
Procedural Justice Principles and Tax Compliance in Ireland: A Preliminary Exploration in the Context of Reminder Letters

Elaine Doyle
University of Limerick, Ireland

Kieran Gallery
National Centre for Taxation Studies
University of Limerick, Ireland

Mary Coyle
Irish Revenue Commissioners, Dublin, Ireland

Abstract

Procedural justice focuses on the fairness of decision-making procedures and the treatment individuals receive from decision-making authorities. It has been suggested that procedural justice plays an important role in the decision to comply with tax legislation (Tyler 1990).

This study explores the impact that Irish Revenue reminder letters adopting principles of procedural justice have on voluntary compliance. The results add to the current literature on both tax compliance and procedural justice by exploring these issues in an Irish context. The study also contributes by documenting results that are derived from the actual tax compliance behaviour of income tax payers rather than hypothetical or self-reported behaviour.

Key Words: Procedural justice, interpersonal justice, tax compliance, reminder letters

Introduction

Taxation is the lifeblood of any economy. However, while admittedly extremely difficult to quantify accurately, the estimated loss in exchequer revenue worldwide as a result of non-compliance with tax legislation is considerable, and is seen to impose a very real cost on society as a whole (Andreoni, Erard & Feinstein 1998; Collins, Milliron & Toy 1990). Policy makers and tax authorities strive constantly to increase the level of tax compliance in their relative jurisdictions, the aim being to secure long-term voluntary compliance. Irish policy makers are no exception in this regard.

Two dichotomous theories, known as the deterrence model and the accommodative model, have dominated the debate on tax compliance behaviour for decades (Kagan & Scholz 1984). It is now generally accepted that in order to encourage compliance it is necessary to have a balance between respectful treatment, fostering trust in the tax system and appealing to conscience on one hand (the accommodative approach) and enforcement strategies (the deterrence approach) on the other (see for example Braithwaite & Braithwaite 2001).

Procedural justice is concerned with public decision-making processes. It focuses on the fairness of decision-making procedures and the treatment individuals receive from decision-making authorities. Individuals who feel they have been fairly treated by the authorities view those authorities as having legitimate authority and are therefore entitled to be obeyed, regardless of the decision outcome arrived at by the authority (Tyler 1997; Tyler & Lind 1992). It has been suggested that procedural justice plays an important role in the decision to comply with tax legislation (Tyler 1990) and is consistent with the accommodative approach to encouraging compliance. While acknowledging that numerous variables combine to determine the ultimate compliance behaviour of individuals, it is posited that individuals do not react to Revenue authorities purely on the basis of the decision made by the authority about them, but also on the basis of how they perceive the authority treats them.

While research aimed at increasing our understanding of tax compliance behaviour has been ongoing for decades (thorough literature reviews are available in Jackson & Milliron 1986 and; Roth, Scholz & Witte 1989), most of the research has been conducted in a US or Australian context. Furthermore, the vast majority of the research is based on hypothetical or self-reported behaviour due to the difficulty in accessing actual taxpayer data and observing real live behaviour. This study aims to address this lacuna by investigating the effect of principles of procedural justice on voluntary compliance in an Irish context using an experimental method to monitor actual taxpayer behaviour¹.

¹ We are grateful to the Irish Revenue Commissioners for facilitating this research.

The taxpayer sample used in this study is acknowledged as limited ($n=347$), however the objective of this study is to initially explore this area. The results extend the current literature on both tax compliance and procedural justice and shed light on the tax compliance dynamic in Ireland.

The remainder of this paper is structured as follows. Section two provides an overview of the existing literature on tax compliance and the concept of procedural justice is discussed. The operation of the Irish tax system is briefly described and the recent change in Irish compliance culture is outlined. Section three describes the experiment conducted to investigate the impact of fairness on tax compliance behaviour. Results are presented in section four while section five discusses the limitations and conclusions.

The Literature

Tax compliance theories

Most modern economies operate a system of self-assessment when it comes to the collection of taxes. Self-assessment systems are dependent on the notion of voluntary compliance with the tax legislation by taxpayers. Such systems depend on the threat of a taxpayer being audited by the Revenue authority to “encourage” voluntary compliance (Braithwaite 2003). The question that arises is how best to police a tax system in which taxpayers play an important role in computing their own tax liabilities and complying with tax return and payment deadlines. The Government and the tax authorities must choose whether to pursue aggressive and often costly enforcement techniques (for example Revenue audits) or to rely on more persuasive, and often cheaper methods, such as an encouraging and respectful interaction with taxpayers (Blumenthal, Christian & Slemrod 2001). Tax compliance research is dominated by two main theories addressing these two dichotomous approaches.

