-tested payments further up the income distribution.

In the April Economic Statement of 1989, concerned primarily with the restructuring of income tax marginal rates, the Treasurer announced substantial increases in family allowance (the first since 1982-83) and family allowance supplement. He also announced the indexation (from 1990) of all child related payments, including family allowance, family allowance supplement, child disability allowance, the children's payments received by pensioners and beneficiaries, the dependent spouse rebate and the sole parent rebate. Indexation of family payments was welcomed as an act of "historic justice": for the first time in the history of the Australian tax/family payments system a concerted attempt was made to improve the adequacy of payments for children in low income families and to introduce indexation to protect the real value of all children's payments. As a result of the various increases from 1983-89, the real value of total family payments for children under 13 in low income families increased by 41 per cent and by 84 per cent for children aged 13-15, and some commentators suggested that the conditions were in place to establish a basic income guarantee for children in low income families (Australian Institute of Family Studies, 1989).

From 1993, all children's payments were made to the principal carer, predominantly women. Whereas family allowance and family allowance supplement had previously been paid to mothers, a substantial number of low income women did not until that time receive the additional children's payments: these were women in two parent families dependent on unemployment and sickness benefit where the husband received the total social security payment (Stanton and Fuery, 1996). The changes in 1993 involved an integration of family payments, which resulted in a considerable change in distribution between parents of social security payments for their children, with the most substantial intra-family transfer occurring in couple families where the male partner was unemployed or ill. In the prior arrangements, the logic of the social

security system had followed the male breadwinner model, reproducing the earlier logic of the family wage system in the social security system. Following the reforms of 1987-93, the principles of gender equality and individual social rights were more significant in family tax/transfer policies.

In addition, vertical equity principles were strengthened. The increases in family payments for low income families, combined with the liberalisation of the additional family payment income test which took place from 1987-1993 resulted in increased payments directed to one third of families in the lowest family income category, whereas only one fifth of families had received such assistance prior to the changes (Saunders and Whiteford, 1987; Whiteford, 1994).

A later change in 1994-95 involved the abolition of the Dependent Spouse Rebate, a tax rebate measure which wage-earning tax-payers with a dependent spouse and dependent children were eligible to receive, and its replacement by the Home Child Care Allowance (HCCA). HCCA was created by “cashing out and increasing the amount of the Dependent Spouse Rebate for families with children and paying it directly to the spouse at home caring for children” (Stanton and Fuery, 1996). This payment was subsequently subsumed into the Parenting Allowance, introduced in 1995, as one of the social security reforms introduced following the publication of *Working Nation: White Paper on Employment and Growth* (Commonwealth of Australia, 1994). Parenting Payment was designed to provide direct income support to carers with dependent children, where the carer had a low personal income and where the partner was a social security recipient or low income-earner. The maximum rate was paid where the partner was either not employed or a low-wage earner below a set income ceiling, and the carer had low individual income. From this point the payment was reduced as the employed partner’s income increased, down to an irreducible basic payment, which was the equivalent of the former Home Child Care Allowance. At that point only the recipient’s personal income test was able to reduce the base payment (Stanton and Fuery, 1996).

In all of these tax/transfer changes in the period 1987-1995 the movement away from the tax system for the delivery of family payments and the re-direction of all transfer payments to *women as mothers* was not made explicit. The recipient of payments was legislated as the *principal carer*, (whether male or female) in recognition of the increased costs incurred in caring for children. This marked a clear shift in tax/transfer policy away from the concept of women’s “difference” stemming from their assumed dependency in a couple relationship, to a concept of “gender equality”, where different treatment would be accorded not to “dependency” but to parenting responsibilities which either men or women might fulfil (Shaver, 1995). However, it is evident that, in the majority of cases, women in two parent and sole parent families are the parent with principal responsibility for child care (Cass, 2002), which in effect meant that these changes predominantly benefited women. Stewart (1999) has stated that the payment of all child-related benefits directly to the care-giver was a significant victory for feminists, since the provision of income to the care-giver recognised the carer’s financial independence from her spouse and provided her with control of at least some income, challenging, at least to some extent, the legitimacy of dependency under the male breadwinner model. It would appear that vertical and gender equity were not contradictory principles in these tax/transfer reforms, but were the focus of the transformations, the former (vertical equity) being explicit, the latter (gender equity) being implicit.

It is of considerable significance for understanding the politics of the tax/transfer system in the time of the Hawke/Keating Governments that these increases in and indexation of family payments were negotiated in the incomes and tax policy framework of the Accord between the Labor Government and the ACTU. The Accord was based on the premise that employee wage restraint would be counter-balanced by expanded “social wage” measures, including universal health insurance (Medicare), child care services, the guarantee of occupational superannuation and increased family payments. The support of the ACTU was influential in embedding the case for increased children’s payments within wage and tax negotiations, which gave the increased measure of tax/transfer redistribution to low income families its most powerful supporter in political negotiations and government decisions.

TAX DEDUCTIONS FOR CHILD CARE EXPENSES

While these debates and policy changes were occurring in relation to family payments, parallel debates and policy changes were taking place in relation to child care policy. Child care had been a peripheral public policy issue since the early 1970s when, in the context of an acute labour shortage, the Coalition government of William McMahon had legislated to enable the Commonwealth to provide subsidies for non-profit care. Child care spending grew rapidly during the Whitlam years but stalled somewhat during the Fraser period.

Following the election of the Hawke Labor Government in 1983, childcare moved to a central position on the policy agenda. The attention given to child care by the Hawke Government can be explained by two features of the new political environment: the emergence of corporatist political structures involving the trade union movement, employers and government, and the new priority given to women and ‘women’s issues’ within the Labor Party and the union movement. Child care was one of the policy areas singled out for mention in the original agreement between Labor and the unions and it consistently featured in the social wage claims put forward by the union movement in subsequent years. The ACTU lobbied vigorously around several aspects of childcare - not simply an expansion in the number of places. It pressed the government to increase both community-based and work-based services, urged it to ensure that fees were kept at levels which could reasonably be afforded by low and middle income families and campaigned for improvements in the pay and conditions of child care workers.

The cost of child care was central to public debate in the 1980s. The Commonwealth reduced costs through two main mechanisms: operational subsidies to all approved services reduced the fees for all users, and this was supplemented by a system of Child Care Assistance (CCA) aimed at reducing the fees paid by low and middle-income families. CCA covered a certain percentage of a government-determined ‘ceiling fee’. Parents were required to meet the gap between the subsidy they received and the *actual* fee charged by the service. While this was an effective system for low-income families, women who were excluded from CCA because of their family income (particularly if most of that income were earned by their partner) felt unfairly treated by the system. Accordingly, they began to lobby for some form of concessional treatment of child care expenses related to earning a living. Support for tax deductibility came from feminist economists such as Meredith Edwards (1980:150-52) and organisations representing professional women, such as the Women Lawyers’

Association and the Business and Professional Women's Association. The Lone Fathers' Association also campaigned in support of tax deductibility.

Campaigns around this issue sought recognition of the fact that child care expenses are an essential item of expenditure incurred in the course of earning their income by taxpayers with responsibility for young children. The absence of a tax concession for child care expenses, they argued, represented an anomaly within the system. Recognition of these costs would remove one of the disincentives to workforce participation faced by those with child care responsibilities and would thus be a step towards a more neutral tax system. Proponents argued that women who cared for their own children at home did not get taxed for providing this service, and that women who could organise to exchange their own labour in return for child care were not taxed either. Only those who pay for child care from their (already taxed) earnings are required to pay tax for this service.

Detailed arguments in favour of tax deductibility were put forward in a 1980 submission to the federal Treasurer by the Women Members' Group of the Australian Society of Accountants. The submission urged that tax deductions for child care expenses be made available to working mothers and single fathers, claiming that such a system, by decreasing the net cost of going out to work, would encourage more women to earn taxable income, thereby increasing tax revenue. It also argued that welfare payments would be reduced and employment created as a result of increased demand for child care places, and that facilitating women's return to the workforce after the birth of their children would result in a better return from public investment in the education and training of women. Further, the introduction of tax deductibility (and the consequent necessity for documentation of financial transactions involving child care) would increase tax revenue by bringing the underground child care economy into the open (Australian Society of Accountants 1980).

Concern about the vertical equity impacts of tax *deductions* led some to argue in support of flat-rate tax *rebates* which would provide the same dollar value for all those eligible. While deductions are clearly regressive (benefiting the individual at the level of his or her marginal tax rate) rebates appeared more equitable. In fact, however, tax rebates only benefit those with sufficient tax liability to qualify. Those with no or low earned incomes would be excluded from, or only marginally assisted by, rebates. In any case, advocacy for rebates remained a minority position. Most of those advocating recognition of child care expenses within the tax system saw the campaign for deductibility as 'a simple campaign with a distinct goal that fits into the current tax system', particularly as child care expenses 'can be compared with those deductions already allowed' (Johnston, 1982).

Child care lobby groups, however, were opposed to concessional tax treatment of child care fees. They based their arguments on an analysis of the vertical equity issues involved in tax deductions and also on their strategic assessment of the best way to encourage public expenditure on children's services. They pointed out that tax deductions for any purpose are regressive, in that the higher an individual's income, the greater the benefit. Tax deductions would therefore lead to a situation where a high income-earner would actually pay less for child care than a middle or low income-earner. Low income-earning women with high income-earning partners could be particularly disadvantaged because, for the purpose of assessing their child care fees, both incomes would be taken into account (thus rendering them liable for a higher fee than if only their personal income was considered) while the tax deduction

would most likely be claimed by their (male) partner in order to maximise the benefit. Opponents of tax deductibility also argued that the amount of revenue which would be foregone by the Commonwealth in any such scheme might jeopardise the future of the Children's Services Program (Morrow 1981; Children's Services Action 1982). In 1984 the Department of Social Security estimated that tax deductions for child care expenses would cost about \$400 million per year compared with expenditure on the Children's Services Program of \$110 million (*Australian Financial Review*, 31 July 1984). The Minister for Community Services and Health, Senator Grimes, stated that if tax deductions were introduced the Government would regard the tax foregone as equivalent to an item of expenditure. It would be unlikely to continue direct outlays on the Children's Services Program in addition to tax deductibility.

The debate about child care tax deductions was effectively brought to an end in 1994 when the Hawke government introduced a non means-tested subsidy, the Child Care Rebate, specifically intended to assist with the costs of work-related child care. The rebate could be paid in respect of either formal or informal care (which meant it could be claimed for care provided by nannies and other private carers) and was payable in addition to the means-tested Child Care Assistance.

TAX MEASURES OR TRANSFER PAYMENTS: THE POLITICAL DEBATES

Throughout the twenty year period of family tax/transfer policy and child care reforms from 1976, there was a bi-partisan convergence in the trend away from tax measures and their replacement by transfer payments, - with consequent redistribution to mothers. But the bi-partisan trend in family payments did not go uncontested – indeed there was strong political debate about the most desirable ways to promote tax equity through family unit taxation rather than individual taxing arrangements, and this debate was accompanied by denunciation of the creeping dangers of “welfarism” in responding to family needs (Tapper, 1990). While transfer payments were characterised, in effect denigrated as a visible and rapidly growing budgetary expenditure item and one which established employment disincentives (welfarism), tax deductions/rebates or family income splitting were seen as tax equity measures, rather than expenditure, even though they result in foregone revenue (a “tax expenditure”). Supporters of increased assistance to families through the tax system argue that some form of income-splitting such as family unit taxation is a preferred means of reducing the tax liability and therefore of increasing the disposable income of taxpayers with children. It is argued that income-splitting among family members for tax purposes, either covering the couple or including also children in the family as in a family “tax quotient system”, would better recognise the increased costs of rearing children in single income families, since the current income tax policy based on the individual discriminates in favour of two income families by providing a tax-free threshold for each tax-payer. (This argument is well summarised, but not necessarily supported in the Australian Catholic Social Welfare Commission Discussion Paper, *Financial Assistance to Two Parent Families*, 1996).

