Developing an Understanding of Taxpayer Perceptions in an Economic Crisis

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Abstract
This paper sets out to examine the impact of fiscal policy changes in a time of severe pressure on government budgets and considers the role of the perception of taxation upon government policy formulation. The paper discusses how perceptions of taxation and the acceptability of tax changes are integral to tax policy formulation. It shows that changes in tax regulations and their implementation gives rise to two distinct outcomes. One in which government policy formulation, at least at the moral and practical level of policy formulation, is seen to be equitable fair and acceptable. This is because the proposed tax changes have an adequate cushion to mitigate what is perceived as the excess burden on individual and families at the margins of the society; the other in which tax revenue increases are conditional on the level of ‘avoidance’ and ‘evasion’. The paper examines the potential effects on the behaviour of citizens of an increased burden of tax on the one hand, and on the other, its impact on the increase in tax revenue. It transpired that the effect of tax changes depends critically on the economic cycle, time lags in implementing tax changes, confidence of people in politicians to adapt a balance approach that is equitable and fair in that it is seen as progressive rather than regressive in its effect. The research findings, while exploratory, have interesting implications for policy formulation and suggest further research is required to study the adjustment in taxpayer behaviour resulting from policy changes and the processes which bring together perceptions and reality.

Key words: fiscal policy change, taxation, taxpayer perception, tax changes

Introduction
The purpose of this paper is to investigate the rationalisation and changes in fiscal policy introduced during the period 2008-2010 and their impact on communities within the United Kingdom. These changes are probably the most significant since the implementation of the welfare state in 1947. The period 2011 - 2014 is expected to crystallise the effect of tax changes which may reverse the positive growth trends observed in the economy in the recent past. During 2007, the UK fell sharply into recession and has slowly returned to a period of (if sluggish) growth. In the Autumn Statement 2010, however, Government estimates of annual growth of around 1.7% demonstrates the fragility of economic recovery and as such these rates of growth, even when accumulated, will not be sufficient to address projected deficits in public spending.
As can be seen from the Government's summary in figure 1, the UK incurs more in debt interest than it spends on Defence, Transport, Housing or Law and Justice and is extremely interest rate sensitive. The negative outcome associated with the burden of debt is that the UK must borrow around the same amount as it collects in Income Tax and more than National Insurance, VAT or Corporation tax.

According to the Guardian newspaper (November 2010), the UK Government proposes cuts of £85bn in the coming years which is an approximate cut in real terms of 12% for the period, 2010 - 2014. Most of these savings will be through expenditure cuts although a significant element will be increased revenues generated through additional sources of taxation e.g. the rise in VAT from 17.5% to 20% from January 2011 and changes in National Insurance payments from April 2011. However raising taxes does not necessarily result in positive cash flows for the Revenue Authorities as there may be a preference of taxpayers to avoid or evade these taxes and the changes are set against a backdrop where tax revenues have fallen by 1.3% in 2009/10 (HMRC 2010) and fraud or error in tax collection / tax credits is approximately £7.00bn (NAO 2010).

In the public domain the taxation debate is focused upon the Annual Budget and public spending decisions. For example, in recent years within the UK the introduction of the poll tax and IR35 legislation has generated substantial debate (Webb, 2000). Recent Budgets, in particular the 2002 - 2006 Budget statements, have incorporated only minor incremental changes or as Rose and Karran (1987) put it ‘fringe tuning’ to tax legislation and contain immaterial values in respect of overall fiscal policy. Such incremental change, over time, has resulted in a move from direct to indirect taxation with a potential underlying philosophy that adverse public reaction has a closer correlation to changes in direct tax. Rose and Karran, (1987) further recognised that individual budget changes do not contain major changes in the direction of tax policy and argued that it is the cumulative effect of changes that should be evaluated. This raises the question - will the significant changes in 2010 impact upon the attitudes and perceptions of tax payers as they are far more fundamental than Rose and Karran's ‘fringe tuning’?