The first, deterrence theory, was put forward by Allingham & Sandmo (1972) and is based on Becker's (1968) economic theory of crime. Deterrence theory advocates that individuals are economically rational and therefore motivated entirely by maximizing personal gain (the self-interest model). Opportunities and risks are assessed carefully on a cost benefit basis and the result that optimises the outcome for the individual is chosen. In a tax context, this would involve examining the probability of detection for non-compliance and the extent of the sanctions and penalties that would be levied if evasion was discovered and comparing these with the monetary benefits gained from non-compliance i.e. the personal use of taxes not paid. Deterrence theorists believe that the only way to encourage compliance is for regulators to increase audit probability and impose harsh sanctions and penalties for tax evaders.

In the tax compliance domain, there is some research evidence to support the effectiveness of deterrence techniques (Allingham & Sandmo 1972; Williams 2001; Witte & Woodbury 1985). Other studies have found that deterrence methods, particularly when they are perceived to be illegitimate, can often be counterproductive and produce the opposite behaviour to that being sought (Ayes & Braithwaite 1992; Blumenthal, Christian & Slemrod 1998; Braithwaite & Braithwaite 2001). Braithwaite and Braithwaite (2001) suggest that when a taxpayer is audited and a penalty imposed, the lesson learned is unclear. The taxpayer may consider that he/she got away with tax liabilities that the audit failed to uncover or alternatively may learn that cheating will be punished. It is possible that an audit will increase compliance in the long run but if the taxpayer considers it unlikely that they will be audited in the year or two after an audit has been conducted, this may have a negative impact on their compliance behaviour (Braithwaite & Braithwaite 2001). Furthermore, excessive enforcement techniques could be considered unduly oppressive by taxpayers and may lead to active resistance towards authority (Blumenthal *et al.* 2001; Braithwaite & Braithwaite 2001; Murphy 2005).

Evidence from the literature on the effect of deterrence methods on tax compliance is therefore inconclusive. Indeed, the low deterrence rates in most jurisdictions (a function of low detection probability or limited penalties) actually raise the question of why more taxpayers do not evade taxes. It would appear that tax compliance rates are too high to be explained by the rational economic self-interest argument (Alm, McClelland & Schulze 1992).

In response to the apparent failure of the self-interest model to adequately explain compliance behaviour, researchers have examined a plethora of behavioural and social variables in order to shed light on tax compliance behaviour. This body of research is broadly termed attitudinal or accommodative tax compliance research. Among other variables, it has been suggested that social factors such as attitudes, norms, justice, fairness, trust and morality are relevant to compliance (Alm *et al.* 1992; Braithwaite 2002; Grasmick & Bursik 1990; Kinsey, Grasmick & Smith 1991; Roth *et al.* 1989). In general terms, this alternative literature advocates using persuasive or accommodating methods to encourage compliance. It suggests that the optimal technique for maximizing tolerance for and compliance with regulations is not by an exclusive reliance on threat and legal coercion but rather through the employment of strategies that elicit the required response from those being regulated (see for example Ayres & Braithwaite 1992). A balance between enforcement strategies on the one hand and respectful treatment, fostering trust in the tax system and appealing to conscience on the other is necessary (Braithwaite & Braithwaite 2001).

As mentioned above, some of the researchers taking the attitudinal approach to tax compliance have particularly emphasised the role of justice and fairness perceptions on compliance behaviour. It has been suggested that taxpayers are more likely to be compliant with a tax system that they consider to be fair, just and therefore legitimate (Alm, Jackson & McKee 1993; Cowell 1992). Tyler's theory on tax compliance advocates that procedural justice plays an important role in the decision to comply with rules and regulations and is consistent with the accommodative model (Tyler 1990). There is also evidence that taxpayers who feel fairly treated by the taxing authority are more inclined to accept its decisions and follow its directions (Lind & Tyler 1988; Tyler 1990).

Procedural Justice

Procedural justice is concerned with public decision-making processes. It examines the relationship between decision making procedures on the one hand and decision outcomes, the perceived legitimacy of the outcomes and the degree to which they are accepted on the other (Joss & Brownlea 1999). It focuses on the fairness and perceived fairness of decision-making processes and the treatment one receives from decision-making authorities. The literature in this area provides evidence that an individual's reaction and response to his/her interactions with regulatory authorities depends on his/her assessment of the fairness of the procedures the relevant authority uses to exercise their power (Lind & Tyler 1988; Murphy 2003). If an individual believes that an authority has attempted to be fair to him/her, has treated him/her with dignity and respect and dealt with him/her in an impartial manner, these factors enhance feelings of fairness (Murphy 2003, 2005). Tyler has specifically shown that individuals who feel they have been fairly treated by the authorities view those authorities as having legitimate authority and therefore entitled to be obeyed, regardless of the decision outcome arrived at by the authority (Tyler 1997; Tyler & Lind 1992).

