

Inter-American Center of Tax Administrations – CIAT

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“TAX MORALE AS DETERMINING FACTOR IN IMPROVING THE EFFECTIVENESS OF THE TAX ADMINISTRATION”

Subtopic 2.1:

“TAXPAYER ATTITUDES VIS-À-VIS THE TAX ADMINISTRATION: DIFFERENTIATE AND CLASSIFY TAXPAYER BEHAVIORS”

**Tax Administration
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1 Summary

The intrinsic motivation for individuals to pay taxes, or tax morale, is multifaceted and complex. Tax morale is related to many aspects of tax administration and government including: civic duty, trustworthiness of tax agencies, representativeness of the tax administration, government corruption, procedural justice, and the perceived value of public money's use. Through this paper we describe a number of the activities that Inland Revenue (IR) are doing to maintain and enhance tax morale: specifically staff ethics, customer interactions and complaints resolutions, outreach programmes, and concluding with a discussion of tax morale in relation to the February 2011 Christchurch earthquake.

If corruption is widespread tax morale will be low and the shadow economy large. Corruption is one of the key reasons people cite for not paying tax and if the tax authority itself suffers from corruption the effect on compliance will be significant. One thing that IR does to minimise the risk of corruption is have a strong recruitment and induction process that instills in employees the ethical and integrity standards of our organisation. Integrity is also a continual discussion between managers, team leaders, and staff to ensure ethical standards are upheld.

Irrespective of our ethical standards if IR is not ethical in our interactions with customers tax morale will be adversely affected. Tax morale is sensitive to beliefs and perceptions that the tax system is fair and transparent. Central to ethical interactions is procedural fairness - the perception that the revenue body adheres to procedures that are fair in dealing with taxpayers. This is particularly important when customers are dissatisfied or where there are disagreements or disputes. IR has a customer Charter which describes the working relationship we want to have with customers. We also have a Complaints Management Service and a Disputes Resolution Process to resolve issues quickly and provide a clear and transparent process to customers. Even if problems cannot be resolved there is the availability of external third parties, and finally the Courts, to review and decide on issues.

Surveys are also undertaken to get the views of customers and the population on our service delivery, perceptions in the community, and tax morale. Such surveys are an important part of monitoring tax morale over time.

In the maintenance and improvement of tax morale revenue authorities need to add to the traditional mechanisms of education, assistance, and enforcement – notably in the area of promoting positive norms. Within New Zealand there are some signs of lessening engagement with government and tax which could negatively impact tax morale. Two outreach examples that IR have undertaken to improve tax morale are working more closely with industries and developing a programme for citizenship and tax education in high schools.

Natural disasters will cause business continuity, staff welfare, and compliance issues. All have the potential to impact tax morale. Our response on these factors is discussed in relation to the February earthquake in Christchurch which caused catastrophic damage and the closure of the IR office for an extended period of time.

2 Introduction

Revenue agencies strive to increase voluntary compliance as an organisational goal. A core driver of voluntary compliance is tax morale which Alm and Torgler (2006) define as “the intrinsic motivation for individuals to pay taxes”. The development of tax morale is dependent on a complexity of behavioural, social, political and economic factors which interact to shape and maintain tax compliance across all tax entities.

There is currently considerable interest in tax morale, and some recent theories about tax compliance behaviour are framed around tax morale as their basis (see Torgler, 2007, for an overview). Many factors affect tax morale and tax compliance: civic duty (Braithwaite & Ahmed, 2005; Kirchler, 2007; Taylor, 2002), the trustworthiness of tax agencies (Makkai & Braithwaite, 1994; Cullis and Lewis, 1997; Cummings, Martinez-Vazquez, McKee, & Torgler, 2004; Torgler, 2004; Scholz & Lubell, 1998; Tyler and DeGoey, 1996) representativeness of the tax administration (Alm, Jackson & McKee, 1993; Taylor, 2002, in Braithwaite, 2002; Torgler & Schneider, 2007), known or suspected government corruption (Torgler, 2007), equity (Cummings et al., 2004; Levi, 1988; Wallschutsky, 1984), procedural justice (Kirchler, 2007; Taylor, 2002); and the perceived value of public money’s use (Bird, Martinez-Vazques, & Torgler, 2006; Braithwaite & Wenzel, 2008; Frey & Feld, 2002; Scholz and Pinney, 1995).

Tax morale is also closely linked to taxpayer ethics defined as “the norms of behaviour governing citizens as taxpayers in their relationship with the government” (Alm & Torgler, 2006).

In this paper we will look at tax morale in relation to Inland Revenue (IR) staff ethics, the ethical treatment of customers, and building tax morale. Firstly, we will explore the interplay between corruption, tax morale, and the shadow economy and what we have done to ensure IR is an ethical and trusted administrator. This includes a case study of an instance of corruption; secondly, the ethical interactions between IR and customers including our charter, complaints process, disputes resolution process, and concluding with our measurement of tax morale, customers satisfaction, and perceptions; thirdly improving tax morale through industry engagement and education in schools; and, lastly a case study of our response to the devastating February 22 Christchurch earthquake to ensure tax morale is maintained.

2.1 Ethics, Corruption, and Tax Morale

Corruption has a negative effect on citizens as it reduces their trust in governmental organisations and those in authority, and increases their willingness to act in the underground economy (Torgler, 2003; Schneider & Torgler, 2007). Schneider and Torgler specifically comment ‘if citizens feel cheated, if they believe that corruption is widespread, their tax burden is not spent well and that they are not well protected by the rules of law, the incentive for them to get involved in the informal [hidden] sector grows’. Aligned with corruption is the notion of public spending efficiency - when taxes are spent more efficiently tax morale is greater (Barone and Mocetti, 2009).

The shadow economy is clearly linked to tax morale. A variety of studies show a strong correlation of around -50 and -65 between tax morale and the size of the shadow economy

(Torgler, Schaffner, & Macintyre, 2008). This indicates that as the size of the shadow economy increases tax morale declines. Similarly there is an equally strong link between corruption and the shadow economy – as displayed in Figure 1.