Review of literature suggests, there has been little contemporary research carried out that has considered the alternative perceptions of taxation and, in particular, how an understanding of such perceptions could or should influence taxation policy. Economic theory considers issues such as the benefit theory of taxation and ability to pay theory of taxation yet both predicate themselves upon perceived equity (or fairness in balance) in the allocation of tax shares. Webb (2009 (2)) develops the work of Buchanan (1994) who proposes alternative ‘paradigms’ and articulates these as:

1. Taxation can be viewed as the cost side of an inclusive fiscal exchange process, with taxes being treated as ‘prices’
2. Taxation can be ....modelled as the embodiment of fixed charges that the community is obliged to meet,
3. Taxation is a set of coercively imposed charges imposed upon those who are politically weak by those who are politically strong..... for the purpose of financing private goods and services enjoyed by the latter.
4. Taxation may be conceived as a self contained collective enterprise, characterised by positive and negative transfers that have as their ultimate purpose the achievement of collectively- chosen patterns of post tax, post transfer distributions.

The proposed alternative paradigms within the context of the UK are perception of taxes; such perception can be influenced by external environment that questions the fundamental belief of paradigms Webb (2009, (2))

In accepting these as changeable perceptions we should consider those factors that drive change in these perceptions, for example Chittenden and Foster (2008) compare responses across four countries and conclude that attitudes towards tax are influenced by economic and social conditions thereby supporting
the view that ‘Buchanan's paradigms’ should be treated as alternative perceptions. The Government’s comprehensive spending review and associated fiscal plans are focussed upon the delivery of public services and their funding so, following Chittenden and Foster (2008) the public’s perception of tax ought to be tested. Similarly Lamb and Lymer (1999,) recognised that ‘Taxation concerns are ubiquitous in economic decision-making and also affect patterns of social interaction. Behavioural responses to the taxing process by tax payers, professional practitioners and tax officials raise issues of justice, ethics and administration. Lamb and Lymer (ibid) went on to conclude that the nature of taxation demands an interdisciplinary approach to research – ‘meaning that the tax researcher must adopt perspectives and research approaches of more than one academic discipline.

Corporate financial policy and tax practices are normally associated in the UK with the accountancy profession. However non-accountants have perceptions of the accountancy profession as being rule bound and unable to advance concepts Vyakatnam, Srikantan and Fitzimins (1996), and in evaluating professional accounting education an independent researcher may well also conclude this. Burton (2007), however, in arguing for an alliance rather than adversarial tax systems, recognises that ‘tax advisors can be expected to play a pivotal role in shaping the nature of the relationship between the three parties’, where the three parties are the government, policy makers, tax payers and tax administrators. An adversarial relationship will place pressures for taxation perceptions to move towards the ‘coercively imposed charge' (Buchanan's paradigm 3).

Webb (2009 (1)) highlighted that social anomalies have existed recently in taxation in the former married mans’ allowance and similar social concerns may be levied at its subsequent replacement the married couples allowance, which has itself been abolished. An analysis of deflated earnings over a 12 year period suggests that there has been a massive regressive tax change on the low paid married man, as shown in Figure 2:

<table>
<thead>
<tr>
<th>Year</th>
<th>£7,644</th>
<th>£15,000</th>
<th>£21,400</th>
<th>£28,200</th>
<th>£30,000</th>
<th>£50,000</th>
<th>£80,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>3.41%</td>
<td>14.00%</td>
<td>17.29%</td>
<td>19.15%</td>
<td>19.50%</td>
<td>26.04%</td>
<td>31.28%</td>
</tr>
<tr>
<td>1995</td>
<td>3.78%</td>
<td>14.09%</td>
<td>17.35%</td>
<td>19.19%</td>
<td>19.54%</td>
<td>26.86%</td>
<td>31.79%</td>
</tr>
<tr>
<td>2000</td>
<td>6.47%</td>
<td>14.09%</td>
<td>16.45%</td>
<td>17.79%</td>
<td>18.04%</td>
<td>25.25%</td>
<td>30.78%</td>
</tr>
<tr>
<td>2009</td>
<td>7.00%</td>
<td>13.00%</td>
<td>15.00%</td>
<td>16.00%</td>
<td>17.00%</td>
<td>25.00%</td>
<td>30.00%</td>
</tr>
<tr>
<td>2010</td>
<td>7.00%</td>
<td>13.00%</td>
<td>15.00%</td>
<td>16.00%</td>
<td>17.00%</td>
<td>24.00%</td>
<td>30.00%</td>
</tr>
</tbody>
</table>

Figure 2: Impact of Income Tax Rates on married men.
Note: figures for 1990 – 2001 are based upon 2002 income levels, deflated.
figures for 2008 – 2010 are based upon 2002 income levels, inflated.