The procedural justice theory was initially developed from studies carried out by Thibaut & Walker (1975) and has since been validated based on research into personal experiences with Governmental and other types of authorities (for reviews see Lind & Tyler 1988; Tyler & Lind 1992). The principles of procedural justice have been used in the design of various public policy and decision-making initiatives as well as in employment relations, policing, mediation, policy analysis, public consultation and business settings (Joss & Brownlea 1999). Tyler has studied political, legal,

managerial, educational and family settings and found in all cases that authorities gain much of their legitimacy from their social relationships with group members (Tyler 1997).

Interpersonal Justice

One important element of procedural justice is the quality of interpersonal treatment received by the relevant authority, often termed interactional or interpersonal justice. The manner in which an authority treats an individual influences the individual's perceptions of fairness and therefore their attitudes towards, trust in and cooperation with the authorities concerned (Bies 2001; Tyler & Bies 1990; Tyler & Lind 1992).

Interpersonal justice is based on the premise that authorities should be respectful and polite to those affected by their decisions, show concern for their circumstances and even offer apologies and regret for any negative consequences of the decisions where relevant (Greenberg 1993). This treatment is posited to increase perceptions of fairness because such treatment will make individuals understand that any unfavourable consequences of the authority's decisions do not reflect maliciousness or intention to harm. Respect and politeness also acknowledge a fundamental human entitlement to personal integrity and express regard for an individual's worth and status as a member of the community represented by the authority (Tyler 1989 cited by Wenzel 2006)

Informational Justice

A second subset of procedural justice is the concept of informational justice (Greenberg 1993). Informational justice is based on the principle that authorities should provide information and explanations to individuals affected by their decisions (Greenberg 1993; Tyler & Bies 1990). There are several reasons why the provision of information may increase perceptions of fairness. Firstly, it supports the contention that the authority has made an informed decision, taken all of the important information into account, and acted in a reasonable and unbiased way (Tyler 1989). Secondly, the information itself may persuade individuals that the decision outcome is fair. Thirdly, providing information and explanation supports the impression of a transparent decision making process which treats individuals as respected equals (Wenzel 2006).

Letters as a means of communication

Letters are the most common way in which government authorities and regulatory institutions communicate with the public (Wenzel 2006) and are therefore the means of communication we have opted to focus on in exploring the impact of procedural justice on tax compliance. The acknowledged disadvantage of using standardised letters to communicate with taxpayers is that letters from Revenue authorities are frequently considered formal and cold in tone (Wenzel 2006). This is particularly the case with reminder letters, which are regarded as unfeeling and lacking in any manner of empathy (Murphy 2003). Research suggests that taxpayers frequently react negatively to letters from tax authorities as a result of their authoritarian, unsympathetic and sometimes threatening tone. Letters often use technical language and make demands without necessarily explaining the reasons behind the demands and the context of those decisions (Wenzel 2006). Evidence also suggests that reminder letters tend towards the assumption that the taxpayer has deliberately and selfishly disregarded one's obligations (Murphy 2003). If procedural justice principles can be brought to bear, perhaps letters might serve to encourage compliance at virtually zero marginal cost.

Extant Research

A number of researchers have examined procedural justice in a tax compliance context. Porcano (1988) examined its impact on hypothetical or self reported tax evasion using a survey method, asking taxpayers (inter alia) whether the enforcement procedures used by the Revenue authorities

were fair. No significant difference between evaders and non-evaders was found. Alm *et al.* (1993) investigated whether tax compliance was affected by the procedural manner in which the decision as to how tax revenue should be spent was made. They found that when the decision was imposed on participants they were less tax compliant than when they had the chance to vote on the issue in a democratic manner.

Wenzel's (2002) survey-based study found that Australian taxpayers were more compliant when they felt fairly and respectfully treated by the ATO. Worsham (1996), however, found no significant difference in tax compliance among taxpayers who had experienced procedural injustice. Interestingly, he did find that taxpayers who became aware of the unfair treatment of others did increase self-reported non-compliance.

Based on in-depth interviews with Australian taxpayers, Murphy (2003) found that perceptions of unfair treatment played an important role in explaining their behaviour. She concluded that taxpayers were not purely driven by self-interest variables but were also strongly concerned about issues of fair treatment and respect in forming their opinion about the ATO and how they should respond to that authority.

In another survey-based study, Murphy (2005) also found that taxpayers who were punished by the ATO were more likely to have negative views on the legitimacy of the ATO when they felt they had been treated in a procedurally unfair manner. Furthermore, those with negative views as to the legitimacy of the ATO were more resistant to its decisions. She also found that although economic self-interest did have an impact on taxpayers' views of legitimacy, it played only a minor role, supporting Tyler's (1997) findings.