Advocacy for a family-oriented tax system sensitive to the family responsibilities of tax payers was framed in opposition to the increased prevalence of family payments and the removal of most family-oriented deductions/rebates from the income tax system (Women's Action Alliance, amongst other groups, quoted in Pinkney, 1995). On the one hand, child-related transfer payments usually received by women were depicted as a costly welfare system; on the other hand, tax measures through some

form of family unit taxation, where the benefit is usually received by the male breadwinner as the higher income tax payer, were seen as the most effective method of delivering tax equity (Tapper, 1990). The countervailing argument that tax measures do not necessarily redistribute income to women, as principal carers of children, was dismissed by commentators such as Tapper as irrelevant in considering the relative merits of tax or transfer measures, since he claimed that the evidence indicating an unequal distribution of income within families is inadequate and the case unproven. He also stated that it is not the business of the state to intervene in intra-family relations of dependency; only “extremes of injustice within the family” should fall within the state’s domain.

On the issue of the lack of vertical equity provided by family unit taxing arrangements: a large scale comparative study of different types of family income support through the tax and transfer systems in 18 developed countries found that income-splitting and family tax quotient policies (as in France and Luxembourg) are the least progressive, tax rebates or credits are more progressive and cash transfers are the most progressive in that they provide assistance to those whose incomes are so low that they do not pay tax (Whiteford, 1995). This study found that the Australian tax/transfer system in the mid 1990s was significantly redistributive but provided only low benefits to higher income families, indicating the greater priority given to vertical rather than horizontal equity. Supporting this conclusion, Eardley (1996) found in comparing Australian tax/transfer policies with those of the 12 member countries of the European Union using 1994 figures, that Australia was maintaining one of the most progressive tax/transfer systems of the countries in the study. Nevertheless, the quantum of income redistributed was not sufficient to alleviate poverty in low income families, although improvements were made in reducing the rate of poverty in families over the period from the early 1980s to the mid-1990s (NATSEM and the Smith Family, 2000).

The findings of such comparative studies however did not stem the rhetoric of opposition which saw family policy as discriminating against single income families. It was stated explicitly by the Coalition parties that the amount received by a mother without independent income through the Home Child Care Allowance (created by the “cashing-out” of the dependent spouse rebate where the spouse was caring for children) was significantly less than the amount provided under the Child Care Cash Rebate, received by parents using formal or informal child care for work-related purposes (Pinkney, 1995). The Opposition spokeswoman on the family, Senator Jocelyn Newman, asserted in Parliament that the Government had a “blinkered vision – about the needs of different kinds of families”, since a person “should have a real choice of being able to live on one income without being discriminated against as compared with other families” (quoted in Pinkney, 1995: p. 21). It would appear that in the gendered politics of the tax/transfer system, it was not redistribution to the principal carer, vertical equity or horizontal equity which were the relevant principles for the Coalition parties, but the extent to which the system in its interactions supported families of different composition: single income or two income families –in other words, male breadwinner or dual earner families, and the extent to which it simulated income-splitting in the tax system. The discursive rhetoric however revolved around “choice” – the choice of an apparently genderless parent to remain outside of the workforce to care for children and to have that “choice” better supported by the tax and transfer systems.

RECONFIGURING TAX AND TRANSFER PAYMENTS IN THE NEW TAX SYSTEM: 1996-2002: THE ILLUSION OF CHOICE

This was the debate about choice and a family-sensitive tax system within whose terms of reference the in-coming Coalition Government under Prime Minister John Howard made its family policy changes. The year before his election as Prime Minister, John Howard released a document outlining the 'values, directions and policy priorities' of a Coalition government. In a section entitled 'Greater Choice and Security for Families' it stated: 'A Coalition Government will move immediately to reduce the economic pressures on families (especially those with dependent children), to increase the opportunities open to them and to give them more genuine choices about how they live' (Howard 1995: 36). Specific priorities included giving families 'greater freedom to choose whether one parent cares full-time for their children at home or whether both are in the paid workforce' and 'address[ing] Labor's current discrimination against parents who choose to remain at home to care for their children' (1995: 36).

In the Coalition's first budget of 1996-97, a new measure of family income support was introduced, named the Family Tax Initiative, which authorised use of the tax system as well as the transfer system to deliver the additional benefits. From January 1997 the Family Tax Initiative provided tax assistance for families with children in two circumstances:

- \$1,000 increase in the tax free threshold was provided for one member of a couple or for a sole parent, for each dependent child up to the age of 16 or secondary student up to the age of 18 years, where family taxable income was less than \$70,000 (with this income limit increased by \$3,000 for each additional child after the first); and
- \$2,500 increase in the tax free threshold for single income families (including sole parents) where at least one child is under the age of 5 and the breadwinner's taxable income is less than \$65,000 (with this income limit increased by \$3,000 for each additional child after the first) and for couples where the income of the other parent was less than the income cut-off for basic Parenting Allowance (then at \$4535 per annum).

This measure signalled, both in its symbolic naming and in the mechanism for delivery of the benefit, a clear reversion to the use of the tax system (through a tax rebate method) to deliver family income support, the first part of the benefit most likely to be claimed by the primary breadwinner in a couple family, and the second part (by definition) to be claimed by the primary breadwinner, since the parent caring for a child or children under 5 must, by the rules of eligibility, have either no independent income or very little independent income and that would be below the tax threshold. Thus, those with even a few hours work each week would be ineligible. The Family Tax Initiative in respect of two parent families made a U-turn from the bi-partisan policies of the previous 20 years by reverting to the tax system as the delivery mechanism and in so doing reversing the policy of directing payment (or tax relief) to the parent with principal child care responsibility. Paradoxically, given the pro-two parent family rhetoric of the Coalition Government, sole parents, predominantly women, were not subject to this discrimination, being eligible, by definition, to receive both Family Tax Assistance and the Family Tax Payment.

The Family Tax Initiative was welcomed, with some reservation, by ACOSS, because it provided an “important boost to the family budget” (ACOSS, Budget Supplement, 1996). This was so because the Family Tax Initiative would extend extra help to most families with children, particularly single earner and jobless parents of a young child. Sole parents, unemployed couples and recipients of disability pension would generally benefit from both components and receive the payment through the social security system; while other families at higher income levels would claim the benefit as a tax rebate. The commentary noted some problems with the new measure: it added unnecessary complexity to the tax/transfer system and the “case for focusing attention on single-income households was somewhat debatable” (ACOSS, 1996: p. 10).

The impact of the Family Tax Initiative was modelled by the National Centre for Social and Economic Modelling (NATSEM), which found that the new measure satisfied the test of vertical equity: less than 30 per cent of eligible families would gain no increase in their disposable income because their taxable income brought them beyond the income test cut-off; while families with taxable incomes below \$38,700 would receive two thirds of the total gains from the package. In addition, about 40 per cent of the total gains would be received by families in the bottom 30 per cent of the family income distribution. The impact for sole parent families was also favourable. Overall, single income families and sole parents would receive greater average percentage changes in their disposable incomes than dual income families (Beer, 1996).

Gender equity was not seen as a key issue by either of these commentaries. Neither ACOSS nor Beer mentioned the fact that use of the tax system broke with the twenty-year tradition of directing assistance to the principal carer in two parent families. Analysis by Lambert did enter this terrain, through examination of the workforce incentive effects of the tax/benefit measure. Focusing on the component of the Family Tax Initiative which provided low to middle income with children under 5 an increase in their tax free threshold of \$2,500 on the condition that at least one parent earn less than the cut-off for basic parenting allowance (less than \$4,500 per annum), she argued that the measure distorted incentives for women with partners in respect to their employment choices, and also discriminated against two parent, low income families where both parents are employed. On the one hand, she concluded that the Family Tax Initiative would laudably assist sole parents, but would effectively penalise low income married women with young children who are on the margin of entering the workforce by providing them with a financial incentive to stay at home, thus limiting their future economic opportunities. However, low income couple families where each earns more than the low cut-off would be ineligible for the additional support, even where their combined income is less than the combined income of a single earner family where one parent is engaged in full-time child care. In other words, it was not vertical equity which was the priority in this policy, but the political commitment to provide additional benefit to single income families, that is, to discriminate in favour of the (male) primary breadwinner family model. Even Prime Minister John Howard’s model family type: “as represented by the metaphor of the policeman and the part-time sales assistant” (John Howard Prime Minister’s website, 2003), was likely to be excluded.

The thrust of this argument is strengthened when other parts of the 1996-97 Budget relating to child care policy are scrutinised. The budget outlined cuts to various components of assistance to families with children in child care: tightening the income

test for Child Care Assistance; reduction of the Child Care Rebate for families above the Family Tax Initiative income ceiling; significant reduction in child care Operational Subsidies for; removing the new growth policy for long day care centres. In effect, these measures reduced the public outlay support for child care services and their affordability while increasing support for families where one parent, predominantly the mother, is outside the workforce engaged in full-time care of a child under school age (Brennan, 2002). Accordingly, it could be argued that the combination of the Family Tax Initiative providing additional benefit to a family breadwinner with a partner engaged in full-time child care, and the measures reducing the affordability of children's services for employed parents did not so much establish support for the "choice" of one parent (usually the mother) to remain outside the workforce, but established financial disincentives for an employment choice to be made.

"NOT A NEW TAX BUT A NEW TAX SYSTEM": INTRODUCTION OF THE GST AND THE POLITICS OF FAMILY POLICY

The implementation of the Goods and Services Tax in July 2000 by the Coalition Government was accompanied by cuts in personal income tax and a substantial restructuring of the family tax/benefit system. Personal income tax was reduced through a general increase in the tax free threshold, decreases in most of the marginal rates and increases in the incomes at which each marginal rate became applicable. Twelve transfer payments and taxation rebates for families were amalgamated into three generic tax/transfer programs: Family Tax Benefit Parts A and B and the Child Care Benefit. The design of the Family Tax Benefits built on and went considerably further than the Family Tax Initiative which it replaced, in directing substantially increased assistance to single income families. This restructuring re-positioned the family tax/benefit system further towards a male breadwinner model. It did this in particular by moving more components of support into the delivery mechanism of the tax system, where the recipient need not necessarily be the principal carer of the children, but may in fact be the primary breadwinner.

In promoting its plan to introduce the Goods and Services Tax, the Government's publication, *Tax Reform: not a new tax - a new tax system*, (Commonwealth of Australia, 1998) included a substantial section on plans to reform the family tax/benefit system. The proposed changes were explained and legitimated as both increased assistance and simplification of the complex system which included transfer payments and tax rebates, and the projected reforms were encapsulated as essential components of the implementation of the GST.

