

AN INVESTIGATION OF TAXPAYER ATTITUDES TOWARDS PROVISIONS:
FRAMING TAX LOOPHOLES AND TAX PREFERENCES

by

Katharine G. Kolepp

Submitted in partial fulfillment of the
requirements for Departmental Honors in
the Department of Accounting
Texas Christian University
Fort Worth, Texas

May 2, 2014

AN INVESTIGATION OF TAXPAYER ATTITUDES TOWARDS PROVISIONS:
FRAMING TAX LOOPHOLES AND TAX PREFERENCES

Project Approved:

Supervising Professor: Sandra Callaghan, Ph.D.

Department of Accounting

Shana Clor Proell, Ph.D.

Department of Accounting

Stacy Landreth Grau, Ph.D.

Department of Marketing

ABSTRACT

Federal income tax provisions are designed to incentivize taxpayers' behavior and, in practice, they may change taxpayers' marginal tax rate. Understanding taxpayer attitudes towards a tax provision is necessary for policy makers to properly project taxpayer compliance and the related tax revenues. It may also help policy makers to understand how taxpayers perceive provisions of the tax system. This study examines the effect of framing on taxpayer attitudes. I analyze previous framing and tax compliance literature to understand whether taxpayer attitudes towards tax provisions differ if they are presented (framed) to people as "tax loopholes" versus "tax preferences." In addition, I propose a survey methodology that could measure the effect of this differential framing on taxpayer attitudes. The proposed methodology can be performed in the future to provide quantitative data to test the proposition that, in this setting, framing can affect taxpayer attitudes.

TABLE OF CONTENTS

INTRODUCTION AND RESEARCH QUESTION	1
SECTION I: REVIEW OF FRAMING THEORY LITERATURE	3
SECTION II: REVIEW OF TAX COMPLIANCE LITERATURE	5
Taxpayer Understanding of Marginal Tax Rates	5
Impact of Perceived Fairness	6
Impact of Variations in Demographics	8
Income	8
Gender	9
Political Affiliation	10
Other Demographics	10
Impact of Social Norms and Ethics	11
SECTION III: DISCUSSION	13
SECTION IV: PROPOSED SURVEY DESIGN	14
Sample Identification	14
Table 1	15
Table 2	15
Survey Design	16
Survey Implementation	21
Data Manipulation and Analysis	22
SECTION V: CONCLUSIONS	23
REFERENCES	25

INTRODUCTION AND RESEARCH QUESTION

The tax compliance literature examines the history, social norms, and ethics that influence taxpayer compliance decisions; however, there is limited literature addressing taxpayer attitudes towards framing tax provisions as loopholes or tax preferences which, in turn, could influence taxpayer compliance. A handful of studies have examined framing tax preferences to increase tax compliance, but none have specifically addressed a change in attitude of taxpayers if tax provisions are framed as “loopholes” or “tax preferences.” This study uses a combination of framing theory and tax compliance literature to examine the research question: are taxpayers’ attitudes different if tax provisions are framed as a “loophole” or a “tax preference.”

Understanding taxpayer attitudes towards the tax code better equips policy makers to properly project taxpayer compliance with proposed legislation in order to estimate the revenue effect of this legislation. By examining whether taxpayer attitudes are different based on the terminology used to describe the provision, this factor can be added to the compliance and revenue estimates. Additionally, policy makers could find the relationship between terminology and attitude beneficial when framing new tax programs or during campaign rhetoric.

I hypothesize that taxpayers have a stronger negative attitude towards a provision framed as a “loophole” than a provision framed as a “preference.” For example, calling the provision of mortgage interest a tax preference rather than a tax loophole could impact the attitude of a taxpayer toward the provision. To examine this hypothesis, I use both framing theory and tax compliance literature. In addition, I propose survey methodology that can be implemented to test the effect of framing on taxpayer attitudes.

In combination, framing and expectancy theory can predict an individual's attitude towards a defined issue. Policy makers can encourage or discourage a mindset through communication. Researchers can measure the effect of framing through the examination of two alternative frames to a single issue. In the context of this study, the two alternative frames are describing a tax provision as "loopholes" or, alternatively, as a "tax preferences." Both of these terms describe tax provisions. Kahneman and Tversky (1981) explored the impact of variations in framing and determined that individuals view loss-framed situations differently than gain-framed situations. I propose that the term "loophole" is a negative (loss-framed) alternative and "tax preference" is a positive (gain-framed) alternative. Consistently, much of the tax compliance literature (Evans 1978), suggests that taxpayers should perceive "loopholes" more negatively than "preferences."