Wenzel (2006) conducted two studies to assess the impact of reminder letters based on principles of informational and interpersonal justice on perceived fairness and actual compliance in Australia. The first involved a survey of 199 economics students who had been asked to imagine that they owned a small business, had not filed a quarterly Activity Statement² on time and received a reminder letter from the ATO. The study found that the two experimental letters were perceived to be fairer than the standard ATO reminder letter. The second study involved monitoring the effect of the three reminder letters used in the first study on the compliance behaviour of 2,052 Australian taxpayers who had failed to file a quarterly Activity Statement. Wenzel found that the likelihood of compliance subsequent to the receipt of both the informational and the interpersonal letter was greater than when taxpayers received the standard letter.

To conclude, the tax compliance literature advocates a balance between respectful treatment, fostering trust in the tax system and appealing to conscience on one hand with enforcement strategies on the other. The procedural justice literature has demonstrated that individuals are more likely to accept a decision and comply with a direction given by what they perceive to be a legitimate authority that treats them with fairness. Fairness in turn is influenced by quality of treatment (interpersonal justice) and information and explanation being given for decisions (informational justice). Given that Revenue authorities strive to influence taxpayers' behaviour by encouraging compliance with tax legislation, it is suggested that they adopt the principles of both interactional and informational justice in their interaction with taxpayers. This may influence fairness perceptions, boost legitimacy and increase the likelihood of taxpayers complying with the decisions of the taxing authority, reducing the necessity for more costly compliance techniques such as Revenue audits. While influencing taxpayers thus may not tip the balance in favour of compliant behaviour for all taxpayers, it may add weight to the argument in favour of compliance for those who are not predetermined to evade from the outset.

2 Activity Statements are quarterly declarations of a taxpayer's obligations and entitlements and are required under the Australian tax legislation.

The Irish Context

Adoption of Self-Assessment

Ireland is an interesting jurisdiction in which to examine tax compliance because of the substantial shift in attitude to tax compliance occurring over the past decade. Up until the late 1980's, income tax compliance operated under a system of direct assessment. Since the introduction of self-assessment for self employed and non PAYE taxpayers from 6th April 1988, the Irish Revenue Commissioners have employed a varying mix of accommodative and deterrence techniques in order to encourage compliance. In turn, the Irish taxpayers' attitude to self-assessment has adapted in response to the Revenue authority's evolving approach. Initial measures such as surcharges and the imposition of interest acted to discourage late filing, with extended filing delays potentially leading to more severe deterrent measures of audit, enforcement and prosecution.

The Irish Revenue Commissioners also introduced two tax amnesties. The first, in 1988, afforded non-compliant taxpayers the opportunity to 'wipe the slate clean' prior to the introduction of the self-assessment. The second, in 1993, afforded 'latecomers' the opportunity to become fully tax compliant (O'Halloran 2005). A rigorous pursuit of those taxpayers who had not availed of the amnesties followed. Special investigations have been carried out in a number of areas, sending a strong message that non-compliance with tax legislation will not be tolerated under any circumstances. In the period up to 2006, these investigations are reported have yielded almost €2.2 billion (Daly 2006).

Former chairman of the Irish Revenue Commissioners, Frank Daly, describes Irish tax compliance strategy as both encouraging and uncompromising. He argues that voluntary compliance is encouraged by efforts to make it easier for taxpayers to engage with the tax system, however a sharp and uncompromising response is triggered where any non-compliance is detected (Daly 2006). This evolving approach has yielded a steady increase in the level of income tax return compliance (Revenue Commissioners 1998, 2004).

What remains unclear is whether the increase in compliance levels has resulted solely from a restoration of belief in the fairness of the tax system, or from a fear of detection by non-compliant taxpayers as a result of Revenue's zero tolerance approach. Part of this change in attitude to tax compliance in Ireland can be attributed to the plethora of tribunals established to identify tax evasion (McEnaney 2007). It could also be due to the population's maturing attitude to tax compliance, seeing it as '*not just a legal obligation but also a civic duty, a central element of social responsibility and a core component of good citizenship*' (Daly 2006). In the context of this recent and rapidly changing compliance culture, the impact that differing methods of encouraging compliance behaviour may have on taxpayers in Ireland is particularly interesting.

Our study

The Irish Revenue authorities send a standard reminder letter to income taxpayers who have failed to file their income tax return by the relevant deadline.

This research study aims to assess the impact on compliance behaviour of reminder letters based on the principles of procedural justice compared with the standard reminder letter used by the Irish Revenue Commissioners and a direct letter using a short, brisk and authoritarian message.

A number of studies have examined procedural justice in a tax context, however many of them are based on hypothetical or self-reported behaviour (Alm *et al.* 1993; Murphy 2003, 2005; Porcano 1988; Wenzel 2002). Using laboratory simulations, student samples or self-reports is acknowledged to limit the potential applicability of the research findings. There is a lack of evidence

demonstrating that attitudes and responses to hypothetical scenarios translate into actual tax-reporting behaviour (Hasseldine, Hite, James & Toumi 2007). There is also a danger of social desirability bias distorting results of surveys gathering self-reported data.

