

Public perceptions of tax: Tax avoidance and everyday theories of tax

Sally Ruane
sruane@dmu.ac.uk

Crisis of confidence in tax arrangements

- Perceived inadequacy of tax revenues
- Perceptions of unfairness of system and competence/willingness of HMRC to tackle avoidance/evasion
- Limited character of qualitative research on UK public perceptions of tax
- Paper applies a lay theories approach to tax talk on avoidance

What is tax avoidance?

- “...the process of using legal means to reduce the amount of tax that is owed... Tax avoidance is an accepted and expected element in a corporate entity’s tax planning...” Payne and Raiborn, J Bus. Ethics, 2018
- “...involves bending the rules of the tax system to gain a tax advantage that Parliament never intended. It often involves contrived, artificial transactions....It involves operating within the letter but not the spirit of the law” UK Govt website, 2016
- Payne and Raiborn distinguish ‘avoidance’ from ‘aggressive avoidance’

The current research

- 8 focus groups Mar 2016 – Jul 2017
- 2 x 4 categories of ‘public’
- 41 adult participants from Leicester and Leicestershire
 - 19 F + 22 M
 - 10 BAME
 - 12 retired
- All groups spontaneously raised the issue of avoidance

Lay theories

- Lay theories are theories people use in everyday life – implicit, common sense or intuitive
- Organised knowledge structure applied to a domain, not an isolated or episodic belief
- Shaped by socio-political, economic or philosophical paradigm
- Create stable meaning system and help interpret and predict the world; direct behaviours, judgements and evaluations
- Individuals are often unaware of their own lay theories

Lay theories about human nature (1)

Those who condoned avoidance:

- Essentialist theory of human nature – ‘everybody does’, ‘everybody thinks’ ‘people want’ etc

“Everybody complains about paying too much tax in my circle of friends... People try to make (sic) more money – that’s an instinctive thing to do.”

Essentialism used to justify self-serving behaviour:

“I see [taxation] as stealing frankly. If you were given the option of contributing 30% or 40%...I think frankly speaking everybody would choose 30%...I used to run a limited company for a number of years just because I could pay 19% or 18%... trying to give as little contribution as possible”

Lay theories about human nature (2)

- Others articulated dynamic theories of human nature, explaining people's views and behaviours as socially constructed:

“General public, why they resist any form of taxation is because they can't see they receive anything from it...In the continent, people don't bother about they pay high taxes because they receive something from it. They have got better old age care, better unemployment benefit, better pensions. We don't. That's why we resist or just don't like taxes.”

Lay theories about our social obligations (1)

Those condemning tax avoidance drew on theories of the conditions needed for society to function properly

- Society requires mutuality which is undermined by ability to avoid tax – tax avoidance damages society
- Ability to avoid tax undermines capacity to provide services & creates differentiated and unequal positions vis a vis tax
- Reduced revenues thru tax avoidance help justify austerity -> demonisation of benefit recipients
- Avoidance expresses and heightens inequality in power and status

Draws on collectivist principles of social organisation

Lay theories about our social obligations (2)

Those who condoned avoidance:

- Individuals and businesses have a duty to pay their due
- Other contributions could substitute for some tax payments
- E.g. bring investment or create jobs
- Tax could legitimately be avoided where individuals made limited use of public amenities
- So long as avoidance is legal it is legitimate
- Tax is theft, converting our own money into services which create dependency and slavery

Draw on a more individualistic approach to social arrangements

- **“If Starbucks pay no tax, they’re still generating a lot of money for the government because their employees will still pay tax; the people who buy their stuff will pay tax. So even if they personally (sic) don’t pay tax, they’ll still generate money for the economy. They’re very naughty but they bring in the money for the country.”**

Lay theories about how the economy works

- Strong economy is essential to wellbeing of society
- Strong economy is driven by flourishing businesses which can generate profit
- Businesses need to prioritise profit and taxes detract from this
- Taxes must be carefully calibrated or they will pose risk to a strong economy

Those condoning avoidance subscribed to this view but so did some others.

Lay theories about relationship between government and tax system (1)

One theory

- Govt creates legislative and regulatory environment for taxation for good of society
- This is subverted by individuals/organisations which breach the framework
- These use complexities in the tax system in ways not originally intended – loophole

“I mean these people that are millionaires pay out an awful lot of money to accountants to find the loopholes. Well if the accountants can find the loopholes then surely the governments should be able to find the loopholes.”

Lay theories about relationship between government and tax system (2)

Alternative theory

Loopholes are deliberately designed openings in the system

These allow an elite with access to expert tax advice to find ways to avoid tax (includes members of the political class)

“Let’s take Osborne’s wallpapering business, you know. He very clearly gets a huge dividend – what is it, 40 or 45 thousand a year or something? Well you can’t have a cash flow problem if you’re giving out dividends of 40 odd thousand to your main shareholders so there’s something crooked in there and that to me is where it’s wrong.... There must be thousands and thousands of medium size and small companies that aren’t paying their due in tax. And then they’re passing it onto the shareholders who are basically the owners of the company and they’re not paying. And then [government are] bringing out this new rule on dividend income where you pay 10, 20 percent on dividend income [and] you’re exempt for the first ten or fifteen thousand or whatever it was. So there is a lot of unfairness.”

Lay theories about relationship between government and tax system (3)

- Most people believed loopholes should be closed but were pessimistic about the likely outcomes, regardless of lay theory of govt-tax relationship:
- Govt means well but is dealing with a complex system
- Govt needs to retain incentives for business
- Globalisation makes it difficult for govt to act effectively
- People will find other ways to avoid paying tax and that might be more harmful
- Govt has no real intention of challenging tax avoidance

Observations

- Avoidance represents a major phenomenon in people's comprehension of taxation
- Part of a moralising discourse
- Lay theories reflected collectivist and individualist principles
- Clear neoliberal stance evident in only 4 men, associated with essentialist theories
- Govt should address avoidance - implicit rejection of small govt?
- Absence of theory of economy driven by demand management or the entrepreneurial state
- Almost no reference to the avoidance industry and its links to the Treasury