THE ROLE OF TAX PREPARERS ON TAXPayers’ TAX COMPLIANCE

Literature Review

Abril/2013
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.
Literature Review
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

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

- Works which analyze the influence of tax preparers' behavior (judgment and choices) in tax compliance.
Those studies seek to understand what taxpayers intend, when they use a tax preparer:

- Did they want to be more tax compliant?
- Did they aim to use tax preparers’ knowledge to tax evade?
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...
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.
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
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; Cuccia, 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.
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 researches

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