In respect of the simplification of the family tax/benefit system, the following changes were spelt out:

- a number of payments designated as "outlays" and the Family Tax Assistance Part A, designated as a Taxation Program, were amalgamated into one payment designated "Family Tax Benefit Part A";
- a number of outlay payments formerly directed to low income parents and those with young children, together with Family Tax Assistance Part B, were amalgamated into one payment designated "Family Tax Benefit Part B";

- two payments/rebates designed to reduce the costs of non-parental child care (Child Care Assistance and the Childcare Cash Rebate) were amalgamated into one payment designated “Child Care Benefit”.

The powerful symbolism of the use of the term Family Tax Benefit in the first two programs is apparent: to ensure that the changes were perceived as part of the new tax system; were seen as a corollary to the introduction of the GST and the cuts to personal income tax (they were described as the family component of the personal income tax cuts), and promulgated as fulfilment of the political commitment to introduce a family-centred tax system which would provide the most substantial benefit to single income families.

The political discourse before and during the introduction of the GST focused on the need for family-directed tax benefits to accompany personal income tax cuts, and provided for the doubling of the additional tax free threshold for families with dependent children from \$1000 to \$2000; and from \$2500 to \$5000 for single income families (both to be received in addition to the general tax free threshold of \$6,000). This reform was justified in terms of “recognition of the extra costs involved in raising children and the sacrifices that families make” (Commonwealth of Australia, 1998: p.50). Increased family-directed payments were necessary to offset the substantial impact on the expenditure of families with children following the introduction of the GST, since families have little financial capacity to substitute savings for consumption.

There was a significant change in family income support policy introduced in the GST context. Whereas Family Tax Benefit part A, for which both single income and two income families are eligible, is income tested on joint parental income; the additional benefit received by single income families - Family Tax Benefit Part B has no income test imposed on the primary earner's income. This is a departure from the arrangements which had pertained to Family Tax Assistance Part B which it replaced. In the case of Family Tax Benefit Part A, which can be received by families with a dependent child up to the age of 20, or 21-24 if a full-time student and not in receipt of Youth Allowance, there is an income test imposed when joint parental income reaches \$28,200 a year. From this point the payment (at a maximum rate of \$116.20 per fortnight for a child under 13, to use only one example) is reduced by 30 cents in the dollar, until the amount of payment for a child up to 18 reaches \$37.38 per fortnight. A second income test cuts in at \$73,000 (plus \$3,000 for each eligible child after the first) with the payment abating at 30 cents in the dollar until it reaches zero. On the other hand, in the case of Family Tax Benefit Part B, which can be received by families with a single income earner who have a child aged up to 16 or to 18 if a full-time student, an income test is imposed only on the income of the carer (called the “secondary earner”), and there is no income test imposed on the income of the “primary earner”. Maximum benefit (\$99.80 per fortnight where there is a child under 5 and \$69.58 where there is a child aged 5-16 or 18 if a full-time student) is received when the carer/secondary earner's income is below \$1616 per annum, after which the benefit is reduced by 30 cents in the dollar. Payment under Family Tax Benefit Part B cuts out entirely when the secondary earner's annual income reaches \$10,291 where there is a child under 5, and cuts out at an annual income of \$7,633 where there is a child under 16, or 18 in the case of a full-time student. The primary earner's income is not taken into account at all in the assessment of eligibility or the rate of payment.

It is evident that vertical equity was given considerably less consideration in the design of the Family Tax Benefit system than was the politics of increased reward for single income families. While many low income families, both two parent and sole parent, derive much needed assistance from these family tax benefit measures in the context of the additional costs of consumption flowing from the GST, those who gain most assistance are single income families (or those where the principal carer's income is very low), while two earner families, even those where both may earn just above the Family Tax Benefit cut-offs, are not eligible for any additional support under this program. The employment disincentive effects of such a family tax regime for the parent with principal childcare responsibility (euphemistically termed the "secondary earner") are apparent. To an even more marked extent, the Prime Minister's model family "as represented by the metaphor of the policeman and the part-time sales assistant" is excluded, unless the sales assistant as secondary earner receives very little income.

In respect of vertical equity considerations: analysis carried out by the National Centre for Social and Economic Modelling for the *Australian* newspaper with the objective of estimating the distributional impact of the combination of the cost of living adjustment associated with the GST, the personal income tax cuts and the family/tax benefit changes concluded that the impacts were biased towards single income families and would also make increased support available to more higher income households through relaxed eligibility tests (NATSEM website, 3 July, 2000). It was predicted that the ensuing impacts would widen the income distribution gap and favour families who could "afford to have one parent stay at home to raise the children" (The Weekend Australian, July 1-2, 2000: p. 35).

It is sometimes claimed that an additional payment to single income families is an appropriate measure to balance the assistance provided through child care subsidies to two-income families. Such claims are not valid for three reasons. Child care subsidies are not restricted to two-income families – families are entitled to up to twenty hours subsidised care regardless of workforce status. Secondly, child care subsidies are subject to an income test on joint parental income. Thus, a family in which the mother has no income and the father/husband earns \$100,000, would be eligible for the Family Tax Benefit B, but not for subsidised child care. Thirdly, child care subsidies are available only to those who can gain access to registered care and who meet the eligibility requirements. In addition, Peter McDonald notes that the family Tax Benefit Part B provides significantly more support to single earner families over a much longer period of the child's life than does Child Care Benefit (McDonald, 2001).

A significant matter which has received little attention in the commentary on family tax/benefit restructuring in the GST context is the greater recourse to the tax system for the delivery of the benefit. In the process of the amalgamation of 12 separate payments and tax rebates into three programs, considerably greater emphasis was placed on the tax system as the vehicle for the delivery and receipt of family assistance. Payments which were once unequivocally transfer payments and directed to the principal carer, in being amalgamated with pre-existing tax rebates and the elements of the prior Family Tax Initiative were not only retitled "Family Tax Benefit Parts A and B", but parents were presented with the choice to access them through the tax system. The booklet published and distributed by the Family Assistance Office (a new agency which links the income support administration of Centrelink and the tax administration of the Australian Tax Office) informs parents that they may chose to

have their Family Tax Benefit paid into their bank or credit union account each fortnight, or access it through the tax system. If the tax system option is chosen, the parent may choose to take a lump sum by claiming Family Tax Benefit at the end of the financial year; or by asking the employer to reduce the tax instalment deductions in each pay period on the wages of either the principal carer or their partner. Those who do not have the choice of using the tax system are families in receipt of social security or veterans' affairs payments, who continue to receive their family assistance as a regular fortnightly payment. It is evident that families where at least one parent or the sole parent is in the workforce are provided with the option to access the benefit through a tax rebate, on either a regular pay period basis or an annual basis. It is significant that the policy move to the tax system for the delivery of family benefits appears not to have addressed the question of whether or not the benefit will be received by the parent with primary child care responsibility. Indeed, there appears to have been little debate on the matter. In addition, even if the payment route is chosen by recipients (and this appears from current information to be the majority choice), the logic of the tax system is embedded in the administration of the payment since the recipient is required to predict their annual income, on the basis of which payment is made. If annual income exceeds the amount predicted (eg if the principal carer gains a short-term part-time job, not previously planned), the recipient incurs a legal obligation to pay back the "overpayment". Using the logic of the tax system is a significant retreat from the former bipartisan policy of family income support directed to the primary carer on a regular basis, in favour of the discursive rhetoric of providing choice to single income families and re-instating the legitimacy, at least in family tax/benefit policy, of a male breadwinner model.

The argument that there has been a significant redirection of family tax/transfer policy away from vertical equity and in favour of promoting the legitimacy of and rewarding the single income family is reinforced by a consideration of the "Baby Bonus" – the most recent introduction to the Government's array of family policies. First announced in the context of the 2001 Federal election, and subsequently introduced in 2002, this program provides a tax rebate for parents (either the mother or father depending on who takes time out of employment) in the five years after the birth of their first child, or, as a transitional measure, for a subsequent child born after 1 July 2001 (to apply to only one child in each family). The First Child Tax refund pays back tax paid by the mother (the most likely recipient) in the tax year prior to the birth of the child, over five years, if she remains outside the workforce. The maximum rebate is \$2,500 per year for five years (with the mother not in the paid workforce, to be reduced if she returns to the workforce in that period). The maximum amount is payable where the mother previously earned at least \$52,666 per annum before the birth of the child. There is a minimum floor of \$500 per annum for lower income women, women who were not employed before the birth of the child and women reliant on welfare, and this too is payable only if the woman remains outside the work force. It is also important to note that the rebate is not income tested on the income of the husband/partner. The regressivity of this policy is apparent: women who had previously earned at least \$52,666 (which applies to only 5% of employed women) are eligible to receive a total rebate of \$12,500 if they remain outside the labour force for 5 years – a situation which Australian Bureau of Statistics data indicate is normally only applicable to women with high income spouses; while lower income women receive only the minimum \$2,500 over five years, one fifth of the maximum amount. Other ABS wage figures indicate that more than a third of female employees receive less than \$20,000 per annum, and over one half of the female workforce receives less than \$26,000 per

annum. The rebate for these women will vary between \$500 and \$800 per annum. In addition, the rebate is claimable only through the tax assessment at the end of the taxation year, and is not therefore available to the mother as cash in hand during the day-by-day period of early child care.

The regressive impact of this tax rebate proposal was noted by a range of groups, including the Australian Council of Social Service, the trade unions, women's organisations, and also by conservative family groups (who were not impressed by the small amount of the rebate, especially for lower income women). An article in the Australian Financial Review (29 October 2001) stated that the amount of the rebate is small, the policy regressive, and that the more appropriate alternatives facing an Australian government would be either universal paid maternity leave or targeting on the basis of need.

What is the current government view on changes to the tax/transfer system? In his opening address to the Liberal Women's Conference National Convention in Adelaide on 6 June 2003, the Prime Minister re-iterated the theme of choice for families and argued that the Government's reform of the family tax/transfer system had effectively delivered income-splitting to families, with Family Tax Benefit Part B acting like a second tax free threshold for single income families (Howard, 2003). He argued that the tax system advantages two earner families who have two tax free thresholds and the Coalition government reforms have attempted to redress that inequity. This represents the conservative politics of the tax/transfer system, linked with endorsement of the male breadwinner model of family policy.

CONCLUSION

While the formal structures of the tax/transfer system are gender-neutral, the reality of people's lives – especially the gendered division of paid work and caring responsibilities – means that in practice men and women are treated differently by the tax/transfer system. Thus, in addition to the traditional axes of horizontal and vertical equity, it is important to consider the gender politics embedded in family tax and transfer policies. Our argument is not that different treatment is necessarily undesirable, but that its politics – and especially its redistributive consequences – need to be examined and debated.

