

ARE PAYING TAXES A BAD THING?
A NOTE ON CONSUMER
PERCEPTIONS OF
TAX REFUNDS

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

May 5, 2014

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ABSTRACT

Studies using the *theory of planned behavior* demonstrate that taxpayers prefer refunds. These studies show that taxpayers prefer refunds because it provides emotional benefit to the taxpayer. Understanding why taxpayers choose not to adjust their withholdings but instead receive refunds helps policy makers and educators make decisions regarding how to present tax policy to the public. This study examines how the language presented in tax instructions influences perceived behavioral control within the framework of the theory of planned behavior.

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INTRODUCTION AND RESEARCH QUESTION

Tax behavior literature examines subjective norms, attitudes, and ethics that influence taxpayers' filing decisions. Many researchers have examined taxpayers' attitudes toward income tax refunds. Prior studies strongly suggest that taxpayers purposely choose not to adjust their withholding, preferring instead to continue receiving large refunds. While prior studies show that this phenomenon occurs, they do not indicate how to prevent taxpayers from over-withholding. This study uses the theory of planned behavior to answer the following research question: can the language used in tax instructions influence taxpayers' decisions to change their withholding for financial benefit?

It is important to understand taxpayer attitudes toward adjusting their withholding and receiving tax refunds. By examining whether taxpayer attitudes change based on the language used within tax instructions, educators and policymakers can adjust the presentation of tax information to be financially beneficial to the public. Additionally, policy makers could find the relationship between the language used and taxpayer behavior beneficial when designing new tax programs.

I hypothesize that taxpayers have a negative attitude toward adjusting their withholding when negative words are used to describe paying taxes, such as "penalty," and when positive words are used to describe the type of refund that the taxpayer could receive, such as "big." Conversely, taxpayers are expected to have a positive attitude toward adjusting their withholding when neutral words describe both paying taxes and receiving a tax refund and when the instructions provide guidance for adjusting their

withholding appropriately. In addition, I will propose a survey to test the effect of adjusting the language on taxpayer behavior.

Perceived behavioral control within the theory of planned behavior explains how a change in language can influence the taxpayer's behavior. The more a person perceives ease in performing a behavior and a high probability that the behavior will result in a positive outcome, the more likely the behavior will be performed. Based upon prior research, taxpayers often perceive paying taxes as having negative connotations due to subjective norms. Perceived behavioral control can cause taxpayers to act against subjective norms if the perceived benefit of adjusting their withholdings is great enough. If the language in tax instructions is adjusted to neutralize negative indicators for paying taxes and positive indicators for receiving refunds, then taxpayers could perceive the benefit of adjusting their withholding to be great enough to warrant actually making the adjustment.

This thesis proposes a survey with two question blocks, set of questions within the survey, one that displays Publication 919 as issued by the IRS, presented in Appendix A, and one that displays a neutralized version of Publication 919 with clarifications for adjusting tax withholding, presented in Appendix B. The IRS publishes Publication 919 to explain how and when taxpayers should review and adjust their withholding. The proposal is a targeted survey that will be sent to inexperienced taxpayers. Students in bachelor's or master's programs would best represent the population of inexperienced U.S. taxpayers. The proposed survey would include eight questions. The first five questions define whether or not the participant qualifies as an inexperienced taxpayer. The construct questions ask respondents how likely they are to engage in behaviors

concerning their withholding given an income and refund amount. It is expected that respondents who receive the unmodified excerpt from Publication 919 would be less likely to perform the given behaviors and respondents who receive the modified excerpt from Publication 919 would be more likely to perform the given behaviors.

The remainder of this thesis is organized as follows. Section I begins with a review of prior tax research regarding taxpayers and refund positions, and then reviews the theory of planned behavior and literature regarding the use of theory of planned behavior in tax research. Section II interprets and discusses the previous literature in the context of the current study. Section III describes the survey testing the effects of framing on taxpayers' attitudes. Section IV provides final conclusions and implications of the study.

SECTION I: REVIEW OF LITERATURE AND THEORY

Prior Research on Taxpayer Behavior

Previous tax research focuses heavily on both the consequences of taxpayers' positions and the psychology behind taking those positions. For example, research consistently shows that taxpayers who are in a tax due position are more likely to be noncompliant than those who are in a refund position (Chang & Schultz Jr., 1990; Jackson & Hatfield, 2005). In addition to studying tax positions' correlation with compliance, research shows that tax position also affects a tax professional's fees (Jackson, Shoemaker, Barrick, & Burton, 2005). Jackson et al. (2005) shows that consequences for inappropriate tax withholdings go beyond forgone interest income for those in a tax refund position. Using the Statistics of Income Individual Model File,

Jackson et al. (2005) provides evidence of a positive correlation between a tax refund position and use of a paid tax preparer. Jackson et al. (2005) does not address the issues of compliance or the financial effects resulting from a refund position. Instead, Jackson et al. (2005) focuses on how inexperienced taxpayers view tax position.