The difficulty faced by all tax compliance researchers is a lack of access to real taxpayers and their tax compliance behaviour. Following Wenzel (2006), the study uses actual taxpayer data sourced from the Irish Revenue Commissioners to assess the impact of using fairness principles in reminder letters on tax compliance behaviour. The study involved a sample of 347 taxpayers (out of 3,720 non-filers in that particular Revenue district) who had failed to submit their income tax returns for the year 2005 by the due date.

Letter Types

The first letter used in the experiment was the standard letter that the Irish Revenue Commissioners send to taxpayers failing to meet the reporting deadline. It outlines why the taxpayer has been contacted, explains what the taxpayer should do, and warns that those failing to submit their tax returns will be prosecuted. The letter concludes with an apology in the event that the taxpayer has commenced business in the relevant year and is therefore not due to submit a tax return until a future date.

The standard reminder letter was used as a template to draft two amended versions of the letter. The first amended letter was drafted using a distant and formal approach. It gave a short, brisk and authoritarian message. It was designed to test the theory that respect and polite treatment may lead to the impression that authorities are soft on rule-breakers and lack the will to detect and punish non-compliant taxpayers (Wenzel 2006). The direct letter is therefore consistent with deterrence principles.

The second of the amended letters was drafted using the principles of both interpersonal and informational justice in order to address the taxpayer's concern for respectful treatment and their entitlement to information pertaining to the decision made about them by the Revenue authority. The letter included the same basic information as the standard letter but went further in addressing the following issues:

- The rationale for issuing the letter and why it is necessary to collect tax,
- The necessity of sanctions for non-compliance,
- An expression of confidence in the taxpayer's honesty, and
- An acknowledgement that it was possible that the taxpayer was not aware of the necessity of filing a tax return.

Sample selected

Taxpayers in the sample group were sent one of the three different reminder letters (interpersonal/informational (n=88), direct (n=87) or standard (n=86)). In order to control for the possibility that compliance may be affected as a result of receiving any type of letter from the tax authority, we also monitored a group of taxpayers who received no letter from the Revenue at all (n=86). The taxpayers' compliance behaviour (tax return submission) was monitored in the three months following the posting of the reminder letter in order to assess the effect of the particular letter type on voluntary tax compliance behaviour.

In order to protect taxpayer identity, the Revenue Commissioners retained responsibility for the mailing of the reminder letters. The letters were sent in two batches on 20th March and 26th April 2007 (half of each letter type on each date) and taxpayers were monitored until 5 July 2007³.

3 After 5th July, we could not be assured that other interventions had not been made e.g., direct phone calls to the taxpayer or Revenue audits initiated for the taxpayer concerned.

Results

The total number of returns submitted in the three-month period after the letters were issued was 79 (out of 347 outstanding returns), representing a tax return submission rate of 23 percent. Of the returns received, 26 were submitted subsequent to the receipt of the interpersonal letter (33 percent), 22 following the receipt of the direct letter (28 percent), 18 following the standard letter (23 percent) and just 13 (16 percent) were returned in cases where no reminder letter was received at all (see Figure 1 below).