Figure 1.

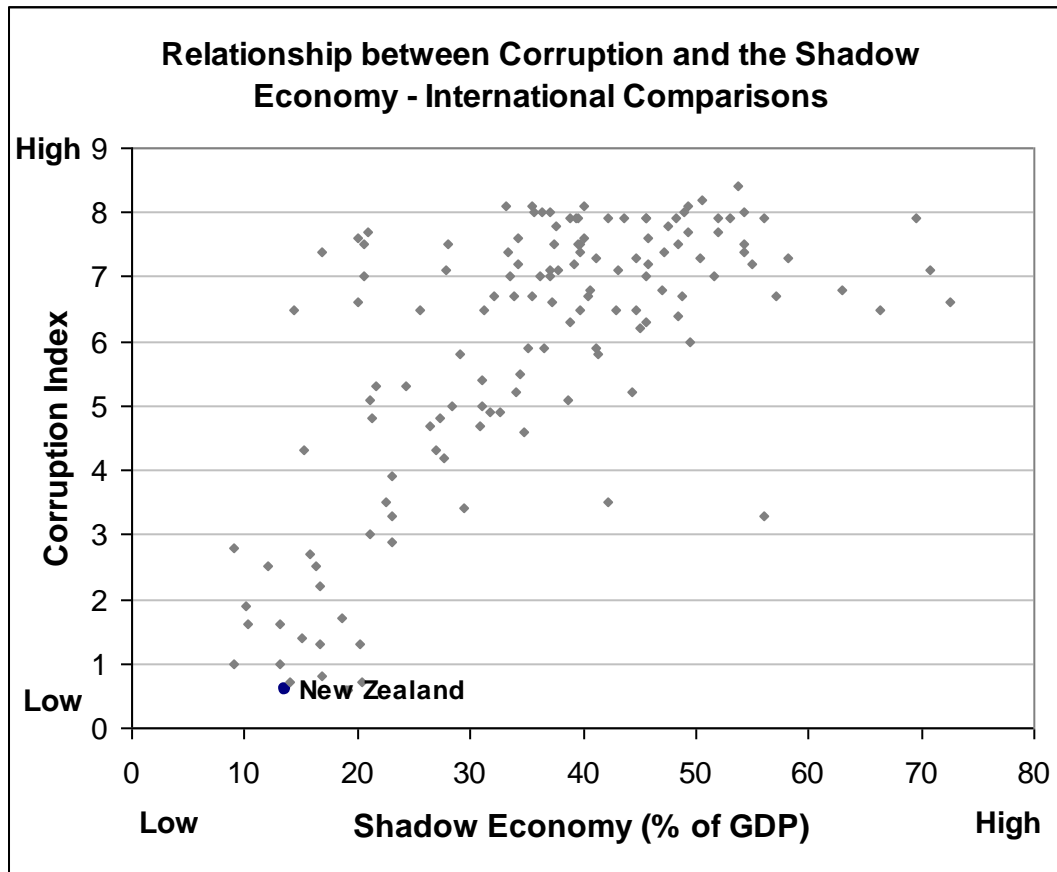


Figure 1. Plots 140 countries on The World Bank’s measure of the Shadow Economy (Schneider, Buehn, & Montenegro, 2010¹) and a separate measure of perceptions of corruption provided by Transparency International². The data relates to 2007. The correlation between these two measures was .68 indicating a very strong relationship – the greater the shadow economy the greater the level of corruption. In Transparency International’s assessment, New Zealand had the lowest level of perceived corruption of any measured country.

¹ The shadow economy is difficult to measure directly. Schneider et al. (2010) used a number of indicators that best capture and reflect the characteristics of shadow economy activities, including: monetary indicators (eg. currency outside the banks and deposits); labour market indicators (eg. labour force participation rate and growth rate of the total labour force); and official economic measures (eg. GDP per capita converted to international dollars using purchasing power parity rates.

² In the Corruption Perceptions Index (CPI) corruption was calculated using data from 14 sources from 12 independent institutions. All sources measure the overall extent of corruption (frequency and/or size of bribes) in public and political sectors. CPI sources include surveys; peer reviewed scores provided by experts; non resident and residents assessments; and resident business leaders evaluating their country. Further standardisation of data is undertaken and sources combined to determine an overall measure of corruption between 0 and 10.

Torgler (2003) examined people's perceptions of reasons for not paying tax and found that corruption was one of the top three reasons along with the an individuals lack of honesty and because the taxes are too high. Where there are relatively low wages within government organisations there has also been found to be higher levels of corruption (Van Rijckeghem & Weber, 2001; Tanzi, 2000), which indicates that appointees may have a possibility of additional income; furthermore in some countries these jobs could be purchased (The World Bank, 1998). Corruption within a tax administration itself has an insidious and destructive effect on tax morale and compliance (Nawaz, 2010).

Governments and tax administrations need to create confidence in their credibility and deliver public goods for taxes (Torgler, 2003). The ethics and integrity of governments and tax administrations is paramount to tax morale. Blijswijk, Breukelen, Franklin, Raadschedlers, & Slump (2004, p. 718) note that to 'rebuild trust in government, employees must also act with integrity. Actions that are both ethical and carried out with integrity are necessary – neither is sufficient'. They describe how the Netherlands Tax and Customs Administration went through a organisational development process with two deliverable: firstly, standardised rules and codes of conduct; and, secondly recognising that rules alone cannot cover every situation, and therefore an integrity programme must implant basic values and integrity rules while at the same time promoting an individual's professional responsibility and occupational values.

Thus one way that tax administrations can reduce the risk of inappropriate staff actions like corruption is through careful staff selection and training, and on-going support and monitoring of ethics and integrity.

3 Inland Revenue's Staff Ethics

Similarly to the Netherlands Tax and Customs Administration IR have invested in a robust process to instill ethics and integrity in our staff.

1.1 Imbedding ethics and integrity

Our programme on ethics and integrity is continual and covers recruitment, induction, and on-going training to ensure that staff act with utmost integrity and professionalism at all times.