In the post-war period until the mid-1970s, the key political issues that featured in debates about families and tax concerned the extent to which transfers and payments assisted taxpayers with children compared with those without (horizontal equity) and the extent to which particular policies redistributed support to low-income families (vertical equity). In addition, the debates focused on the contrast between, on the one hand the universal transfer payment of child endowment to mothers which met the test of horizontal equity but whose unindexed form meant that the value of the payment was ineluctably eroded, and on the other hand tax concessions which usually benefited fathers in an inequitable way. From the mid-1970s, in the context of the 'rediscovery of poverty' – especially child poverty – a third equity issue emerged: providing financial assistance directly to the principal carer (usually the mother) rather than to taxpayers for the presence of 'dependents'. This reflected evidence that many mothers had no other source of income in their own right and that direct transfers were an effective way of providing support to children. The policy focus from the mid 1980s rejected horizontal equity, and gave priority to the principle of vertical equity through increased and indexed payments, targeted payments to lower income families (and by

extension to lower income mothers) and directed all family-related payments to the “principal carer”, predominantly mothers. In broad terms, this bi-partisan approach to gender equity remained in place for approximately two decades

Under the current government, this bi-artisan consensus has been overturned. Family payments have been renamed and restructured as ‘Family Tax Benefit’ and, in the name of choice, a key component of the payment can be taken either by reducing the tax of the principal earner or a providing a direct cash payment to the parent whom the government now calls the ‘secondary earner’.

In developing family-related tax and transfer payments since 1996, current policy has evoked two dichotomous family types: families with a stay-at-home parent and families in which the sole or both parents participate in paid work. Moral legitimacy has been accorded in greatest measure to single income two parent families (or, at best) those where one parent, usually the mother, is employed for limited hours. The politics which have been built around these contrasting types are socially divisive and take no account of the research which shows the phases of transition in employment/family care combinations which women construct, usually related to the ages of their children, the availability of suitable employment, the availability of affordable child care. Perhaps more pertinently, the policy rhetoric of parental choice obscures a much more hard-headed policy trend to the favouring of family support delivered through the tax system, giving priority to single income families through tax relief – a policy signifying a perspective which takes the care-giving parent out of the circuit of redistribution. It is not “motherhood” which actually counts in such a circuit, but a family-oriented, apparently (but not in effect) gender-neutral tax policy.

The paradox of the current trend to familialisation of tax/transfer policy is that a policy emphasis on choice actually reduces choice, in the gendered world of the balancing of paid work and family responsibilities. The political value commitment to the male breadwinner model of family form and process - a model which is not conducive to the support of dual-earner families, nor to the support of long-term economic security for mothers - sustains tax/transfer arrangements which fail the tests of horizontal, vertical and gender equity.

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Studying the Studies: An overview of recent research into taxation operating costs

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Abstract

Studies into the operating costs of taxation – compliance costs for taxpayers and administrative costs for revenue authorities – have flourished in recent years. This paper provides an overview of these studies, and reveals both the breadth and the depth of the research in this area. The paper focuses upon studies that have taken place in the last 20 years or so, although the paper also briefly considers the broader historical context, including the reasons why research into tax operating costs has apparently flourished after some initial neglect.

A summary of most of the major (and some minor) administrative and compliance cost studies that have been published (and some that have not been published) since 1980 is contained in an appendix. This summary highlights the geographical spread of operating cost research, the variety of taxes and aspects of tax systems that have been studied, and the range of methodologies employed. The outcomes of the research are also summarised.

A key thesis of the paper is that tax law design should not take place without clear recognition of the impact of the proposed changes on the operating costs of the tax system. Sensible tax law design must be informed by an understanding of the impact that design will have on the burden that taxpayers will face and the administrative costs that the revenue authority will be required to carry.

I. INTRODUCTION

Recognition of the existence and impact of tax operating costs¹ is not the recent phenomenon we sometimes assume it to be. As long ago as the eighteenth century, the latter three of Adam Smith's four well-known maxims of good tax practice (equity, certainty, convenience and economy) emphasised the impact of tax operating costs on the tax system (Smith, 1776, pp. 361-362). And literature contains many historical references to the burden imposed upon taxpayers as a result of their taxation obligations. For example, half a century after Smith's discourse, William Cobbett noted that farmers not only faced the cost of paying tax of "2d in the pound" for growing hops, but that "...in all such cases, there falls upon the consumer the expenses attending the paying of the tax...[such as] the trouble it gives him, and the rules he is compelled to obey in the drying and bagging, and which cause him great expense" (Cobbett, 1826, pp. 148-149).

But if recognition is not new, research into those operating costs is a more recent development. Administrative costs, as a part of the cost of the public sector, have naturally been subject to some degree of measurement by governments throughout, though the standard and comprehensiveness of that measurement has varied

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¹ These comprise *administrative* costs incurred by the public sector (usually, but not exclusively, revenue authorities) and *compliance* costs incurred by taxpayers. Note, however, that the terminology sometimes varies. Stiglitz, for example, uses the term *administrative costs* to embrace both compliance and administrative costs (1988, pp. 393-395).

considerably over time and between governments. But very little was done in the way of assessing and measuring compliance costs until well into the twentieth century.

Since then, however, this has been an area of taxation research that has flourished – arguably too much so in the view of some: see, for example, James (2003, pp. 69-70). There have been more than 100 published studies into either compliance costs or administrative costs (or sometimes both) since Haig’s tentative first modern study (1935) in the US; and more than 60 of those have occurred since 1980. Studies have now occurred in most developed and many transitional and developing countries, have utilised most of the research methodologies that are available and have encompassed the full range of taxes and tax issues.

The principal objective of this paper is to make available in a single source an overview of recent research into tax operating costs. In so doing it should help interested readers and prospective researchers to gain an initial feel for the breadth and depth of studies in this area. It also signifies an ambition, on the part of the author, to prepare a comprehensive register of operating cost studies as part of a longer-term project.

This paper focuses upon studies that have taken place in the last 20 years or so, although the next section briefly considers the broader historical context, including the reasons why research into tax operating costs has apparently flourished. The third section focuses upon the scope of the taxes and taxpayers that have been the subject of the research, while an analysis of the different methodologies employed in the studies is dealt with in Section 4. The major outcomes of the studies are summarised in Section 5, and the concluding section suggests future directions and patterns for research, including the need for that research to feed into the tax law design process.

A summary of most of the major (and some minor) administrative and compliance cost studies that have been published² since 1980 that I have been able to trace is contained in the appendix to this paper. I have attempted to make the list as comprehensive as possible, although it is inevitable that some studies will have been missed. The focus is upon empirical research into operating costs, so commentaries – for example the review of the VAT evidence undertaken by Cnossen (1994) and the more general review of the research into operating costs conducted by Evans (2001) – are not included.

In addition the summary confines itself to business taxpayers and to individual taxpayers who are not in business (for example, employees and those who are retired and/or receive investment income). The operating costs of the public sector, “not for profit”, “charity” or related sectors of the economy may be significant, but they are excluded from this paper and its appendix.

The choice of 1980 as a starting point for the summary of studies in the appendix is somewhat arbitrary but can be defended on two major grounds. In the first place it provides a comprehensive review of most studies (by reference to geographical scope, type of taxes and taxpayers, methodology employed, and major compliance and administrative cost outcomes) over a period of more than 20 years. This period is considered to be more than adequate as a representative sample. And secondly it

² And some that have not yet been published.

picks up where other excellent summaries (for example, Sandford, Godwin and Hardwick, 1989, pp. 224-230; Allers, 1994, pp. 241-250) have left off, though ensuring there are no major omissions by duplicating some of the later studies summarised in their appendices. Thus a complete picture emerges from this summary in combination with those earlier summaries.

The appendix identifies over 60 studies in the period since 1980. Only one of these (General Accounting Office, 1993) was solely concerned with administrative costs. Roughly 25% of the studies considered both administrative and compliance costs, though more often than not the primary focus in these studies was upon compliance costs. The balance of the studies were only concerned with compliance costs and did not specifically address issues relating to administrative costs.

The appendix has been compiled on the basis of the geographical location of each of the studies, and these have been categorised by reference to four major regions – North America, Europe, Australasia/Southeast Asia and finally the rest of the world (including multi-country studies).

Tran-Nam and Evans (2002, p. 393) have noted that the early quantitative studies of tax compliance costs in the 1930s to 1960s took place in North America. Those early studies were undertaken by researchers from diverse academic backgrounds, including management science, business studies, accounting and economics. They used a range of methodologies, and identified many of the features that regularly crop up in more recent studies (for example, the regressive nature of compliance costs and the potential trade off between administrative and compliance costs) (Tran-Nam and Evans, 2002, p. 393). North American studies into operating costs have not been quite so prolific in the last 20 years compared to those earlier time periods, but there have still been a number of major studies in both the USA and Canada in recent years (for example, Vaillancourt, 1989; Blumenthal and Slemrod 1992), and evidence that interest is being re-ignited (for example, Slemrod and Venkatesh, 2002; Stavrianos and Greenland, 2002).

Some compliance costs studies took place in Europe at about the same time as the early North American wave, but they tended to be small scale and low key (for example, Hofstra, in the Netherlands in 1943-4). This has been a region, however, where a great deal of activity has taken place in the last 20 years (for example, Sandford, Godwin and Hardwick, 1989; Allers, 1994; Diaz and Delgado, 1995; Collard, Green, Godwin and Maskell, 1998; Hasseldine and Hansford, 2002). Interestingly, despite this widespread recent activity, only a small number of different countries (the UK, Ireland, Germany, the Netherlands, Sweden and Spain) feature in the section devoted to European studies.

Before 1990 there were no published operating cost studies in Australasia or Southeast Asia. Since then, the floodgates have opened, with published studies in Australia (Pope, Fayle and Duncanson, 1990; Pope, Fayle and Chen, 1991; Pope, 1992; Pope, Fayle and Chen 1993a, 1993b, 1994; Wallschutzky and Gibson, 1993; Evans, Ritchie, Tran-Nam and Walpole, 1996, 1997; Rametse and Pope, 2002; Tran-Nam and Glover, 2002), New Zealand (Sandford and Hasseldine, 1992; Prebble, 1995), Singapore (Ariff, Loh and Talib, 1995; Ariff, Ismail and Loh, 1997), Malaysia (Loh, Ismail, Shamsheer and Ali, 1997) and Hong Kong (Chan, Cheung, Ariff and Loh, 1999).

Finally, there is a small but growing list of studies from countries as diverse as Tanzania (Shekidele, 1999), Brazil (Bertolucci, 2002) and India (Chattopadhyay and Das-Gupta, 2002), as well as evidence of interest from supra-national bodies such as the OECD (Cordova-Novion and De Young, 2001) in the production of comparative compliance costs studies. These studies are listed in the fourth part of the appendix.

II. HISTORICAL CONTEXT

Sandford, Godwin and Hardwick (1989, pp. 27-34) postulate three broad phases in attempts to identify and measure operating costs – a North American phase lasting from the 1930s to the 1960s; a European phase in the 1960s and 1970s; and a worldwide phase from the 1980s onwards.

Haig's 1935 study involved a postal survey of the taxation compliance costs encountered by over 1,500 large firms in the USA. This triggered a series of small-scale compliance cost studies, often lacking in rigour, in North America in the period through to the late 1960s. The methodology involved included case study approaches (for example, Edelmann, 1949; Oster and Lynn, 1955; Yocum, 1961; Johnston, 1963) and postal surveys (for example, May and Thompson, 1950; Bryden, 1961; Wicks, 1965 and 1966).

During the same period there were relatively fewer academic studies of the administrative costs of taxation, although Reynolds (1937), Maloon and Oster (1957) and Wicks and Killworth (1967) studied these costs in a variety of States and local government authorities in the USA. Reynolds conducted his research through a review of the literature, and the latter two used surveys and questionnaires.

