

# EEG RESEARCH DAY

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## THE ROLE OF TAX PREPARERS ON TAXPAYERS' TAX COMPLIANCE

Literature Review


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# Introduction

## ▶ Objectives:

- To analyze the various lines of research about the role of tax preparers, on the compliance of taxpayers' obligations;
- To examine if these explanatory international studies can be applied to the Portuguese reality.

# Introduction

- ▶ Theme's relevance:
    - Self-assessment of taxpayers implies a greater use of tax preparers.
    - In many countries tax preparers replace the taxpayers in the complying of their tax obligations.
    - It's relevant the study of the impact of their judgments, advices, decisions and attitudes in taxpayers' tax compliance.
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# Literature » Review

# Gap of knowledge in tax compliance research

- ▶ In the 80s years, some researchers, found a gap of knowledge, in the research about tax compliance:
  - **On one hand**, the growing use of paid tax preparers and the importance of their activity;
  - **On the other hand**, the lack of academic works about their impact on tax compliance.

# New line of studies



Tax preparers'  
Role on tax  
compliance

Sub-line

Works which analyze taxpayers' main objective, in the using of tax preparers

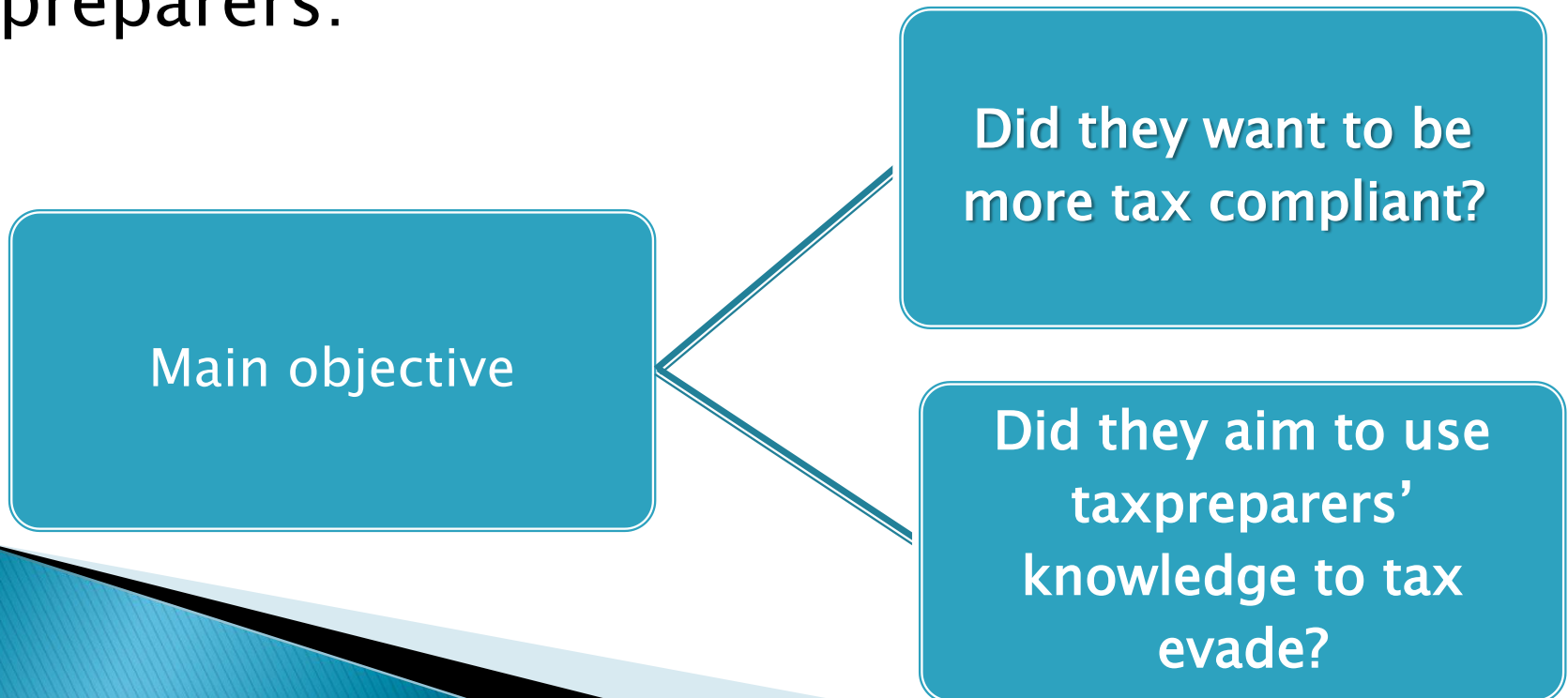
Sub-line

Works which analyze the influence of tax preparers' behavior (judgment and choices) in tax compliance.

# Taxpayers' main objective, in the using of tax preparers

## Character:

- ▶ Those studies seek to understand what taxpayers intend, when they use a tax preparers:



# Taxpayers' main objective, in the using of tax preparers

## **Conclusions of these studies (from US, New Zealand and Australia):**

- ▶ They conclude that the great motive to use a tax preparer is mostly their perception of tax complexity and their main objective is to fulfill correctly their tax return.