Year 1990 and 1995 are shown as comparative figures to high light the trend. Year 2000 saw a significant regressive change which has, in real terms been perpetuated through to 2010 under the guise of cash based progressive changes. A lower paid married man pays proportionately more tax in 2010 than in 2000 compared with those on average wage and those above paying proportionately less. The basis on income tax is levied has become more regressive over the last 20 year but arguably this provides greater opportunity for future progressive tax changes. However within this period we observe between 2008 and 2010 that most revenue earning groups saw a reduction in income tax liabilities the low paid yet again witnessed a regressive movement. Whilst it is acknowledged that these changes are part of an overall change in taxes and the overall impact may not be regressive on this group it is income tax rates that are most visible. The analysis 1999- 2002 was taken from Webb (2009) whilst the 2008 – 2010 reflect an updated position of the earlier research.
A similar anomaly existed with the widow’s bereavement allowance, noting the exclusion of widowers. In direct contradiction to these anomalies we have seen the introduction of the Working Families Tax Credit (WFTC) which is an administrative and social concept advocated, by amongst others, (Wilson, 1985 and Bohn, 1987). The WFTC evolved into the Childs Tax Credit in 2003 and has experienced significant implementation problems and public complaint; a clear lesson for taxation policy makers being that good administration and implementation is equally important as the inherent nature of the tax policy. A broad review of such social policies may leave the reviewer confused as to whether tax policy is in support of the family unit or detracts from the concept of family; perhaps this confusion leads to confused or conflicting perceptions of taxation. The way in which the public interpret and accept such tax change may be influenced by how ‘we’ view the HMRC, do we see them as a balanced and fair institution whose function is to collect maximum? revenue for the good of the nation or an arm of repressive government that is there to exploit the public? Atkinson (1989) proposed alternatives to the existing income tax and social security systems including means testing, basic income guarantees, negative income tax and graduated taxation. However the radical approaches proposed by Atkinson may still be too political to implement. Even if these approaches give clearer messages in the support of low earners, and being progressive in nature.

Changes in public opinion regarding the taxation changes are attributable to social cohesion, educational deepening and a ‘society at ease with itself’. Glennerster (1995), identifies changes in public opinion since 1945 due to tax expectations, and Hughes and Moizer (1999), who consider the importance of ethics in tax policy and practice, add credence to the social and ethical aspects of taxation policy within research. Authors such as Hubbard (1999, p.293), however, express concerns that the data, in the form of distributional tables ‘do not convey the appropriate information …... the burden of a tax change is not necessarily borne by the groups that bear legal liability’ (p293). This is supported by Auderbach (1999) who whilst acknowledging that statistical estimates carry a measure of error claims that Revenue analysis ‘confronts a serious lack of information’ (p289). In a highly critical statement (p286), he goes on to suggest that legislators would realise how limited Revenue analysis is if detail of estimates of taxes and revenues were provided and closely scrutinised for their use. Accordingly, a comprehensive knowledge of the tax burden should aid policy makers understanding of how tax changes leads to changes in perceptions, an important factor to be considered when the government formulate a tax policy.

Compliance cost in terms of money and goodwill loss amongst voters has emerged as an issue which need to be separated. Pope and Sandford (1999) suggest that governments are becoming increasingly aware of the political importance of compliance costs. James and Nobes (1992 and 1999) have linked current day compliance with Adam Smith’s Fourth Canon of Taxation which is explained by James and Nobes (1992, p.16) as follows:

‘every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state’.

These views send a strong message to policy makers and regulators; i) do not make the administration of taxation too burdensome for corporate and personal tax payers and ii) taxes must been seen as fair, collecting the minimum amount of revenue to provided services that are needed.