Since 1970, the volume, scope and geographical locations of operating costs studies have grown considerably, particularly in the UK following the early studies of Sandford and others (Sandford 1973, Sandford, Godwin, Hardwick and Butterworth, 1981). Allers (1994, pp. 243-247) identifies 41 separate compliance cost studies, ranging across nine separate countries³, in the period from 1970 to 1993. The studies employed a variety of methodologies, including surveys (telephone, postal and magazine), case studies, diary studies and interviews. Some merely involved "guesstimates". During the same period the number of administrative cost studies also grew considerably, with Allers able to identify seven such studies in the Netherlands, five in the UK, two in both the USA and Ireland, and one each in France, Canada and West Germany (1994, pp. 248-250).

Hence by the early 1990s literature on the operating costs of the tax system was burgeoning, and the period since then has been no less prolific. This growth in the literature relating to operating costs over the last 20 years or so has been matched by an increased awareness of the issue by governments around the world. Much of the earlier research preceded government interest, but, from the 1980s or so, research and government interest have often gone hand in hand, and many recent studies have been government financed (for example, Evans, Ritchie, Tran-Nam and Walpole, 1996, 1997 in Australia; Plamondon, 1997 in Canada; Collard, Green, Godwin and Maskell, 1998 in the UK; and Stavrianos and Greenland, 2002 in the USA).

³ The Netherlands, West Germany, USA, UK, Ireland, Switzerland, Canada, Australia, and New Zealand.

An important factor contributing to the growth of interest (but also reflecting that growth) by both researchers and governments has been a series of conferences and symposia held on the topic in the last two decades. The International Fiscal Association made the administrative and compliance costs of taxation a main subject for their 1989 conference, and the cahiers listed studies of varying size and rigour in nine countries (Argentina, Belgium, Canada, Germany, Netherlands, Sweden, Switzerland, UK and USA). In 1994 a major symposium was convened at St John's College, Oxford, attracting most of the world's major researchers in the area, and the ensuing publication (Sandford, 1995) showed that many of those countries had undertaken further studies. In addition, Australia, Spain and New Zealand were added to the list of countries which were undertaking major studies.

More recently (April 2000), a follow up symposium was convened in Sydney, Australia. The conference publication (Evans, Pope and Hasseldine, 2001) identified further large-scale studies in Canada (Plamondon, 1997), Australia (Evans, Ritchie, Tran-Nam and Walpole, 1996 and 1997), and the United Kingdom (Collard, Green, Godwin and Maskell, 1998), as well as smaller studies in Singapore and Malaysia (Ariff, 2001). Other studies extended the scope of tax compliance costs to particular features, such as appeals tribunals (Copp, 2001) and psychological costs (Woellner, Coleman, McKerchar, Walpole and Zetler, 2001). And many other research projects relating to the operating costs of the tax system were also noted as being under way.

This increased research and government interest and involvement in issues relating to taxation operating costs can be attributed to a number of factors. Sandford (1995, pp. 4-7) identifies six:

- the powerful influence of changes in technology (and especially computers), enabling researchers and governments to undertake larger and more credible studies into compliance costs in particular;
- the introduction of VAT/GST regimes in a number of countries (UK, Canada and New Zealand are cited by Sandford⁴). The high operating costs associated with such taxes have increased interest in identifying and quantifying the potential impact;
- the increased importance to modern economies of the small business sector – which research shows carries a disproportionate burden of taxation compliance costs. A whole series of deregulatory and “enterprise culture” oriented initiatives have been undertaken since the 1980s, and it is therefore not surprising that interest in operating costs would be a feature of this;
- the growing complexity of modern tax systems and the burdens they impose on taxpayers who have been exposed to a larger range of taxes;
- the increased emphasis by governments on voluntary compliance has made them more conscious of the burden they impose on taxpayers; and
- measures taken since the 1980s to reduce administrative costs (as part of policies to reduce public expenditure) may have increased the burden of compliance costs, and possibly even increased the overall resource costs to society. Glassberg and Smyth (1995, p. 17) cite the transfer of costs from the UK Government to financial institutions (primarily the building societies) with the introduction of

⁴ Since 1995, Australia has also introduced a GST.

Mortgage Interest Relief At Source (MIRAS) in the 1980s as an example of this. A more recent example may lie in the introduction of systems of self-assessment in Australia and the UK in the late 1980s and 1990s. Once again, increased burdens are likely to translate to increased awareness and research interest.

III. THE SCOPE OF THE STUDIES

It is a difficult task to summarise on any systematic basis the taxes that were the subject of research in the studies listed in the appendix, as many of the studies were not focused upon one particular tax, but embraced a variety of taxes or tax related matters. For example, the study of employer related taxes in Australia by Pope, Fayle and Chen (1993a) covered specific taxes such as Fringe Benefits Tax (FBT) and payroll taxes, as well as tax collection or reporting mechanisms such as PAYE and the Prescribed Payment System (PPS). At least five other studies identified in the appendix are concerned with similar areas.

Roughly a dozen of the studies focused solely on Personal Income Taxes (PIT), and about the same number considered just Corporate Income Taxes (CIT). Eight other studies (for example, Arthur D Little Inc, 1988; Evans, Ritchie, Tran-Nam and Walpole, 1997) considered all federal taxes, whether business or personal. Indirect taxes are also well represented in the appendix, with seven Value Added Tax/Goods and Services Tax (VAT/GST) and four sales tax and excise duty studies identified.

The balance of the studies are spread across a range of tax and tax related areas, including tax expenditures (Gunz, Macnaughton and Wensley, 1995), Petroleum Revenue Tax (Sandford, Godwin and Hardwick, 1989) and road tolls (Friedman and Waldfogel, 1995).

Just as the types of taxes that have been the subject of study over the last 20 years is diffuse, so is the nature of the taxpayer. As in previous periods (see Tran-Nam and Evans, 2002, p. 393), there has inevitably been a greater emphasis on business taxes and taxpayers. But despite this emphasis, very few types of taxpayer have escaped scrutiny over this period. Taxpayers not in business (employees, the retired) have been included in many of the studies (Slemrod and Sorum, 1984; Allers, 1994; Evans, Ritchie, Tran-Nam and Walpole, 1997; Chattopadhyay and Das-Gupta, 2002), but usually only as part of a broader survey. They rarely feature as the central part of the study (though see Satvrianos and Greenland, 2002, which focused entirely on individuals with wage and investment income). In contrast, employers have been the sole or primary focus of the research in at least six studies (Leonard and O'Hagan, 1985; Sandford, Godwin and Hardwick, 1989; Vaillancourt, 1989; Pope, Fayle and Chen, 1993; Plamondon, 1997; Collard, Green, Godwin and Maskell, 1998).

Where the research has been into the operating costs of business taxpayers, studies are more or less equally split between those that have specifically targeted small businesses (Wallschutzky and Gibson, 1993; Plamondon, 1993, 1995; Yellow Pages 1996; Rametse and Pope, 2002; Tran-Nam and Glover, 2002; CPA Australia 2003) and those that have specifically targeted the large corporate sector (Pope, Fayle and Chen, 1991; Prebble, 1995; Ariff, Loh and Talib, 1995; KPMG, 1996; Slemrod and Blumenthal, 1996; Erard, 1997; Bertolucci, 2002, Slemrod and Venkatesh, 2002). Most studies into business operating costs are not specific to any one sector, however, but embrace all business segments, large and small.

The vast majority of the studies look at the costs incurred by taxpayers. In contrast, very few studies (for example, Green, 1994; Evans 2003) consider the perspective of the practitioner, even though practitioner costs have always been a very significant component of the compliance costs incurred by business and non-business taxpayers.

It is also slightly surprising how few truly international comparative studies have taken place over the last 20 years. Some of the national studies contain comparative sections where the outcomes for one country are compared with those in others (for example, Evans, Ritchie, Tran-Nam and Walpole, 1997, pp. 58-83). But the dangers of international comparisons are well known to most researchers. Sandford (1995, pp. 405-408) identifies a number of reasons why such comparisons are more likely to mislead than enlighten, and, in an earlier piece (1994) the same author offered the advice that “comparisons of ... operating costs should be used sparingly, with the greatest care and with a comprehensive statement of their limitations”.

One relatively early study and two more recent studies have countered the trend for studies to be national rather than international. Bannock and Albach (1989) compared VAT compliance costs in Germany and the UK. More recently, Cordova-Novion and De Young (2001) undertook a multi-country survey of business tax compliance costs in eleven different countries for the OECD, and Evans (2003) has completed a comparative study of the operating costs of taxing personal capital gains in Australia and the UK.

In summary, studies in the last 20 years have considered most of the different types of tax and most of the different types of taxpayer. The level of coverage has varied – some taxes and taxpayer types have received very comprehensive coverage while others have been relatively under-researched. The analysis now turns to the manner in which that research has been conducted.

IV. RESEARCH METHODOLOGIES

Research literature has typically categorised the study of human and social phenomena by reference to two broad camps – the quantitative (or traditional, positivist, empiricist) and the qualitative (also referred to as the constructivist, naturalistic, interpretive, post-positivist or post-modern). The quantitative paradigm is the more traditional approach to research and typically adopts a deductive approach. In contrast the qualitative approach relies upon an inductive logic. Theories develop through the study rather than being established at the outset, and the methodology is also likely to emerge as part of the process of research rather than being predetermined.

Studies into tax operating costs borrow from both traditions, though there is a far greater emphasis on quantitative techniques. The studies use a variety of specific research methodologies to research into aspects of compliance costs. These include surveys (invariably using questionnaires) conducted through commercial polling organisations (Allers, 1994), or by mail (Green, 1994), email (Bertolucci, 2002) and telephone (Yellow Pages, 1996, CPA Australia, 2003), other interview-based methodologies (Plamondon, 1993; 1995; 1997), diary and case study approaches (Wallschutzky and Gibson, 1993), and documentary analysis (Arthur Andersen & Co, 1985) and estimating/simulating techniques (Thompson, 1984). Often the studies employ a combination of these approaches (Collard, Green, Godwin and Maskell, 1998).

Postal surveys feature most prominently in the appendix, with nearly two thirds of the studies using this methodology wholly or in part. Roughly one quarter of the studies used interviewing techniques, usually on a face-to-face basis and with a structured survey instrument or script built into the process. The labour intensive diary and case study approaches tended to be the least used methodology.

The appendix shows that response rates for postal surveys into compliance costs have varied considerably. At the one end of the scale there are studies that failed to achieve a response rate of 10%. For example, Vaillancourt (1989, p 47) reported a response rate of only 9.2% based on a distribution of 4,196 questionnaires to Canadian employers, and Arthur Andersen & Co (1985, Chapter 3, pp. 4-5) achieved just 7% response rate in a survey of 600 small businesses. At the other end of the scale, Evans, Ritchie, Tran-Nam, and Walpole (1996, p. 35) achieved a response rate of 50% in an Australian postal survey of 1,867 personal taxpayers. This high response rate⁵ reflected a number of factors. These included:

- the full support of the Australian Taxation Office (ATO), including a strong letter of endorsement from the Commissioner of Taxation. (It is possible that many of the personal taxpayers surveyed in 1996 incorrectly believed that they were required to complete the form as a result of this endorsement;)
- full funding from the ATO, permitting mail-out, initial postcard reminders and a second full mail-out, all with reply paid facilities and properly staffed help-desks;
- letters of endorsement from key professional associations; and
- the chance for respondents to win a computer. (This factor appeared to make a small but statistically significant difference, as the response rate in the one Australian state – South Australia – that would not permit this “gambling” incentive was lower than that in other states.)