Prior studies have focused on why experienced taxpayers prefer refund positions, despite their awareness of financial consequences. There are three theories that are studied concerning tax positions: forced savings hypothesis, transactions cost theory, and theory of planned behavior.

Forced savings describes a situation in which consumers spend less than they earn because there are not enough goods available in the market (Milgate, 1988). Bobek, Hatfield, and Wentzel (2007) cite a study using a hypothesis of forced savings in cases where taxpayers voluntarily lowered their consumption in the present to withhold more from their earnings in order to increase future consumption when they receive a refund. Bobek et al. (2007) cite the forced savings hypothesis as “observing little support” and refrain from drawing conclusions based on this theory.

Bobek et al. (2007) found more support for why consumers voluntarily lower their present consumption when using transaction cost theory to study taxpayer behavior. This theory states that taxpayers do not over-withhold due to confusion or ignorance, but due to the high transaction costs of accurately estimating their tax liabilities and/or the process of altering their withheld earnings (Bobek, Hatfield, & Wentzel, 2007). Ayers, Kachelmeier, and Robinson (1999) found that among taxpayers who understood the concept of minimum required payments, 43 percent still preferred to withhold more than

necessary. Ayers et al. (1999) determined that preferences for high withholdings increased as uncertainty of tax liability increased, and that preferences decreased as the taxpayer's knowledge and experience increased. This indicates that as the transaction costs of decreasing their withholdings fell (i.e., the taxpayer had more knowledge of how to decrease withholdings), the likelihood of overwithholding also fell. Ayers et al. (1999) did not determine a specific cause for these conclusions. The authors offered several alternative explanations that included the forced savings hypothesis, the dread of having to pay a large tax bill, and to avoid the perception of the "unattractiveness" of being in a tax-due position. In order to fully understand and predict taxpayer behavior, Bobek et al. (2007) used a more comprehensive model of behavior, the theory of planned behavior.

Theory of Planned Behavior

Since its establishment by Ajzen (1991), the theory of planned behavior (TPB) has been used as a comprehensive model to study taxpayers' views of refunds and payment due positions. TPB is a comprehensive theory to explain the causes of an end behavior (Ajzen, 1991). This theory provides a foundation for future research to build upon. TPB describes behavior as a function of behavioral intentions and perceived control of that behavior. In other words, personal beliefs and the amount of control a person perceives to have over whether or not to perform a behavior influences any given decision. These factors will lead to intentions to behave in a certain manner. These intentions consist of three primary parts: attitude toward the behavior, subjective norms, and perceived behavioral control (Ajzen, 1991).

Attitude Toward a Behavior

Attitude toward a behavior and the subjective norms surrounding a decision comprise a large part of decision-making models. Attitude refers to how an individual feels about engaging in a behavior, be that positive, negative, hesitant, or confused (Bobek, Hatfield, & Wentzel, 2007). Ajzen (1991) defined attitude as how an individual feels about the probable outcome of a given decision. If an individual believes that her participation in a given activity will lead to poor outcomes, the individual's attitude will be poor. The attitude does not reflect the action itself, but rather the consequences that action brings about.

Subjective Norms

Subjective norms involve how an individual believes that his or her social group (friends, family, coworkers) will perceive him/her after executing a decision, and the pressure from this group to either execute or abandon the given decision (Bobek, Hatfield, & Wentzel, 2007). In a similar fashion to attitudes, if an individual believes that his or her peer group will view the individual poorly for completing a behavior and will exert pressure to avoid the behavior, the individual will most likely not perform the behavior. Individuals are motivated to conform to the path of least possible resistance among peers, which makes subjective norms a strong factor in decision-making (Ajzen, 1991).