Perceptions of taxation have a profound impact on compliance; perceptions of taxation may be inferred from the actions of taxpayers it influences, whether legal or illegal. This is evidenced in the UK from the distinction between tax avoidance and evasion that has preoccupied UK courts for many years. In particular modern day tax system has been influenced by a spectrum of case law originating from the judgement in IRC V Duke of Westminster 1938. There a range of opinions and explanations which attempt to explain the tax evasion trend. Slemrod (1999) suggests that the age of the taxpayer influences the extent of evasion whilst Nazir (1995) in developing the work of Canto, Joines & Laffer (1983) suggests that marginal tax rates have a significant effect on the amount of tax evasion. The potential impact upon taxation perceptions is implied in the work of Kay and King (1990) who explained the disincentive nature of income tax by
suggesting that individuals may pass on the opportunity of additional earnings if they perceive the tax burden to be excessive. Based on this Webb (2000) concluded that the corollary to Kay and King (1990) is that individuals may seek to maximise income either from within (avoidance) or outside (evasion) the tax system. Simons and Cheng (1996) recognise that whilst tax evasion is seen as unacceptable ‘small scale evasion is considered to some extent acceptable’; they support this statement by showing that minor evasion (less than 10% of income) is seen in the same light as taking office stationery. In comparison Karlinsky, Burton and Blanthorne (2004) reported that the average person in the USA ranks tax evasion 11 of 21, from a range of criminal offences: ahead of prostitution and smoking marijuana but the same as breaches in minimum wages laws and behind carjacking. Tax crime is seen as victimless and may be justifiable due to the State’s excessive powers; such views are particularly prominent in developing undemocratic countries. In the context of the UK, the current economic and cultural climate the prevalence of such views may impact upon the success of government revenue raising policy.

However a cautionary note to reflect upon when evaluating tax policy and practice is summarised in four points by Auderbach (1999 (2):

- Due to economic cyclical factors ‘time is short’ (p354): suggesting that a tax change needs to have immediate impact to allow the link between benefit and tax change.
- ‘Tax reforms are complex’ (p355), indicating that a range of influences should be considered.
- ‘Tax policy is endogenous’ (p355), so we should not expect to fully justify or explain tax changes from a wide range of influences.
- ‘other things are happening’ (p356), thereby reinforcing the complexity and integrative and multi-disciplinary nature of taxation.

Buchanan (1984) discusses the perception of taxation by the tax payers and professional economists and concluded that the UK taxation policy was influenced by the Keynesian school of thought. However, James and Nobes (1992) suggests that British taxation policy is based on the utility of taxes and offers the traditional benefit and the ability to pay approaches. There is a limited range of text books or articles which consider taxation policy within the context of tax equality, examples are Lymer and Hancock (2001). It is, however, recognised (Nobes, 1992) that academics and policy makers have not fully examined the subject of the perception of taxation in depth, in particular, societies desire or aspiration to improve the position of the least advantaged (Rawls, 1972); an aspect that becomes important when society experiences rise in crime rates and social cohesion starts to break down. Buchanan (1984) examines this alternative paradigm from a single view point, that of ethical limits, basing his work upon the Rawlsian principle of maximal equal liberty to derive limits on the absolute level of taxation. Buchanan (1984) paradigms may be summarised as:

1. The cost side of an inclusive fiscal exchange process (p103). This is a scenario where the taxpayers treat taxes paid as a price for the benefits, that is the goods and services, delivered by the government. This may be illustrated by the UK government’s linkage of potential tax rate increases and the need to support the NHS (EADT 18/02/02), aligning itself to the benefit principle and Keynes.

2. The embodiment of fixed charges (p103). This paradigm recognises that a cost of belonging to a community is the obligation to contribute to that community. Taxation may be seen as a fixed charge which fulfils this obligation whether or not any of the benefit flows to the individual. A critical theme behind the opposition to the Poll Tax in the UK during the early 1990’s was that it was unduly burdensome on some individuals regardless of the ability to pay or benefit derived.

Both alternative paradigms 1 and 2 relate to the contribution of the taxpayer for the provision of goods with the first grounded in monetarist theory linking service provision with payment. The second is closer to Rawlsian principles of equity of access to public services.

1 The NHS is one of few services where there are planned cash increases 2010 – 2014 (HM Treasury 2010)
3. The imposition of a set of coercively imposed charges (p103). It is argued by Buchanan ‘that those who are politically strong are able to impose levels of taxes (and taxation policy) on those who are politically weak’. The motivations for imposing certain levels of taxation may be in the best interest of the community (Cullis and Jones 1998) but sections of the community will be adversely affected by change in tax policy even when the normative re-distributional effects of taxation are ignored. A prime example is in terms of taxing service companies as if they were within the scope of employment tax rather than as self employed. The net increase has been estimated by the Inland Revenue at only £250m, which is small within the context of UK taxation whilst opponents suggest the hidden economic costs may more than outweigh the fiscal benefit to the government. This alternative paradigm is implicitly criticised by Marx, as discussed in chapter 5, where tax policy is determined by the dominant class, at the expense of the ‘working class’.