The summary in the appendix confirms Sandford’s observation that the “norm” for response rates of such studies is probably around 30% (1995, p. 379).

Administrative costs have primarily tended to be identified through analysis of relevant documentary evidence. Surprisingly, there is very little evidence that researchers have considered other possible methodologies, such as structured or in depth interviews or case studies, in attempts to assess administrative costs.

V. MAJOR OUTCOMES

The major outcomes summarised in the appendix suggest that compliance costs are highly significant for the main central government taxes such as PIT, CIT, VAT/GST. They are high however measured – whether in absolute money terms or relative to tax yield, GDP or administrative costs. For example, the studies suggest that compliance costs of such taxes are typically anywhere between 2% and 10% of the revenue yield from those taxes; up to 2.5% of GDP; and usually a multiple (of between two and six) of administrative costs.

⁵ But note that it is by no means the highest response rate for a postal survey. The appendix indicates that the Arthur D Little Inc study in the USA (1988) achieved a 62% response rate in its survey of 6,200 individuals, and Malmer (1995) achieved 67% in Sweden in a postal survey of 12,000 individuals.

The research also points strongly to the regressivity of compliance costs of such taxes, particularly where VAT type taxes are involved. The size of the business is a key factor in determining compliance costs, and most of the studies confirm that smaller businesses carry disproportionately higher compliance costs.

In contrast, compliance costs for property taxes are low in absolute and relative terms, as are compliance costs of some excise duties in developed countries (for example, tobacco and petrol) where the sales are high and the number of businesses involved are low. Compliance costs for excise duties in developing countries appear to be significantly higher than those in developed countries, though the evidence is somewhat thin at the moment (Shekidele, 1999).

The evidence from the studies also points to the fact that compliance costs are perceived to be a very significant issue for most business taxpayers and many non-business taxpayers, as well as for practitioners. They are an on-going cause for concern, and the problem is not perceived as improving over time (Blumenthal and Slemrod, 1992; Evans, 2003), despite attempts by governments (ostensibly) designed to reduce the burden faced by taxpayers. Complexity of legislative provisions together with the frequency of legislative change are identified as prime causes of high compliance costs (Green, 1994, Evans, 2003).

The studies in the appendix also suggests that administrative costs are absolutely and relatively less burdensome than compliance costs. Those studies that do address administrative costs suggest that they rarely exceed 1% of revenue yield, and more usually come in well below 1%.

VI. CONCLUSIONS

In summary, therefore, the initial neglect of this area of research has now long passed. The last 20 years have seen issues relating to tax operating costs shift from the periphery to a more central position. As a result, there is now an extensive and varied literature available which can provide a useful reference point for studies relating to the regulatory burden.

Using a variety of methodologies researchers have identified and quantified both compliance and administrative costs, and are now exploring a number of related and more qualitative issues. As Evans, Pope and Hasseldine note in their concluding chapter (2001, pp. 409-417), future operating cost research is likely to both “drill down” (seeking depth by looking at “hot spots” and politically sensitive areas) and “reach out” (broadening the scope of the research to embrace new countries, more comparative work, other disciplines and fresh methodologies).

The operating costs literature will clearly continue to develop over the next 20 years, and it is to be hoped that the fruits of operating cost research will continue to be evident in the policy-making process. There is an obvious interconnection between tax law design and implementation. Tax law design should not take place without clear recognition of the impact of the proposed changes on the operating costs of the tax system. Sensible tax law design must be informed by an understanding of the impact that design will have on the burden that taxpayers will face and the administrative costs that the revenue authority will be required to carry. The greatest contribution that research into operating costs can make in the future is to ensure that those who formulate and implement legislative change are properly informed as to the operating cost implications of their actions. This will not always be (and indeed does

not need to be) the decisive factor; but it cannot be ignored in the way that it so often has in the past.

Pope identified a number of possible stages in the awareness of compliance costs (Pope, 1992, pp. 27). These ranged from initial neglect, through recognition by professionals (tax advisers etc), quantification (usually by academics), policy recognition, effective policy measures resulting in lower compliance costs, and finally to continual monitoring of compliance costs.

Many of the developed countries that have undertaken the studies summarised in the appendix have clearly passed through the first four of these stages, and in some of them there is even lip-service paid to the need to take operating costs into account when policy is formulated (see, for example, Evans and Walpole, 1999, pp. 38-77). But there is still a long way to go before any of the countries can truly claim that its tax laws are designed with a clear focus on the implications that design will have on the operating costs of the tax system.

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APPENDIX SUMMARY OF MAJOR PUBLISHED STUDIES OF TAXATION OPERATING COSTS SINCE 1980 BY REFERENCE TO GEOGRAPHICAL LOCATION**North American Studies**

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1984 (1982)	Slemrod & Sorum	USA (Minnesota residents)	Personal income taxes	1. Postal survey 2. 2,000 3. 653 4. 33%	Compliance costs were 5% to 7% of revenue yield; self employed incur relatively higher costs	Not addressed
1984 (1979)	Thompson	Canada (Ontario personal taxpayers)	Personal income taxes	1. Estimate, based on assumptions applied to provincial tax statistics 2. Not relevant 3. Not relevant 4. Not relevant	Compliance costs that would be associated with the introduction of a personal income tax system in Ontario would be roughly C\$150m or C\$42 per taxpayer	Not addressed
1985 (1984)	Arthur Andersen & Co for the Department of Finance	Canada (Canadian businesses)	Federal sales and excise taxes	1. Documentary analysis for administrative costs; for compliance costs (a) face to face interviews (using survey instrument) with large firms (b) postal survey for other firms 2. (a) 76 (b) 1,600 3. (a) 36 (b) 171 4. (a) 47% (b) 11%	Compliance costs were C\$731.4m or 7.56% of revenue yield; significant variation depending on size of firm, with compliance costs being higher for smaller firms	Administrative costs were C\$76.4m or 0.8% of revenue yield
1985 (1984)	Arthur Andersen & Co for the Department of Finance	Canada (Ontario businesses)	Ontario retail sales tax	1. Documentary analysis for administrative costs; postal survey for compliance costs 2. 600 3. 43 4. 7%	Compliance costs were 5.85% of revenue yield; significant variation depending on size of firm, with compliance costs being higher for smaller firms	Administrative costs were C\$39.9m or 0.6% of revenue yield

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1988 (1983-1985)	Arthur D Little Inc	USA (USA individuals and businesses)	Federal taxes	1. (a) diary study of 750 individuals (b) postal survey of 6,200 individuals (c) postal survey of 4,000 businesses 2. (a) 750 (b) 6,200 (c) 4,000 3. (a) 750 (b) 3,831 (c) 1,474 4. (a) 100% (b) 62% (c) 37%	Total estimated taxpayer paperwork burden increased from 4,342m hours in 1983 to 5,427m hours in 1985; record keeping accounted for 50% of this time and form preparation 29%; high degree of correlation between the total time spent on record keeping, learning, preparation and sending time associated with filing individual tax returns and the number of line items present on the tax return	Not addressed
1989 (1986 & 1987)	Vaillancourt	Canada (Canadian individual taxpayers and employers)	Personal income taxes & payroll taxes	1. (a) Interviews (face to face) with questionnaire for individuals (b) postal survey for employers 2. (a) 2,040 (b) 4,196 3. (a) 2,040 (b) 385 4. (a) 100% (b) 9%	Individuals' compliance costs were C\$1.95b, or 2.5% of revenue yield, with the tax complexity of the taxpayer situation being the main determinant; employers' compliance costs were C\$2.75b, or 3.5% of revenue yield, with a decreasing cost-size relationship	Administrative costs were C\$0.77b, or 1% of revenue yield
1992 (1989)	Blumenthal & Slemrod	USA (Minnesota residents)	Personal income taxes	1. Postal survey 2. 2,000 3. 826 4. 40%	Upward drift in compliance costs 1989 compared to 1982 survey by Slemrod & Sorum; Tax Reform Act 1986 did not stem this growth	Not addressed
1992 (1991)	Erard & Vaillancourt	Canada (Ontario personal taxpayers)	Personal income taxes	1. Simulation: estimate based on line count of items on individual returns 2. Not relevant 3. Not relevant 4. Not relevant	Introducing a personal income tax system to Ontario would increase net steady state compliance costs for taxpayers, employers and financial institutions by between C\$244.5m and C\$372.5m (between 2% and 3.1% of provincial revenue yield), depending on the model adopted	Not addressed
1993 (1993)	Plamondon	Canada (Canadian small businesses)	Goods and services tax	1. Interviews (face to face) conducted by accountants with questionnaire 2. 200 3. 200 4. 100%	Compliance costs were not as high as previous studies had shown, but were regressive; businesses using computers for accounting routines had compliance costs 20% to 40% lower than those operating manually	Not addressed

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1993 (1995)	General Accounting Office (US)	USA (Federal administration)	Value added tax	1. Estimate of administrative costs of a value added tax 2. Not relevant 3. Not relevant 4. Not relevant	Not addressed	Recurrent administrative costs of a value added tax would be between US\$1.22b and US\$1.83b, with 70% of those costs related to audit work; transitional costs of introducing a value added tax would be US\$800m; costs would vary with key design features of the tax, and a simple single rate, broad-based VAT would minimise administrative costs
1995 (1994)	Friedman & Waldfogel	USA (Massachusetts & New Jersey toll road users)	Road tolls	1. Case study 2. Not relevant 3. Not relevant 4. Not relevant	Operating costs of tolls in the US are between 15% and 42% of revenue yield during rush hour, and between 11% and 19% of revenue yield over an entire weekday.	
1995 (1994)	Gunz, Macnaughton & Wensley	Canada (Ontario corporations)	Tax expenditures (scientific research and experimental development (SRED) initiatives)	1. Face to face or telephone interviews with survey instrument 2. 111 3. 51 4. 46%	Compliance costs of SRED initiatives were quite low in aggregate, representing less than 1% of the credits claimed; compliance costs not regressive based on firm size, but were highly regressive based on the size of the claim	Not addressed
1995 (1995)	Plamondon	Canada (Canadian small businesses)	Goods and services tax (Quick method of accounting for GST)	1. Interviews (face to face) conducted by accountants with questionnaire 2. 200 3. 200 4. 100%	Small businesses were not using the Quick method of accounting for GST due to a lack of awareness; those who knew of it but did not use it were not overly concerned about compliance costs; savings in tax were more important than savings in compliance costs	Not addressed
1996 (1992)	Slemrod & Blumenthal	USA (largest US corporations)	Federal and sub-federal corporate income taxes	1. Postal survey 2. 1,329 3. 365 4. 27%	Compliance costs of 1,329 largest US corporations US\$2.1b, or 3.2% of revenue yield; the state ratio (5.6%) is higher than the federal (2.6%), reflecting non-uniformity of state tax systems; Tax reform Act 1986 increased compliance costs	Not addressed
1997 (1995)	Erard	Canada (large Canadian corporations)	Federal and provincial corporate income and capital taxes	1. Postal survey 2. 250 3. 59 4. 24%	Compliance costs of top 500 corporations were C\$250m, or between 4.6% and 4.9% of revenue yield; the compliance burden increases with firm size, but less than proportionately; foreign operations and involvement in the mining, oil and gas industries likely to lead to relatively higher compliance costs	Not addressed