To test these propositions, I propose and detail survey methodology to determine whether taxpayers have a stronger negative attitude towards provisions framed as "loopholes" rather than as "tax preferences." Ideally, the sample of respondents should reflect the demographics of the US taxpaying population. A sample of the entire taxpayer base is not possible, so I propose a sample population comprised of students, working professionals and retired individuals across the United States. The proposed survey includes about 20 questions and includes two blocks of questions; one that displays tax provisions described as "loopholes" and one that describes those same provisions as "tax preferences." In particular, the questions ask respondents to rate, on five-point scales, specific tax provisions or statements about taxpayers that would be used to directly or indirectly indicate their attitudes towards provisions. In addition to questions designed to test the hypothesis, the survey includes demographic questions that allow me to control

for the effects of variables such as age, education, and political beliefs. Alternatively, researchers could determine if variations in age, education level, or political beliefs provide different effects.

Section I begins with a review of framing theory and explains how it can be applied to a tax study. Section II addresses prior tax compliance literature, specifically the effect of variations in demographics and social norms on taxpayer compliance. Section III interprets and discusses the previous literature in the context of the current study. Section IV proposes a survey that would test the effect of framing on taxpayers' attitude. Section V provides conclusions to the study.

SECTION I: REVIEW OF FRAMING THEORY LITERATURE

Rational models of individual choice predict consistency and coherence in decision-making (Kahneman & Tversky 1981). In reality, humans often violate the concept of consistency and coherence in decision making because of variations in the framing of options. Kahneman and Tversky (1981) explore the impact of variations in framing by examining responses to two effectively identical scenarios. The first scenario frames a disease and the two possible solutions by the number of lives that could be saved. The second scenario frames the same disease and possible solutions by the number of lives lost. The authors find that people choose the riskier solution when the problem was framed as lives lost and people choose the less risky solution when the problem is framed by lives saved (Kahneman & Tversky 1981).

Prospect theory (Kahneman & Tversky 1981) is an alternative to rational models of individual choice that is actually more descriptive of people's behavior. It puts forward an S-Shaped value function that illustrates the nonlinear impact of probabilities on

decision-making. According to Chong and Druckman (2007), one standard for measuring the magnitude of framing effects is examining the response to alternative frames on a single issue, similar to Kahneman & Tversky (1981). An individual's value function is steeper for losses than for gains, according to Kahneman & Tversky (1981). The framing effect occurs because alternative frames to identical alternatives lead to predictably different decisions (Shafir & LeBoeuf 2002). As a result, researchers can predict whether outcomes will be perceived as positive or negative (Kahneman & Tversky 1981). For example, consumers are more likely to accept a discount than to pay a surcharge. Thus credit cards companies prefer to frame processing fees, passed on to the customer, as "cash discounts" rather than as "surcharges." Companies, policymakers, and other organizations wishing to manage choices can use framing to influence decision-making (Kahneman & Tversky 1981).

Chong and Druckman (2007) further define framing as "the process by which people develop a particular conceptualization of an issue or reorient their thinking about an issue." When combined with conventional expectancy value models, framing can determine an individual's attitude as a sum of beliefs about an object or activity. The evaluations made based on the sum of one's beliefs constitute a "frame of thought". This "frame of thought" can impact opinions. Chong and Druckman (2007) suggest that there are four steps to identifying a frame of thought. First identify an issue; second, isolate a specific attitude; third, determine considerations that come to mind for a given issue; and last, select sources to perform content analysis. For example, identify tax provisions as an issue and isolate taxpayers' attitude toward income tax provisions.

SECTION II: REVIEW OF TAX COMPLIANCE LITERATURE

Taxable income is determined by subtracting from gross income all allowable provisions. In some cases, Congress provides tax benefits and these tax benefits (or provisions) are used to encourage behaviors or to subsidize for certain activities (Jones & Catanach 2012, 2013). Not all provisions are available to all taxpayers. For example, many are only available if a taxpayer itemizes their provisions, while other tax provisions are only available to low income earners to offset the impact of payroll taxes on low-income workers.

Framing can occur in a variety of settings including tax compliance. Studies have confirmed that there is, in fact, a positive effect on compliance when framing of tax information is congruent with taxpayers' regulatory focus (Holler, Hoelzl, Kirchler, Leder & Mannetti, 2008). This study hypothesizes that tax provisions are often framed as either "loopholes" or "tax preferences" and that this framing affects taxpayers' attitude towards the provision. The tax literature provides some insight into how demographics may contribute to taxpayers' "frame of thought" regarding tax provisions. In addition, tax literature shows that taxpayers do not understand tax provisions which can contribute to differing opinions when frames are introduced in a survey setting.