Perceived Behavioral Control

The third part of TPB distinguishes it from other theories that attempt to model behavior: perceived behavioral control (PBC). PBC refers to the difficulty perceived by

an individual of performing a given task (Bobek, Hatfield, & Wentzel, 2007). Before the widespread adoption of TPB, research relied upon actual control. Research consistently used actual control due to its self-evident nature and its apparentness in the resources and opportunities present in a given scenario. However, Ajzen (1991) points out that actualities alone do not dictate behavior. An individual's confidence in being able to execute actions to deal with prospective scenarios has a significant influence on whether or not the behavior will be performed (Ajzen, 1991). If an individual believes he possesses the skills necessary to successfully navigate a situation, then he is more likely to commit the behavior. Unlike attitudes and subjective norms, PBC refers to feelings about the actual process of committing an action and not how the individual would feel about the consequences of the behavior.

These three components of TPB are not weighted equally in consideration, nor are they weighted consistently across every scenario (Ajzen, 1991). Each component could play a stronger or weaker role depending on the dispositions of the individual being studied.

Prior Tax Research Involving Theory of Planned Behavior

Many researchers have successfully applied TPB to taxpayer behavior. Hanno and Violette (1996) were among the first to apply TPB to taxpayer behavior. Their study utilized early models of Ajzen's TPB to examine how social and moral influences would affect intentions that lead to tax behaviors. Hanno and Violette (1996) examined 16 different belief and outcome scenarios under a certain set of constraints. The study went further than previous studies in concluding that certain demographics possessed

distinctive underlying belief structures that led to compliant or non-compliant trends within those demographics. By using the PBC aspect of TPB, Hanno and Violette (1996) designated constraints that allowed demographics to distinguish themselves among compliance lines.

Bobek and Hatfield (2003) expanded upon the Hanno and Violette (1996) study by focusing on moral obligations present in specific belief structures and situations in relation to tax compliance. Hanno and Violette (1996) identified the lines that defined overall demographic trends concerning compliance, and Bobek et al. (2003) extended the research by attempting to define what underlying cultural belief structures could cause these lines. The addition of moral obligations to the research confirmed the importance of PBC in deciding whether or not to comply with tax law. Bobek and Hatfield (2003) found that after eliciting different beliefs concerning moral obligations, respondents engaged in different tax compliance behaviors. For example, if the respondent could only achieve a favorable outcome by cheating on his tax return, then the respondent would most likely cheat. The respondent chose to complete the tax return honestly if he could achieve a favorable outcome.

In 2007, Bobek, Hatfield, and Wentzel further explained the 1996 Hanno and Violette study in their application of TPB to taxpayer behavior to the perception of tax withholdings. The first phases of their research focused on identifying primary antecedents to the behavior of changing interim tax payments, which would attempt to analyze the specific beliefs that lead to either action or inaction regarding withholdings (Bobek, Hatfield, & Wentzel, 2007). In the open-ended belief elicitation questions, respondents listed all of the advantages and disadvantages of reducing their withholding amount and

any other associations that the respondent might have concerning withholdings (Bobek, Hatfield, & Wentzel, 2007). Bobek et al. elicited 140 separate responses from participants and grouped them into categories based on apparent specific beliefs that influenced behavior (Bobek, Hatfield, & Wentzel, 2007).

The second phase of the study built a model of taxpayer prepayment behavior using TPB as a foundation to test their hypothesis (Bobek, Hatfield, & Wentzel, 2007). Bobek et al. concluded that their findings support the overall trend of overpayments by taxpayers in preference of a refund (Bobek, Hatfield, & Wentzel, 2007). Bobek et al. also reached conclusions about why the behavior exists. Bobek et al. found that taxpayers who prefer to receive a refund have these preferences because they perceive little financial benefit from changing their withholding (the benefit of forgone interest) and because it eases anxiety and emotional issues concerning unexpectedly owing money when completing their tax returns (Bobek, Hatfield, & Wentzel, 2007). Bobek et al. (2007) found a trend of “enjoyment” related to tax refunds. Participants in the survey likely spent their refund on a vacation or electronic item, indicating that a refund brings “enjoyment” to recipients (Bobek, Hatfield, & Wentzel, 2007). Taxpayers are emotionally attached to a feeling of “success” by receiving a refund and reward themselves for doing so. The experienced taxpayers that participated in the study understood that receiving a refund does not indicate financial success, but the components of TPB led them to a greater perceived benefit associated with refunds.

The implications of Bobek et al.’s (2007) study allowed tax educators and preparers to move away from trying to explain the logical financial benefit to clients in attempting to change their withholding and allows them to now focus on how to provide

that same financial benefit without losing the emotional benefit that comes from a refund (Bobek, Hatfield, & Wentzel, 2007).