Recruitment

- Vetting and Validation checks are completed before recruiting new staff members - including potential outstanding tax issues.

Induction

- Integrity discussions occur as part of the Orientation day including State Services Commission³ videos on what it means to be part of IR and the public sector.
- Code of Conduct training given at Induction for new staff members.
- Staff are required to complete the online training through our intranet based learning and training facility in relation to the Code of Conduct.

On-going Support and Promotion

³ The State Services Commission is the Government's lead advisor on New Zealand's public management system and works with government agencies to support the delivery of quality services to New Zealanders.

- IR have a dedicated Integrity Assurance team within our Corporate Risk and Assurance function that ensures we have a sustainable Integrity Policy and Framework in place, supports organisation wide education, investigates internal wrong doing and provides independent assurance to the Commissioner of IR regarding the health of the ethical environment.
- Regular Integrity discussions must be held with each team of employees and signed off every quarter by the team leader or manager.
- Integrity Assurance staff members are available for ad hoc training to business units when requested.
- There is a conflict of interest register where staff and managers note any conflicts of interest and steps are taken to minimise the risk of any such conflicts.
- During each staff member's annual Performance Appraisal process core competencies in relation to Integrity are included and reviewed.
- The Corporate Risk and Assurance business unit undertakes continuous monitoring to provide assurance to the Commissioner of Inland Revenue that our systems are not being misused through:
 - Integrity Framework
 - Robust policy and procedures for reporting real and suspected instances of misconduct and wrongdoing
 - Leading practise Protected Disclosures policy and procedures
- The Tax Legislation underpins ethics and integrity including provisions regarding secrecy

Some of the key findings to come out of the State Services Integrity and Conduct Survey in 2010 were that all employees of Inland Revenue are aware of the Organisation's written standards of Integrity and Conduct.

Inland Revenue staff members have higher levels of awareness on where to report suspected wrongdoing or misconduct than other areas of the public sector. 96% of Inland Revenue staff members found the Integrity and conduct training useful and were able to apply the training when making decisions in their work environment.

1.2 Ethics Case Study on Corruption

Irrespective of staff selection, induction, and training there will be occasions when an employee makes inappropriate or illegal decisions in the course of their work. In such cases tax morale can be impacted negatively by the discovery and publicity surrounding such breeches. In these circumstances it is vital that the matters are handled swiftly with integrity to ensure any internal or external consequences are minimised. In all cases investigations are instigated and where misdemeanours or offending is identified the full force of sanctions are applied, including criminal prosecutions.

On an audit of an immigrant couple with a business selling goods on an internet auction site a 32 year old Junior Investigator tried to extort money. He presented the couple with several options including leaving the country, facing a substantial tax shortfall, fine, and potential prosecution; or paying him and two colleagues a lesser amount so the case would be discontinued. Money was to be deposited in an overseas bank account.

Although the Investigator preyed on an immigrant couple who may not have been familiar with the cultural values of New Zealand, they recognised the seriousness of the extortion and went to the Police. Once Inland Revenue were alerted by Police, an internal investigation immediately commenced. He was suspended on pay. Concerned that this may not have been his only case of extortion, or that he may have been working with others, the investigation extended to other IR files he had been working on to ensure that any accomplices were identified and his actions in relation to these other taxpayers were correct. The area in which the Investigator worked was also temporarily locked down from staff.

IR worked with Police, providing information required for the investigation. IR interrogated the Investigator's email, electronic files, swipe card access, phone records and internet access to ensure no other breaches had occurred. Extensive interviews were also carried out with work colleagues to identify issues or any potential co-conspirators. In fact these determined he was working alone.

The Police handed over IR information that they had confiscated from the Investigator's home. This showed he had breached tax legislation and IR began gathering evidence to prosecute him for this as well. An employment investigation was instigated and he was subsequently dismissed from IR.

The Investigator was charged with corruption and failing to maintain secrecy. He pled guilty. This plea, his demonstrable remorse, and the low likelihood of reoffending resulted in a sentence of three months community detention and 200 hours community work. He was also expelled from the New Zealand Institute of Chartered Accountants and order to pay the Institute a fine.

The Judge commented that the Investigator had damaged the integrity of IR and that bribery and corruption in high places strikes at the very heart of the public service. This case was widely reported as were the comments of the Commissioner who emphasized the integrity of IR and the rarity of this event. He commented that -

"This is a matter that we take extremely seriously" "When carrying out their duties, Inland Revenue employees must behave with the highest level of integrity in order to maintain the trust of the public," "The Investigator's actions were an exception." "We have more than six thousand employees, with a strong record of public service and integrity. A recent survey of ethics in the public sector gave Inland Revenue employees high scores in all categories. I continue to have the greatest confidence in our employees."

This case highlights that no authority is immune from corruption. With strong Tax Morale such instances will be identified by the public, and with swift action and collaboration with other enforcement agencies the damage to public confidence can be minimised or even enhanced.

2 Ethical Interactions between IR and Customers

Tax morale is sensitive to beliefs and perceptions that the tax system is fair and transparent. Central to ethical interactions is procedural fairness - the perception that the revenue body adheres to procedures that are fair in dealing with taxpayers.

Accordingly, revenue agencies must take care that their role in collecting taxes is separated from popular perceptions of distributive fairness by promoting an open focus on procedural fairness. This is a key consideration in framing thinking around tax morale. The OECD (2010) summarises research findings in this area including, Braithwaite (2003), Murphy (2004), and Tyler (2006) who report procedural fairness can directly influence acceptance of revenue agencies decisions and help build trust with taxpayers. Kirchler et al (2006) notes perceived supportiveness of advice by tax officers is associated with high self-reported compliance. Leventhal (1980) specifies several criteria that influence procedural fairness including - consistency, accuracy, representativeness, freedom from errors, correctability, and ethical applications. Tyler and Lind (1992) include respectful treatment by authorities, voice and neutrality as additional criteria.