Taxpayer Understanding of Marginal Tax Rates

Previous literature on the effects of tax provisions on decision making assumes that taxpayers understand the marginal tax rate system. To the contrary, Rupert and Fischer (1995) demonstrate that taxpayers have misperceptions regarding their marginal tax rate (MTR). This, in turn, affects their ability to utilize MTR in decision-making. Understanding this will impact how researchers examine MTR's influence on taxpayer

behavior. Furthermore, it highlights the potential for error during decision-making introduced by a taxpayer misunderstanding of their MTR. The authors survey 108 taxpayers in two undergraduate tax classes. The students are asked to estimate their marginal tax rate and then the estimates are compared to the students' actual tax return. The results indicate that a majority of taxpayers are not capable of providing an accurate estimate of their MTR. In addition, the authors find that higher income earners are generally better at estimating their MTR relative to low income earners. Rupert and Fischer's (1995) research provides insight into taxpayers' understanding of how the complex set of rules apply to themselves as taxpayers. As the study illustrates, taxpayers do not fully understand the effect of provisions on their MTR which, in turn, indicates a low understanding of tax provisions (Rupert & Fischer 1995). Low understanding of tax provisions combined with low perceived fairness and variations in demographics can contribute to the way taxpayers perceive tax provisions.

Impact of Perceived Fairness

According to a 2005 and 2006 survey by Gallup, the federal income tax is the second least popular tax in the United States because there is little transparency in how the revenues are utilized by the government (Campbell 2009). Taxpayers' perceived fairness of the federal income tax could impact their opinion of tax provisions as well. Examining the impact of perceived fairness on compliance from prior studies will provide a basis for potential questions to ask in a new survey.

Previous literature has addressed multiple aspects of perceived fairness, with settings ranging from opinions of government to the form of taxation (McGee, Nickerson, Pleshko & Broihahn 2012; McGowen 2000). McGee, Nickerson, Pleshko and Broihahn

focus on tax evasion and examine it along to three dimensions: fairness, the tax system, and conditions for avoidance. They suggest that perceptions of fairness depend on the perceived value of how tax revenues are spent and who benefits from the spending (McGee, Nickerson, Pleshko & Broihahn 2012). These both provide support to my hypothesis that taxpayers will view the term loopholes differently than tax preferences.

Perceived fairness is integral to a successful tax system and public fairness perceptions directly influence taxpayers' compliance decision. In the United States, individual compliance behavior changes when policies change. (Alm, Jackson, & McKee, 1992). McGowan (2000) surveyed taxpayers to evaluate their perception of fairness within the current federal income tax system, and the likelihood that taxpayers would support an alternative system. They found that respondents are more likely to support a Flat Tax or Value Added Tax system if they believe the current income tax system is unfair or unjust. In addition, respondents rated fairness in the tax system as more important than the benefits received from the government. The alternative systems McGowan (2000) suggests do not contain provisions based on demographics and are generally accepted to be easier to administer to a large base. In addition, Bobek, Hageman, & Kelliher 2013 report that perceived fairness increases if Americans perceive audit rates on tax returns to be higher than the actual rate.

Utilizing public service announcements, Roberts (1994) further examined the framing issue by examining the use of an announcement to improve viewer attitudes toward the income tax system by improving their perception of fairness, and in turn, improving tax compliance. Roberts surveys two sample groups, entry-level taxpayers and experienced taxpayers, to test the effectiveness of public service announcements. All the

announcements use role-play or address the taxpayer directly to explain various changes in the tax code. Roberts' (1994) study shows that the use of public service announcements can positively influence the attitudes.

When more opportunities to voice disapproval or frustration with the tax system are offered by policymakers, taxpayer's perception of fairness improves (Hogan, Maroney & Rupert 2013). This suggests that legislators can influence perceptions of fairness by strategically providing information about tax provisions. Hite (1990) also found the taxpayers' attitudes regarding the fairness of tax provisions were directly related to the respondents' indication of whether they would personally use the tax shelter. In addition, high income earners believe the progressive tax rate system is fairer than do low income earners (Hite 1990). Variations of income and demographics change taxpayers' evaluation of the tax compliance decision and in turn could affect participants' responses on a survey.

Impact of Variations in Demographics

Impact of Variations in Income

Campbell (2009) suggests that attitudes towards tax systems vary based on income level. He specifically tests view towards progressive tax systems. McGowan (2000) tests if income level affects taxpayers' attitude towards a Flat Tax. He finds that high income earners have a negative attitude towards a Flat Tax system, which is most likely attributed to the fact that they receive a greater benefit from itemized provisions. In addition, Americans' material self-interest plays an integral role in taxpayer attitudes towards specific tax structures, with higher taxes causing a strong negative view. Over-

time dissatisfaction with the federal income tax system correlates with the amount owed by individual taxpayers (McGowan 2000).