Subsequent research in the field of taxpayer behavior applies Bobek et al.'s 2007 study to niche areas of taxpayers. In 2009, Ramayah, Yusoff, Jamaludin, and Ibrahim (2009) applied the TPB and the model provided by Bobek et al. to predict and analyze internet tax filing intentions. Ramayah et al.'s (2009) study only included Malaysian taxpayers, but was successful when predicting e-filing intentions. The participants' PBC significantly influenced their decision to change their withholdings. If the participant had too much difficulty navigating the software, the participant likely did not change their filing intentions and took no action. Ramayah et al. (2009) conducted their study using participants with a high level of experience with filing taxes. My study differs from Ramayah et al.'s study as my participants are individuals who have very little to no knowledge of filing taxes.

SECTION II: DISCUSSION

Prior research indicates that taxpayers show preference for receiving refunds (Bobek, Hatfield, & Wentzel, 2007). Research also shows that attitudes and subjective norms surrounding this preference strongly influence the taxpayer's perceived behavioral control such that they choose to receive the emotional benefit of a refund over the financial benefit of adjusting their withholding and risk paying taxes (Bobek, Hatfield, & Wentzel, 2007; Hanno & Violette, 1996). Prior research focuses on how subjective norms and attitudes affect perceived behavioral control. Since subjective norms and attitudes are foundations within cultures and society, they cannot be affected in the short-run (Ajzen,

1991). In order to change taxpayer behavior, research must focus on influencing perceived behavioral control. If the perceived ease and benefit of performing a behavior can be changed to the point that taxpayers would be willing to ignore subjective norms and attitudes, taxpayers' perceptions of adjusting their withholdings to reduce refunds could change.

In order to change a taxpayer's PBC, factors that have been known to strongly influence taxpayers must be identified. Bobek et al.'s (2007) respondents identify a feeling of "success" when avoiding paying taxes and receiving a tax refund. This implies that taxpayers not only feel positively about receiving refunds, but also feel negatively about paying taxes. In order to influence the taxpayer's PBC, both the negative connotations associated with paying taxes and the positive connotations associated with receiving a tax refund must be neutralized.

Ramayah et al.'s (2009) evidence show that the complicated nature of tax law caused respondents to choose no behavior at the risk of performing the behavior incorrectly and incurring negative outcomes. If a taxpayer perceives the process of adjusting their withholding to be too complicated or confusing, they will choose to abandon the process. In order to influence the taxpayer's PBC, the process must be stated clearly and easily understood.

As of March 13, 2014, there was a six percent annual increase in tax returns being filed from home (Internal Revenue Service, 2014). As more taxpayers file their taxes independently, more taxpayers use the literature provided the Internal Revenue Service to answer their tax questions. If the language used in the tax literature contains negative

connotations toward paying taxes, positive connotations toward receiving a refund, or language that confuses the reader, a taxpayer's PBC could be being manipulated.

Prior research focuses on experienced taxpayers and their viewpoints regarding refunds. This study focuses on inexperienced taxpayers. In order to prevent future taxpayers from becoming emotionally attached to tax refunds, the government could focus on educating young taxpayers on how to appropriately adjust their withholding in order to be financially efficient. Based upon prior research and conclusions drawn from that research, I hypothesize the following:

H1: When the language in tax literature is neutralized and adequate instructions are provided, taxpayers will review and adjust their tax withholding to avoid excessive refunds.

SECTION III: SURVEY AND METHODOLOGY

A survey could be conducted to test the hypothesis that taxpayers have negative perceptions of paying taxes and receiving refunds when surrounded with charged words. This section will discuss the research design and describe desired demographics for survey participants.

Sample Identification

Bobek et al. (2007) defines an inexperienced taxpayer as a taxpayer who has filed a federal income tax return for less than 10 consecutive years. In the United States, there were over 118 million individual tax returns filed for the fiscal year 2012 (Internal Revenue Service, 2013). For this study, survey respondents should represent the applicable portions of the taxpayer base. Only inexperienced taxpayers will be included

in the sample, which constricts both the age range and education level targeted. To appropriately represent inexperienced U.S. taxpayers, the sample population should reflect similar variations across the dimensions of age, education level and geographic location within appropriate restrictions. After obtaining demographic information from the 2010 U.S. Census Bureau report, the distributions for age and education level were recalculated to only include groups that would likely be classified as inexperienced taxpayers. The U.S. population age distribution according to the modified 2010 U.S. Census Bureau for inexperienced taxpayers is as follows:

Table 1
Age Distribution

18 – 24 years	33.37%
25 – 29 years	22.96%
30 – 39 years	43.67%

The educational attainment levels were adjusted to reflect the likely education levels of inexperienced taxpayers. Educational attainment, according to the modified 2010 U.S. Census report data, is as follows:

Table 2
Educational Attainment

Some College – No Degree	34.03%
Associate’s Degree	
Occupational	7.33%
Academic	9.92%
Bachelor’s Degree	34.72%
Master’s Degree	14.00%

To the extent possible, the demographics of survey participants should reflect these demographics in order to make the results generalizable to the population of inexperienced U.S. taxpayers. The likely age and education level of valid participants combined with the academic setting of this study makes students practical candidates.