Key to IR's ethical interactions and procedural fairness is a Charter which sets out the relationship we seek with customers. However, this relationship is not always achieved for a variety of reasons, and it is important that there are processes in place to manage these issues. When we find a customer that may not have been ethical or honest in their tax affairs this does not stop us from acting with integrity and ethically during an audit or when reassessments are raised. It is also important that we measure and manage customer perceptions of us and how we are delivering our service. This section will focus on IR's Charter, Complaints Management Process, Disputes Resolution Process, and our survey of customer satisfaction, perceptions, and tax morale.

2.1 Inland Revenue's Charter with Customers

Through a set of principles IR's charter describes the type of working relationship we want to have with customers (see Appendix 1). The clearly written principles each contain the phrase "we will" indicating that these are a set of behaviours that IR staff will actively strive to achieve. The Charter applies to all staff regardless of whether they have direct customer contact. It is divided into 5 categories:

- How we will work with you
- Reliable advice and information
- Confidentiality
- Consistency and equity
- Your right to question us.

Each category contains a number of principles. Some are specific and definable, such as "We will treat all information about you as private and confidential". Others are slightly broader, such as "We will take your particular circumstances into account as far as the law allows."

IR also has a Charter Award to recognise those staff who give effect to the Charter. IR's Charter with customers sets the organisational foundation for ethical treatment and procedural fairness.

2.2 Complaints Management Service

Irrespective of the Charter, staff training, and quality of service delivery there will be occasions where customers disagree with the service provided. To maintain tax morale it is important that processes are in place to quickly handle issues as they arise and if these cannot be resolved the problem is directed to an independent external party. We have a Complaints Management Service (CMS) specifically to handle these types of issues.

The CMS provides an accessible and impartial resolution service for customers who have been unable to resolve issues satisfactorily through usual business processes. CMS aims to resolve issues efficiently, fairly and within a timely manner.

A complaint can be broadly defined as any expression of dissatisfaction with a service or product. "Service" can also refer to the quality and/or timeliness of work performed by IR which may lead to a perceived failure to meet the principles outlined in our Charter. All other statutory avenues (such as disputes resolution which is discussed later) remain unchanged.

Customers can contact CMS directly by telephone, internet submission, fax or letter. The CMS aims to:

- Enable customers to resolve issues that have not been resolved satisfactorily through the usual business process.
- Ensure that customers and staff are aware of the avenues available to resolve complaints.
- Provide management information, which feeds into the design of processes and systems, and assists managers in improving customer service.
- Maintain the relationship between customers and delivery sites.
- Assist business improvements by identifying and reporting on complaint and feedback issues to Inland Revenue business areas, senior management and the Commissioner.

Case Management Officers

Within CMS a Case Management Officer (CMO) manages the case through to resolution within agreed timeframes. Managing the case may require further input or information from staff who were involved in the original issue. Assistance may also be sought from other areas of IR. This information will be reviewed by the CMO, who makes contact with the customer. The intention is to resolve the matter as quickly and efficiently as possible.

Ombudsman

At any time a customer has the option to go to the Office of the Ombudsmen to review decisions made by Inland Revenue, although the Ombudsmen will usually expect the customer to have first tried to resolve the issue with IR. Ombudsmen are independent and impartial Officers of Parliament who investigate complaints against Central and Local Government agencies. As Officers of Parliament, they are responsible to Parliament but are independent of the Government of the day. The Ombudsman investigations are free and are conducted in private.

Inland Revenue receives over 8,000 contacts each year where customers are unhappy or wish to comment about some aspect of their experience with IR. Some of these are genuine complaints; others are suggestions on processes that customers consider to be unfair or unnecessary. All of these contacts have a potential to inform IR about the way we do business and provide opportunities to improve our service and maintain and enhance tax morale.

2.3 Disputes Resolution Process

Disputes between IR and our customers regarding a tax position can be highly contentious. When there is disagreement about reassessments or tax positions taken, it is important that there is a clear and transparent process by which differences can be resolved in an ethical manner. If a customer disagrees with an assessment or adjustment made either by them or by IR, they may use the disputes resolution process to appeal the assessment. This process is designed to resolve disagreements quickly by early identification of all issues, full disclosure of the facts and evidence, and consultation with IR. IR have been working with the New Zealand Law Society and New Zealand Institute of Chartered Accountants to improve the disputes resolution process and tailor it more to the needs of our customers.

The disputes resolution process consists of a phased approach through a number of levels whereby issues are resolved or are escalated to the next step of the process. Even if a taxpayer has been dishonest or in disagreement about the correct tax position this process enables each side to discuss matters openly, and with integrity, and where aspects remain unresolved the issue can escalate through a conference, adjudication, Taxation Review Authority, or the High Court.

1. Where we have issued a reassessment and a customer disagrees, the customer submits a Notice of proposed adjustment outlining the reasons for disagreement with the assessment. If we do not accept;
2. We send the taxpayer a notice of response outlining why we reject their proposal. If the customer rejects this then;
3. A conference is held between us and the taxpayer where facts and issues are clarified and to allow any disputed facts to be resolved. If the conference still results in an impasse;
4. We send the taxpayer a disclosure notice which requires them to write a statement of position. The taxpayer sends in their statement of position. If the dispute goes to a

hearing authority, they cannot introduce any evidence, facts, issues or arguments that weren't in their statement of position. This is called the evidence exclusion rule. We send the taxpayer our statement of position. Similarly the evidence exclusion rule says that we can't introduce any new material that wasn't in our statement of position unless agreed. Judicial discretion may allow previously undisclosed material to be admitted.

5. If no agreement is reached then in most instances, the case will go to our Adjudication Unit for consideration, regardless of the issue or amount of tax involved. The adjudicator is an independent expert within IR who will take a fresh look at how the law applies to the facts of the case. The adjudicator will consider the facts, evidence, legal principles, and issues raised in each of the statements of position. If the adjudicator decides in the taxpayers favour, we will reassess their return in line with their figures, and the matter ends there. If the adjudicator decides in our favour, the assessment will stand. If the taxpayer is dissatisfied with this decision the process continues to the next stage.
6. The taxpayer files proceedings with the Taxation Review Authority or the High Court.