Evans (1978) found that when the word “loopholes” is used it is perceived to only benefit the rich and generate negative attitudes among lower-income individuals. The term “tax loophole” is offensive to most taxpayers, particularly because of the perceived immorality or inequality it suggests by who can benefit from these provisions. However, it is not clear that the majority of taxpayers understand what is meant by the word “loophole.” Many understand it as a word used to describe a way to reduce the taxes paid and that identifying these opportunities likely requires employing a tax expert or tax lawyer. Interestingly, a common provision, the preferential rate on capital gain, is supported by many individuals even beyond those with higher-income levels (Evans 1978).

The taxpayer base in the United States is very diverse which implies various beliefs that contribute to the “frame of thought” in decision making. With a high level of diversity in beliefs regarding the income tax system, previously recorded demographic influences on taxpayer attitudes are also examined.

Gender

Hasseldine and Hite (2003), examine compliance of males and females when messages are framed differently. Females were more compliant when the communication of taxes was framed positively; while men were more compliant when the message was framed negatively. Gender also affects the perceived fairness of tax evasion, with men judging tax evasion to be less moral when fairness is the main issue addressed (McGee, Nickerson, Pleshko & Broihahn 2012). A question about gender can be included in the

proposed survey. I expect there to be a females to have a stronger negative attitude towards provisions frame negatively as “loopholes” than men.

Political Affiliation

McGowan (2000) examines how political affiliation affects taxpayer attitudes. This study specifically investigates how affiliation is associated with attitudes towards the current income tax system or alternative tax systems. He finds that respondents that identify as Republicans express greater support for the Flat Tax and Sales Tax alternative tax system, whereas Democrats express greater support for the current tax system (McGowan 2000). Political affiliations demographics can be mirrored in the proposed study by asking about respondents’ economic and social policy viewpoint on a liberal to conservative scale. I would expect republicans to be less susceptible to framing effects because according to McGowan’s (2009) study they view provisions negatively.

Other Demographics

Recent research also suggests that older respondents have a higher aversion to alternative tax systems, like the Flat Tax (McGowan 2000). In addition to age, educational level may impact perceptions of fairness. Higher educational attainment and older taxpayers are more likely to believe tax evasion is immoral (McGee, Nickerson, Pleshko & Broihahn 2012). In addition, knowledge of the tax system may be an important consideration when examining perceptions of tax equity. Previous studies show that the public’s lack of knowledge regarding the income tax system increases their concerns about horizontal and vertical equity among taxpayers (Roberts 1994). These other demographics may correlate to income level because older people with high education levels may also be higher income taxpayers. Given the results of these studies,

I propose the following control variables: income, gender, age, political affiliation, and education level, when examining tax provisions.

Impact of Social Norms and Ethics

Currently 90% of Americans believe that it is “not acceptable” to cheat on their taxes and that cheating should be punished (Eicher & Stuhldreher 2007). In addition, a large percent of Americans would think less of a person if they cheated on their taxes because they often perceive their taxes to increase at the same time (Eicher & Stuhldreher 2007). Most Americans believe it is their civic duty to pay taxes but nearly ninety percent also believe that the government wastes the taxpayers’ money (Eicher & Stuhldreher 2007).

Americans, unlike citizens of other countries, generally believe that tax evasion is unethical according to McGee, Nickerson, Pleshko and Broihahn (2012). However, if taxpayers perceive discrimination in the tax system, they are willing to loosen their ethical evaluations (McGee, Nickerson, Pleshko & Broihahn 2012). McGee utilizes Martin Crowe’s research and examines tax evasion along three dimensions: individuals’ relationship with the state, individuals’ relationship with the taxpaying community, and individuals’ relationship with God. They document that taxpayers generally believe they have an ethical obligation to pay their prescribed tax because each taxpayer is responsible for their fair share. Interestingly, these expectations are often advocated by religious organizations (McGee 2006).

Young-dahl Song and Yarbrough (1978) focus on the tax ethics and attitudes towards tax-related issues. To examine perceptions of tax ethics, they survey students in a North Carolina university a few months after tax season. They find that respondents

believed other taxpayers' use provisions improperly or do not report a fully accurate measure of taxable income. Furthermore, fear of detection is the principle reason to comply with tax laws. According to the researcher results, taxpayers are most concerned with the fact that there are too many loopholes in the system because these loopholes heavily favor high-income earners. Young-dahl Song and Yarbrough (1978) document that taxpayers believe loopholes are inconsistencies that allow high income taxpayers to achieve low effective tax rates. Loopholes are traditionally viewed negatively by the American public (Young-dahl Song & Yarbrough 1978).