4. That taxation is conceived as a self contained collective enterprise (p103). This scenario suggests that tax policy has predetermined objectives in terms of the distribution of tax burden and benefit. The paradigm is characterised by positive and negative transfers that have the ultimate aim of achieving the objectives set. This alternative paradigm would appear to relate to traditional, normative theory although economic texts fail to address potential objectives behind tax policy when evaluating benefit and ability to pay theories. The complexity of government targets and the need for short and medium term fiscal strategy may invalidate the alternative paradigm for objective measurement. However that general acquiescence of the UK public to changes in taxation policy and practice may provide tacit evidence to support the paradigm in the UK.

Where disagreement occurs between perceptions of tax, the Commission on Taxation and Citizenship believe it depends upon the view taken of citizenship. Where there is a strong conception of citizenship (p90) ‘community mutual dependence........ money we earn does not simply come from our own efforts, but from education and the culture we have acquired.’ The implication of this perception is that there is no need to limit public goods, such as education, something that has gained attention since the announcement to increase in fees. However the alternative view, that is attributed by the Commission to Margaret Thatcher (p83) ‘there is no such thing as society just individuals and their families’ ‘With such a view everyone is autonomous and should earn whatever they can as individual’s (p84) ‘the autonomy of the individual is expressed by the idea of basic negative rights.’ That is the provision of service is an individuals contract with the state or in Buchanan’s terms – a price. But there are free riders plus essential collective services such as police and defence. The neo liberalist rejects positive rights as this implies a larger tax system (p86). The ‘true neo liberal would reject the role of the state in providing any service or resource.’ Diametrically opposed to the neo-liberalist are the societal views loosely linked to the Fabians’ view of the role of the state. Clearly the philosophical beliefs of the individual will have a major influence upon their view on taxation and the drivers behind changing views of tax.

Buchanan evaluates the concept of an ethical limit to taxation within the context of the alternative paradigms. An element of his evaluation, drawing upon Rawls (1971), is to suggest that the concepts of justice and fairness within the distributional framework of taxation are difficult to access as individuals are ‘placed behind some veil of ignorance and/or uncertainty where they cannot identify their own positions’ (P105). Using a simple model, linked to the incentive to work, Buchanan demonstrates that setting particular tax rates may not be ethically justifiable on the principle of maximum liberty. Buchanan’s aim was to indicate that an ethical limit exists and the concept may be empirically estimated; such an aim was stated whilst recognising sensitivity to change where influences may be from behavioural, economic, political or technological sources.
The analysis suggests that Buchanan's alternative paradigms are relevant in the evaluation of an ethical limit to taxation reform in 2010. However, the narrow focus of Buchanan's study does not provide the required level of evidence or justification to adopt his recommendations for wider, social and fiscal research into the strategic management of tax policy in the UK.

From this initial review of literature it has been demonstrated that a range of potential factors impact upon how ‘we’ may perceive taxes. The government's taxation policy is an embodiment of its wider fiscal strategy and unsupported tax changes may contribute to a culture of rejecting service reductions / increase tax avoidance and evasion.

Methodology
Whilst much of the base literature for this paper is based upon earlier work of Webb (2006 and 2009) and his conclusions of tax perceptions articulated through his tax perception model. This model, designed before the advent of the global economic crisis was then critically applied to the significant policy changes introduced by the new UK government in November 2010. The methodology builds on the literature and seeks to apply earlier findings within a changed economic and political environment. The integration of evidence derived from Budget announcements and literature has been developed through a process of discourse.