The Complaints Management Service and Disputes Resolution Process ensures that if customers do not feel they have received the best service or correct assessments they have access to clear and transparent processes, with escalations to independent parties. This enables ethical treatment of issues and minimises any potential harm to tax morale.

Customers who use this service and process have perceived grievances, but it tells us little about the general perceptions of the population or satisfaction of customers with IR's service delivery. To maintain and improve tax morale it is important that a revenue authority understands how it and tax is perceived by the community, as well as the satisfaction of customers who have direct dealings with us.

Many of the published research studies on tax morale have used the European Values Survey or World Values Survey⁴ (Torgler, 2007; Frey & Torgler, 2007; Torgler, Schaffner, & Macintyre, 2008) as a measure of tax moral, based on the responses to one question:

“Please tell me for each of the following statements whether you think it can always be justified, it can never be justified, or it falls somewhere in between:

Cheating on tax payments if you get the chance”.

(% “never justified” – code 1 from a 10-point scale, where 1 = never and 10=always)

A single question cannot provide a comprehensive measure of tax moral and does not reflect perceptions about the revenue agency of customer satisfaction with services. IR conducts regular surveys which feed into quarterly reports on attitudes toward tax, perceptions of IR, and satisfaction with customer services. All are factors which directly relate to tax morale.

⁴ The World Values Survey (WVS) is a worldwide network of social scientists studying changing values and their impact on social and political life. The WVS provide a comprehensive measurement of all major areas of human concern, from religion to politics to economic and social life.

Questions also cover the Charter. The following section covers IR's on-going measurement of customer perception, satisfaction, and tax morale.

2.4 Surveying Customer Satisfaction, Perceptions, & Tax Morale

A survey was developed by drawing on findings from qualitative research, State Service Commission research, multivariate analysis of existing datasets, and similar surveys conducted by other tax administrations. The survey measures key themes including:

Community Perceptions

- Trust
- Fairness
- Operationally effective
- General perceptions of IR
- IR aspirations
- Attitudes about the role of tax in society.

Customer Satisfaction

- Overall satisfaction
- Expectations
- Accessibility
- Personable and knowledge staff
- Fair treatment
- Follow up
- Appropriate outcome

The survey is undertaken by an independent research organisation with two groups of subjects - community perceptions of a random sample of the general public who may or may not have had any contact with IR (approximately 375 surveyed per quarter); and customer satisfaction of those who have had recent contact with IR (around 1,000 surveyed per quarter).

Table 1 presents the overall responses to the survey for the December 2010 quarter for respondents rating 3-5 on a 5 point Likert scale - ranging from 1 'strongly disagree' to 5 'strongly agree'. These represent those with positive views⁵. Data in the survey can be further broken down by a variety of demographic, tax type, and tax areas, as well as by type of customers (eg. business, individual, not for profit, tax agents). In addition, qualitative comments by survey respondents are analysed thematically. For example they are split into 20 categories such as 'quicker response time', 'better follow up', and 'more accurate and efficient systems and processes'. Survey reports and limited interactive analysis of survey results are available to all IR staff via the intranet.

In general the perceptions and satisfaction survey results from December 2010 show very good results and represent an underpinning of strong tax morale in New Zealand. We have a target of 85% of customers satisfied which was achieved in the quarter. The lowest perceptions were around Fairness (73%) and Makes it easy to get it right (70%). Attitudes toward tax are very strong all over 90% apart from the general resentment to paying tax with 43% of respondents resenting paying tax. This is an interesting juxtaposition whereby taxpayers accept the necessity and responsibility of paying tax but many also have a general resentment to paying.

Table 1. December 2010 Perceptions and Satisfaction Survey Results

Figures represent the percentage of survey participants positively responding

⁵ Note: the question 'Do not resent paying tax' is a negatively worded question 'Resents paying tax' whereby a 3-5 rating is negative response. Therefore to keep consistency of scale this question was reversed scored in the table - with 56% rating 1-2.

Community Perceptions

Attitude to Paying Tax	Quarter 2 December 2010 (n=375)
Accept responsibility for paying fair share of tax	96
Paying tax contributes to NZ	92
Paying tax right thing to do	95
Do not resent paying tax	56

Perception	Quarter 2 December 2010 (n=375)
Overall perception of service quality	81
Trust	84
Fairness	73
Operationally effective	80
Confidence in IR	87
Changing for better	79
Makes it easy to get right	70

Customer Satisfaction

Satisfaction attribute	Quarter 2 December 2010 (n=1003)
Overall satisfaction	86
Accessibility	81
Personable & knowledgeable staff	86
Fair treatment	85
Follow-up	81
Appropriate outcome	79
Meeting expectation	84

Undertaking surveys of this nature allows for the on-going and changing dynamics of tax morale to be ascertained. - tax morale, perceptions, and customer satisfaction can be monitored and where there is unexplained or unexpected change further research can be undertaken to determine causation. In this way any negative changes or trends in tax morale can be detected early and intervening actions taken.

3 Inland Revenue's outreach for Tax Morale

Tax administrations have traditionally used standard mechanisms to maintain tax morale such as education, assistance, and enforcement. It is important that revenue authorities look beyond the traditional and what additional programmes can be run to further maintain and enhance tax morale. Within this section social norms and tax morale will firstly be discussed along with how we work with industry to improve norms; and secondly, the early warning signs of decreasing levels of citizenship in the population and lessening tax engagement and one initiative to enhance tax morale through citizenship and tax education in high schools.

Taxpayers are strongly influenced by what they perceive to be the compliance of other taxpayers (Frey & Torgler, 2007). If taxpayers believe that non-compliance is common then tax morale diminishes, while if others are perceived to be honest then tax morale increases.

These normative relationships appear to be a highly complex and bi-directional between personal norms, social norms, and tax compliance – for instance (Wenzel, 2006) found that greater compliance leads to more ethical beliefs and more ethical beliefs also leads to higher compliance.