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1997 (1996)	Plamondon	Canada (Ontario employers)	Federal and provincial payroll taxes	1. Interviews (face to face) conducted by accountants with questionnaire 2. 40 3. 40 4. 100%	Compliance costs were “relatively low” (2.76% of revenue yield for 30 small and medium sized businesses interviewed); Ontario workers’ compensation system causing confusion and uncertainty; support from employers for harmonization of payroll taxes	Not addressed
1998 (1996)	Plamondon & Zussman	Canada (Canadian business taxpayers)	Canadian federal & provincial business taxes	1. Estimation of compliance costs followed by panel discussion and poll 2. Not relevant 3. Not relevant 4. Not relevant	Compliance costs for Canadian business estimated at C\$3.4b, or 0.4% of GDP, 1.5% of revenue yield; a single tax administration would reduce annual compliance costs by between C\$171m and C\$285m	Administrative costs of Federal & Provincial business tax system estimated to be C\$2.2b; a single tax administration would reduce annual administrative costs by between C\$97m and C\$162m
2002 (1998 and 1999)	Stavrianos & Greenland (PwC Consulting)	USA (individuals with wage and investment income)	Personal income taxes	1. Postal surveys or telephone interviews 2. 11,086 3. 6,366 (2,551 by post and 3,815 by telephone) 4. 57%	The objective is to develop an improved methodology for measuring and modelling the compliance burden. The initial report does not provide any estimates; only details of the microsimulation model used	Not addressed
2002 (2001)	Slemrod & Venkatesh	USA (large and mid-size businesses)	Business taxes	1. Postal surveys of (a) corporations and (b) tax advisers 2. (a) 2,499 (b) 1,824 3. (a) 225 (b) 218 4. (a) 9% (b) 12%	Compliance costs are regressive; compliance costs of corporations required to file as “non-US corporations” were, on average, higher than for other similar sized corporations; compliance costs of firms in the media, communications and technology industry had the highest average total compliance costs and those in the retail, food and healthcare group had the lowest average amount	Not addressed

European Studies

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1981 (1978-1980)	Sandford, Godwin, Hardwick & Butterworth	UK (UK VAT registered traders and their advisers)	Value added tax	1. Documentary analysis for administrative costs; for compliance costs (a) postal survey, followed by (b) telephone and personal interviews and (c) interviews with advisers (sample and responses not published for this element) 2. (a) 9,094 (b) 445 3. (a) 2,799 (b) 263 4. (a) 31% (b) 59%	Gross compliance costs for VAT estimated as £392m in 1977-78, and administrative costs £85m. Total operating costs of c. £480m represented 11% of VAT revenue; VAT compliance costs “exceptionally regressive in their incidence” (and administrative costs also likely to be regressive); cash flow benefits (£73m) and managerial benefits (difficult to quantify) exacerbate the regressiveness; net compliance costs affected by size of firm, sector (relatively lower compliance costs in primary production and higher in financial and services sector), payment or repayment situation	
1985 (1983)	Leonard & O’Hagan	Ireland (employers)	Pay as you earn and Pay related social insurance (PRSI)	1. Postal survey 2. 300 3. 119 4. 40%	Total operating costs of PAYE/PRSI were IR£108m, or 4.6% of revenue yield; compliance costs exceeded the administrative costs by a factor of three; compliance costs were regressive – gross cost per employee decreased as firm size increased; firms employing more than 100 staff enjoyed a net compliance benefit as a result of cash flow benefits from operating PAYE	
1989 (1981-82)	Sandford, Godwin & Hardwick	UK (UK employers)	Pay as you earn and national insurance contributions	1. Postal survey with some (17) interviews 2. 3,039 3. 783 4. 29%	Aggregate compliance costs in 1981-82 were £449m, or just over 1% of combined revenue yield from PAYE and NIC; the impact of compliance costs was regressive; substantial cash flow benefit of £878m, which probably wiped out compliance costs for the larger firms	Administrative costs were just under 1% of the revenue yield
1989 (1983-84)	Sandford, Godwin & Hardwick	UK (UK personal taxpayers)	Personal income taxes	1. Postal survey followed by anonymised matching data from Inland Revenue 2. 4,241 3. 1,776 4. 43%	Compliance costs in 1983-84 were £1.15b, or 3.6% of revenue yield; impact was regressive for the self employed, though they enjoyed cash flow benefits; the most important factors determining the level of compliance costs were size of income and category of employment; CGT was an important source of high compliance costs but affected relatively few taxpayers	Not addressed

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1989 (1983 & 1988)	Sandford, Godwin & Hardwick	UK (UK alcohol, tobacco and oil companies)	Excise duties	1. Postal survey of alcohol industry (a), and interviews with tobacco (7) & oil (3) companies and others 2. (a) 369 3. (a) 99 4. (a) 30%	“Administrative and compliance costs of the main excises are outstandingly low in absolute and proportional terms” (but estimates somewhat speculative); for 1986-87 administrative costs were £41.9m and compliance costs were £33.3m; total operating costs of £75.2m were 0.45% of revenue yield; some regressiveness, but not as pronounced as with VAT studies	
1989 (1986-87)	Sandford, Godwin & Hardwick	UK (UK oil companies)	Petroleum revenue tax	1. Postal survey 2. 14 3. 9 4. 64%	Compliance costs in 1986-87 were £5.25m, or 0.44% of revenue yield; low revenue yield in 1986-87 makes this ratio particularly unreliable; but compliance costs are relatively low (compared to other central government taxes)	Administrative costs 1986-87 were £1.4m, or 0.12% of revenue yield
1989 (1986-87)	Sandford, Godwin & Hardwick	UK (UK VAT registered traders)	Corporation tax (part of value added tax survey below)	1. Postal survey 2. 3,000 3. 680 4. 24%	In 1986-87 compliance costs were £300m (2.22% of revenue yield) and administrative costs were £70.3m (0.52% of revenue yield); total operating costs were 2.74% of revenue yield; roughly 50% of compliance costs were external fees to advisers; compliance costs were regressive; cash flow benefits exceeded compliance costs	
1989 (1986-87)	Sandford, Godwin & Hardwick	UK (UK VAT registered traders)	Value added tax	1. Postal survey 2. 3,000 3. 680 4. 24%	Aggregate compliance costs were £791m (3.69% of revenue yield) and cash flow benefits (disproportionately enjoyed by larger firms) were £580m; net compliance costs were 1% of revenue yield; compliance costs very regressive; compliance costs fallen since 1977-78	Administrative costs of £220m in 1986-87 were 1.03% of revenue yield
1989 (1987)	Bannock & Albach	UK & Germany (UK and German businesses)	Value added tax	1. Postal survey (a) UK and (b) Germany, with very limited telephone follow up (15 calls in each country) 2. (a) 600 (b) 800 3. (a) 262 (b) 197 4. (a) 44% (b) 25%	Dissatisfaction with VAT system was much greater among smaller firms in the UK than in Germany, and compliance costs for smaller traders were significantly higher in the UK than in Germany	Not addressed

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1994 (1990)	Allers	The Netherlands (Dutch individuals)	Total Dutch tax - benefit system	1.(a) postal survey for business compliance costs; (b) commercial postal polling for non-business costs; (administrative costs determined by way of documentary analysis) 2. (a) 5,252 (b) Not known 3. (a) 1,116 (b) 10,992 4. (a) 21 % (b) 44%	Total operating costs of the Dutch tax-benefit system amounted to 15.3b Guilders, or 3% of GDP. The operating costs of the tax system alone were in the region of 11b Guilders, or 2.1% of GDP. Most (60%) operating costs were incurred by the private sector (compliance costs), with businesses accounting for about 80% of those costs. Regressivity of compliance costs confirmed, and self employed also typically incurred high compliance costs.	
1994 (1992-93)	National Audit Office	UK (UK VAT traders)	Value added tax	1.Update of earlier VAT surveys conducted by Sandford et al (1981 & 1989) 2. Not relevant 3. Not relevant 4. Not relevant	Compliance costs of VAT were £1.6b off set by compliance benefits (cash & management) of £750m; compliance cost s regressive	Administrative costs were £399m
1994 (1992)	Green	UK (UK tax practitioners)	Income tax (including national insurance), corporation Tax and capital taxes	1. Postal survey 2. c. 6,000 3. c. 1,500 4. c. 25%	Practitioners perceived that there were increasing compliance costs associated with the UK direct tax system; the causes of this trend were the complexity of the tax system and deficiencies in the legislative process	Not addressed
1995 (1983-1993)	Malmer	Sweden (Swedish individuals and businesses)	Personal income taxes and business taxes	1.(a) Postal survey of individuals 1986, 1989 & 1992 (b) personal interviews of individuals 1983, 1985, 1986, 1987, 1988, 1989, 1992 & 1993 (c) postal survey of individuals and companies 1993 2. (a) 12,000 (b) 1,000 (c) 1,000 3. (a) 8,040 (b) 1,000 (c) 599 4. (a) 67% (b) 100% (c) 60%	Swedish tax reform in 1990 and 1991 resulted in lower operating costs; compliance costs for individuals were reduced, but employers faced higher compliance costs; compliance costs were twice as high as administrative costs; total operating costs of the Swedish tax system estimated at SEK14b, or 1% of GDP and 2% of revenue yield; income tax accounts for 62% of this amount and VAT for 29%; VAT is the most expensive of the major taxes by reference to revenue yield	

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1995 (1991)	Diaz & Delgado	Spain (Spanish taxpayers)	Personal income taxes	1. Interviews (face to face) with questionnaire 2. 2,500 3. 2,355 4. 94%	Compliance costs were 3.3% of revenue yield, with time costs comprising 73% and monetary costs 27%	Not addressed
1996 (1991-96)	KPMG	UK (UK listed companies)	Corporate taxes	1. Postal survey 2. 1,200 3. 266 4. 22%	Total compliance costs for UK listed companies estimated to be £265m; tax compliance costs have increased by 33.6% in the period 1991-96; major causes were complex, uncertain and badly drafted legislation	Not addressed
1998 (1995-96)	Collard, Green, Godwin & Maskell	UK (UK employers)	Pay as you earn and national insurance contributions	1 (a) Postal survey followed by (b) in-depth face to face interviews 2. (a) 4,168 (b) 310 3. (a) 1,338 (b) 310 4. (a) 32% (b) Not relevant	Compliance costs were £1.32b, or 1.3% of revenue yield; compliance costs highly regressive (bottom 30% pay 75% of compliance costs); labour costs account for approximately half of compliance costs	Not addressed
2001 (1998 & 1999)	Delgado Lobo, Salinas-Jiminez & Sanz Sanz	Spain (Spanish individuals)	Personal income taxes	1. Interviews (face to face) with questionnaire 2. 2,500 3. 2,388 (1998); 2,449 (1999) 4. 96% (1998); 98% (1999)	Compliance costs were 1.8% of revenue yield in 1998 and 1.3% in 1999. Reduction due to PIT reform operative from 1 Jan 1999; psychological costs also fell	Not addressed
2002 (2000)	Hasseldine & Hansford	UK (business taxpayers)	Value added tax	1. Postal survey 2. 6,232 3. 1,449 4. 23%	Increased compliance costs are associated with increased turnover, newly registered businesses, increased complexity and perceived psychological costs; no significant differences in patterns of core compliance costs and planning costs; businesses with computerised systems faced relatively higher compliance costs than businesses with manual procedures	Not addressed