There is a consensus in the various studies.

- But, tax noncompliance continues to increase...



# Taxpayers' main objective, in the using of tax preparers

## **That's why some researchers, since the 80's until our days, intend to know:**

- ▶ Where is the origin of tax aggressiveness? Is it in taxpayers, or in tax preparers?
- ▶ The researches about the US, majority pointed out the taxpayers as the source of the problem. – *In the US, tax penalties fall on tax preparers.*
- ▶ The researches about Australia and New Zealand, majority concluded that the origin of tax aggressiveness is in the tax preparers. – *In Australia and N. Zealand , tax penalties fall on taxpayers*

# The impact of tax preparers' behavior on tax compliance

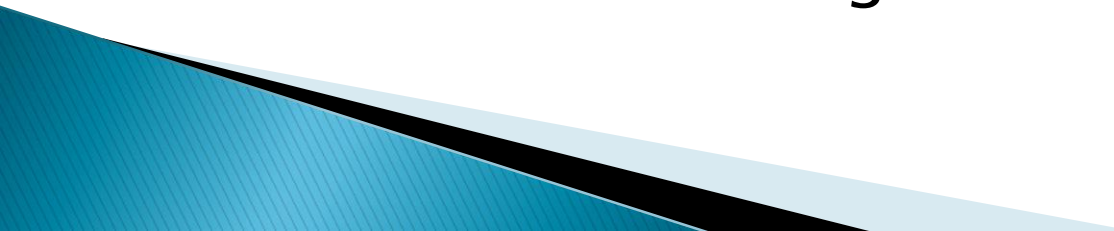
## **There isn't a consensus about the type of impact**

### **❖ There are studies that argue the existence of:**

- ▶ 1. A positive impact on tax compliance
- ▶ 2. A negative impact on tax compliance
- ▶ 3. Both impacts:
  - A positive impact, in simple and linear situations;
  - A negative influence, in more ambiguous issues.

# The impact of tax preparers' behavior on tax compliance

## **Tax professional behavior's determinants** **most studies by the researchers:**

- ▶ 1. Clients' importance (economic and financial impact, present and future, to tax preparers)
  - ▶ 2. The severity of penalties
  - ▶ 3. Their likely to take risks
  - ▶ 4. Their tax knowledge.
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# The applicability, to the Portuguese case



# About the applicability, to the Portuguese case

## **We performed a comparison between the two tax systems:**

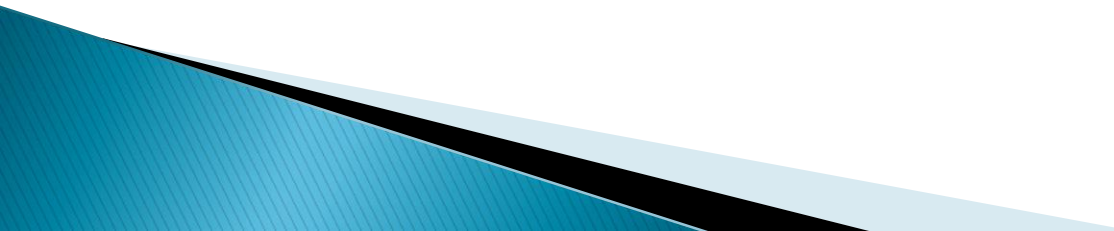
- ▶ **Both tax systems have some points of similarity, for example:**
  - The complexity of tax systems
  - Base of self-assessment
  - The relevance attributed to tax knowledge

# About the applicability, to the Portuguese case

**They have many differences, we highlight the next two:**

- ▶ **1. The type of the most problematic taxpayers is different:**
  - US consider the individual taxpayer the most problematic, in tax noncompliance;
  - Portugal classify like that the business taxpayers.
  
- ▶ **2. The application of the penalties to tax preparers are different:**
  - In the US, tax professional assume the penalties, in case of tax noncompliance, reducing the taxpayer's liability with regard to his guilt (Klepper and Nagin, 1989; Guccia, 1994).
  - In Portugal, in first stage, penalties fall on taxpayers.

# About the applicability, to the Portuguese case

- **These differences make impossible a direct application of these studies, mostly from the US, to the Portuguese reality.**
  - **We can make a cautious use and adapted to the Portuguese reality.**
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# Conclusions





# Conclusions

- ✓ Tax preparers have an important role in taxpayers' tax compliance.
- ✓ The existing literature is about Anglo-saxon countries. Those countries have tax systems quite different from the portuguese.

# Prospects for future reseaches

- ▶ Conducting a study aiming to understand the impact of penalties *versus* client importance, on TOC (Portuguese tax preparers) judgment and choices.

# PAPPER PRESENTED IN:

 **TMS MANAGEMENT STUDIES**

**INTERNATIONAL CONFERENCE  
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# THANK YOU FOR YOUR ATTENTION

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