Despite the complexity of social norms there is increasing focus on their application to compliance and tax morale. Several papers note that moral factors (presented as social norms) are used to explain the higher than predicted levels of actual compliance to that proposed by economic models promoting expected utility theory (Allingham and Sandmo, 1972, Yitzaki, 1974). For example, Halla (2010) comments “In recent years, the economic literature on the shadow economy and tax evasion emphasized the importance of moral considerations (or social norms) to explain compliance behaviour.” Likewise, research on public enforcement of law increasingly considers social norms because of their role to substitute or to complement formal laws, and because of the potential impact of laws on social norms (Polinsky and Shavell, 2000). This trend most likely results from the fact that neo-classical models of compliance – in the spirit of the economics-of-crime approach – under-predict real-world compliance. Many scholars therefore conclude that the explanation for the tendency to comply must be that individuals are obeying a norm (Posner, 2000).

There is also a distinction between descriptive and injunctive social norms (Cialdini, Kallgren, & Reno, 1991). A descriptive norm refers to what reference others actually do, that is, what is perceived to be commonly done. An injunctive norm refers to what reference others feel one should do or is the right thing to do in any situation. The right thing to do may be different to what the tax laws state. In a similar manner religiosity also raises tax morale as it provides a

moral constitution, an enforcement mechanism, and provides beliefs about the right behaviour (Torgler, 2006).

Social norms regarding tax are only internalised when people identify with the reference group to which the norms are attributed (Wenzel, 2005). Given that for strong tax morale there needs to be both a descriptive and injunctive norms for tax compliance it is therefore important to develop compliance with key reference groups – one such initiative was our Industry Partnership programme. Rather than trying to improve tax morale on an individual taxpayer basis this programme seeks to develop tax morale as a norm on an industry basis.

3.1 Working with Industries

In February 2002, IR established an Industry Partnership Team to address the cash economy – areas where compliance as well as tax morale are likely lower than the rest of the business community. Industry Partnership used a range of educational, assistance, and assurance techniques to encourage people to meet their tax responsibilities. The Industry Partnership approach was based on:

- Forming relationships with certain industry groups (usually through the national association).
- Learning about the industries and their tax issues.
- Building multifunctional field teams to help industry members with their taxes.
- Developing a range of plain-language communications products.
- Testing new methods designed to improve compliance.
- Tailoring our responses to industry needs.

There were three key work streams within the programme: Building Industry Relationships, Communications, and Field Delivery.

Building Industry Relationships

Generally industry groups are keen to be seen as professional and promoting compliance. Industry Partnership worked actively building relationships across 14 industries including: automotive repair, bricklaying, hairdressing, plumbing, and taxis. These relationships took a number of forms from industry associations or bodies that directly represent industry members; sector bodies, or organisations, that are representative of, or connected to, members of an industry; and strategic partners - a relationship formed with any body that is a quasi-governmental agency or crown entity; that is representative of, regulates, or funds an industry or sector Industry Partnership is working with. In total there were over 30 relationships initiated.

Communications

The Industry Partnership Communications team is responsible for designing and delivering communications products and advice to improve awareness of obligations and address specific issues identified for industries. The team's work substantiates the relationship-based approach to the partnership. The team has produced a range of materials and resources for the Industry Partnership field teams' use, and for insertion in partners' own publications.

Product topics are developed from feedback from field teams, where a "gap" is perceived in existing Inland Revenue products, or to bridge to more complex existing products. All aim to provide easy-to-understand and accessible information which answers industry partners' more commonly-asked tax questions. Research demonstrates that partners prefer material which is "tailored" for their industry.

Key communications products included:

- Tax Insights - presenting core information an industry partner needs about a tax topic – from their perspective.
- Industry Leaflets – a series of industry-specific A5 leaflets help field teams to promote Industry Partnership
- Posters/Display material - resources which field teams can use as mailers, posters, and for advertising in community newspapers, supported by supplied editorial about the relationship-based approach.
- Publications & Articles - regular easy-to-read articles on tax topics to 20+ industry partner publications.
- Other products such as the Electrician's Tale mailer which was send to 30,000 electrical workers. The mailer took a new approach, by telling the story of "Dave", an electrician who has been doing illicit cash jobs, but comes to recognise the effect of his actions on the industry and the community, so solicits Industry Partnership help to "come clean".

Field Delivery

A central component to trialling a relationship based approach was the development of regional Industry Partnership teams who would build relationships with local businesses and their employees to encourage compliance. The regional field teams were also set up to trial a multifunctional approach to customer service as a means of building effective relationships within the community. Previous research indicated that a system allowing customers to have all of their IR issues serviced by one person or one team would be preferential to having multiple contacts with various segments in the department. This would combine the case management and multifunctional team approach desired by customers.

With these two primary objectives in mind, trialling a relationship based approach and establishing multifunctional teams, the project established five field teams throughout the country. The teams were established within the control of each service centre where issues such as selecting personnel, securing resources, establishing performance standards (individual and team), using effective communication methods, were in most cases

determined by local and functional management. To this extent, the Industry Partnership field teams were still very much “owned” by the regional Service Centres.

Initial observations from the field teams were that:

- A multifunctional team approach results in more timely resolution of individual cases.
- In order to have an efficient and effective multifunctional team, a broad level of expertise in tax and social policy, and in non-tax technical skills such as relationship building, must be included in the team.
- The challenge of operating an outcome focused multifunctional team when most organisational performance measures are output based.
- A multifunctional approach, either by team or industry, is the style preferred by staff who have worked in both the Industry Partnership and functional environments. Job satisfaction is considerably increased through –
 - Increase in technical knowledge gained by the case management environment
 - Ability to work in the field, i.e. not be desk bound
 - Increase in general skills, e.g. presentations and seminars, communication
 - Autonomy of the job
 - Ability to undertake the complete job for the taxpayer / customer

With Industry Partnership we have demonstrated that tax administrations need to move beyond the traditional responses to non-compliance and the social norm component of tax morale can be enhanced.