Intergrating Evidence
To evaluate the perceptions of the key stakeholders regarding the burden of taxation and perception of the revised tax policy in 2010, we use Webb (2009) framework that examined the theory and its relevance towards perception of taxation; he suggests four principal classifications, including the ideological factors have been identified are:

• Neo-liberalist influences: reflecting the entrepreneurial ethic with transfer of control of economic issues from the public to the private sector.
• Fabianist influences: reflecting government intervention within the economy to ensure social justice, including increased progressiveness in taxes and hypothecation of taxes.
• Inconsistencies: a number of inconsistencies which may randomly affect taxpayer actions and attitudes or form the basis of a medium term change in the perceptions of taxation.
• Personal need: with an adaptation of Maslow's hierarchy of need, personal factors can influence the individual's view of taxation whether as recipients of tax reductions satisfying physiological need or esteem need and the preponderance to avoid tax. Respondents were shown in the analysis to be highly affected by tax changes on jobs, the family, business and to a lesser extent, the environment.

In Webb (2009 (2)) the primary data finds a number of key trends amongst taxpayers. There is a mutual understanding from taxpayers, company managers and tax advisors that we have lived within an entrepreneurial culture for a generation where focus is on wealth generation rather than wider social responsibilities, including wealth redistribution. This research was conducted before the current financial and social crisis ensued but suggests the Government can not ignore the cultural shift that the UK has experienced over the last two decades if is fiscal measures are to succeed. Webb (2006) reported that younger respondents were socially more sympathetic and that the wider population who gave potentially contradictory responses where they felt the Government had a stronger role in the entrepreneurial environment yet they also supported the need for private ownership and investment within the economy. This suggests sympathies, allegiances and belief systems are transitory and change over time with changes in background, age level, income level and educational deepening.

A strong theme arising from the data analysis is that there is more support for progressive taxes and a dislike for regressive changes. For example there was support for introducing a lower starting rate of tax, not increasing basic rate tax and for increasing higher rate tax rates; and although the Conservative election manifesto failed to focus upon this aspect of taxation the Liberal Democrats overtly supported more progressivism in taxes.
Although respondents felt that the tax system is too complex (perhaps not unsurprisingly), there is support for the role and attitude of the HMRC and some support, although not major, for the role of voluntary work/community work in lieu of taxes within a modern and diverse economy.

Overall the research findings provide some confidence that with appropriate changes to the tax system the UK taxpayers will view increases in personal liability as either a price for services received or as their community responsibility. If changes are inappropriate taxes may be seen more as coercively imposed charges where individual and corporate bodies may actively seek to avoid or evade taxes. The change in corporate headquarters by some UK companies to reduce corporation tax liabilities is illustrative of this point. Therefore, the key finding of the research focuses upon the drivers for changing perceptions of the tax system. For government reforms and tax policy to address the economic situation the country faces, there must be supported changes to the tax system. However economic theorists have considered that those who show neo-liberalist / entrepreneurial direction will have fundamentally different views from those with social preferences e.g. Fabians. Therefore acceptance of austere tax changes will be viewed differently by opposing ideologies within society; the success of these changes is as much dependant upon influencing the public’s view on their role within the community as the intrinsic nature of the tax change itself.

Neo-liberals may move towards the coercively imposed charge perception where:
- Too much is spent on public services,
- Higher tax penalties are imposed,
- Too much government intervention in business
- Over complex taxes

In contrast those with a more pronounced socially responsible focus will have their perceptions challenged where:
- Tax compliance is deemed to be less rigorous,
- Too many resources are re-focused away from social need,
- Significant regressive tax policies.

Therefore, the new coalition government reforms and fiscal policy ought to be viewed from the lens of taxpayers rather than from the perspective of government whose aim is to increase tax revenue. The new coalition government began their four year strategy by introducing their taxation changes prior to the comprehensive spending review. The primary budget changes are classified as:

<table>
<thead>
<tr>
<th>Taxation Budget Change</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal allowance for those aged under 65 up by £1,000 to £7,475 in 2011–12</td>
<td>Progressive tax change which should find support from all parties.</td>
</tr>
<tr>
<td>Capital gains tax rate increased to 28 per cent for higher rate and additional rate taxpayers</td>
<td>A progressive change which should gain majority support although some opposition from elements of society could seek to avoid the impact of the change.</td>
</tr>
<tr>
<td>Working with local authorities in England to implement a council tax freeze in 2011–12</td>
<td>With lower paid benefiting proportionally more the change many be interpreted as progressive. However neo-liberals may see this as a negative change s may harden their general perception of tax.</td>
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</tbody>
</table>
On balance the government appears to have a balanced set of changes with emphasis on moving away from the ‘coercively imposed charge’ (with a greater coding of √ rather than X). Webb (2009) developed his tax perception model and tested the model subjectively; the analysis shown in the above table is similarly subjective in nature.