Students represent a wide age range and can be located around the country. Students would likely provide the most demographic diversity in the most practical manner.

Survey Design

This survey will be based upon Publication 919, the Internal Revenue Services' instructions for reviewing and adjusting an individual's withholding. To test the effect of language in tax instruction on a taxpayer's perceived behavioral control, the proposed study uses a combination of demographic and construct questions presented to respondents in two survey blocks to test the presented hypothesis.

First the respondents will answer a series of demographic questions that will determine if the respondent is an inexperienced taxpayer. If the respondent does not meet the requirements of an inexperienced taxpayer, their results will be removed from the population after data collection is completed. The demographic information collected during this stage of the survey can also be used to observe further trends for valid respondents. The survey will contain the following demographic questions:

Question	Scale				
For how many years have you consecutively filed a personal income tax return?	1-3	4-6	6-10	11 or more	
Age	18-21	22-25	25-30	30+	
Current or Pre-Graduate School Income	\$10,000 or less	\$10,000 - \$20,000	\$20,000 - \$50,000	\$50,000 or more	
Sex	Male	Female			
Education	Did not complete High School	High School Graduate	Some College	College Graduate	Post-Graduate Study
Who Prepares Your Tax Return	Me and/or Spouse	Parents	Paid Preparer	Other	

After the respondent's status as a taxpayer has been determined, they will be directed at random to an excerpt on withholding from the original Publication 919, as presented by the IRS, or a modified version of the excerpt. The excerpt directly from Publication 919 is presented in Appendix A. The modified excerpt from Publication 919 is presented in Appendix B.

After reading the assigned excerpt, the respondent is presented with this income and refund figure for reference:

Your taxable income for 2013 is \$30,000. After filing your federal income tax return, you receive a \$1,500 tax refund.

The respondent is then presented with three different behaviors and asked to choose how likely they are to perform each behavior. The behavior questions are presented in the table below.

Questions	Scale				
Will you adjust your withholding for 2014?	Not Likely				Very Likely
	1	2	3	4	5
Will you consult a paid tax preparer to adjust your withholding for 2014?	Not Likely				Very Likely
	1	2	3	4	5
Will you use tax software to adjust your withholding for 2014?	Not Likely				Very Likely
	1	2	3	4	5

This solicitation of behavior will examine whether differences in language affect respondents' perceived behavioral control. In addition, the task the respondent must complete should only take approximately 5 minutes. The compact nature of the survey helps to encourage response rates and makes it easier for the respondents to stay engaged for the entirety of the survey.

This survey assumes no prior knowledge of tax law. Students of all majors should be able to comprehend the content of Publication 919 and any knowledge gained from tax coursework would not have a statistically significant impact upon the results. Each individual's response can be weighted equally. Publication 919 was chosen as the literature for this survey due to the fact that it was created to educate all taxpayers about their refunds and withholdings.

Survey Implementation

An online survey is a low cost method of data collection. The survey can be distributed to a large number of individuals efficiently, and results can be retrieved in a timely manner. Professors at targeted universities would be sent a description of the survey, the research question, a request to distribute the survey to their students, and a link to the online survey. Professors could then distribute the survey to their classes with ease. Respondents' responses would be immediately saved to the survey's server, and there would be immediate access to the data. The computer randomization of the excerpts allows for an even and unbiased distribution of the excerpts among the respondents.

Data Manipulation and Analysis

The survey is designed to provide data that can be examined using statistical analysis. After the data are purged of any outliers or responses that do not meet the demographic criteria, statistical methods can be used to provide insight into the research questions. The data can be downloaded into Excel, and could be used to decide whether equal or unequal variances should be used to further analyze the data. The hypothesis predicts that neutral language leads to respondents performing a behavior, meaning the hypothesis predicts a direction for the differences; therefore a one-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. The survey results could be interpreted in two different ways. First, did the change in language and added description encourage more participants to engage in any behavior regarding their withholding? Second, did the change in language encourage participants to engage in a specific behavior over others? Both of these data interpretations answer the stated hypothesis.