Personal norms and the expectations of others greatly influence taxpayer compliance behavior. Additional social norms, such as descriptive norms which are developed from observations of others' behavior, increase tax morale in turn increasing tax compliance. These social norms discourage taxpayers from thinking cheating is okay and can be further influenced by framing (Bobek, Hageman, & Kelliher 2013).

Reckers, Sanders, and Roark (1994) examine the ethical aspect of taxpayer's decisions to comply with tax laws, concluding that tax ethics are a significant variable in the tax evasion model. Their study focuses on ethical "propensities" as part of the behavioral decision-making model rather than assuming taxpayers comply with taxes based on the marginal utility (cost-benefit) of compliance. The authors hypothesize that ethical beliefs are one of the frames that taxpayers use during the compliance decision making process. According to Reckers, Sanders, and Roark's (1994), taxpayers' personal ethics are a significant variable in their decisions regarding tax compliance or evasion and it should influence the modeling of taxpayer decision making theories in the future (Reckers, Sanders & Roark 1994).

SECTION III: DISCUSSION

This paper proposes a survey to examine taxpayers' attitudes towards provisions framed as both "tax loopholes" and "tax preferences." Tax compliance literature support the hypothesis that attitudes will vary based on the way provisions are framed to a respondent. Taxpayers demonstrate inconsistencies with traditional models of rational choice when outcomes concern choices about money (Kahneman & Tvserky 1981). Thus, people will have differing opinions about the same object or activity when the frame is changed. The hypotheses for this proposed survey are presented below:

H₀: There is no difference between taxpayers' attitudes when provisions are framed as "loopholes" or "tax preferences".

H_a: Tax provisions framed as "tax preferences" will be viewed more favorably when framed as "tax loopholes"

Evans (1978) found that the term "tax loophole" is negative to most taxpayers, because of the perceived immorality related to who can benefit from these taxes. If taxpayers perceive inequality in the income tax system favoring the wealthy because of tax loopholes, than it is plausible to assume that framing provisions positively as tax preferences that are offered to many taxpayers could cause a difference in attitudes between the two frames.

In this study, demographic factors such as: age, gender, political affiliation and education level are predicted to impact perceptions of fairness. Campbell (2009) shows attitudes towards the current progressive tax system vary with income level. In addition, gender influences the compliance decision and attitudes towards the income tax system according to Hasseldine and Hite (2003). Knowledge of the income tax system also

impacts concerns about horizontal and vertical equity among taxpayers (Roberts 1994). McGowan (2000) determined that age and political affiliation can affect taxpayers' perception of the income tax system.

McGowan's (2000) results show that framing tax provisions could improve the consideration of perceived fairness of and improve attitudes towards the tax system supporting the alternative hypothesis. For example, if a political party wishes to reduce the provision of charitable contributions, it should appeal to taxpayers that do not earn enough to itemize their tax return or do not use the provision using negative framing. The following proposed survey, if performed, would provide insight into which frame taxpayers' perceive negatively.

SECTION IV: PROPOSED SURVEY DESIGN

A survey could be implemented to test the hypothesis that taxpayers have a stronger negative attitude towards loopholes than tax preferences. This section will propose a research design and detail desired demographics for survey participants.

Sample Identification

A taxpayer is any person required by law to pay taxes to a governmental authority (Jones & Catanach, 2012, 2013). In the United States, there were over 118 million individual tax returns filed for the fiscal year 2012 according (Internal Revenue Service Data Book). For this proposed study, survey participants should represent the taxpayer base as best as possible. To represent American taxpayers, a sample population should include income, age, education level and geographic variation. According to the 2010 US Census Bureau report, the American population age distribution is as follows:

Table 1
2010 Census: Age Distribution

Under 18 years	24.57%
18-29 years	15.93%
30-44 years	19.87%
45-64 years	26.72%
65 years and older	12.91%

Households in the United States are geographically divided according to the following percentages: Northeast (18.18% of the population), Midwest (22.46%), South (33.36%), and West (22.00%). The median household income is \$51, 371 with significant variation between low and high income households. Educational attainment according to the 2010 US Census report is as follows:

Table 2
2010 Census: Educational Attainment

None	0.36%
Some School - Prior to High School Graduate	11.98%
High School Graduate	29.63%
Some College – No Degree	18.77%
Associate’s Degree	
Occupational	4.04%
Academic	5.47%
Bachelor’s Degree	19.15%
Master’s Degree	7.72%
Professional Degree	1.35%
Doctoral Degree	1.53%

To the extent possible, the demographics of survey participants should reflect these demographics in order to make the results generalizable to the population of the US taxpayers.