<table>
<thead>
<tr>
<th>Taxation Budget Change</th>
<th>Classification</th>
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<tbody>
<tr>
<td>Tax credit eligibility reduced for families with household income above £40,000 from April 2011</td>
<td>A similarly progressive change which should gain majority support although some opposition from elements of society could seek to avoid the impact of the change. √ √ X</td>
</tr>
<tr>
<td>The standard rate of VAT will increase to 20 per cent with effect from 4 January 2011</td>
<td>A significantly regressive tax change which would normally push general taxation perceptions towards the ‘coercively imposed charge’. Avoidance opportunities are minimal and may boost spending in the short term, and although the public may see the change as socially responsible within the current environment wider tax avoidance may be experienced. √ X X</td>
</tr>
<tr>
<td>Rate for employees’ NICs below the Upper Earnings Limit will increase to 12 per cent for 2011–12 and to two per cent for earnings above it and the rate for employers’ NICs will increase to 13.8 per cent for 2011–12</td>
<td>Regressive change impacting upon business and individuals, will fail to gain support from neo-liberals. This may be a motivator for increased avoidance. √ X X</td>
</tr>
<tr>
<td>The main rate of corporation tax will be 27 per cent in 2011–12, 26 per cent in 2012–13, 25 per cent in 2013–14 and 24 per cent in 2014–15; the small profits rate will be 20 per cent from April 2011</td>
<td>Whilst this may be classified as a regressive (as marginal companies will receive lower benefit than larger) the changes should be supported by neo-liberals although rejected by Fabians. √ X X</td>
</tr>
<tr>
<td></td>
<td>To counter this the government announced a range of tax avoidance measures that Fabians should support and, if focussed at business, should find support from individual taxpayers. √ √ X</td>
</tr>
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</table>
Concluding Remarks
The exploratory analysis of the paper is concerned with the implications of perception on tax changes, the acceptability of any proposed changes and, finally, their impact on tax revenue. The findings of this paper indicate that a citizen's perceptions play a key role in determining the response to the system to increases or decreases in tax rates/revenue (thinking revenue can go up if tax perceived in better light).

The literature, though limited, has established that fiscal policies serve various purposes simultaneously; it is either viewed as a way to pay for the service received, payment for collective and social goods which market are unable to provide, or a mean to reduce social inequalities. Government's tax policies either have a real impact on the individual in society or the changes brought about may be semantic and their real impact may be to provide 'safe' fiscal change in an other wise turbulent economic culture.

Emerging evidence regarding 2010 suggests an attempt has been made to achieve a balance budget; the first budget presented in the 2010-2014 'period of austerity'. From the projected models it may be concluded that tax revenues will rise but the majority of changes will theoretically have wider public support and so fewer tax payers will be driven towards the 'coercively imposed charge'. However, such changes may be argued have the potential for generating resentment and lead to less than projected increase in tax revenue being collected. Perceived or actual injustice have the potential to create unrest and either evasion or increased effort dedicated to avoidance could be considered to be one such protest. Currently the UK is seeing significant public out-cry and demonstrations over changes to University funding and fees, concerns over the impact of changes on the elderly and social care although the tax changes have been accepted with less outcry.

Where the government can maintain broad public support for their wider spending constraints and maintain a progressive tax change strategy there is less likelihood of significant reductions in tax revenues through increased avoidance and evasion.

However, a final word of caution. Audubach (1999 (2)) reminded us that the time lag between tax changes and their impact may lead taxpayers to divorce the need for the tax changes from their personal impact. Recent history shows us the public have a tolerance level beyond which the fairness of tax change is challenged, for example Poll Tax riots of 1990s and fuel protests in the early 2000's. No matter how progressive and balanced tax changes are the cumulative impact may induce avoidance and evasion dependent upon individual circumstance. Therefore, policy formulation needs to take into account factors other than financial to devise an effective, fair, equitable and implementable change in fiscal policy. Finally it should be emphasized that results of this papers are not conclusive but exploratory and aimed at encouraging further research. As stated further empirical research is needed to provide a deeper insight into the thinking of tax payers and how their perceptions evolve and why as the public debate ensues through parliamentary proceedings and the various other media at a time when tax increases are working their way through the whole financial system.

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