The email professors provide to their students should not provide information about the nature of the survey and should simply ask respondents to respond fully and honestly. Students 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 respondents understood whether or not their version of Publication 919 had been modified. The manipulation check should ask respondents to reiterate their survey block with whether or not paid tax preparers were included in their scenario.

SECTION IV: CONCLUSIONS AND IMPLICATIONS

Prior studies demonstrate that the overpayment phenomenon is persistent and due to taxpayers' emotional perceptions of refunds (Ayers, Kachelmeier, & Robinson, 1999) (Bobek, Hatfield, & Wentzel, 2007) (Hanno & Violette, 1996). Taken together, these past studies demonstrate the need to better understand the overpayment phenomenon's causes. In the current study, the theory of planned behavior was used to provide evidence regarding the root causes of the overpayment phenomenon.

If my proposed survey were executed, a few of the causes of this phenomenon could be determined. If the behaviors of the respondents who received the modified

version of Publication 919 are statistically different than those who received the unmodified version of Publication 919, then it can be evidenced that language can have a significant effect on the PBC of inexperienced taxpayers.

Overall, this study could improve our understanding of the overpayment phenomenon and taxpayers' unwillingness to adjust their refunds for financial benefit. Due to the emotional nature of taxpayers' attachment to refunds, tax policymakers and tax professionals have an opportunity to improve the financial positions of taxpayers. If the adjustment in language does not prove to be enough to increase taxpayers' PBC, then tax policymakers and professionals could take different actions to help them adjust their behavior. Materials could be created based on these findings in order to ease the withholding adjustment process, or current materials could be adjusted to better fit the mindset of taxpayers.

By taking a preventative stance and focusing on how inexperienced taxpayers perceive the issue, tax policymakers and educators can focus on dispelling the misconceptions that cause taxpayers to believe that receiving a refund is in their best interest. Instilling knowledge in young taxpayers and developing helpful materials can create a better understanding between tax policymakers and taxpayers. Well-informed taxpayers are able to make better decisions regarding tax policy.

Future research should address other factors that influence taxpayers' PBC. There are almost endless cultural and societal factors that could influence PBC. Identifying the underlying roots and addressing them in IRS instructional and educational materials is the first step in helping to eradicate this overpayment phenomenon.

APPENDIX A: UNMODIFIED EXCERPT OF PUBLICATION 919¹

Why Should I Check My Withholding?

You should try to have your withholding match your actual tax liability. If not enough tax is withheld, you will owe tax at the end of the year and may have to pay interest and a penalty.

When Should I Check My Withholding?

The earlier in the year you check your withholding, the easier it is to get the right amount of tax withheld.

You should check your withholding when any of the following situations occur.

1. You receive a paycheck stub (statement) covering a full pay period in 2013, showing tax withheld based on 2013 tax rates.
2. You prepare your 2013 tax return and get a:
 - a. Big refund, or
 - b. Balance due that is:
 - i. More than you can comfortably pay, or
 - ii. Subject to a penalty.
3. There are changes in your life or financial situation that affect your tax liability.
4. There are changes in the tax laws that affect your tax liability.

¹ This excerpt is taken verbatim from Publication 919 as found at <http://www.irs.gov/publications/p919/ar02.html>

APPENDIX A: MODIFIED EXCERPT OF PUBLICATION 919

Why Should I Review My Withholding?

You should try to have your withholding match your actual tax liability. If too much tax is withheld, you will overpay tax during the year and will miss out on potential use of income.

Always check your withholding if there are personal or financial changes in your life or changes in the law that might change your tax liability. A paid tax preparer can help you identify any changes that could impact the amount you should withhold and help you calculate your proper withholding amount. Tax preparation software can also be useful when calculating your withholding.

When Should I Review My Withholding?

Review your withholding periodically. It is easy and financially beneficial to do so. The earlier in the year you review your withholding, the easier it is to get the right amount of tax withheld.

You should review your withholding when any of the following situations occur.

1. You receive a paycheck stub (statement) covering a full pay period in 2013, showing tax withheld based on 2013 tax rates.
2. You prepare your 2013 tax return and get a:
 - a. Refund, or
 - b. Balance due that is more than you could comfortably pay
3. There are changes in your life or financial situation that affect your tax liability.
4. There are changes in the tax laws that affect your tax liability.

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