It is not possible to survey the entire taxpayer base, so a sample population should be selected to reflect the statistics listed above. Ideally, a sample that reflects the above demographics would be used. To achieve a representative sample population, undergraduate and graduate students, working professionals and retired individuals could be included in the sample. The sample size should be large to try to attain the most

diverse population possible. The survey should include demographic questions to quantify the diversity in the sample population and to examine the extent to which the results can be applied to the taxpayer population.

Survey Design

To test the effect of framing provision as “loopholes” or “tax preferences” this study proposes using a combination of questions to test the hypothesis and demographic questions presented to respondents in two survey blocks, one for each frame type: tax loopholes and tax preferences. The sample population would be divided into two groups with one group receiving a survey with questions framed as “tax loopholes” with the other group receiving a survey with questions framed as “tax preferences.” Participants in either group would be unaware of the other block of questions.

A scenario with background information that participants read prior to completing the survey should be included in both survey blocks. For example:

Imagine that you recently read an article about taxpayers who took advantage of tax loopholes (preferences) on their most recent tax return. The article described these tax loopholes (preferences).

Following the background scenario, three questions will directly or indirectly test taxpayers’ attitudes towards the presented frame. These questions use five point scales that generate numerical results that can be analyzed in Excel or in statistical software. Examples of questions to understand taxpayers’ attitude toward provisions along with descriptions of the purpose of the question are provided below:

1. Please rate your *attitude towards* the following tax loopholes (preferences) that reduced the effective tax rate for taxpayer's described in the article.

Provision	Strongly Dislike	Dislike	Neutral Attitude	Like	Strongly Like	Not Familiar
Deduction of Qualifying Medical Expenses	1	2	3	4	5	6
Deduction of Charitable Contributions	1	2	3	4	5	6
Deduction of Student Loan Interest	1	2	3	4	5	6
Deduction of Home Mortgage Interest	1	2	3	4	5	6
Deduction of 401(k) Retirement Contributions	1	2	3	4	5	6
Earned Income Credit	1	2	3	4	5	6
Child Care Credit	1	2	3	4	5	6

This question would directly tests taxpayer attitudes toward specific provisions.

This survey instrument allows the researcher to evaluate individual provisions or to combine the responses to provide evidence about taxpayers' attitudes towards provisions, in general. It should be noted that this methodology assumes that respondents have a basic understanding of individual provisions. Therefore, if non business majors or those in the early stages of their degree plan are included in the sample, the researcher should consider providing a more detailed scenario at the beginning of the survey that provides a description of the provision and the value of this provision to the taxpayer.

2. Please indicate if you *have used in the past or will use* in the future the following tax loopholes (preferences) to reduce your effective tax rate.

Provision	Very Unlikely	Unlikely	Undecided	Likely	Very Likely
Deduction of Qualifying Medical Expenses	1	2	3	4	5
Deduction of Charitable Contributions	1	2	3	4	5
Deduction of Student Loan Interest	1	2	3	4	5
Deduction of Home Mortgage Interest	1	2	3	4	5
Deduction of 401(k) Retirement Contributions	1	2	3	4	5
Earned Income Credit	1	2	3	4	5
Child Care Credit	1	2	3	4	5

This question similarly tests taxpayer attitudes towards specific provisions.

However, the language is changed from directly asking about the respondents' attitude toward the provision itself to asking about the likelihood of the respondent claiming the provision themselves. The premise behind this question is that taxpayers are more likely to use provisions that they have a positive perception towards. Similar to the direct attitude question, this question allows the researcher to evaluate individual provisions or to combine the responses to provide evidence about taxpayers' attitudes towards provisions, in general.

3. Please rate your agreement with the following statements about the taxpayers who reduce their effective tax rate by utilizing the indicated tax loopholes (preferences) to reduce their effective tax rate.

Statement	Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree
Taxpayers who use loopholes are unethical.	1	2	3	4	5
Taxpayers who use loopholes are more educated on the tax system.	1	2	3	4	5
Taxpayers who use loopholes take more than their fair share.	1	2	3	4	5
Taxpayers who use loopholes employ a good accountant.	1	2	3	4	5
Taxpayers who use loopholes are trying to cheat the system.	1	2	3	4	5

This question indirectly tests taxpayer attitudes towards specific provisions.