Australasian and South East Asian Studies

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1990 (1986-87)	Pope, Fayle & Duncanson	Australia (Australian registered voters)	Personal income taxes	1. Postal survey 2. 6,737 3. 1,098 4. 16%	Compliance costs of PIT were between \$2.8b and \$3.8b, or between 7.9% and 10.8% of revenue yield; they were relatively higher than countries with comparable PIT systems; they were regressive; main determinants were level of income and type of return submitted	Not addressed
1991 (1986-87)	Pope, Fayle & Chen	Australia (Australian public companies)	Companies income tax	1. Postal survey 2. 1,837 3. 298 4. 16%	Gross compliance costs of public companies were between \$0.65b and \$1.3b, or between 11.4% and 23.7% of revenue yield; cash flow benefits were \$0.95b, or 16.9% of revenue yield; compliance costs were regressive and higher than other comparable countries	Not addressed
1992 (1989-90 & 1990-91)	Sandford & Hasseldine	New Zealand (New Zealand businesses)	Business taxes (employers and business income tax and GST)	1. Postal surveys of (a) employers and (b) businesses 2. (a) 4,743 (b) 9,541 3. (a) 1,887 (b) 2,954 4. (a) 40% (b) 31%	Compliance costs of business taxes were large and cumulative in impact (2.5% of GDP); and they were regressive, falling with disproportionate severity on smaller businesses	Not addressed
1993 (Nov. 1991-Nov 1992)	Wallschutzky & Gibson	Australia (Australian small businesses)	Business taxes	1. Case study (using diaries and face to face interviews) 2. 12 3. 12 4. Not relevant	With the exception of Wholesale Sales Tax, participants found taxes neither difficult to deal with nor time-consuming. Outcomes caused researchers to question their initial assumption that compliance costs were significant	Not addressed
1993 (1989-90)	Pope, Fayle & Chen	Australia (Australian businesses)	Employer related taxes (pay as you earn, fringe benefits tax, prescribed payment system, payroll tax)	1. Postal survey 2. 2,739 3. 745 4. 27%	The compliance costs of employers' PAYE and payroll tax were reasonable by international standards (1.7% of revenue yield compared to Canada's 3.5%); FBT compliance costs were relatively high (10.9% of revenue yield); high burden of employment related taxes on small businesses noted	Not addressed
1993 (1990-91)	Pope, Fayle & Chen	Australia (Australian businesses)	Wholesale sales tax	1. Postal survey 2. 2,467 3. 593 4. 24%	Net compliance costs of WST were \$201m, or 2.1% of revenue yield; compliance costs were highly regressive; WST generated a cash flow cost overall rather than a benefit	Not addressed

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1994 (1990-91)	Pope, Fayle & Chen	Australia (Australian companies)	Companies income tax	1. Postal survey 2. 2,531 3. 571 4. 23%	Net compliance costs of companies were \$2.05b, or 14.5% of revenue yield; compliance costs were regressive	Not addressed
1995 (1991 & 1992)	Prebble	New Zealand (New Zealand companies)	Companies subject to controlled foreign company regime	1. Two personal interviews 2. 200 3. 14 4. Not relevant	Compliance costs for controlled foreign companies are relatively lower than compliance costs for domestic companies of a comparable size	Not addressed
1995 (1994)	Ariff, Loh & Talib	Singapore (Singapore Stock Exchange listed corporate taxpayers)	Corporate income taxes	1. Postal survey 2. 200 3. 65 4. 33%	Compliance costs were “reasonable” compared to other countries, but the large element of fixed costs caused them to be particularly regressive	Not addressed
1996 & 1997 (1994-95)	Evans, Ritchie, Tran-Nam & Walpole	Australia (Australian business and personal taxpayers)	All federal taxes	1. Postal survey of (a) business taxpayers and (b) personal taxpayers 2. (a) 7,496 (b) 1,867 3. (a) 2,464 (b) 936 4. (a) 33% (b) 50%	Federal taxpayer compliance costs (after taking into account the value of tax deductibility of certain costs and the value of cash flow benefits) were \$6.2b (1.4% of GDP or 7% of revenue yield); compliance costs were regressive, and larger businesses actually enjoyed net compliance benefits rather than costs	Not addressed
1996 (1996)	Yellow Pages Small Business Index	Australia (small businesses)	All taxes	1. Telephone interviews (commercial opinion poll) 2. 1,200 3. 1,200 4. 100%	Small businesses spend 832 hours pa (16 hours per week) on financial accounts, invoices, tax and other compliance matters; tax element is less than 25% (3 hours per week); the hours a firm spent on tax matters increased directly with the size of the firm, the number of taxes involved and the sector of activity; one third of all small businesses considered the time spent on tax compliance to be excessive	Not addressed
1997 (1995)	Ariff, Ismail & Loh	Singapore (Singapore Stock Exchange listed corporate taxpayers)	Corporate income taxes	1. Postal survey 2. 234 3. 62 4. 26%	Limited reduction in compliance costs of larger firms as a result of simplification, compared to 1994 study; most of the reduction was due to lower computational (as opposed to planning) costs	Not addressed

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1997 (1995)	Loh, Ariff, Ismail, Shamsher & Ali	Malaysia (Malaysian Stock Exchange listed corporate taxpayers)	Corporate income taxes	1. Postal survey 2. 300 3. 80 4. 27%	Compliance costs were regressive, and primarily comprised computational costs (59%) as opposed to planning costs (41%)	Not addressed
1999 (1995-96)	Chan, Cheung, Ariff & Loh	Hong Kong (Hong Kong Stock Exchange listed corporate taxpayers)	Corporate income taxes	1. Postal survey 2. 496 3. 75 4. 15%	Established a positive relationship between company size and compliance costs; compliance costs were regressive; average compliance costs were relatively high compared to Singapore and Australia (as a result of low administrative costs, difficulties with territorial source basis and higher level of external costs); no major industry variations in patterns of compliance costs	Not addressed
2002 (1998-2000)	Rametse & Pope	Australia (Western Australian business taxpayers)	Start-up costs of the Goods and Services Tax (GST)	1. Postal survey 2. 3,199 3. 868 4. 27%	Estimated GST start-up compliance costs for small businesses were AUD\$7,600; this included owner/manager time of 131 hours; start-up costs were considerably higher than official government estimates	Not addressed
2002 (Jun 1999- Jun 2001)	Tran-Nam & Glover	Australia (small business taxpayers)	Transitional costs of the Goods and Services Tax (GST), Australian Business Number (ABN), Pay As You Go (PAYG) and Business Activity Statement (BAS)	1. Case study 2. 31 3. 31 4. Not relevant	Small businesses incurred net transitional compliance costs of AUD\$4,853 (mean) or AUD\$2,393 (median); (median was preferred); in addition to monetary costs, small business taxpayers appeared to suffer substantial psychological costs during the transitional period	Not addressed
2002 (2002)	Evans, Tran-Nam & Jordan	Australia (business taxpayers)	Tax Value Method (TVM)	1. Case study 2. 40 3. 40 4. Not relevant	There would be significant transitional compliance costs for businesses of all sizes and in all sectors if the Tax Value Method of identifying and calculating assessable income were to be introduced. Practitioners and businesses were unable to identify any recurrent compliance benefits that would offset these transitional costs over the longer term after the introduction of the Tax Value Method	Not addressed

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
2003 (2003)	CPA Australia	Australia (small business taxpayers)	Business taxes	1. Telephone interviews of (a) small businesses and (b) tax practitioners conducted by market research firm 2. (a) 701 (b) 105 3. (a) 701 (b) 105 4. (a) 100% (b) 100%	Many businesses, particularly non-employers, have experienced little change in compliance obligations over the past two years, however where change has occurred it is more likely to be an increase than a decrease; 30% have seen an increase in time for completion of annual return.	Not addressed
2003 (2002)	Evans	Australia and the UK (tax practitioners)	Personal capital gains tax	1. Postal survey of (a) Australian and (b) UK tax practitioners for compliance costs and documentary analysis for administrative costs 2. (a) 321 (b) 320 3. (a) 94 (b) 89 4. (a) 29% (b) 28%	Operating costs in both countries are high (by reference to the amount of tax payable on capital gains, revenue yield, GDP and relative to other types of tax), have not reduced over time and are both horizontally and vertically inequitable; the primary factors causing the high operating costs are legislative complexity and frequency of legislative change, together with record keeping and valuation requirements; that there was relatively greater concern among UK practitioners about CGT compliance costs issues compared to their Australian counterparts.	

International Studies and Studies from the Rest of the World

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1999 1995-96	Shekidele	Tanzania (Tanzanian large businesses)	Excise duties	1. Hand-delivered survey (supplemented with semi structured interviews with firms and tax officials) 2. 14 3. 9 4. 64%	Compliance costs of excise duties were relatively high (15.57% of revenue yield) compared to developed countries; some evidence of regressive nature of compliance costs	Not addressed
2001 (1998-99)	Cordova-Novion & De Young	Multi-country (Australia, Austria, Belgium, Finland, Iceland, Mexico, New Zealand, Norway, Portugal, Spain and Sweden) (businesses)	Business taxes	1. Postal survey 2. 22,544 3. 7,859 4. 35%	Tax regulations impose high compliance costs on businesses; regressive nature of compliance costs confirmed; compliance costs appear to be increasing over time	Not addressed
2002 (1999)	Bertolucci	Brazil (Brazilian public companies)	Corporate and business taxes	1. Email & postal survey 2. 211 3. 25 4. 12%	Compliance costs were R\$7.2b, or 0.75% of GDP; highly regressive; internal compliance costs approximately 80% of all costs	Administrative costs estimated as 0.2% of GDP (but only on very unscientific basis of being 25% of compliance costs)
2002 (2001)	Chattopadhyay & Das-Gupta	India (Indian personal taxpayers)	Personal income taxes	1. Postal survey 2. 5,435 3. 128 4. 2%	Compliance costs for individuals were “extraordinarily high” (between 49% and 56% of revenue yield); high for salary earners and “excessive” (7-10 times higher) for non-salaried taxpayers; regressive	Administrative costs estimated as 2.49% of individual income tax collected
2002 (2000-2001)	Chattopadhyay & Das-Gupta	India (Indian corporate taxpayers)	Income taxes of companies	1. Postal survey 2. 3,913 3. 45 4. 1%	Gross compliance costs for companies were between 5.6% and 14.5% of revenue yield (but negative when cash flow benefits and tax deductibility of certain costs are taken into account; regressive	Not addressed

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Books

Sandford, Cedric, Michael Godwin and Peter Hartwick (1989), *Administrative and Compliance Costs of Taxation*, Fiscal Publications, Bath.

Sandford, C (ed.) (1995), *Taxation Compliance Costs: Measurement and Policy*, Fiscal Publications, Bath.

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