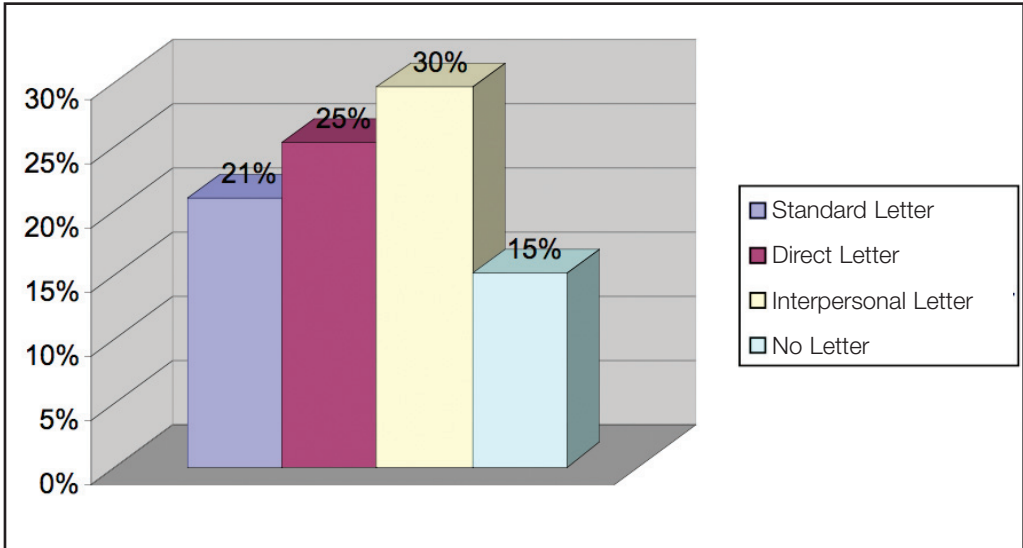


Figure 1: Returns received following various letter types

From the absolute figures set out in Figure 1, the interpersonal letter appears to be the most effective in terms of encouraging compliance. Furthermore, of the total number of returns that remained outstanding on 5th July 2007 ($n=268$), the highest proportion (27 percent) were due from the group who had received no communication whatsoever from the tax authority. This suggests that reminder letters of any kind are effective in terms of encouraging compliance and furthermore, that both the interpersonal letter and the direct letter yielded a higher level of compliance than the standard letter currently used by the Revenue authority.

Analysis of the sample group using chi square analysis indicates however, that there was no statistically significant difference in the compliance response between the types of treatment letters issued. There may still be a relationship between the variables but we cannot arrive at this conclusion with any degree of certainty given the limited sample size of this study. As mentioned above, there was certainly a marginally positive effect from the interpersonal reminder letter and some negative effects with the no letter group, but overall, this was not significant.

Conclusions

Before discussing the conclusions arrived at, it is important to acknowledge the limitations of this study.

The main limitation is the small sample size. While 347 taxpayers is not an insignificant number, when monitoring behaviour following four different types of intervention and considering compliance

rates among late income tax filers were 23%, the results become significantly diluted. However, given that the objective of this study was to initially explore this area, we are satisfied that we have achieved our objective. Future studies should monitor a larger taxpayer sample.

Compliance behaviour was monitored for only an average of three months after the letters were sent to the taxpayer group. At the time the letters were sent, the relevant taxpayers' tax returns were overdue by an average of four months. We accept that the various reminder letters sent to taxpayers may have affected compliance behaviour in the period after 5th July, when compliance monitoring had stopped and this information has not been captured (see endnote iv).

The nature of the study was such that taxpayer behaviour was monitored from a distance on the basis of tax returns received. In order to preserve the integrity of the experiment, no contact was made with taxpayers other than posting them the reminder letter. Consequently, we had no access to data on taxpayers' decision-making processes and cannot conclude on exactly how the amended reminder letters elicited greater levels of compliance.

In addition, we did not have access to the taxpayers' compliance history. This would have been important in determining each taxpayer's attitude to compliance prior the 2005 tax year, which in turn would put their reactions to the receipt of the reminder letters on a stronger footing. Apart from the obvious difference in sample size, this may be one of the reasons why Wenzel's (2006) study was more conclusive. He had access to taxpayers' compliance history, gender, age and whether or not the taxpayer retained an agent. Unfortunately this depth of data was not available to us. Future Irish studies should consider these variables as part of the analysis if access can be secured.

The taxpayer sample in this study was drawn from one specific tax district in Ireland, which may limit the applicability of the results to other regions. However, there is no reason to believe that this particular district is not representative of a wider sample. Indeed, given that this study is set in an Irish context, it may also be argued that its conclusions are limited to this jurisdiction. However, we would argue the plausibility of generalizing the conclusions on taxpayer behaviour to other common law jurisdictions and furthermore to other public sector organisations.

This study aimed to explore the impact of incorporating principles of fairness into reminder letters being sent to late income tax filers. Results demonstrated that, consistent with Hasseldine *et al.* (2007), any form of written communication, whether an interpersonal, direct or standard letter, garnered a greater response than no communication at all. Furthermore, our findings, while tentative, suggest that Irish taxpayers do respond positively to communications encompassing principles of fairness. The levels of response, in terms of returns submitted, to the interpersonal and the direct letter were higher than the response to the standard letter, however, taken as a whole, the interpersonal letter returned in the highest level of compliance.

By no means do we advocate the elimination of sanctions and penalties. They play an important role in tax compliance. Our findings suggest that deterrence principles as encompassed in the direct letter issued to some of the sample group resulted in higher compliance level than the standard letter used by the Irish Revenue authority. Some individuals wouldn't consider being compliant if it were not for the threat of punishment. However, focused attention should be given to nurturing taxpayers' perceptions of fairness in order to stimulate faith in the tax system and in the Revenue authority and thus encourage taxpayers to comply with its decisions and our study finds that this approach yields the highest compliance.

While the experimental letters may have had a rather marginal impact on compliance levels, even very small effects are significant when multiplied by substantial numbers making this issue worthy

of further and more comprehensive scrutiny. The potential benefits of further research in this area become clear when you consider that the most recent data puts the level of income tax late filers in Ireland at 24% (approximately 84,000). If future research were to corroborate our exploratory findings and confirm that compliance rates following the receipt of a reminder letter based on procedural justice principles increased to 30 percent, it could conclude that the immediate substitution of an interpersonal reminder letter for the standard letter may increase income tax compliance by as much as 7,560 returns, thereby significantly reducing the necessity to pursue these late filers using more expensive deterrence measures.