However, it focuses on the respondents' attitude toward others who utilize provisions rather than the respondents' attitude toward the provision itself or the respondents' likelihood to claim the provision. The results from this section of the survey are intended to provide evidence of the impact of social norms on attitudes towards provisions. This question allows the researcher to evaluate individual opinions of taxpayer who utilize tax provisions or combine the responses to provide evidence about taxpayers' attitudes towards taxpayers who tax advantage of provisions, in general.

The survey also asks questions about respondents' knowledge of personal income taxes and tax provisions. For example, "Please indicate the extent to which you prepare your own personal income taxes." This is intended to better understand whether the respondents understand how the provision impacts them economically. In addition, rather than simply a mechanism for funding government expenditures, the tax system also

includes provisions, including provisions or tax preference items, designed by policy makers to encourage certain activities. Asking taxpayers how they view the purpose of the tax system could provide insight into whether taxpayers view the income tax system as a funding mechanism or a tool to influence behavior. To address this issue, the survey could include the following:

Which statement is the most accurate description of the purpose of the tax system?

- A. To Influence Taxpayers' Behavior and Decision Making
- B. To Raise Funds for the Government's Use
- C. To Provide Relief from Financial Burdens

Finally, the survey should include demographic questions that assess the ability of the survey to represent the American taxpayer base. These include questions about age range, income level, education level, political beliefs, and geographic location of the taxpayer. This variety of demographic questions can be used to develop further more detailed conclusions about taxpayer attitudes.

The proposed survey length is about 20 questions. The length of the survey allows participants to complete it in 5-10 minutes. While the survey is relatively short, it should provide enough information to researchers to draw conclusions about the effect of framing on tax provision. Students, working professionals and retirees would voluntarily participate in the survey which would provide reasonable integrity in the data used for analysis. In addition, the survey should include a manipulation check question to see if the framing manipulation was successful. The manipulation check should ask respondents to reiterate their survey block with and answer of “tax loopholes” or “tax

preferences”. After the survey is designed, researchers must examine the possible methods of implementing and distributing the survey.

Survey Implementation

The first option limits the number of participants if cost is a consideration for the administrator of the survey. The cost of a paper survey is postage to send the survey out as well as return postage to collect the completed survey. On the other hand, online surveys are a low cost option. Once the online survey system is obtained, the marginal cost of distributing the survey is negligible. Participants also experience lower costs when taking an online survey, because they do not need to take the time to return the survey through the mail.

An online survey is a good option for the proposed survey because of the low cost to the surveyor and the participants. An online survey is also a good option because it can reach more participants in a shorter period of time. Many online surveying tools are available to surveyors. The online tools can create two questions blocks, one for each frame, “loopholes” and “preferences”. The software allows each of these question blocks to be presented to half of the participants. A single link to the survey can randomly assign the two versions of the survey with half the participants to the “loophole” frame question block while the other half are randomly assigned to the “tax preference” frame question block. In addition, each of the statements within the questions can be presented in a randomized order generated by the survey system. This computer randomization allows for an even sample of responses for both question blocks. This randomization is a benefit that paper surveys cannot provide, which is another reason why an online survey is the best option for the proposed survey.

To take advantage of the benefits of an online survey, a targeted survey approach could be used to distribute the proposed survey to students, working professionals, and retirees. Professors at the targeted university would be sent the text for an email to distribute to their classes along with the survey link. Alumni organizations can also be sent this survey to distribute to their graduates and provide the researcher with data from working professionals. Organizations like AARP could distribute the survey in monthly newsletters to retired individuals. By using a targeted survey approach, the survey can be distributed to a large number of individuals. It can be an efficient and cost effective method of surveying a large pool in order to increase the probability of a sufficiently large sample.

Data Manipulation and Analysis

The online surveying tools are designed to provide coded data that can be examined using Excel or other programs built for statistical analysis, such as SAS. Within the surveying tool, answers are given a numerical value. The results of the survey can be downloaded from the online surveying tool in this numerical format. Researchers will need to clean and reformat the data, by determining the required data format necessary for analyses.

After the data has been cleaned, statistical methods can be used to provide insight into the research question. I suggest the following comparisons to provide evidence into the research questions:

- Compare the responses to the loophole versus preference construct questions.

The survey results could be examined in two ways, first to see if attitudes

differed on all provisions in total and then to see if attitudes differed on each individual provision based on framing.

- Compare the responses based on various demographics. For example, comparing the various age groups average answer for each frame (loophole and preference) to examine if the effect of the total population is the same for each variation in demographics.
- Compare the average answer for the loophole and preference questions by the self-rated level of knowledge of the individual income tax system to see if respondents with more experience are impacted less by a change in frames for tax provisions.