3.2 Citizenship and Tax Engagement

Being a good citizen has many meanings and forms. Within these is an understanding of political and government processes as well as the reasons for tax and what tax is used for in society. The more a person understands government and the political process and sees the benefits of paying tax to the community, the greater their tax morale will likely be (Bird, et. al., 2006; Braithwaite & Wenzel, 2008; Frey & Feld, 2002; Scholz & Pinney, 1995). Civics education is not formally part of the New Zealand school curriculum, as it is in many other countries.

Recent trends in New Zealand point to decreasing levels of citizenship⁶ and a potential lowering of understandings around tax. For example, between 1984 and 2008 voter turnout to the general elections dropped from 89% to 76%. Although by international standards New Zealand’s voter turnout is still high and is ranked 10th out of 30 OECD countries. Similarly local body voter turnout dropped from 52% to 41% from 1989 to 2007. This decreasing engagement in the political process may adversely impact tax morale. Alm and Torgler (2006) note that strengthening direct democratic elements such as actively participating in the political process is likely to help increase tax morale.

⁶ Source: Ministry of Social Development, <http://www.socialreport.msd.govt.nz/civil-political-rights/voter-turnout.html> - accessed 12 March 2011.

Prior to 2000 working New Zealanders had to file an annual tax return with IR. In doing so they resolved tax owing or received refunds, as well as having at least an annual engagement with IR. However, from 2000 this annual relationship ended for 70% of all individuals in New Zealand who had no further tax or social policy obligation – primarily those that had tax deducted at source by their employer. For those with tax and social policy obligations there has also been a trend, and IR encouragement, to use e-channels and have less personal contact with IR. Consequently, there is a potential that people will become more disengaged with tax, positive social norms could decrease, as well as general lowering of tax morale.

While the community perceptions survey demonstrates that the majority of the public agree that by paying tax they are contributing to society there is still a general resentment to paying tax. IR's research has identified that the public do not see their individual actions of enabling cash jobs as contributing to tax evasion. Further, some businesses lack knowledge about their tax obligations and become non compliant through sheer ignorance - eg. Former wage and salary earners or young people who transition to self employment.

Therefore with potential decreasing citizenship activities within the population, less engagement with taxation, a reasonable level of resentment to paying tax, and a tolerance to enabling evasion, there is a need to look how this can be remedied and tax morale maintained and increased. One such initiative is an education programme within our high schools.

3.3 Citizenship, Tax Morale, and Tax Education in Schools

As part of a broad strategy addressing norms that promote voluntary compliance as socially necessary behaviour, IR is developing a tax education and citizenship in schools programme.

The aim is to build the intrinsic motivation to pay taxes in the next generation of taxpayers before they enter the tax system. This project includes a 'Citizenship and Tax Education' in Schools resource for teachers to use as a tangible way in which IR can promote the core questions of why we pay tax and what we achieve by paying tax.

The New Zealand curriculum for schools provides a framework for schools but it does not dictate content. Schools decide what content and topics to teach. The curriculum describes "values, competencies, learning focus and future focus issue". The need for tax education is in the key value in the curriculum of 'community and participation', key competency 'managing self', learning area 'students' financial capability' and in the future focus issue of 'citizenship'. The curriculum was introduced in 2010 so it is timely to develop this resource.

It is intended that this unit will be used at Year 10 for students aged around 14. In Year 10 many students are starting to enter the workforce part-time, in some way, so there is some relevance/interest for them and the opportunity to give teachers something important, new, and different to tackle with students.

We are engaging an external educational provider to produce an online Citizenship and Tax Education curriculum resource whose main target is Year 10 and as a minor target Year 6/7.

Teachers will access the resource through the Ministry of Education's resource website and it will have direct links to our website. It will reflect the social inquiry approach used in Social Studies, the variety inherent in New Zealand schools and include unit overviews, lesson plans and templates, pre and post assessment tools and associated resources relevant in guiding teachers to help students focus on the following:

- What is income and what are our tax obligations?
- Why must we as New Zealand citizens pay tax on our income?
- What do we get by paying tax?
- Who decides how much and what sort of tax we pay?
- What other types of revenue are collected by other local, central government agencies?
- How does society decide what tax is spent on and how is it assessed and paid?
- How they can control and manage their taxes on line?

The project to establish the course has been a collaboration across many areas of IR with external advice from the Ministries of Education and Youth Development. We are currently awarding the contract to produce this resource and intend it to be available on line on 1 July 2011.

A tax administration should not sit back at the early signs of decreasing citizenship and needs to look beyond the traditional with outreach programmes such as Education in schools and Industry Partnership. We also need to be prepared for times of business disruption such as natural disasters – which will strain any government, tax administration, and related tax morale.

4 Christchurch Earthquake Response

The Canterbury region of New Zealand experienced a 7.1 M_w earthquake in September 2010 which caused widespread damage but no fatalities. Canterbury was again shook in February 2011 (6.3 M_w), centred close to New Zealand's second largest city Christchurch, which caused catastrophic damage and fatalities. Estimates of 1/3 of the central business district office buildings and 10,000 homes will need to be pulled down as well as 100,000 homes damaged. The impact on the people of Christchurch and New Zealand will continue to be large for many years.

Maintaining trust in the government and tax morale in times of natural disaster and the aftermath can be difficult. For example, some have described the efforts of US Government following Hurricane Katrina 2004 as a "failed response" (Sobel & Leeson, 2006). While there is the need for rapid response and additional financial support, controls around these are often less than during ordinary times. From revenue authorities there are large challenges

including business continuity, responsible restraint in application of the tax laws, and staff welfare. The following case study covers the 12:51pm 22 February 2011 Christchurch earthquake: our immediate response, business recovery, staff welfare, and lastly compliance.