The present findings provide clear evidence of the importance of enforcement strategies that initially focus on encouraging compliance using persuasive methods before resorting to costly deterrence techniques. If sanctions and penalties are the methods of first resort, Revenue authorities run the risk of undermining their own legitimacy. Alternatively they may be able to shape compliance behaviour if they embrace the principles of procedural justice in their interaction with taxpayers.

On a broader level, taxpayers should be treated with dignity and respect in all aspects of their interaction with the Revenue authorities and indeed with any public sector body. For example, consultation with taxpayers should take place when a significant amendment is made to demonstrate to taxpayers that the tax system has integrity and encapsulates the principles of fairness. More specifically, following Wenzel's (2006) recommendations, Revenue employees should be trained to incorporate justice principles into their interactions with taxpayers, whether written, electronic or verbal.

The adoption of interpersonal justice principles in written communications with taxpayers would seem consistent with the Irish Revenue's publicly declared commitment to a more cooperative and customer focused approach to compliance. However, care should be taken to avoid adopting principles of fairness merely in order to manipulate taxpayers into feeling that the Revenue authority has more legitimacy, thereby influencing compliance in a contrived manner. Rather than purely as a means of increasing compliance, Revenue needs to take such measures as part of its effort to improve overall customer service.

As mentioned above, future studies in this area should monitor a larger sample of taxpayers in order to gather enough data to perform detailed statistical analysis. Building on the exploratory nature of this research, future studies may shed light on what might prove to be a very valuable method of encouraging tax compliance.

References

- Allingham, M. G. and Sandmo, A. (1972). *'Income Tax Evasion: A Theoretical Analysis'*, Journal of Public Economics, 3(4), 323-338.
- Alm, J., Jackson, B. R. and McKee, M. (1993). *'Fiscal Exchange, Collective Decision Institutions and Tax Compliance'*, Journal of Economic Behavior and Organization, 22(3), 285-303.
- Alm, J., McClelland, G. and Schulze, W. (1992). *'Why do People Pay Taxes?'* Journal of Public Economics, 48(1), 21-38.
- Andreoni, J., Erard, B. and Feinstein, J. (1998). *'Tax Compliance'*, Journal of Economic Literature, 36(2), 818-860.
- Ayres, I. and Braithwaite, J. (1992). *Responsive Regulation: Transcending the Deregulation Debates*, New York, Oxford University Press.
- Becker, G. S. (1968). *'Crime and Punishment: An Economic Approach'*, Journal of Political Economy, 76(2), 169-217.