A one-tailed t-Test assuming equal variances could be used to analyze the statistical significance of the responses to the two survey blocks. The predicted direction of the differences is certain so a directional, two-tailed test is suggested for data analysis. For this study, a p-value < 0.05 would be sufficient to determine the statistical significance of the results.

SECTION V: CONCLUSIONS

This study suggests that taxpayers have different attitudes towards tax provisions framed as “loopholes” or “preferences.” These different attitudes are created because taxpayers have various beliefs and opinions that in summation create a “frame of thought.” Specific demographics and levels of perceived fairness exhibited may result in variations among taxpayers regarding their attitudes toward tax provisions and the entire taxpayer base will have different attitudes towards the two alternative frames.

This study further proposes survey methodology to examine the directionality of the differing attitudes. This study hypothesizes that “loopholes” will be viewed negatively in comparison to “preferences” and the magnitude of the difference can be examined with the proposed survey. Data obtain could provide detailed insight into the actual effects of the framing of tax provisions. Such quantitative data would be beneficial for people looking to influence taxpayer decisions, such as policy makers and the internal revenue service.

REFERENCES

MCGRAW HILL TEXTBOOK

- Alm, J., Jackson, B. R., & McKee, M. (1992). Estimating the determinants of taxpayer compliance with experimental data. *National Tax Journal*, *45*(1), 107-114.
- Bobek, D., Hageman, A., & Kelliher, C. (2013). Analyzing the role of social norms in tax compliance behavior. *Journal of Business Ethics*, *115*(3), 451-468.
doi:10.1007/s10551-012-1390-7
- Campbell, A. L. (2009). How americans think about taxes: Lessons from the history of tax attitudes. *Proceedings of the Annual Conference on Taxation*, , 157-164.
- Chong, D., & Druckman, J. N. (2007). Framing theory. *Annual Review of Political Science*, *10*(1), 103-126. doi:10.1146/annurev.polisci.10.072805.103054
- Economics and Statistics Administration, Census Bureau. (n.d.). *2010 census data*.
Retrieved from website: <http://www.census.gov/main/www/access.html>
- Eicher, J. D., & Stuhldreher, T. J. (2007). Taxes and ethics: Taxpayer attitudes over time. *Journal of Tax Practice & Procedure*, *9*(3), 33-41.
- Evans, L. (1978). Obstacles to federal tax reform: An exploratory inquiry into the fiscal attitudes of a small group of taxpayers. *American Journal of Economics & Sociology*, *37*(1), 71-86.
- Hasseldine, J., & Hite, P. A. (2003). Framing, gender and tax compliance. *Journal Of Economic Psychology*, *24*(4), 517.
- Hite, P. A. (1990). An experimental investigation of the effect of tax shelters on taxpayer noncompliance. *Public Finance* (45): 90-108.

- Hogan, B., Maroney, J. J., & Rupert, T. J. (2013). The relation among voice value, policy outcomes, and intensity of support on fairness assessments of tax legislation. *Journal of the American Taxation Association*, 35(1), 85-109. doi:10.2308/atax-50351
- Internal Revenue Service, (March 2013). *Data book 2012* (Publication 55B). Pittsburgh, PA: Superintendent of Documents.
- Kahneman, D., & Tversky, A. (1981) The Framing of Decisions and the Psychology of Choice. *Science*, 221(4481), 453-458.
- McGee, R. W. (2006). Three views on the ethics of tax evasion. *Journal of Business Ethics*, 67(1), 15-35.
- McGee, R. W., Nickerson, I., Pleshko, L., & Broihahn, M. (2012). The ethics of tax evasion: An investigation into demographic differences. *Journal of Legal, Ethical & Regulatory Issues*, 15(1), 105-117.
- McGowan, J. R. (2000). The effect of political affiliation on taxpayers' attitudes toward alternative tax systems. *Journal of the American Taxation Association*, 22(1), 111-128.
- Reckers, P. M. J., Sanders, D. L., & Roark, S. J. (1994). The influence of ethical attitudes on taxpayer compliance. *National Tax Journal*, 47(4), 825-836.
- Roberts, M. L. (1994). An experimental approach to changing taxpayers' attitudes towards fairness and compliance via television. *Journal of the American Taxation Association*, 16(1), 67.
- Rupert, T. J., & Fischer, C. M. (1995). An empirical investigation of taxpayer awareness of marginal tax rates. *Journal of the American Taxation Association*, 17(2), 36-59.

Shafir, E., & LeBoeuf, R. A. (2002). Rationality. *Annual Review of Psychology*, 53(1), 491-517.

Young-dahl Song, & Yarbrough, T. E. (1978). Tax ethics and taxpayer attitudes: A survey. *Public Administration Review*, 38(5), 442-452.