4.1 Immediate Response

Immediately following the earthquake the Crisis Management team was activated and a 2:00pm meeting held chaired by the Commissioner of IR using the Crisis Management Plan as the base for the agenda. The Service Delivery Deputy Commissioner was appointed as Recovery Director to oversee our earthquake response and recovery. Immediate priorities were identified:

- Staff safety and communications to staff
- Taxpayer impacts and business continuity
- Internal policies – including temporarily closing the Christchurch office

The Christchurch office building is in the central business district and received minor damage during the earthquake and the internal furniture, fixtures, and equipment moderate damage. However, as the building is near many unstable buildings, and there are many issues within central business district, it could be months before the building can be used again.

4.2 Business Recovery

The Crisis Management Team met daily in main Wellington office for updates on areas such as our people, communications, IT, impacts on the business, the state of the Christchurch building and cross-government cooperation.

While the initial focus is on the welfare of our people the Christchurch earthquake response soon moved its focus from rescue to recovery, our focus also shifted to business recovery. A Christchurch Recovery Team was created and temporary accommodation found. The members of this team have come out of their substantive roles to allow them to focus solely on the Christchurch recovery. The Recovery Team were quickly able to identify key work streams to focus on – people welfare, business continuity, communications, building recovery and inter-agency work.

By 10 March 2011 Temporary office accommodation was found that provides our Christchurch people with a safe working environment until our central business district building is available.

4.3 Staff Welfare

For those not involved in the earthquake, or experienced anything similar it is hard to imagine the impact this could have on staff. There are 800 staff working from the Christchurch office, representing approximately 15% of all IR staff. The ethical treatment and support of staff in

these situations as well as a flexible approach is vital to the moral of the organisation and the recovery to a fully functioning Christchurch office.

IR has a counselling service available through an external provider. Drop in centres were also organised for a number of days so staff could come together for mutual support.

A returning to work policy was established. Staff were continued to be paid their normal pay during this period. From mid March we have been gradually returning our people to work as we find meaningful work for them to do and where we can provide the facilities to work from.

Flexible work arrangements are also being applied such as working from home, other geographic locations, and allowing managerial discretion where a staff member may not be able to return to work due to other earthquake related reasons.

4.4 Compliance Post Earthquake

At these times IR needs to be sensitive to the customers and businesses of Christchurch, and other impacted parties, who may have lost homes, tax records, physical business premises, or their normal levels of clients. Enforcement activities, such as audit and complex debt, have been suspended. It would be very insensitive, unethical, and destructive of tax morale if we were to undertake enforcement activities on customers who have lost or damaged: homes, businesses, or clientele. These factors therefore provide the opportunity for customers to non-comply with less fear of enforcement action or penalty – which will be detrimental to tax morale. We are not the only agency or area with such concerns. This represents a difficult balancing act for government agencies for swift assistance with fewer controls, but with higher compliance sensitivities. We therefore need to take heed of overseas experiences.

Shortly after Hurricane Katrina a Fraud Task Force was created charged with deterring, detecting, and prosecuting unscrupulous individuals who take inappropriate advantage of the circumstances (US Attorney General, 2010). The joint task force members include representation from over 30 agencies. Particular focus of the Task Force included: fraudulent charities, benefit fraud, identity theft, contract and procurement fraud, and public corruption. The US Department of Justice (2010) identified three key factors to prevent and combat disaster related fraud:

- absence of fraud prevention controls and measures
- centralised process for intake and referral of disaster fraud reports
- close coordination among investigative agencies

Given the level of across government support and collaboration in the aftermath of the earthquake it also seems fitting that compliance and enforcement should be a collaboration as demonstrated with success with Hurricane Katrina. IR are looking to work with other government agencies in a joint and coordinated manner to ensure that appropriate compliance actions are undertaken in these circumstances.

Significant natural disasters will put a strain on any government and its agencies. We have displayed that good business continuity planning, staff welfare, and considerations of the sensitivities around enforcement at these times, are all factors that will have an impact of tax morale.

5 Conclusions

The intrinsic motivation to pay taxes is a complex phenomenon and is impacted by a great many factors – much of which is not under the direct control of tax administrations. For instance, perceptions of trust in government and the distributive fairness of taxes are completely outside of tax administrators' control. However, there are many facets of tax morale that are within our control and we must actively manage those in order to maintain and enhance integrity.

Within this paper we have discussed a number of activities that IR is undertaking to preserve and improve the motivation of customers to pay taxes. There is no one solution or process.

Our own organisational ethics and integrity are vitally important to tax morale, whether that is through conducting our work in an honest and principled manner, having clear and transparent processes with customers, or looking at the additional ways in which we can extend our outreach.

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Appendix A: Inland Revenue's Charter

How we will work with you

Inland Revenue collects money to pay for public services. We help people to meet their obligations and receive their entitlements. We work within the Inland Revenue Acts and other relevant laws, and our actions are consistent with the spirit of the Treaty of Waitangi.

 <h3>How we will work with you</h3> <ul style="list-style-type: none">• We will be easy to deal with, prompt, courteous and professional.• We will follow through on what we say we will do.• We will be responsive to individual, cultural and special needs.• The person you are dealing with will give you their name.• We will value your feedback and use it to improve our services.	 <h3>Reliable advice and information</h3> <ul style="list-style-type: none">• We will provide you with reliable and correct advice and information about your entitlements and obligations.• We will assist you to get in touch with the right people for your needs.• We will be well-trained and competent.• We will keep looking for better ways to provide you with advice and information.	 <h3>Confidentiality</h3> <ul style="list-style-type: none">• We will treat all information about you as private and confidential, and keep it secure. We will only use or disclose it in accordance with the law.
 <h3>Consistency and equity</h3> <ul style="list-style-type: none">• We will apply the law consistently so everyone receives their entitlements and pays the right amount.• We will take your particular circumstances into account as far as the law allows.	 <h3>Your right to question us</h3> <ul style="list-style-type: none">• We will make it easy for you to question the information, advice and service we give you. We will inform you about options available if you disagree with us, and we will work with you to reach an outcome quickly and simply.	 <p>For this charter to work effectively, we rely on each customer to provide all relevant information when dealing with Inland Revenue.</p>  <p>Robert Russell Commissioner of Inland Revenue</p>