- Bies, R. J. (2001). '*Interactional (In)justice: The Sacred and the Profane*' In J. Greenberg & R. Cropanzano (eds.), *Advances in Organisational Justice* (pp. 89-118), Stanford, CA, Stanford University Press.
- Blumenthal, M., Christian, C. and Slemrod, J. (1998). '*The Determinants of Income Tax Compliance: Evidence from a controlled Experiment in Minnesota*'. Massachusetts: National Bureau of Economic Research Working Paper No. 6575.
- Blumenthal, M., Christian, C. and Slemrod, J. (2001). '*Do Normative Appeals Affect Tax Compliance? Evidence from a Controlled Experiment in Minnesota*', *National Tax Journal*, 54(1), 125-138.
- Braithwaite, J. (2002). *Restorative Justice and Responsive Regulation*, Oxford, Oxford University Press.
- Braithwaite, V. (2003). '*A New Approach to Tax Compliance*' In V. Braithwaite (Ed.), *Taxing Democracy: Understanding Tax Avoidance and Evasion* (pp. 1-11), Aldershot, UK, Ashgate.
- Braithwaite, V. and Braithwaite, J. (2001). '*An Evolving Compliance Model for Tax Enforcement*' In N. Shover & J. P. Wright (eds.), *Crimes of Privilege*, New York, Oxford University Press.
- Collins, J. H., Milliron, V. C. and Toy, D. R. (1990). '*Determinants of Tax Compliance: A Contingency Approach*', *Journal of the American Taxation Association*, Vol. 12(1), 9-25.
- Cowell, F. A. (1992). '*Tax Evasion and Inequity*', *Journal of Economic Psychology*, 13(4), 521-543.
- Daly, F. (2006, 8th November). *Freedom: Licence or Liberty?: Engaging with a Transforming Ireland*. Paper presented at the The 9th Annual Ceifin Community Conference, Ennis, Co Clare.
- Grasmick, H. G. and Bursik, R. J. J. (1990). '*Conscience, Significant Others and Rational Choice: Extending the Deterrence Model*', *Law and Society Review*, 24(3), 837-861.
- Greenberg, J. (1993). '*The Social Side of Fairness: Interpersonal and Informational Classes of Organisational Justice*' In E. Cropanzano (Ed.), *Justice in the Workplace: Approaching Fairness in Human Resource Management* (pp. 79-103), Hilldale, NJ, Erlbaum.
- Hasseldine, J., Hite, P., James, S. and Toumi, M. (2007). '*Persuasive Communications: Tax Compliance Enforcement Strategies for Sole Proprietors*', *Contemporary Accounting Research/Recherche Comptable Contemporaine*, 24(1), 171-194.
- Jackson, B. R. and Milliron, V. C. (1986). '*Tax Compliance Research: Findings, Problems and Prospects*', *Journal of Accounting Literature*, 5(1), 125-165.
- Joss, S. and Brownlea, A. (1999). '*Procedural Justice*', *Science and Public Policy*, 26(5), 321-330.
- Kagan, R. A. and Scholz, J. T. (1984). '*The Criminology of the Corporation and Regulatory Enforcement Strategies*' In K. Hawkins & J. M. Thomas (eds.), *Enforcing Regulation*, Boston, Kluwer-Nijhoff Publishing.
- Kinsey, K. A., Grasmick, H. G. and Smith, K. W. (1991). '*Framing Justice: Taxpayer Evaluations of Personal Tax Burdens*', *Law and Society Review*, 25(4), 845-873.
- Lind, E. A. and Tyler, T. R. (1988). *The Social Psychology of Procedural Justice*, New York, Plenum Press.
- McEnaney, T. (2007, 5th July). *Revenue winning compliance war: target practice makes perfect outcome on tax*, *Irish Independent*, pp. 12-13.
- Murphy, K. (2003). '*Procedural Justice and Tax Compliance*', *Australian Journal of Social Issues*, 38(3), 379-407.
- Murphy, K. (2005). '*Regulating More Effectively: The Relationship between Procedural Justice, Legitimacy, and Tax Non-compliance*.' *Journal of Law & Society*, 32(4), 562-589.
- O'Halloran, M. (2005). *From Boraimhe to Bit - the Art of Taxation*, Dublin, Irish Taxation Institute.
- Porcano, T. M. (1988). '*Correlates of Tax Evasion*', *Journal of Economic Psychology*, 9(1), 47-67.
- Revenue Commissioners. (1998). *Annual Report 1997*. Dublin: Revenue Commissioners.
- Revenue Commissioners. (2004). *Annual Report 2003*. Dublin.

- Roth, J. A., Scholz, J. T. and Witte, A. D. (1989). *Taxpayer Compliance, Volume 1: An Agenda for Research*, Philadelphia, PA, University of Pennsylvania Press.
- Thibaut, J. and Walker, L. (1975). *Procedural Justice*, Hillsdale, New Jersey, Erlbaum.
- Tyler, T. R. (1989). 'The Psychology of Procedural Justice: A Test of the Group Value Model', *Journal of Personality and Social Psychology*, 57(5), 830-838.
- Tyler, T. R. (1990). *Why People Obey the Law*, New Haven, Yale University Press.
- Tyler, T. R. (1997). 'The Psychology of Legitimacy: A Relational Perspective on Voluntary Deference to Authorities', *Personality and Social Psychology Review*, 1(4), 323-345.
- Tyler, T. R. and Bies, R. J. (1990). 'Beyond Formal Procedures: The Interpersonal Context of Procedural Justice' In J. Carroll (Ed.), *Applied Social Psychology and Organisational Settings* (pp. 77-98), Hillsdale, NJ, Erlbaum.
- Tyler, T. R. and Lind, E. A. (1992). 'A Relational Model of Authority in Groups' In M. Zanna (Ed.), *Advances in Experimental Social Psychology*, New York, Academic Press.
- Wenzel, M. (2002). 'The Impact of Outcome Orientation and Justice Concerns on Tax Compliance: The Role of Taxpayers' Identity.' *Journal of Applied Psychology*, 87(4), 629-645.
- Wenzel, M. (2006). 'A Letter from the Tax Office: Compliance Effects of Informational and Interpersonal Justice', *Social Justice Research*, 19(3), 345-364.
- Williams, R. (2001). *Prosecuting Non-Lodgers: To Persuade or Punish?* (Working Paper No. 12): The Australian National University and Australian Tax Office, Canberra.
- Witte, A. D. and Woodbury, D. F. (1985). 'The Effect of Tax Laws and Tax Administration on Tax Compliance: The Case of the US Individual Income Tax', *National Tax Journal*, 38(1), 1-13.
- Worsham, R. G. (1996). 'The Effect of Tax Authority Behavior on Tax Compliance: A Procedural Justice Approach', *Journal of the American Taxation Association*, 18(2), 19-39.